



The Wholesale Fund produced a 3.0% return in August, a couple of percent better than the ASX All Ordinaries Accumulation Index's 0.7%. On the whole, and considering several holdings had pre-reported results in July and contributed significantly to that month's 5.5% return, it was a very productive reporting season.

Starting with the uglier ones, telecommunications contractor **Service Stream** was the unfortunate laggard, reporting revenue falls in every division and not coming close to its self-projected earnings target provided in January.

It's a company with a few problems and we'll have to be patient, but it trades at just 25% of turnover and looks cheap even on current skinny earnings. Margins should improve and revenue related to the roll out of the National Broadband Network is almost certain to grow this year. Perhaps reflecting dismal prior expectations, Service Stream's share price gained 5% to \$0.21.

Eye health business **Vision Eye Institute** technically met its earnings target, but the result was average. Revenue grew 3.3% but gross margins shrunk from 45% to 43% as doctor costs continue to rise. Adjusting for legal and insurance costs, the operating profit was in-line with last year.

The debt load is now comfortable and a 1.25 cent dividend has finally been declared, but compared to earnings per share of 7.9 cents it wasn't much to cheer about. Disappointingly there won't be an interim dividend, and Vision's share price fell 11% to \$0.70. Chief executive Brett Coverdale seems to be retaining financial firepower for lease expirations and potential new facilities, as well as looking at new opportunities in 'other health services', whatever that may be.

On the good side of the ledger there was plenty, most of which will need to wait for the September quarterly report. A couple of lesser known investments in the Fund, however, stood out.

After years of uncertainty and restructuring, **Astro Japan**, which owns retail and office property mostly in Tokyo, has reduced its debt to sustainable levels and can start focusing on generating returns for unit holders.

Japanese commercial property assets yield around 6%, but judicious use of absurdly cheap debt can transform that 6% into much higher returns for equity investors. Though its average interest cost on debt is already less than 2%, Astro management is confident of refinancing existing loans at lower interest rates and reducing mandated principal repayments – an outcome that could dramatically improve distributions to unitholders.

It's a different kettle of fish, but **Macmahon Holdings** also trades at a big discount to its net tangible assets, a full 64%. Macmahon provides contract mining services, hauling dirt and ore on behalf of mine owners who are keen to outsource. It's a tough business, especially at the moment. New contracts are hard to find, and more than \$100m of MacMahon's equipment is parked in yards not generating revenue.

The market for trucks, excavators and dozers in mining is oversupplied and it will take some time for balance to be restored through fleet retirement. But despite bleak conditions, Macmahon already has some decent contracts and is creating oodles of free cash flow, \$50m in the last six months alone (prior to debt repayment).

With new equipment requirements far below depreciation it can continue to do so. Macmahon's share price finished August

unchanged at \$0.12, and the enterprise value is just \$210m. It looks cheap and the management team is very focused on using its cash to create maximum value for shareholders.

#### 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>	29 August 2014
<b>Buy Price</b>	\$1.5458
<b>Redemption Price</b>	\$1.5380
<b>Mid Price</b>	\$1.5419
<b>Portfolio value</b>	\$30.6m

#### PERFORMANCE

**Forager Wholesale Value Fund Performance Summary**  
(as at 29 August 2014)

	Wholesale Value Fund	All Ords. Accum. Index
1 mth return	3.01%	0.72%
3 mth return	9.64%	3.76%
6 mth return	4.96%	6.01%
1 year return	13.02%	14.43%
2 year return	24.26%	18.75%
3 year return	20.91%	13.63%
Since inception*	7.95%	9.12%

\*2 September 2004

#### COMPARISON OF \$10,000 INVESTED IN WHOLESALE VALUE FUND VS ASX ALL ORDINARIES ACCUM INDEX



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