FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT SEPTEMBER 2020 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 September 2020)

	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.)
Australian Shares Fund (ASX:FOR)	2.00%	25.66%	74.99%	-6.85%	-5.52%	4.98%	10.32%	8.92%
All Ordinaries Accumulation Index	-3.43%	1.10%	19.05%	-8.76%	5.46%	7.73%	7.00%	6.75%

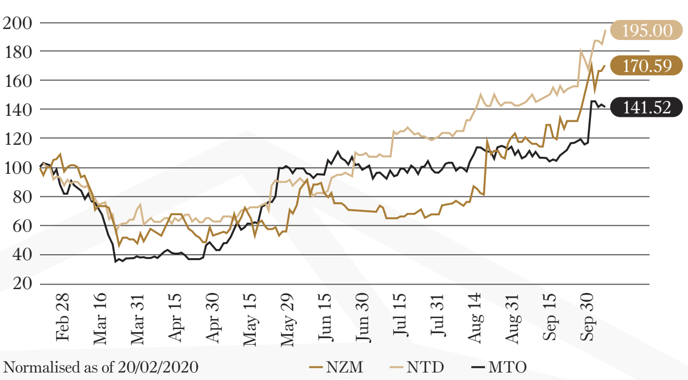
The value of your investments can rise or fall. Performance is calculated using Net Asset Value (NAV), not the market price.
Past performance is not indicative of future performance.

*30 October 2009

In September the Fund rose 2% while the index fell 3.4%. Continuing a pleasing trend, many of the investments in the portfolio announced strong recoveries from COVID-induced disruption. For some investments this is leading to changes in the way these businesses are viewed by investors. This change in investment narrative has seen stock prices rise substantially above pre-COVID levels.

NZME (NZM) is the owner of newspaper, radio and digital businesses in New Zealand. After first reeling from a near-halving of advertising spend in April, NZME made some important changes. Management quickly moved to cut costs by NZ$25m. An NZ$20m annual cost reduction will become permanent. For a business with $6.8m of net profit for the last half year this will be a significant change, and will help buffer NZME profits from reduced newspaper revenues.

PRICE CHANGES SINCE MARKET PEAK



Source: Bloomberg

Earnings will still fall this calendar year. But with a post-COVID recovery already underway and the full impact of cost-cutting the company looks confident of growth next year. Over the next few years, shrinking print advertising revenues will be a smaller portion of the group's total revenue. Its growing radio and digital revenues will become more important.

The narrative may well shift from decline to slow growth. And at five times net profit, NZME is cheap for a growing, dividend paying company. Success with the property classifieds website OneRoof offers even more upside.

By taking advantage of the crisis, NZME is now on much better long term footing. The change in the narrative is starting to be priced in by investors. After tripling from the March trough, NZME's share price is more than 50% above February levels.

Tyre distributor **National Tyre** (NTD) and motorcycle and accessory retailer **Motorcycle Holdings** (MTO) are also seeing a change in narrative.

After bunkering down in April in the face of slowing tyre demand, National Tyre has seen a sharp reversal in fortunes. May and June sales improved sharply. Operating costs were reduced. JobKeeper benefits flowed in.

The latest update in early October showed National Tyre riding a wave of tyre replacement as Australians get on the road for their next holiday. Operating earnings before interest, tax, depreciation and amortisation was $11.8m last financial year. In the six months to December the company is forecasting $8m to $8.5m. That includes the contribution from a large acquisition, but excludes the cost benefits of combining the businesses.

The acquisition of Tyres4U nearly triples revenue. Synergies, though yet undisclosed, are likely to be significant. And a good first year will help to pay down the debt used to fund the acquisition.

The narrative has changed quickly from a small scale and single supplier distributor, to a business with more scale, diversification and growth potential. National Tyre has also tripled off the March trough and has almost doubled from pre-COVID share prices.

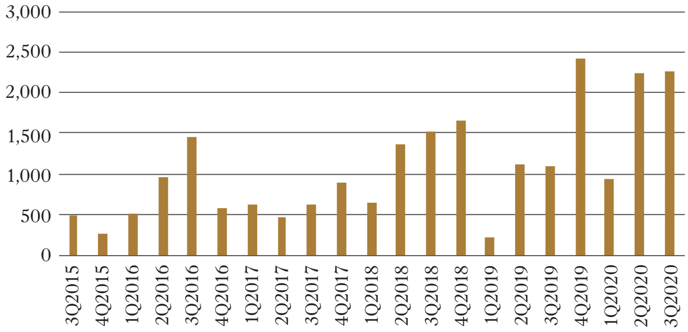
Motorcycle Holdings was another to see quick improvements. Industry sales of motorbikes rose 57% in July and 23% in August. As supply dwindled, margins improved. Sales of accessories through dealerships, wholesale and retail channels rose 20% from last year.

