

FORAGER

DECEMBER 2020
QUARTERLY REPORT

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Bloodbath Back
to Bull Markets

CHIEF INVESTMENT
OFFICER LETTER

QUARTERLY LETTER DECEMBER 2020

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FORAGER FUNDS PERFORMANCE SUMMARY (as at 31 December 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.)
Forager Australian Shares Fund	3.56%	26.39%	58.82%	21.63%	0.42%	7.99%	12.04%	11.01%
Forager International Shares Fund	5.98%	20.24%	36.30%	38.26%	16.23%	15.95%	-	16.28%

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

Extraordinary. It is an overused word. It's also an odd word, to me at least. Why does something that is unusual or infrequent have an extra amount of ordinary?

Anyway, we can safely use it to describe 2020 without being accused of hyperbole. Travel plans, living arrangements, schooling, workplaces and shopping have all been thrown into turmoil by a virus that has spread around the world, caused governments to lock citizens in their homes and killed almost two million people. For those of us in financial markets, the March crash will sit alongside the 2008 Lehman-induced meltdown as a placemark in our careers.

At Forager, it was an especially extraordinary year. The Forager International Shares Fund returned positive 38.3% for the year. In absolute terms, that is an outlier. Relative to the MSCI AC World Net Index in \$A, which returned 5.8%, it is the sort of result you hope for once every couple of decades.

The Forager Australian Shares Fund's 21.6% return is less of an outlier — you could argue it was overdue given the underperformance of the prior two years — but it was extraordinary nonetheless. That 21.6% encompasses a fall of 54% between 1 January and 23 March, followed by a 166% rise between that nadir and 31 December.

You should expect us to perform well in volatile markets. But the magnitude of the performance is particularly pleasing. My thanks go out to the entire Forager team for their outstanding work in a difficult year and our loyal Forager clients, who allow us to do our jobs in dysfunctional markets.

THE GAME THAT NEVER STOPS

One thing I like about marathon running is the well defined end-point. You train hard for a few months, eat well, dial it back for a week and then it's race day. Once the finish line is behind you, it's time for a cold beverage, a few weeks of rest and all the pies you can eat.

Running an investment portfolio in a year like 2020 is nothing like running a marathon. There is no finish line. Like a two year old child, it needs to be fed and monitored every single day. And the better your returns, the faster markets are moving, the more monitoring and feeding it needs.

If 2020 proved anything, it was that predicting the future is extremely difficult, if not futile. Look no further than my February blog [Corona no virus for global stocks](#), two weeks before a market meltdown. That also shows that prognostications are not a prerequisite for above average returns.

We didn't predict the market bottom in 2020. We didn't anticipate the fastest bear market recovery on record. We simply tried to construct the best portfolios we could with the opportunities that were in front of us. We recognised that the best opportunities on the 23rd of March were very different from those on the first of January, and made quite dramatic changes to both portfolios.

In fact, writing a blog that looked foolish in hindsight was probably a blessing in disguise. It served as a timely reminder that great investment returns come from finding great investment opportunities. While many of those who predicted a market meltdown were wasting their time trying to identify the bottom, we were out there looking for stocks to buy.

We will take the same approach in 2021. Start with the view that anything could happen, and we won't be surprised.

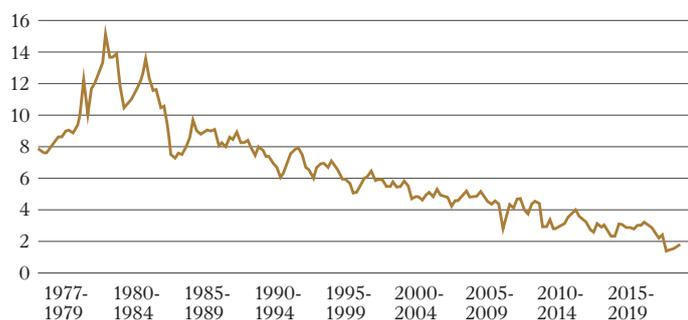
A MONETARY EPOCH?

One thing that could happen, that most people think won't, is that we look back on 2020 as more than just a market crash. It may be seen as the end of an era.

Will inflation return? That was the question on the cover of the December 12 edition of *The Economist*. The answer will define the next decade, perhaps two, of returns on almost every asset class.

In September 1981, the 30-year US government bond was yielding 15% for an investor who held it to maturity. In the early 1990s, my parents were still paying interest rates of 18% on their mortgage. Today's yield on a 30-year US bond is less than 2% and a mortgage loan in Australia can cost you less than that.

