



Most companies in the Forager Wholesale Value Fund reported good results during August. Particularly at the better quality end of the portfolio, key investments are delivering in line with or better than the original investment theses.

Starting with the bad news first, though, mining services companies **Brierty** (BYL) and **Hughes Drilling** (HDX) are in deep trouble.

Hughes shares have been suspended since the end of June and announcements from the company suggest that this is unlikely to change any time soon. Hughes is trying to reach agreements with **Westpac** (WBC) and the Australian Tax Office that will allow it to stay in business. Even if successful, any long-term solution has to involve the contribution of additional capital. That probably renders the existing shares worthless and we have written their value to zero in the current portfolio valuation.

Brierty is lucky not to find itself in the same situation. It reported a loss of \$50m for the year, almost wiping out its net tangible assets and leaving it with net debt of \$48m, dwarfing the current market capitalisation of just \$12m. It is a sad state of affairs for a business that had net cash on the balance sheet just a few years ago.

While the performance of these stocks is disappointing, they represent a small percentage of the fund and good news elsewhere has more than mitigated the damage.

**GR Engineering** (GNG) and **MACA Limited** (MLD) showed how mining services companies should be run, with both reporting healthy profits, large net cash balances and promising outlooks for the coming year.

These are two well-managed small companies, but the much larger **South32** (S32) is fast proving to be the best managed business in the portfolio. The **BHP Billiton** (BHP) spinoff has taken the Usain Bolt sprinter's approach to cost cutting, in some cases halving the cost of extracting minerals out of the ground. In one of the worst commodities environments in living memory, South32 managed to eke out a small profit and generate US\$600m of excess cash. Managing director Graham Kerr is touting plenty more cost savings to come, meaning that this is going to be a very profitable business when the inevitable rebound in commodity prices arrives.

**Jumbo Interactive** (JIN), which has had its own operational issues over the past few years, showed it can also get its house in order.

Jumbo is an online retailer of lottery tickets and its Australian business is benefiting from a growing propensity for the public to purchase tickets on their mobile phones. Jumbo's revenue from ticket sales in Australia jumped 17% and, thanks to a largely fixed cost base, pre-tax profit expanded 52% to more than \$12m. While it narrowed losses in Germany to \$2.7m, shuttering this part of the business would almost certainly add to recent gains in the share price.

That outcome is looking increasingly likely and a 230% increase in the final dividend to 5 cents fully franked is enough to keep us fed while we wait.

While Jumbo's international expansion has come to naught, **Reckon Limited** (RKN)'s growth ambitions are looking more

prospective. The accounting software company's half-year result showed some encouraging initial signs, reporting growth in two of its three divisions and some evidence that its consumer-facing product can hold its own against **MYOB** (MYO) and **Xero** (XRO). This investment will likely take several years to prove its worth. So far, so good.

#### 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 August 2016
<b>Buy Price</b>	\$1.4936
<b>Redemption Price</b>	\$1.4862
<b>Mid Price</b>	\$1.4899
<b>Portfolio Value</b>	\$23.8m

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

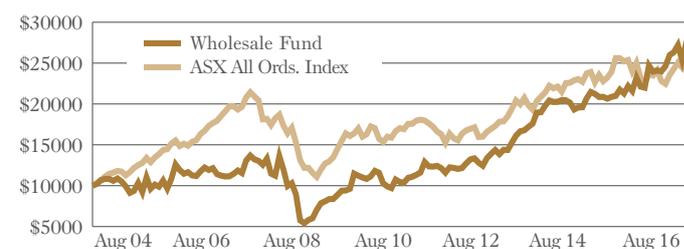
#### PERFORMANCE

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

	Wholesale Value Fund	S&P All Ords. Accum. Index
1 month return	4.11%	-1.33%
3 month return	7.71%	2.49%
6 month return	18.90%	14.25%
1 year return	32.39%	10.72%
3 year return	15.57% p.a	7.12% p.a
5 year return	19.27% p.a	9.52% p.a
Since inception*	9.38% p.a	8.24% p.a

\*2 September 2004

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



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