Off-road motorbike sales benefited from a move to fun socially distant activities. On-road bike sales are benefiting as commuters look to socially-distant travel options. Government stimulus has fuelled the move, with early super withdrawals providing consumers more cash to spend. And JobKeeper helped the company offset some labour costs. Net bank debt of $38m in February was down to $9m by June and has fallen since. A $0.05 special dividend was paid and dividends are likely to continue.

An overleveraged and struggling motorcycle dealer has come out of COVID with sensible net debt, prospects for organic growth and the continued ability to acquire further dealerships. This change in narrative saw Motorcycle's share price quadruple from March lows.

COVID has also benefited global gold miners and their suppliers. With the gold price rising 18% since February miners are quickly raising money for exploration and mine construction. The amount of money raised from investors in the sector has doubled in each of the last two quarters.

EQUITY RAISED ON THE ASX BY MINING COMPANIES (A$m)

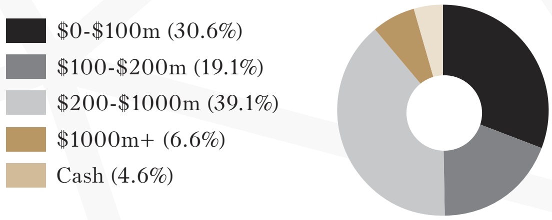


Source: Canaccord, Dealogic

For some gold companies this will mean more money for drilling existing tenements. For the further progressed ones, the extra funds will be going into mine construction. After construction, many of these mines will be using contract miners to move dirt with large machinery and specialist knowhow. The Fund owns two companies that will benefit from the increase in contract mining awards over the next 12 months. Investments in **Macmahon** (MAH) and **Perenti** (PRN) total 5% of the Fund.

Readers of these reports will be no stranger to our long term investment in Macmahon. The company mines the giant Batu Hijau copper/gold project in Indonesia and a handful of Australian projects, including Tropicana in Western Australia. At its recent earnings release, the company gave guidance for $1.4bn to $1.5bn in revenue this year. Of this, $1.2bn is already contracted with clients. But tender opportunities are worth a massive $7.5bn, mostly in Australian gold projects. Between $2bn and $4bn will be awarded before June next year. Macmahon is already off to a good start, securing the $220m Warrawoona project in September.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



Perenti has been a more recent addition to the portfolio and contracts to mines in Australia and Africa, with gold miners making up nearly 70% of the business. It has $1.7bn of work secured for this financial year, with total revenue likely to come in at about $2.1bn. The pipeline here is a staggering $8.8bn with $5bn due to be awarded over the next year. Like Macmahon, Perenti has already secured two contract extensions and a new win in Western Australia.

With investors more interested in high-flying tech names, mining services companies have not seen much attention after COVID. Both Macmahon and Perenti trade at seven to eight times after tax earnings. Yet both came through COVID with little disruption and are due to see lots of new work awarded over the next year. It is shaping up as a golden time for contract miners.

TOP 5 HOLDINGS (as % of NAV)		
RPM Global Holdings Limited	**(ASX:RUL)**	8.2%
Thorn Group Holdings Limited	**(ASX:TGA)**	7.7%
Mainstream Group Holdings Ltd	**(ASX:MAI)**	6.2%
AMA Group Limited	**(ASX:AMA)**	5.6%
NZME Limited	**(ASX:NZM)**	5.1%
Cash		4.6%

FUND OBJECTIVE

The Fund targets securities that Forager believes are undervalued and invests predominately in securities listed on the ASX. Its investment objective is to outperform the All Ordinaries Accumulation Index over a rolling 5-year period and its goal is to produce superior long-term returns from a select number of underlying investments, irrespective of short-term price movements^.