30-YEAR US GOVERNMENT BOND YIELD



Source: Bloomberg

For the past three decades, interest rates have inexorably fallen alongside inflation expectations. Today, central bankers are far more concerned about inflation never coming back than it ever getting out of control again. Investors are using low long-term interest rates, based on a lack of inflation concerns, to justify sky-high prices for property, infrastructure assets and Tesla shares.

There are theories, from ageing populations to technological improvements and low cost labour substitution, that explain low inflation or even deflation as a permanent feature of the developed world. I don't have a strong view that those theories are wrong. But I know that when the whole market thinks something can't possibly happen, the consequences of that assumption being wrong are significant.

WHY MIGHT INFLATION RETURN?

Some investors and economists — particularly of the pessimistic kind — have been predicting the return of inflation ever since the financial crisis of 2008/9. It hasn't happened, the argument goes, and therefore it won't.

Throughout the past decade, monetary policy was extremely accommodative. But it didn't have much help. The private sector — including consumers and banks — spent most of the decade in balance sheet repair mode. Fiscal policy wasn't helping, as politicians caved to austerity demands every time their economies looked like recovering. Just like the recovery from the Great Depression of the early 1930s, the recovery has been mired in fits and starts.

This pandemic-induced crisis might be more akin to a war than a financial crisis, though. By the end of 2021, all three components will be surging in the same direction. Morgan Stanley estimates the four largest economies will expand central bank balance sheets by some 38% of GDP in 2020, almost four times the amount of purchases following the financial crisis.

And the same G4 economies will be running the largest fiscal deficits since the second world war at the same time. The US government deficit is expected to be 14.9% of GDP in 2020 and remain at 9% of GDP in 2021. Despite all of the bailouts in 2009, the US government deficit never exceeded 10% of GDP.

Perhaps most surprisingly, consumers around the world are in rude health. Unemployment has not risen as much as expected, and the large stimulus programs and a lack of things to spend their money on means consumers are flush with cash (see chart below). The lockdowns have hit a small percentage of the population hard but, as a whole, the savings rate in Australia soared to more than 20% of disposable income, a level unprecedented in RBA records.

HOUSEHOLD SAVINGS RATES



Source: RBA, ABS, Office for National Statistics, U.S. Bureau of Economic Analysis

The aggregate picture is one of substantial pent up demand meeting more monetary and fiscal stimulus in late 2021 and into the following years. Perhaps we look back on this period as the monetary equivalent of the Second World War, one giant stimulus program that finally brought the economy to life.

Nonagenarian investor Charlie Munger once said "knowing what you don't know is more useful than being brilliant." Some of the brightest economics minds in the world have a patchy track record when it comes to macroeconomic forecasts. Perhaps demographics and technology do mean we never see inflation again. But the world is about to test the theory. And we won't be buying anything that assumes higher interest rates can't possibly happen.

Kind regards,



Steven Johnson
Chief Investment Officer

FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT DECEMBER 2020

www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 December 2020)

	1 month return	3 month return	6 month return	1 year return	3 year return (p.a.)	5 year return (p.a.)	Since inception* (p.a.)
International Shares Fund	5.98%	20.24%	36.30%	38.26%	16.23%	15.95%	16.28%
MSCI AC World Net Index in \$A	0.24%	7.47%	11.60%	5.90%	10.21%	10.84%	14.10%

MSCI AC World Net Index in \$A is an abbreviation of MSCI All Country World Investable Market Index (Net) in Australian dollars. Past performance is not indicative of future performance and the value of your investments can rise or fall.

*8 February 2013

Wow, what a ride. We have never seen anything like 2020. The first quarter of the year saw one of the largest and fastest sell-offs in market history, with stock markets hammered by the pandemic and global economic lockdown. The recovery was almost as steep, underwritten by the world's central bankers. The buffering effects of the Australian dollar helped mute the sharpness of both the downturn and the recovery for local investors. But volatility was extreme. Violent price moves left many paralysed. We're not going to pretend some nights in March weren't restless. But it's the sort of investing environment where we can best hope to gain an edge over the crowd.

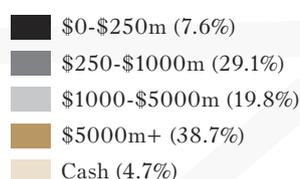
The Fund owned eight stocks (Celsius, Fathom, Open Lending, ThinkSmart, Farfetch, GAN, Spotify and Uber) that doubled over the full course of the year. Many more if you cherry pick from the 23 March low. In Celsius's case, its share price ended the year almost 10 times higher than our first purchase in January 2020.

One should not expect a repeat near-term. Even if we managed to eliminate all mistakes next year, market conditions are unlikely to reward winners so rapidly. This has not been a normal market. However, it remains more bifurcated than usual, and that should prove good for us.

