



The All Ordinaries Accumulation Index rose an extraordinary 6.3% in July. Pundits pointed to attention shifting from the anticipated turmoil of Brexit to the impact of the Bank of England's potential £250 billion stimulus response. The European Central Bank is also on 'stand-by', presumably with further unprecedented licks of cheap credit.

That the mining services sector was a star performer may say something about the extent of July's optimism, the nature of market cycles, or both. While some contract wins have been announced in recent months, share prices have been on a tear. Mr Market appears to believe that the worst is behind us and is expecting improvement. He marked up the prices of several Forager holdings accordingly, including **GR Engineering** (GNG), **MACA** (MLD) and **Boom Logistics** (BOL).

The latter rose despite a weak profit update. Management expects earnings before interest, tax, depreciation and amortisation (EBITDA) of \$4.3m–\$5.3m for the second half of the 2016 financial year. This is disappointing considering previous guidance of \$6m–\$8m and the \$6.7m earned in the first half alone.

It wasn't all positive for Forager's mining services holdings, though. Shares in **Hughes Drilling** (HDX) remained suspended throughout July as management continued discussions with its senior bank, creditors and the ATO. The company announced that it breached certain banking covenants and the carrying value of some assets is being reviewed for potential impairment.

Given the reckless, debt-funded acquisitions made in recent years, covenant breaches and asset impairments aren't major surprises. The positive news from the string of announcements during suspension was that much needed board change has commenced.

Three directors have resigned, including founder Bob Hughes. It's a shame the catalyst for change is the financial deterioration, and potential demise, of the company. One would hope their replacements will have the financial experience to ensure such dramatic misallocations of capital are not repeated. Disappointingly, the only new appointment so far is yet another veteran from the drill and blast industry. That said, we imagine high quality candidates are not exactly beating down the door.

Another mining services business that has struggled recently is **MMA Offshore** (MRM). During July it announced a \$140m impairment charge, mostly against its fleet of specialised offshore supply vessels. This followed a weak trading update in June, which included a profit downgrade. Vessel sales to reduce its growing debt position have been slow. The company is battling net debt of around \$350m and with EBITDA potentially falling to less than \$50m next year, we have become increasingly concerned about the company's ability to service its debt. We exited this position in July.

Online lottery vendor **Jumbo Interactive** (JIN) updated expectations for its 2016 full year profit to \$4.4m, well up on last year's \$0.7m. While we were impressed with the 19% increase in ticket sales for the year, even more pleasing was the company's focus on managing costs, which had been excessive in the past.

The restructure of Jumbo's loss-making German business has

resulted in \$1m of expenses being removed, resulting in a reduced loss for the year (\$2.6m versus \$3.6m last year). While positive, we'd prefer Jumbo to exit its German business and focus its efforts in Australia, where it has much larger scale and a valuable customer database.

#### FACTS

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

#### UNIT PRICE SUMMARY

<b>Date</b>	31 July 2016
<b>Buy Price</b>	\$1.4347
<b>Redemption Price</b>	\$1.4275
<b>Mid Price</b>	\$1.4311
<b>Portfolio Value</b>	\$22.8m

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

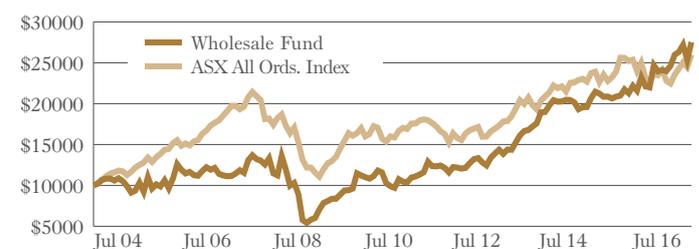
#### PERFORMANCE

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

	Wholesale Value Fund	S&P All Ords. Accum. Index
1 month return	8.57%	6.29%
3 month return	5.13%	7.07%
6 month return	17.30%	14.08%
1 year return	21.14%	4.02%
3 year return	14.11% p.a.	8.52% p.a.
5 year return	17.78% p.a.	9.37% p.a.
Since inception*	9.08% p.a.	8.42% p.a.

\*2 September 2004

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



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