FORAGER WHOLESALE VALUE FUND

April 2017

One of the Fund's largest investments, **Reckon Limited** (RKN), proposed a demerger of its rapidly growing Document Management segment. The company wants to list this business on the AIM market of the London Stock Exchange. Reading between the lines of the announcement, management seems to think the value of this segment is not reflected in the current share price and that spinning it off will somehow create value for shareholders. While we agree that the current share price undervalues Reckon, we don't think it has anything to do with the market underestimating Document Management.

Potential investors are far more concerned with the ability of Reckon One to compete with MYOB and Xero and the potential for these competitors to start encroaching on the Document Management business (this stable business provides software to large accounting practices). Spinning off the Document Management segment is not going to remove any of those concerns.

We expect the share price to fall by whatever investors think the Document Management segment is worth. Our estimates are around $50 million, and we will simply subtract this number when valuing the remaining ASX-listed company.

The bad news is that we don't believe this $50 million valuation will be reflected in the AIM-listed stock. Many Australian institutional investors don't have a mandate to invest in non-ASX listed companies. And many Australian retail investors don't want to hold international stocks. By listing the demerged business on the AIM, many of these investors will be forced sellers. We think it almost certain that the Reckon share price will fall by more than the realisable value of the AIM-listed stock. Liquidity is also likely to be limited.

Our concerns have been expressed to the Reckon board and we are hoping to change their minds.

Late last year the Fund invested in **Thorn Group** (TGA), the largest consumer leasing company in Australia. This business has been operating for almost 80 years and leases household appliances, technology and furniture to retail customers who can't afford to buy the goods outright. Thorn has the largest market share at 23.6%. Its next biggest rival has just under half of this and the next two players have less than 5%.

At the time of the investment, regulatory risks, potential ASIC penalties, customer refunds due to overcharging and poor computer systems were all well-known.

But in the space of one month a number of these issues have become larger than anticipated. The magnitude of the ASIC penalty was greater than expected with the company's initial provision of $3 million being increased by a further $4 million.

A week later a $50 million class action was made against the company, alleging that their "Rent, Try, $1 Buy" contracts are misleading and deceptive. While the company intends to defend the claim, the case could drag on for years or be settled for a significant sum of money.

The final blow was the departure of James Marshall after 24 years with Thorn, including three as Managing Director. He stepped into a difficult situation. In recent years Thorn faced a number of legacy issues including failed ventures into consumer finance and receivables management. Management did well to keep underlying earnings stable during his tenure.

The Fund's investment in Thorn was premised on an attractive valuation and the countercyclical nature of the business as demand for rental goods improves during economic downturns. It is, however, unlikely to be an easy ride.

FACTS

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

UNIT PRICE SUMMARY

Date	30 April 2017
Buy Price	$1.5601
Redemption Price	$1.5523
Mid Price	$1.5562
Portfolio Value	$28.4m

* 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 30 April 2017)

	Wholesale Value Fund	S&P All Ords. Accum. Index
1 month return	1.07%	0.78%
3 month return	3.90%	6.13%
6 month return	7.68%	12.41%
1 year return	20.20%	16.65%
3 year return (p.a.)	18.53%	7.38%
5 year return (p.a.)	19.27%	10.58%
Since inception* (p.a.)	9.67%	8.64%

*2 September 2004 (p.a) (starts at EOM for calculation purposes)

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