The portfolio is more diversified than it's been in years. At 31 December 2020, the largest five investments represented just 20% of the portfolio, versus more than 30% a year earlier.

We do not know what 2021 will bring. But if the market continues to race higher, the portfolio will continue to get more defensive. In cricketing parlance, more blocks and singles, fewer boundaries.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



VALUE AND GROWTH IN SOME STEADY BUSINESSES

Companies such as **APi Group** (NYSE:APG) continue to trade at attractive valuations despite being exposed to growing end-markets — in this case fire safety and security (see the [September 2020 Monthly Report](#)). APi should also benefit from the Democrats recently winning control of the U.S. Senate, particularly given renewed hopes for a rural broadband stimulus and an increased focus on energy efficient buildings.

With more than half of the company's revenues of a recurring nature, APi Group provides a defensive growth opportunity in a market that has significant pockets of lofty valuations.

And there is **Whole Earth Brands** (NASDAQ:FREE), which is now the Fund's largest single investment. Whole Earth is a branded consumer goods company focused on natural and artificial sweetener products, as well as being a leading global supplier of licorice extract and derivative products — a business that has been around for 150 years.

You may be familiar with some of the company's portfolio of zero calorie, low calorie and natural and sweetener products, including the Whole Earth, Equal, Canderel and Pure Via brands. These products are generally the number one brand in Australia, Europe, South Africa and the United States (subsequent to their two recent acquisitions, discussed below).

It operates both of its businesses globally, distributing table top sweetener products into the retail, food service and e-commerce channels while supplying licorice products to some of the largest manufacturers in the world, including Haribo and Hershey's. The business's global platform distributes to more than 100 countries with six manufacturing facilities of its own and a broad network of distribution partners and co-manufacturers.

Whole Earth should benefit from consumer trends that continue to shift towards natural alternatives and "free-from" additive solutions. Moreover, the natural sweetener growth opportunity in emerging markets is significant and the company is currently expanding into the Indian and Chinese markets. Global sweetener penetration sits at only 3% in those markets, versus just over 12% in Europe and North America.

In today's stock market, these types of reliable businesses with growth prospects are not cheap. But Whole Earth Brands is an exception.

A FORCED SELLER HELPS

It was listed on the Nasdaq stock exchange in mid 2020 through a reverse merger with a Special Purpose Acquisition Company. Prior to going public, the two businesses that comprise Whole Earth Brands — Merisant and Mafco — were owned by corporate raider Ron Perelman. This prior ownership is key to the opportunity.

Perelman has been an aggressive seller of his assets over recent years (including his impressive art collection) as he seeks to reduce high levels of debt. Historically, the majority of Whole Earth's cash flow was used to service debt and pay out dividends to Perelman, so that he would not default elsewhere. The business was starved of capital for integration, cost-cutting, brand-building and, most importantly, growth.

Thanks to COVID, Perelman had to take a discount on the reverse merger deal and his continued selling after the listing further depressed the price, giving us our opportunity.

A SWEET INVESTMENT OPPORTUNITY

We love the shareholder-friendly capital allocation policies of the business. Within months of becoming a public company management authorised a US\$20m buyback (more than 5% of its market capitalisation).

And it now has the capacity to plug more adjacent businesses into the network. Whole Earth recently announced the acquisition of the Swerve and Wholesome brands, two natural sweetener products which expand the company's product footprint and provide significant topline and cost synergies. The two acquisitions have almost doubled Whole Earth's annual revenues since the business listed and increased its market share in North America, from 5.4% to 11.6%.

Trading at less than 10 times expected 2021 operating profits, we see significant tailwinds and a management team that is being set free from its high debt burden for the first time. It should all translate to higher profits and a much higher share price over the coming years.

TWITTER: OVERUSED AND UNDER-MONETISED

Twitter (NASDAQ: TWTR) is the preeminent tool for breaking news and knowledge in the western world. What's in the newspaper tomorrow is largely a rehash of what's on Twitter right now. Facebook might be the place to connect with your friends. But Twitter is the place to connect with your interests — be it professional or hobby — especially anything information-rich. It's become the public forum where experts from myriad fields collaborate and joust, and anybody can join the discussion. The so-called network effects are strong and strengthening.

And yet we've watched the stock safely from the sideline for more than half a decade. Twitter the business has massively underperformed expectations. For too long it has failed to grow its revenue, unable to monetise its user base at a fraction of potential. It has also failed on costs, pouring money into research and development that hasn't had much impact on product quality or revenue generation. We've seen some improvement in those metrics over the past few years, but it was more abrupt changes in 2020 that really caught our eye.

