



Welcome news arrived this month for investors in the Forager Wholesale Value Fund, with a takeover offer received for geoservices business **Coffey International** (COF). The acquirer, United States company Tetra Tech, has offered \$0.425 per share in cash, conditional upon acquiring at least 90% of Coffey shares.

That's a 130% premium to Coffey's last traded price before the deal was announced. Notwithstanding the premium, it's an excellent deal for Tetra Tech. Coffey's two major business segments, geoservices consulting and delivering government international aid development programmes, have enormous strategic value to competitors and other industry participants.

Regrettably, just like with the takeover of **Vision Eye Institute** (VEI), distributable franking credits of 5.4 cents per share will be forgone by stockholders. That's apparently due to potential difficulties attaining consent for a distribution from Coffey's lenders.

With Coffey continuing to operate at a loss and subject to debt pressure, it's the best deal that could be done, however, and it's certainly a good result. A higher offer isn't expected but the Fund will likely hold its shares to the end of offer period just in case.

Not all of the month's news was positive. Software house **GBST Holdings** (GBT) announced a profit downgrade just two weeks after retiring chief executive officer Stephen Lake sold \$11m worth of shares. It wasn't a good look. Two days later, Lake's eventual retirement was made immediate, with the head of GBST's powerhouse Wealth Management division Robert De Dominicis handed the reins.

The profit downgrade relates to client delays in the Wealth segment, and confirms suspicions the fast growing company is struggling to retain control of the workload. Nevertheless, GBST remains superbly positioned and when the share price fell 30% the Fund purchased a few more shares.

Shares in **Hughes Drilling** (HDX) were suspended right through October for not lodging audited accounts on time. We feared the auditor was honing in on serious issues but the company finally produced audited accounts just after month end and its shares have resumed trading.

The news wasn't horrendous. Due to a higher depreciation expense required by the auditor, net income fell marginally, from the \$8.9m previously announced to \$8.2m. More ominously, though, a going concern note to the accounts now reveals that bank covenants are close to being breached. That's another warning sign that management are too cavalier with how they run and finance the business.

We've voiced our concerns previously, but will now push for reform more vigorously. Hopefully this debacle can become a catalyst for change. The company has enormous potential value but is in need of more robust governance.

Finally this month, three old investments exited the portfolio. The Fund's last shares in **Infigen Energy** (IFN) were sold, an investment that unfortunately hasn't worked out as well as hoped. The other two, Vision Eye Institute and **Hansen Technologies** (HSN), have proved much better investments.

The Fund has now accepted a takeover offer for its Vision shares at more than triple the price of its initial outlay, and Hansen's shares have also been sold at more than three times the Fund's first buy price. Hansen is a good business, but not one likely to show rapid organic growth, and at \$3.14 per share, it trades at 23 times our

estimate of next year's earnings. That valuation puts too heavy a burden on the capacity to add value through acquisitions, which will get progressively harder. So the Fund will look to deploy the cash elsewhere.

FACTS

Fund commenced	2 September 2004
Minimum investment	\$10,000
Monthly Investment	Min. \$100/mth
Income distribution	Quarterly
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

Date	31 October 2015
Buy Price	\$1.5003
Redemption Price	\$1.4929
Mid Price	\$1.4966
Portfolio value	\$23.9m

PERFORMANCE

Forager Wholesale Value Fund Performance Summary (as at 31-Oct-15)

	Wholesale Fund	S&P All Ords. Accum. Index
1 mth return	12.32%	4.59%
3 mth return	6.38%	-5.47%
6 mth return	16.04%	-6.24%
1 year return	18.52%	0.45%
2 year return	21.27% p.a.	3.16% p.a.
3 year return	18.74% p.a.	9.88% p.a.
Since inception*	8.44% p.a.	8.02% p.a.

* = 2 Sep 2004

COMPARISON OF \$10,000 INVESTED IN THE WHOLESALE FUND AND ASX ALL ORDS INDEX



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