



May was another quiet month for the Forager Wholesale Value Fund. Some further signs of life emerged in the mining services space with two of our holdings, **Macmahon Holdings** (MAH) and **GR Engineering** (GNG), announcing contract wins. Macmahon was awarded a 24-month extension of its \$2.5m per month contract with St Ives Gold Mining. The company has also resolved industrial action at its Ewekoro project in Nigeria. Newish holding GR Engineering announced that its oil and gas subsidiary, Upstream Production Solutions, had been awarded two important contracts that should add meaningfully to revenue and profits over the next three years. Combined, these two contracts are expected to generate revenue of \$47 million and pre-tax profit margins similar to the broader group, around 6–8%. It appears that the \$6 million GR Engineering paid for this business two years ago was quite the bargain.

Another month, another upgrade for telecommunications contractor **Service Stream** (SSM). For the 2016 financial year, management now expects earnings before interest, tax, depreciation and amortisation (EBITDA) of at least \$35 million. This is a significant improvement over the \$25.4 million for the previous financial year and managing director Leigh Mackender is confident of further growth in the coming years.

One of the few ASX-listed stocks to perform as well as Service Stream this past year was one we no longer own, **Infigen Energy** (IFN). Those of you invested with us since the beginning will remember this stock as a core holding for five years between 2010 and 2015. It was a frustrating investment and one that generated mediocre returns, up until the point it was sold. Since then the share price has been on a straight line rise from \$0.30 to \$1 by the end of May this year.

We thought we had a sound basis for selling the stock. After Infigen disposed of its US business for an underwhelming price, our analysis suggested the upside on its Australian assets was limited and that the group would likely need an equity raise to meet its debt commitments. With the security price up threefold since, either we were wrong, today's investors are making a big mistake or, most likely, reality is somewhere between the two extremes. Either way, the decision to sell when we did was a costly one.

Early in the month, **Watpac** (WTP) made the disappointing announcement that its share buy-back will be terminated with immediate effect. It appears that not all capital management policies are as shareholder friendly as Service Stream's. In our view, Watpac is in the fortunate position of having substantial excess capital, with net cash of \$110 million at the end of December. We estimate that around half of this could be considered superfluous to the needs of running the business and should be returned to shareholders. The market capitalisation, currently \$142 million, doesn't come close to reflecting the worth of that extra capital. With significant historical justification — Watpac's history is littered with poorly-timed capital allocation decisions — we have concerns that the cash balance will be wasted.

Later in the month, the company was awarded a \$78 million contract to build the Riverlight residential development in Brisbane. Located six kilometres from Brisbane's CBD,

Riverlight will feature 240 apartments across two residential towers. There was no detail around expected duration, revenue or profitability of the contract, nor any analysis by management as to whether it will generate more value than returning capital to shareholders.

FACTS

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

UNIT PRICE SUMMARY

Date	31 May 2016
Buy Price	\$1.5970
Redemption Price	\$1.5890
Mid Price	\$1.5930
Portfolio Value	\$25.0m

* The Fund is forward-priced; you will receive the price struck subsequent to the receipt of your application/redemption.

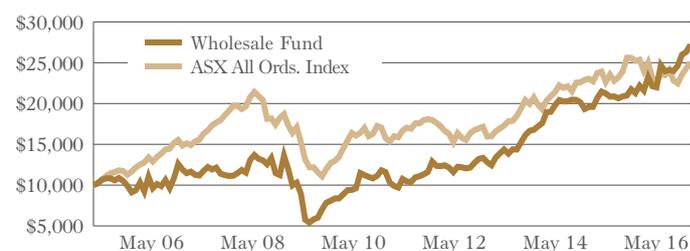
PERFORMANCE

Forager Wholesale Value Fund Performance Summary (as at 31 May 2016)

	Wholesale Value Fund	S&P All Ords. Accum. Index
1 month return	1.62%	3.09%
3 month return	10.39%	11.47%
6 month return	13.49%	6.67%
1 year return	22.66%	-1.25%
3 year return	16.51% p.a.	8.11% p.a.
5 year return	17.10% p.a.	7.28% p.a.
Since inception*	8.90% p.a.	8.20% p.a.

*2 September 2004

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



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