In the first quarter of the year, active fund managers Silver Lake and Elliott Management both acquired stakes in the company and took a board seat each. They're playing good cop, bad cop roles. Silver Lake has a long history of success with underperforming tech companies. Elliott Management butts heads and breaks noses. Both will come in handy in pushing Twitter closer to its potential.

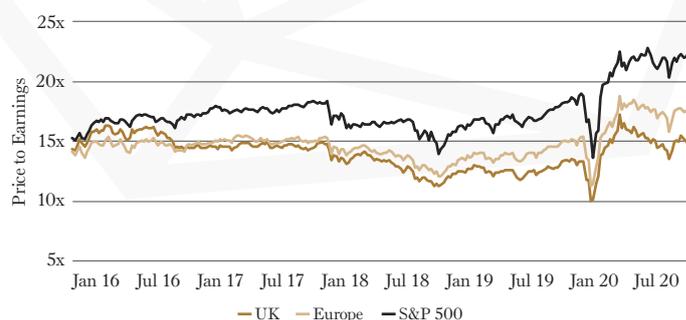
That's largely the bull case for the stock. Despite question marks around management and monetisation, Twitter user growth has been accelerating since 2018, even more rapidly since the onset of COVID-19. Revenue is now following suit. The company's backend technology, which had been hampering the company needlessly, is being redesigned from the ground up and will better serve the needs of advertisers. And now the new board will offer the right oversight to ensure management either delivers or disappears.

The Fund bought its stake midway through the year, with the stock up nearly 50% since our initial purchase. It's getting closer to our base case valuation. But the upside remains immense if the company can get a few important things right. We're watching closely.

BREXIT, FINALLY

Finally, the end of 2020 culminated with a Brexit agreement being signed, after negotiations went down to the wire. Although the UK is now facing a lot of similar restrictions without the benefits of being an inside member of the EU, the disastrous "no deal" scenario that investors were worried about is finally off the table. With a significant portion of global investors underweight the country and equity valuations at attractive levels relative to other developed markets, we continue to hold a number of investments that give us exposure to the region and a potential domestic recovery.

UK MARKET PRICE TO EARNINGS VALUATION VERSUS EUROPE AND US



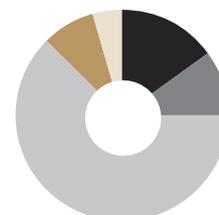
Source: Bloomberg

TOP 5 HOLDINGS (as % of NAV)

Whole Earth Brands Inc	(Nasdaq:FREE)	4.9%
Blanco Technology Group Plc	(AIM:BLTG)	4.6%
APi Group Corp	(NYSE:APG)	3.9%
Boohoo Group Plc	(AIM:BOO)	3.9%
Celsius Holdings Inc	(Nasdaq:CELH)	3.7%
Cash		4.7%

STOCK EXPOSURE BY GEOGRAPHY

UK	(15.0%)
Europe	(10.0%)
US	(62.3%)
APAC	(8.0%)
Cash	(4.7%)



INTERIM DISTRIBUTION

The Forager International Shares Fund paid an interim distribution to unitholders at 31 December 2020. The \$0.10 per unit distribution is a conservative portion of the income already realised this financial year. While much can change between now and 30 June, given the unrealised and realised gains made to date, investors in the Fund should plan for an increased amount of taxable income for the full-year.

FUND OBJECTIVE

The Fund is an international equities fund, targeting undervalued securities on the world's stock markets. The Fund's investment objective is to outperform the MSCI All Country World Investable Market Index (Net) in Australian Dollars (MSCI AC World Net Index in \$A) over a rolling 5-year period. The Fund's goal is to produce superior long-term returns from a portfolio of 20–40 businesses, irrespective of short-term share price movements.

FUND PERFORMANCE BY MONTH AND FINANCIAL YEAR

FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total Return
2013								-0.26%	-0.62%	2.88%	8.74%	3.47%	14.73%
2014	3.61%	1.11%	-1.26%	4.59%	6.58%	2.82%	1.40%	1.92%	-4.64%	1.85%	1.46%	-0.16%	20.54%
2015	-1.81%	-0.82%	1.47%	-2.93%	2.43%	3.63%	1.33%	3.59%	1.47%	2.84%	4.54%	-2.17%	14.06%
2016	5.61%	-0.29%	-2.07%	2.55%	-3.19%	-2.74%	-5.08%	3.36%	0.09%	3.64%	5.84%	-6.36%	0.44%
2017	4.55%	3.84%	1.91%	0.52%	4.65%	5.55%	-0.63%	-0.13%	2.25%	4.97%	1.69%	-4.25%	27.42%
2018	-0.76%	-0.43%	3.99%	2.31%	1.62%	-2.76%	0.97%	-1.78%	-1.22%	4.64%	0.97%	1.21%	8.81%
2019	-0.55%	1.50%	2.22%	-6.62%	-5.49%	-3.66%	5.11%	5.19%	-4.03%	4.79%	-2.68%	1.85%	-3.31%
2020	0.07%	-1.92%	3.09%	0.95%	4.83%	4.73%	3.62%	-6.03%	-15.53%	9.78%	12.60%	-0.22%	13.74%
2021	1.36%	10.05%	1.63%	2.36%	10.85%	5.98%							36.30%

Past performance is not indicative of future performance and the value of your investments can rise or fall.

