



The Forager Wholesale Value Fund unit price was barely changed in November versus the 3.2% lost by the ASX All Ordinaries Accumulation Index.

Mining and energy were the culprits for the market retreat. The S&P/ASX 100 Resources Accumulation Index fell 8.8% in November thanks to steep price falls occurred in crude oil and iron ore (down 38% and 46% from their respective peaks this year). Demand for both is increasing less rapidly than expected and a wave of new supply is battering prices. For investors it's a demonstration of the all-important lesson that favourable macro trends don't create easy profits. Reversion to the mean is the norm.

Falling oil prices are arguably beneficial to the Australian economy (Australia is a big net importer of oil) but low prices for other commodities, particularly iron ore, will more than offset the benefits.

Having worried for years that high prices wouldn't last the Fund has steered clear of the miners themselves and has significant protection against a lower Australian dollar. Mining service providers also suffer from lower commodity prices however, and the Fund lost about 2% this month in that sector.

The Fund's investments are in production-essential companies that have assets and people that can move around. This provides some protection. Though the supply-induced downturn is disruptive and miners are squeezing costs everywhere they can, supply means production and production means work for service providers. Ugly market conditions offer no guarantees and stockmarket investors are giving up on the sector on mass, so we could easily experience further significant price falls from here. But the businesses in the Fund still look viable and the prices are extremely low.

An example of the value on offer is contract miner **Macmahon Holdings** (MAH), whose shares fell 18% after it flagged continuing difficulties collecting its money from the Mongolian government and a desolate new business environment. Investors are being well compensated for these tough circumstances. Macmahon now trades at 20% of last year's revenue, less than one times operating earnings before depreciation and 23% of tangible book value. With the current bleak outlook those yardsticks will deteriorate but the market is pricing in Armageddon.

Elsewhere consumer leasing group **Thinksmart** (TSM) announced a proposed off-market auction to repurchase shares from investors at \$0.31 to \$0.42 per share. The company, which mostly provides point-of-sale financing for laptops and televisions at electronic retailers, sold its Australian business this year, and now has \$0.245 per share in cash and a business in the United Kingdom potentially worth that again.

At the upper end of the range, \$0.42 per share would be a fair price to sell. The proposed transaction will increase the control of insiders and a delisting or move to a London exchange looms. But the structure of the offering is concerning. The company intends to retain complete discretion over the amount of shares to be bought back and at what price, which pressures shareholders to tender their shares cheaply so as to minimise the risk of missing out.

After deducting off cash, the low end of the range equates to just \$0.07 for the UK operation which is far too cheap for a decent business and a price at which we would not want to sell at. Nor would we vote in favour of a deal to hand control to insiders at that price.

A better option would be to discard the auction and replace it with a fixed buy-back, so that shareholder can vote on a firm proposal. That's been communicated to the Board, but the response thus far is that other shareholders support the current deal. If that's so there's not much to be done, but the Fund's shares will be voted against the proposal in the hope of something better being put forward.

FACTS

Fund commenced	2 September 2004
Minimum investment	\$10,000
Income distribution	Quarterly
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

Date	28 November 2014
Buy Price	\$1.4840
Redemption Price	\$1.4766
Mid Price	\$1.4803
Portfolio value	\$26.9m

PERFORMANCE

Forager Wholesale Value Fund Performance Summary (as at 28 November 2014)

	Wholesale Value Fund	All Ords. Accum. Index
1 mth return	0.05%	-3.20%
3 mth return	-2.78%	-4.66%
6 mth return	6.59%	-1.08%
1 year return	3.04%	3.98%
2 year return	20.45%	12.92%
3 year return	19.66%	12.98%
Since inception*	7.45%	8.38%

*2 September 2004

COMPARISON OF \$10,000 INVESTED IN WHOLESALE VALUE FUND VS ASX ALL ORDINARIES ACCUM INDEX



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