



May was a good news month for the Forager Wholesale Value Fund, although some of the good news could have been better.

This was exemplified by a cluster of announcements from lottery ticket reseller **Jumbo Interactive** (JIN). Just prior to month end, Forager sold a 5% stake in Jumbo to international synthetic lotteries operator Lottoland. We were hopeful that this would be the catalyst to unlock substantial value in Jumbo's share price. Three weeks later, Jumbo management announced a deal with its current supplier **Tatts Group** (TTS). Most notably, Tatts agreed to extend Jumbo's reseller agreements until 2022 but Tatts was also issued 15% of the ordinary shares of Jumbo at \$2.37, a substantial discount to Jumbo's share price at the time of the deal.

While the deal with Tatts provides certainty over Jumbo's future for the next five years, it also prevents the best case scenario, a bidding war between Lottoland and Tatts. Despite the large share price increase, we are disappointed with what has transpired over the last six weeks.

A takeover scenario would have most likely resulted in Jumbo shareholders receiving well north of \$3 per share. Alternatively, a much better deal should have been struck with Tatts. In the middle of its own merger conversations with **Tabcorp** (TAH), Tatts can hardly afford to lose 7% of its lottery sales to a competitor (Lottoland wants Jumbo to sell its tickets instead of Tatts's).

Jumbo's board has effectively given Tatts a blocking stake in the company for certainty that isn't necessary. And the deal gives Jumbo a cash war chest that it doesn't need. This raises the risk of poor capital allocation, something that has plagued the company in the past.

Another company which had news that wasn't as positive as it could have been was advertising agencies business **Enero Group** (EGG). Management announced the declaration of a fully-franked five cents per share special dividend. This is the first dividend in more than seven years. Enero was restricted from paying dividends until its large deferred consideration liabilities were either paid or expired. However, with the value of these liabilities rapidly approaching zero, the company agreed with its remaining liability holders to waive any further rights for nominal consideration.

While the dividend announcement triggered a positive share price reaction, five cents per share equates to a total dividend payment of just \$4.3m. This is well below our estimate of the company's excess cash balance of \$15m (its total net cash balance was \$31m at the last reporting date). With \$22m of unused franking credits, we were expecting something much larger.

In unequivocally good news, telecommunications services provider **Service Stream** (SSM) announced another earnings upgrade as the company continues to benefit from the NBN rollout. Management expects earnings before interest, tax, depreciation and amortisation to exceed \$46.5 million for the 2017 financial year, around 10% higher than it had forecast at its half year result back in February. The activation phase of the NBN, where households are connected from the street, is ramping up with Service Stream winning a large proportion of this work. This should underpin revenue for the next five

years, a level of visibility unprecedented for this company. Unfortunately, much of the positive operational and earnings momentum is being reflected in the share price, which is starting to look fully valued.

#### 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 May 2017
<b>Buy Price</b>	\$1.5790
<b>Redemption Price</b>	\$1.5712
<b>Mid Price</b>	\$1.5751
<b>Portfolio Value</b>	\$28.4m

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

#### PERFORMANCE

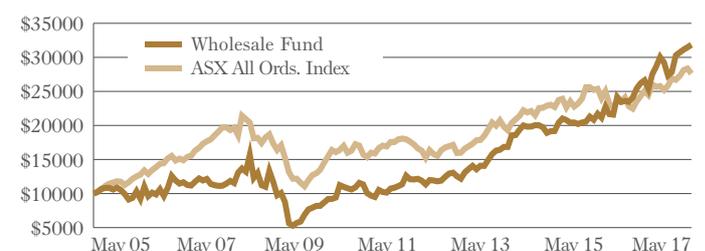
##### Forager Wholesale Value Fund Performance Summary

(as at 31 May 2017)

	Wholesale Value Fund	S&P All Ords. Accum. Index
1 month return	1.22%	-2.58%
3 month return	3.71%	1.28%
6 month return	16.55%	6.88%
1 year return	19.71%	10.23%
3 year return (p.a.)	18.50%	6.23%
5 year return (p.a.)	20.52%	11.59%
Since inception* (p.a.)	9.71%	8.35%

\*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



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