A letter from the Chief Investment Officer

If in 2019 nothing went right, the 2021 financial year was the antithesis. Both the Forager International Shares Fund and Forager Australian Shares Fund posted record returns, in absolute numbers and relative to their respective indices.

FORAGER FUNDS PERFORMANCE SUMMARY (as at 30 June 2021)

	1 month return	3 month return	6 month return	1 year return	3 year return (p.a.)	5 year return (p.a.)	10 year return (p.a.)	Since inception* (p.a.)
Forager Australian Shares Fund	1.62%	15.37%	17.80%	87.09%	7.06%	10.34%	14.18%	12.08%
Forager International Shares Fund	7.75%	18.07%	31.24%	78.88%	25.30%	22.22%	-	19.05%

Past performance is not indicative of future performance and the value of your investments can rise or fall.
Performance in FASF is calculated using Net Asset Value (NAV), not the market price.

*8 February 2013 for FISF and 30 October 2009 for FASF

There is nothing like a period of dramatic underperformance to force some introspection. In funds management, that introspection can sometimes draw the wrong conclusion. It is not uncommon to see someone change an investing style because it hasn't been working, only to see the old way of doing things start working again.

For Forager, valuation has been our guiding light. Buying businesses for less than they are worth has made sense to me since I was a teenager.

What a business is worth, though, depends on the future. And the future is uncertain. Our valuation process needed to evolve in a world where intangible assets have become paramount. And our portfolio management needed an overhaul. Managing hundreds of millions of dollars requires an attention to portfolio liquidity, diversity and frictional costs that were far less at a smaller size.

We changed the fee structure for the Forager International Shares Fund, cutting the base fee and introducing a performance fee. We invested heavily in attracting new talent and implemented a remuneration system that strongly aligns staff pay with fund performance. And we implemented internal limits on portfolio liquidity and sector diversity, reducing the risk of inadvertently exposing too much of a portfolio to one particular industry or macroeconomic input.

There is no doubt luck played a part in exacerbating both the bad and the good.

Across both portfolios, there are growth stocks, turnaround stocks, small companies, large companies and everything in between contributing to the stellar results. Some we owned for less than a year, others we have owned for a decade. Every single one was bought at what we thought was a discount to its underlying fair value. For some that valuation assumed the company would grow a lot. Others assumed it would shrink.

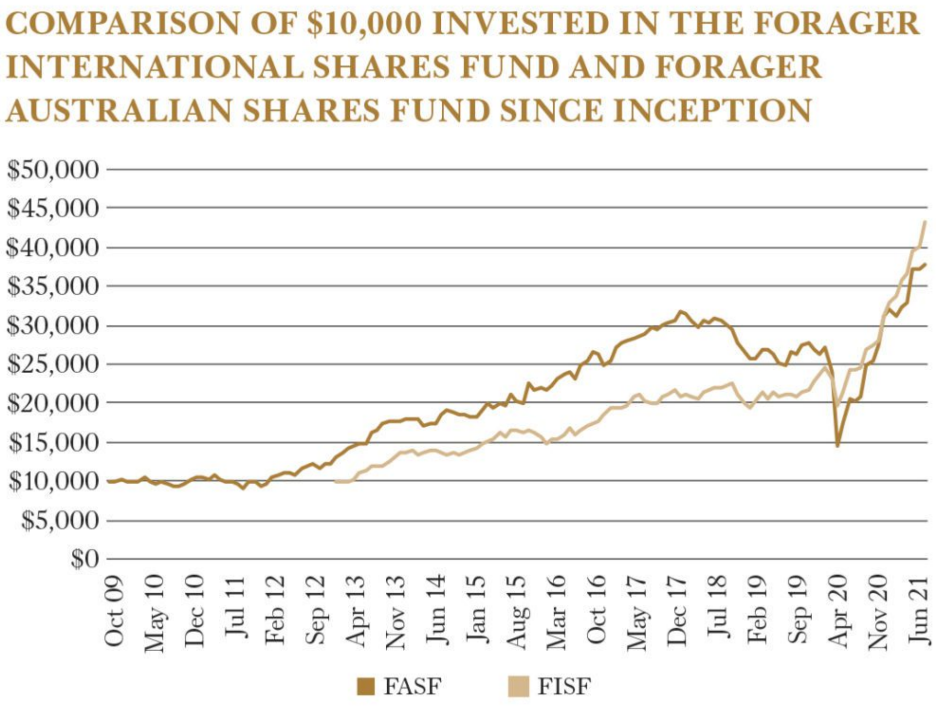
Perhaps most importantly, in the International Fund in particular, almost every single successful investment idea was introduced to the portfolio by someone other than me. You might argue that this was the secret all the way along. Just get out of the way. And you might be right. We have some very talented investors in the business today.

