



February reporting season was mostly kind to the portfolio. Although in some cases expectations had already been lowered.

On the first day of the month **GBST** (GBT) provided a market update that implies the business is performing poorly. Earnings before interest, tax, depreciation and amortisation (EBITDA) for the 2017 financial year is expected to be \$12m, 30% lower than last year. We were expecting around \$20m. In the wake of Brexit, several UK clients either cancelled or delayed projects. The decline in the British pound against the Australian dollar also reduced GBST's revenue, with the UK its largest international market.

Research and development costs will be above historical levels for at least the next two years and the \$30m EBITDA we thought it could make in three years' time is looking less likely. While management attention is focused on putting out fires, the business is missing out on other opportunities. The Australian SMSF market is one that comes to mind.

Fortunately several Fund investments had good news to report, including **Macmahon** (MAH), **NZME** (NZM) and **Jumbo Interactive** (JIN). While their share prices increased, we still believe the market is materially undervaluing these businesses and increased the Fund's holding in all three.

February saw the war of words heat up in the takeover bid for Macmahon. The bidder, **CIMIC** (CIM), owns 23% of Macmahon's shares, while Forager is the second largest shareholder at over 8%. While the final outcome won't be known until March, we were far from impressed with CIMIC's lowball 14.5 cents per share bid at a time when industry revenues are at cyclical lows. CIMIC's arguments in favour of accepting their offer centred on the woeful recent performance of Macmahon – but businesses are valued on their future cash flow generation, not on the past.

Led by new CEO, Mick Finnegan, the future looks brighter than CIMIC's bid would imply. Business as usual should see Macmahon meaningfully profitable in the 2018 financial year and the company has announced a large proposed transaction with Indonesian mine owner AMNT. Should the deal proceed, Macmahon will gain the contract to the giant Batu Hijau mine in Indonesia and receive about US\$150m of equipment in exchange for issuing AMNT with shares. This would result in AMNT owning about 44% of Macmahon's shares on issue. Not only would the deal double Macmahon's revenue, it would also dilute CIMIC's holding in Macmahon to less than 15%.

New Zealand media company NZME reported a cracking result considering the structural challenges facing print advertising. For most companies, a 6% revenue decline would mean a 10-20% hit to earnings. NZME experienced such a decline but generated profits in line with the previous year. Management's cost cutting efforts are to be commended. Despite a 12% share price rise on the day of the result, the stock remains very cheap at just 5 times 2016 profit. For income-seeking investors, the 13% dividend yield is hard to top. When taking imputation into account that's about an 18% yield for New Zealand domiciled shareholders.

Declining revenue also didn't detract from a good result by online lotteries company Jumbo. Cost saving initiatives, including exiting its loss-making German business, resulted in profit increasing by 28% to \$2.6m for the first half of the 2017 financial year. This was well above guidance provided back in December for \$2.0m. And it was achieved in the face of a 9% revenue decline compared with a record jackpot period in the first half of the 2016 financial year. Now that Jumbo is out of Germany, we think it could make a profit of \$9m in an average jackpot year. With a market capitalisation of \$78m, \$26m of cash and \$10m of franking credits, the share price looks very cheap. The interim dividend was 3.5 cents per share and we believe a big increase in the final dividend is in order.

The Fund's holding in **RNY Property Trust** (RNY) was completely sold during the month. This preceded another disappointing

result from the trust. Its tangible asset (NTA) backing decreased to 16.4 cents per unit at 31 December, a decline of 40% from the 27.1 cents per unit reported six months earlier. The current book value remains well above management's projection that between four and ten cents per unit will be realised upon liquidation of the assets. Given the amount of debt owed on the assets, neither can be known with confidence.

Offered the certainty of 5.3 cents per unit today, we decided to end our long and unprofitable association with RNY.

FACTS

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

UNIT PRICE SUMMARY

Date	28 February 2017
Buy Price	\$1.5474
Redemption Price	\$1.5396
Mid Price	\$1.5435
Portfolio Value	\$28.6m

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

PERFORMANCE

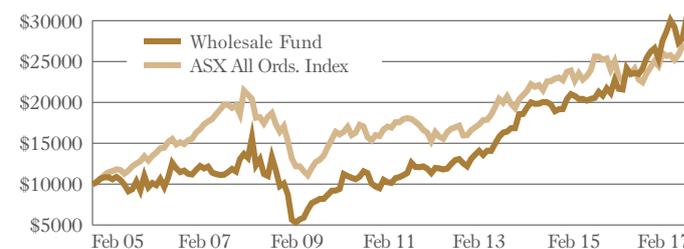
Forager Wholesale Value Fund Performance Summary

(as at 28 February 2017)

	Wholesale Value Fund	S&P All Ords. Accum. Index	Difference
1 month return	1.40%	2.09%	-0.69%
3 month return	12.37%	5.53%	6.84%
6 month return	7.17%	6.20%	0.97%
1 year return	27.42%	21.33%	6.10%
2 year return (p.a.)	22.32%	3.19%	19.13%
3 year return (p.a.)	15.38%	6.54%	8.84%
5 year return (p.a.)	19.80%	10.22%	9.58%
7 year return (p.a.)	16.43%	7.63%	8.80%
10 year return (p.a.)	10.67%	4.27%	6.40%
Since inception* (p.a.)	9.60%	8.42%	1.18%

*31 August 2004 (p.a) (starts at EOM for calculation purposes)

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



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