FACTS

Fund inception	8 February 2013
Minimum investment	\$20,000
Monthly investment	Min. \$200/mth
Distribution	Annual, 30 June
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

As at	31 December 2020
Buy Price	\$2.1429
Redemption Price	\$2.1344
Mid Price	\$2.1387
Portfolio Value	\$216.0m

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

ABOUT FORAGER

With approximately \$400 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

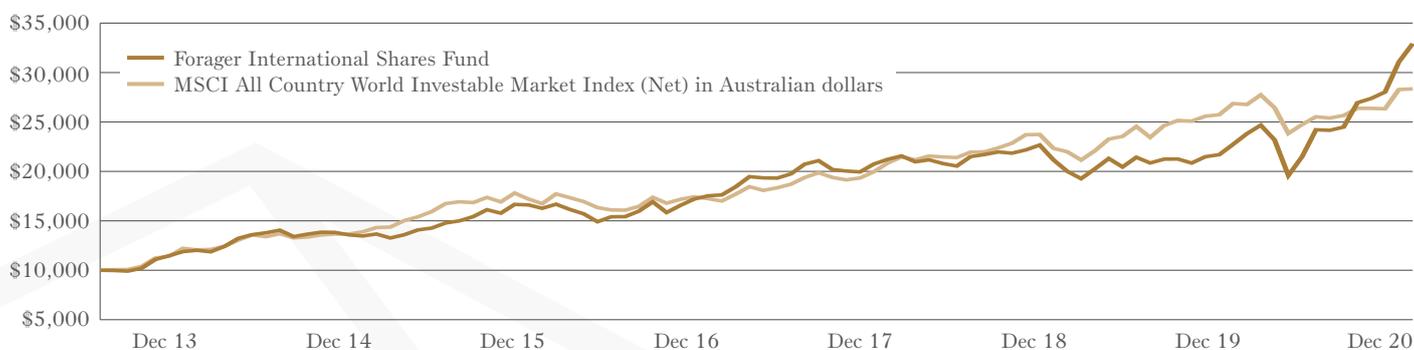
Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

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 global equities
- A combination of large liquid resilient businesses
- With smaller value based opportunities
- Flexible mandate allows for a wide range of markets
- Investment team with deep pockets of expertise
- Strong focus on managing portfolio risks
- Weekly applications and redemptions

COMPARISON OF \$10,000 INVESTMENT OVER TIME

Source (MSCI AC World Net Index in \$A): S&P Capital IQ. The above figures assume that all distributions have been reinvested. Past performance is not indicative of future performance.

WARNING The information given by Forager Funds Management is general information only and is not intended to be advice. You should therefore consider whether the information is appropriate to your needs before acting on it, seeking advice from a financial adviser or stockbroker as necessary. This report may contain some forward-looking statements which reflect the expectations of Forager Funds Management about the future prospects of companies held within the portfolios of the funds. While Forager Funds Management considers its expectations to be based on reasonable grounds, there is no guarantee that those expectations will be met. **DISCLAIMER** Forager Funds Management Pty Ltd operates under AFSL No: 459312. Fundhost Limited (ABN 69 092 517 087, AFSL No: 233045) is the responsible entity and the issuer of the Forager International Shares Fund (ARSN No: 161 843 778). You should obtain and consider a copy of the product disclosure statement relating to the Forager International Shares Fund before acquiring the financial product. You may obtain a product disclosure statement from Fundhost Limited or download a copy at www.foragerfunds.com. To the extent permitted by law, Fundhost and Forager Funds Management Pty Limited, its employees, consultants, advisers, officers and authorised representatives are not liable for any loss or damage arising as a result of reliance placed on the contents of this document. This investment objective is not a forecast and returns are not guaranteed. Although the MSCI AC World Net Index in \$A benchmark represents the available investment universe for the Fund, the Portfolio will represent a very small proportion of those available investments and the Fund's results may vary from the benchmark.