FUND PERFORMANCE BY MONTH AND FINANCIAL YEAR

FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total Return
2010					-0.69%	2.52%	-1.66%	0.08%	-0.34%	4.60%	-4.27%	-4.40%	**-4.41%**
2011	4.97%	-2.40%	-2.80%	-1.54%	3.12%	6.59%	1.58%	0.47%	-1.49%	3.40%	-5.39%	-0.82%	**5.12%**
2012	-1.00%	-2.61%	-7.20%	9.89%	-0.02%	-4.62%	1.53%	8.90%	5.02%	2.17%	-0.51%	-2.64%	**7.76%**
2013	8.70%	0.44%	2.83%	-3.07%	4.57%	0.33%	5.83%	4.86%	4.51%	1.41%	2.65%	-0.69%	**36.87%**
2014	10.45%	1.13%	4.77%	2.50%	-0.11%	0.38%	1.05%	0.48%	-1.28%	-3.44%	1.28%	-0.15%	**17.73%**
2015	6.70%	2.56%	-1.23%	-2.06%	-0.21%	-1.15%	0.94%	3.38%	4.87%	-2.42%	3.13%	-2.34%	**12.31%**
2016	7.94%	-4.46%	-1.38%	12.87%	-2.97%	0.22%	-1.33%	2.70%	4.40%	2.48%	1.51%	-3.91%	**18.06%**
2017	6.99%	3.25%	4.50%	-1.99%	-4.65%	1.76%	7.20%	1.29%	1.60%	1.16%	1.16%	1.00%	**25.16%**
2018	2.32%	-0.95%	2.69%	0.95%	0.21%	4.06%	-0.57%	-3.18%	-2.64%	2.77%	-0.97%	1.91%	**6.50%**
2019	-0.62%	-1.90%	-2.19%	-6.16%	-3.78%	-3.68%	0.98%	4.46%	-0.95%	-2.02%	-3.97%	-1.46%	**-19.66%**
2020	6.67%	-1.09%	4.38%	1.54%	-3.22%	-1.50%	2.46%	-10.97%	-39.71%	20.57%	18.04%	-2.16%	**-18.36%**
2021	3.70%	18.80%	2.00%										**25.66%**

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FACTS

Fund inception	30 October 2009
ASX Code	FOR
Distribution	Annual, 30 June

UNIT PRICE SUMMARY

As at	30 September 2020
NAV	$1.30
Market Price	$1.16
Portfolio Value	$145.1m

ABOUT FORAGER

With approximately $320 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

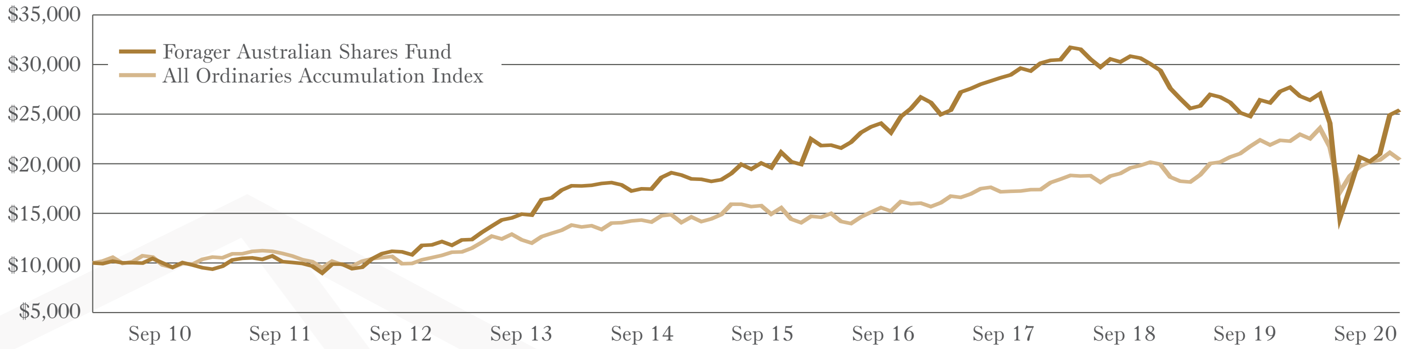
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

Key investment staff are strongly aligned with investors through co-investment and / or equity in the Forager business.

FUND CHARACTERISTICS

- Concentrated portfolio of ASX-listed stocks
- Long track record in identifying unloved gems
- Restricted fund size allows investment in smaller businesses
- Strong focus on managing portfolio risks
- Listed on ASX as a Listed Investment Trust (LIT)
- Structure offers Forager flexibility in distressed markets

COMPARISON OF $10,000 INVESTMENT OVER TIME



Source (All Ords): S&P Capital IQ. The above figures assume that all distributions have been reinvested. Performance is calculated using Net Asset Value (NAV), not the market price. Past performance is not indicative of future performance.