

---

## Four Strategy Pillars Driving the Australian Shares Fund Performance Recovery

In the latest video discussion Chief Investment Officer, Steve Johnson, talks to Senior Analyst, Alex Shevelev, about what the team have been doing to improve the performance in the Forager Australian Shares Fund. The Fund is now up by 54% in a market that is only up 16.5% this last financial year. Steve and Alex discuss the Forager Australian Shares Fund performance recovery strategy which covers the key areas where results have improved in the Fund. These "four pillars" are value realisation, turnaround stocks, dividend stocks and growth stocks.

[https://youtu.be/5VZjp\\_VfRCA](https://youtu.be/5VZjp_VfRCA)

Transcript:

Steve

Hi everyone and welcome, it's Steve Johnson here, Chief Investment Officer at Forager Funds. Today we're taking a step back to look at our Forager Australian Shares Fund with Senior Analyst on the Fund, Alex Shevelev. We laid out a plan at our investor roadshow in 2020 to resurrect the performance of this Fund, explained what we had been doing and what we were planning on doing to get the returns back to where we need them.

Since then the results have been very good. The fund is up about 54% since the end of July to the end of February 2021 in a market that is only up 16.5%. We laid out a number of key areas that we thought performance needed to improve or buckets that we thought stocks were in. One of those was value realisation in businesses where we thought there was a lot of value that wasn't generating profits. Another was turnarounds of stocks that we thought were underperforming, but could perform well. Then we had some solid profitable dividend payers that we had high hopes for, and some stocks that we thought could grow much more than the market was anticipating at the time. Which one of those buckets has made the biggest contribution?

Alex

It's actually been across all of those buckets Steve, and it's been pleasant to see a value realisation in WPP which has been bought out by the parent, a big dividend from Thorn Group and Mainstream Group, which is now in the throws of a takeover for itself. We've had companies continuing to grow and pay dividends like Enero and Motorcycle Holdings, COVID beneficiaries throughout. And we've had companies on the turnaround side like NZME, also contributing to a very significant turnaround there.

Steve

If I look at just the raw numbers, maybe the growth bucket. I looked at the roadshow

---

presentation that's up on our YouTube channel - if you'd like to go back and have a look at it - we had Mainstream in that group which has been taken over and has been a great performer. We also had RPM and AMA which have done fine, but in a portfolio that's up so much have, probably have been laggards. You seem pretty happy with the operational progress there as well.

Alex

We've had February reporting season now, and even though both of these companies had trip-ups during COVID, we feel they're back on the right track, growing profitably and set to deliver more this year than they did last year.

Steve

It has been a very good period for the Fund. We recognize that this is only 18 months of performance. But the thing that I'm most happy with from my perspective is the operational performance of the underlying portfolio. You may have seen in our February monthly report for the International Fund, there's been a huge amount of change in that portfolio because the prices have run so hard. Here we've had some big run-up in prices, but I think the operational performance has at least kept up with them. So there's some changes and there's some takeovers, but there's also some businesses that are going well and paying us big dividends.

Alex, one thing we also tried to address at that roadshow was the discount that the units were trading at relative to the net asset value. Now, despite this performance over the past 12 months, we haven't seen that gap close. What do you think it's going to take for that to happen?

Alex

We've had 12 months of performance here, which is good. The prior couple of years were more difficult. And we'll need to continue working hard to address that and get the unit price back up to higher levels so that those three and five year numbers look better. We're also a unit trust, of course. So we distribute all of our gains in the year that we have made it, and that will mean that as a result of some of the strong performance that we've had last year, we will start to distribute some of those gains over time.

Steve

I think it's a key feature of the Fund that people may have forgotten since we listed, it is still a unit trust and you will see those returns that we generate over time come out in the form of distributions. And over the past few years, those distributions have been light on because the returns have not been there. But this year we're going to see a big fully franked component to what we do, thanks to a couple of special dividends and the good underlying operating performance. You should see those capital gains translate to distributions over time as well. So if we continue to perform well in this fund, investors will get those returns in the form of distributions. If you buy it at a 15% discount, you're going to do particularly well in that scenario where we keep doing well.

Alex

---

We've been doing that ourselves with cash in the Fund as well, buying back those units at a discount, which has been on average about 15% recently and that serves to increase the NTA.

Steve

With all of these takeovers coming through, there's going to be plenty of cash for that buyback and also for the new ideas coming into the portfolio. Alex, we look forward to seeing what those are, and we'll be introducing you to Gaston Amoros who's joined the team recently and contributing plenty of new ideas himself as well. Thank you for tuning in and any questions get in touch through our website, email or give us a call. Thank you.

---