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT DECEMBER 2020

www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 December 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)	3.56%	26.39%	58.82%	21.63%	0.42%	7.99%	12.04%	11.01%
All Ordinaries Accumulation Index	1.75%	14.43%	15.69%	3.64%	7.44%	9.26%	7.89%	7.88%

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

The 2020 calendar year finished with the ASX All Ordinaries Accumulation Index up a mundane 4%. But under the surface the swings were extreme. We saw the fastest bear market on record, the first recession in nearly 30 years and big parts of the Australian economy brought to a standstill. The index fell by more than a third in March. Then government stimulus, subsiding investor panic and vaccine hopes saw the index rally more than 50% from the trough.

The Fund underperformed during the fall, with some smaller stocks being indiscriminately sold down during the late March bloodbath. We took advantage of panicked selling in some existing investments and added new positions. The Fund's recovery was much more pronounced than the fall, finishing the year up 22%.

We have more work to do to rectify the underperformance of the last few years, but it has been pleasing to see the Fund perform well in what has been one of the most volatile years on record.

WPP GETS A BID

The 2020 year finished with a new takeover offer for **WPP AUNZ** (WPP), one of the Fund's larger investments. The marketing services business received a bid from its parent company **WPP plc** (LSE:WPP). The Brits already own 62% of the business and the local arm works within the sprawling 130,000-person international empire. In the November monthly report, we called the bid, then at \$0.55 per share, opportunistically timed.

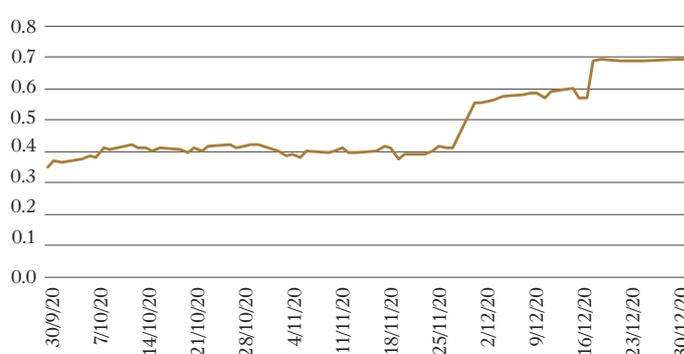
The independent directors agreed, negotiating with the parent to increase the bid to \$0.70 per share. Details are still being finalised, but part of the cash is due to come as a \$0.15 per share fully franked dividend.

When the Fund first bought into WPP AUNZ in June 2019, the investment case was simple. The company has a major local presence, was recovering from issues with one of its divisions while trying to sell another and had just appointed a new CEO. Trading at a price to earnings multiple of just six times and offering a 13% fully franked dividend yield, the valuation was attractive.

And there was a kicker. The low valuation also meant it made sense for its London-listed majority owner to eventually buy the whole business. It could also cut away the costs of a separately listed entity. The investment thesis stacked up, and the takeover appeal provided another way to realise the value in the business.

The final price makes for a 71% premium over where the local WPP shares were trading just a month ago, and a 54% return on our initial purchase including dividends.

WPP AUNZ SHARE PRICE



Source: Bloomberg

Corporate action has been a frequent path to value realisation over the history of the Forager Australian Shares Fund. Including WPP, 17% of the current portfolio has been the subject of publicly disclosed takeover approaches over the last few years.

This group includes panel beater **AMA Group** (AMA), which saw a bid from private equity group Blackstone two years ago before the deal was scuttled due to a tax issue. The business has become bigger and stronger since, continuing to consolidate Australian panel beaters. For now, a recovery to repair volumes and profit margins remain key. With private equity investors having lots of capital to deploy, AMA may once again be on the radar.

iSelect (ISU), the comparison website, was in the sights of its largest competitor just six months ago. Compare the Market already has a 29% stake in the business and the combination of the two would make for a strong proposition to health insurers. It would also be able to operate with much lower costs. Tabled at \$0.40 per share when iSelect's share price was trading closer to \$0.20 the bid was opportunistically timed. After announcing a strong first quarter, a change of CEO and a marketing partnership deal with **News Corp** (NWS), iSelect seems to be getting on with business. Given the synergies on offer, a takeover remains a logical outcome.

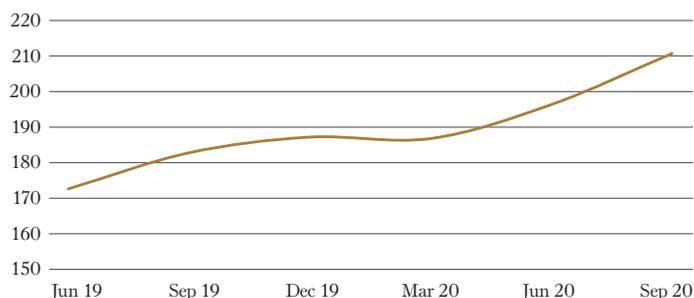
Another to have attracted takeover speculation is fleet management business **Eclipx** (ECX). Two years ago the company was dealing with approaches from both **SG Fleet** (SGF) and **McMillan Shakespeare** (MMS). The suitors must have thought themselves lucky to miss out. Acquisitions by the old Eclipx management team soured and the business struggled under too much debt. A new team, led by CEO Julian Russell, then navigated the business through a radical process of asset sales, deleveraging and refocusing on the attractive fleet management segment. We can now add COVID to the list of challenges the business has successfully overcome.

