



Is this the merger that was destined to happen? October saw the merger announcement of gambling behemoths **Tabcorp** (TAH) and **Tatts** (TTS), after years at the negotiating table. Combining the two will create an \$11 billion group with a dominant position in the Australian gaming sector.

The merger makes a lot of sense, creating a national bricks and mortar wagering business. It will be in a strong position to compete with online wagering companies and offer larger pools. And reducing the number of IT systems and back office costs is expected to save \$130 million annually.

While wagering will comprise half of the combined group's earnings, Tatts' lotteries business will comprise one third. Yet in Tabcorp's 15-page presentation about the merger, just three lines are dedicated to lotteries. And those three lines mention working proactively with news agents and investing in product innovation — something you would hope Tatts is doing already.

We don't know what the merger means for **Jumbo Interactive** (JIN), an online re-seller of Tatts lottery tickets and one of the Fund's larger investments. But we think it is in a reasonably strong position.

On the one hand, Jumbo's reseller agreements are short-term and Tatts' could turf Jumbo at will. On the other hand, why would it? The commission paid by Tatts to Jumbo is small and no more than traditional resellers. And in return Jumbo invests in marketing and helps distribute Tatts's products. If Tatts cut off Jumbo, it would likely lose sales in excess of the commission it would save.

Further strengthening Jumbo's position is the emergence of Lottoland. The Gibraltar based company received a five-year Northern Territory wagering licence last December. It runs a synthetic lottery, offering punters the chance to bet on the outcome of the lottery rather than purchasing an actual ticket.

Should Jumbo's relationship with a merged Tabcorp/Tatts turn tumultuous, it could apply for its own license and continue operating, even offering bets on overseas lotteries, as Lottoland does. While we don't expect that to happen, it should be a useful bargaining chip.

Late in the month the Fund's investment in engineering company **LogiCamms** (LCM) was increased after participating in a share placement. The money raised will shore up its balance sheet, fund new projects and support IT development. Despite past management missteps, the company is well placed to win work while a recent restructure should see operating margins improve. We remain concerned about management's lack of share ownership. Notwithstanding this, we forecast substantial revenue growth in 2017, with the shares trading on just four times expected operating earnings.

Another mining services company with a question mark over management is **Macmahon** (MAH). It provided a disappointing trading update with its troublesome Telfer contract expected to negatively impact the entire 2017 financial result. We were expecting the contract to be renegotiated and become profitable in the second half of the 2017 financial year. Losses are now expected to drag on much longer. Five days after the update CEO Sybrandt van Dyk resigned. He will be replaced by an

internal candidate, the aptly named Michael Finnegan. We hope his tenure allows Macmahon to begin again.

FACTS

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

UNIT PRICE SUMMARY

Date	31 October 2016
Buy Price	\$1.4987
Redemption Price	\$1.4913
Mid Price	\$1.4950
Portfolio Value	\$25.1m

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

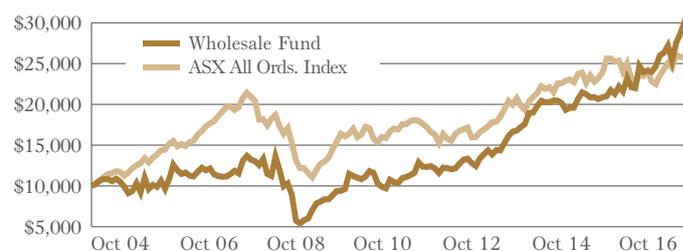
PERFORMANCE

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

	Wholesale Value Fund	S&P All Ords. Accum. Index
1 month return	-2.71%	-2.18%
3 month return	6.17%	-3.09%
6 month return	11.62%	3.77%
1 year return	20.91%	6.63%
3 year return	13.53% p.a.	4.30% p.a.
5 year return	19.57% p.a.	9.03% p.a.
7 year return	17.59% p.a.	6.64% p.a.
10 year return	9.80% p.a.	4.45% p.a.
Since inception*	9.42% p.a.	7.96% p.a.

*2 September 2004

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



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