That in itself is something to be proud of. Funds management companies that thrive beyond their founder are rare. We are going to go through difficult periods again. We will need to further tweak and adjust what we do as our business evolves and the world changes. But last year's returns were a wonderful reward for the prior years' hard work, willingness to adapt and client loyalty.

THE POWER OF COMPOUNDING

The since-inception numbers for both funds are adding up. Investments of $10,000 in each of the Forager Funds at their respective inceptions ($20,000 in total) would be worth more than $80,000* today, assuming you reinvested all of your distributions. That assumption is an important one.

An investor who didn't tick the reinvestment box would have $47,300 and $14,600* in cash (assuming they didn't earn any other return on it).



Source: Forager. *Past performance is not indicative of future performance. Returns are not guaranteed.

Compounding, sometimes called the eighth wonder of the world, becomes more powerful the longer it has to work its magic. If Forager's funds can keep earning 10% per annum, that $80,000 will double in seven years, quadruple in 14 years and, in 21 years' time, be worth $640,000*. Not bad for a $20k investment. That is a big if, of course. Especially when the starting point is high asset prices and ultra-low interest rates. But the power of compounding still manages to astound me.

BEING WRONG AND RECOGNISING IT

It is incredibly hard in a society and an industry that glorifies people who claim to know the future. But recognising that we are often wrong is one of our greatest competitive advantages.

There is no shortage of wisdom about the importance of a willingness to change your mind. Philip Tetlock and Dan Gardner's book, Superforecasting: The Art and Science of Prediction devotes chapters to showing how the world's best forecasters constantly adapt their predictions as new information arises, sometimes dramatically. Not that we needed further evidence, but the past 18 months provided billions of examples of humans finding changing their mind incredibly difficult to do. Do masks work? Do lockdowns work? Are lockdowns worth the economic impact? Do vaccines work? Will it be a V shaped recovery or a U shaped recovery? Are stockmarkets overvalued or undervalued?

Whatever the topic, humans form their opinion early on. And the vast majority of them refuse to budge. No matter how much contradictory evidence they receive, especially if their reputation is closely intertwined with a prior view.

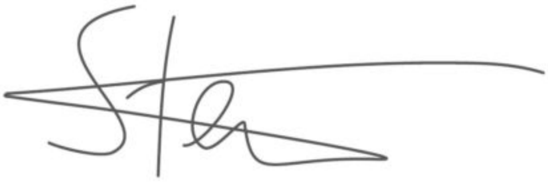
This intransigence makes Twitter almost unbearable some days. When it comes to investing, our inability to recognise that our prior opinion was wrong can prove extremely expensive.

I learned that lesson the hard way. It was psychologically painful to change my view when writing for The Intelligent Investor. It isn't much easier as a relatively transparent fund manager. And all of my prognostications and presentations about the importance of understanding human psychology hasn't always stopped me succumbing to the pitfalls.

The past couple of years suggest we are getting better. Particularly as a team. A big part of my job as Forager CIO is creating an environment where people are encouraged to change their mind and where I help them recognise when that needs to happen. Psychological bias is much easier to see in other people than it is to notice in yourself.

Staying open minded and nimble helped us successfully navigate a past 12 months that were even more unpredictable than most. It helped us recognise when our own assumptions were wrong and, in many cases, allowed us to take advantage of others' unwillingness to accept mounting evidence that didn't align with their prior view.

It is an attribute that is only becoming rarer in a world of armchair experts.



Steven Johnson

Chief Investment Officer