The case for consolidation among the fleet management and novated leasing players remains strong. Scale will bring more efficiency. There are possibly two major deals to be done before the ACCC starts to cast a disapproving gaze. Eclipx is more likely to be prey than predator.

Another 18% of the portfolio is made up of investments which are more valuable in the hands of an acquirer. This includes the Fund's two largest investments.

Mainstream (MAI), the fund administrator, has been performing very strongly despite COVID disruption. Last quarter the business surpassed \$210bn of funds under administration. And a new US private equity administration business is going gangbusters. Mainstream brought in \$12bn of new client money in the last quarter of 2020 and \$24bn for the past year. The share price had a stellar run, up 87% for the year.

MAINSTREAM FUNDS UNDER ADMINISTRATION



Source: Mainstream

Meanwhile acquirers' attention has turned to the funds administration space. Super admin business **Link** (LNK) has been fielding offers from private equity groups and **SS&C Technology** (NYSE:SSNC), an aggressive global acquirer. Fund administrator **Onevue** (OVH) was acquired by financial technology player **Iress** (IRE) in November at a 67% premium to the pre-bid price. Given the recurring revenue, scale advantages and growth opportunities, it wouldn't be surprising to see Mainstream end up in the same boat.

The team at mining software business **RPM Global** (RUL) has been hard at work for years building new products for miners around the world. The industry-leading products were selling fast before the pandemic, with recurring software revenue rising 26% last year. While it has been tough to sign new deals while COVID runs rampant in many important mining geographies, the business should be back on track as the virus subsides.

CEO Richard Matthews has form running and selling software businesses: first Mincom and then eServeGlobal (which remains listed but sold a big division). The growing recurring revenue will be attractive to a range of large suitors. With a high corporate overhead, any sale will allow the acquirer to reduce costs dramatically. Owning 3.5% of the company, all acquired on-market, Matthews has a big incentive to maximise value if any bidder shows interest.

Purely speculating on takeovers is not an easy way to make money. And when the prospect of a takeover has become your last bastion of hope for value realisation, it is usually a sign that the investment has soured. Businesses that are growing and performing well or have already turned themselves around make for far more attractive targets, with WPP being a case in point. But a takeover bid can help to accelerate the realisation of existing value. When an acquirer comes knocking, years of hard work can pay off in a day.

A THORNY SAGA THAT SEEMINGLY NEVER ENDS

Two of our troubled investments of the past five years have been showing excellent signs of turnaround. After significant Forager involvement, new management appointments and solid signs of financial progress, both **Logicamms** and **MSL Solutions** (MSL) had good years in 2020, with the respective share prices rising 46% and 35%. Logicamms, which recently changed its name to **Verbrec** (VBC), made a small, sensibly priced acquisition in late December and MSL bought an important provider of technology to its golf and stadium operations software. Both transactions are signs that the worst is well and truly behind both of these businesses.

The last remaining problem child, **Thorn Group** (TGA), remains in the naughty corner. We have invested an inordinate amount of time trying to convince directors of this company to act in the best interests of its shareholders. Initially we were fighting directors who had no ownership of the business and were incapable of making unpleasant but important strategic decisions.

Now shareholders have a board that is dominated by nominees of its largest shareholder. They have made some of those unpleasant decisions, and as a result the company's cash balance is growing rapidly. But we are fighting with them too.

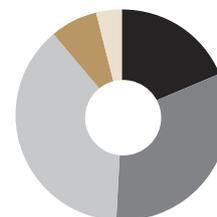
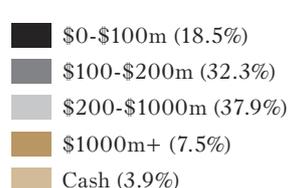
Our dispute culminated in an application to the Takeovers Panel to stop the company applying its dividend reinvestment plan (DRP) to a large fully franked dividend paid in October. It's our opinion that the DRP was specifically designed to give its largest shareholder, the Duncan Saville controlled Somers and other related parties, control without offering the rest of us a takeover bid.

The Takeovers Panel sided with Forager, forced the company to cancel most of the shares issued to Somers under the DRP and ordered Thorn to pay some of the legal costs incurred by Forager. It was a big win, the first ruling we know of in relation to a DRP, but ultimately not enough.

Thorn held an extraordinary general meeting on the 4th of January to consider resolutions to remove the Somers nominated directors and appoint two small Thorn shareholders to the board. Despite 80% of the non-Somers shareholders voting for the incumbents' removal, the vote fell short by a slim margin.

We have spoken with other shareholders and are still considering further options, but with Australia's takeovers laws allowing a significant shareholder to continue increasing their holding by 3% every 6 months, the likelihood of minorities having a say in Thorn's future are diminishing by the day. We will continue to push for dramatically improved governance. The cash will keep rolling in. But whether and when it rolls back to shareholders is as uncertain as ever.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



TOP 5 HOLDINGS (as % of NAV)

RPM Global Holdings Limited	(ASX:RUL)	7.4%
Mainstream Group Holdings Ltd	(ASX:MAI)	7.0%
NZME Limited	(ASX:NZM)	6.3%
Thorn Group Holdings Limited	(ASX:TGA)	5.4%
AMA Group Limited	(ASX:AMA)	5.1%
Cash		3.9%

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%	7.79%	13.22%	3.56%							58.82%

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

FACTS

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

UNIT PRICE SUMMARY

As at	31 December 2020
NAV	\$1.64
Market Price	\$1.39
Portfolio Value	\$183.1m

ABOUT FORAGER

With approximately \$400 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.

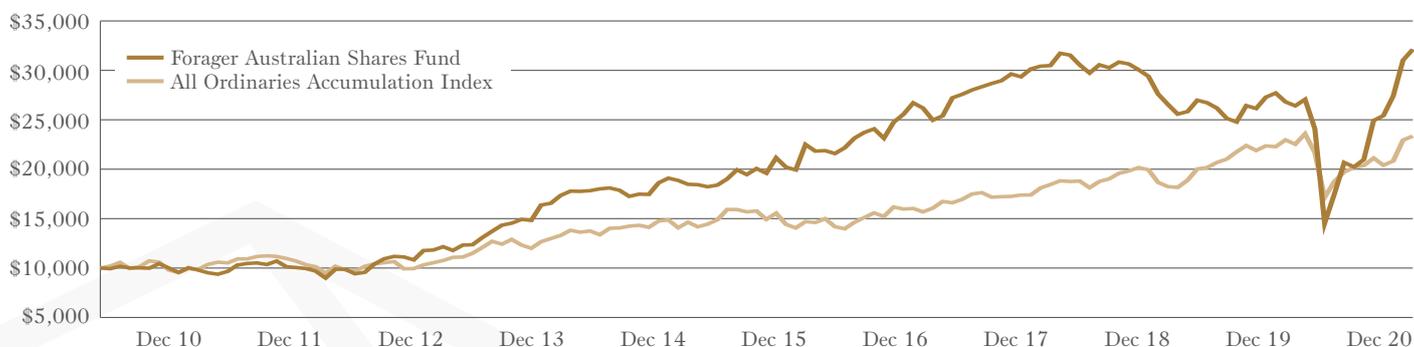
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.

WARNING The information given by Forager Funds Management is general information only and is not intended to be advice. You should therefore consider whether the information is appropriate to your needs before acting on it, seeking advice from a financial adviser or stockbroker as necessary. This report may contain some forward-looking statements which reflect the expectations of Forager Funds Management about the future prospects of companies held within the portfolios of the funds. While Forager Funds Management considers its expectations to be based on reasonable grounds, there is no guarantee that those expectations will be met. **DISCLAIMER** Forager Funds Management Pty Ltd operates under AFSL No: 459312. The Trust Company (RE Services) Limited (ABN 45 003 278 831, AFSL No: 235 150) is the responsible entity and the issuer of the Forager Australian Shares Fund (ARSN 139 641 491). You should obtain and consider a copy of the product disclosure statement relating to the Forager Australian Shares Fund before acquiring the financial product. You may obtain a product disclosure statement from The Trust Company (RE Services) Limited, or download a copy at www.foragerfunds.com. To the extent permitted by law, The Trust Company (RE Services) Limited and Forager Funds Management Pty Limited, its employees, consultants, advisers, officers and authorised representatives are not liable for any loss or damage arising as a result of reliance placed on the contents of this document. [^]Although the All Ordinaries Accumulation Index benchmark largely represents the available listed investment universe for the Fund, the concentrated nature of the Portfolio and the Fund's ability to invest in securities that are not included in this index means the Fund's results may not be correlated with this index. This investment objective is not a forecast and returns are not guaranteed.



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