

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT MAY 2021

www.foragerfunds.com

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 May 2021. Net of all fees and expenses)

	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)	0.26%	14.90%	20.04%	80.13%	7.16%	9.11%	13.90%	12.01%
All Ordinaries Accumulation Index	1.96%	7.90%	11.70%	29.96%	10.44%	10.47%	8.86%	8.46%

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

During the month the Fund's net asset value rose 0.3% while the All Ordinaries Accumulation Index rose 2%. It was a quiet month for the Fund's investments, with a few bright spots offset by some poor performers.

There are few things more exciting for the Forager team than finding a high quality business, ignored by the broader market, in the process of being turned around by a well-credentialed management team. It's been a long wait, but **Gentrack** (GTK) has started to deliver on our expectations.

The company writes software to perform some critical, but largely unexciting, tasks for utility companies across Australia, New Zealand and the UK. Billing millions of customers the right amount for their electricity is not an easy task. Gentrack's software makes it easier. All at a cost substantially below what a customer would have to pay the likes of an **SAP** (XETRA:SAP) or **Oracle** (NYSE:ORCL).

A smaller business unit provides airport operating systems, displaying flight times and billing airlines. Revenue from both segments is highly recurring, with a customer unlikely to move software providers unless something goes seriously wrong.

First listed in 2014, this Kiwi business quickly became an investor favourite, trading at nosebleed valuations. The business grew by acquiring Jupiter and Evolve, providers of new-age software to challenger electricity brands in the UK. With challengers quickly displacing stale incumbents in the UK, and Gentrack billing per customer, growth was set to continue uninterrupted for years.

Not so fast.

In 2019 the UK energy market entered a tail spin. Government regulation introduced price caps. Some challenger energy companies went broke and the whole sector stopped investing in software.

Gentrack's stock price fell from more than \$6 per share in mid-2019 to \$2 per share pre-COVID and \$0.77 per share in the depths of the March 2020 panic.

The recovery started with a board cleanout and the appointment of a new management team. The new team, headed by Gary Miles, comes with relevant software and turnaround experience. Five of the six board members have less than two years tenure. The sixth represents a well incentivised shareholder: a private equity firm which purchased shares after the IPO and is sitting on a significant loss.

Gentrack's half-year result, delivered in late May, showed promise. Despite continued upheaval, the contracted recurring revenue in both business units grew from the prior pre-COVID period. For the first time in a long time, the company is talking about winning new customers. And cash levels have climbed to a very comfortable NZ\$22m.

The company has guided to revenue growth in the current year finishing in September, better than its earlier expectations. Management is increasing software spend by an annualised \$12m, hitting profitability in the coming 18 months. But armed with more competitive products and a growing revenue base the utilities business will be well placed heading into 2023.

The airports segment is already growing contracted recurring revenue. And, with global air travel returning to some semblance of normality by 2023, Gentrack will begin to see more new project revenues too.

A strategy day in mid-June should provide more clarity on management's plans. If the team can grow revenue while moving towards industry standard margins, Gentrack may well see itself become an investor favourite once again.

MAINSTREAM SAGA CONTINUES

Last month's report detailed the ongoing auction process for fund administration provider **Mainstream** (MAI). And May showed no sign that either of the two bidders, **SS&C** (NASDAQ:SSNC) and Apex Group, were flinching.

The highly recurring and strategic nature of the revenues at Mainstream have been building for years. But its importance has only been recognised as these two behemoths go head to head to win control of the business.

The current highest bid, which may be out of date by the time you read this, is \$2.76 per share by SS&C. This marks the 14th bid since the auction began in March. This has already been a stellar outcome for the Forager Australian Shares Fund, Mainstream's largest institutional shareholder. If the bidding continues, it will only get better.

TOP 5 HOLDINGS (as % of NAV)

Mainstream Group Holdings Ltd	(ASX:MAI)	12.1%
RPM Global Holdings Limited	(ASX:RUL)	8.6%
AMA Group Limited	(ASX:AMA)	3.9%
Thorn Group Holdings Limited	(ASX:TGA)	3.8%
Enero Group Limited	(ASX:EGG)	3.8%
Cash		3.2%

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[^].

The portfolio has historically generally held 15 to 25 securities but in recent times the number of investments has increased to around 35 securities. This has reflected the fact that the Fund has grown, the investment team has grown and the Manager has enhanced the portfolio liquidity requirements as a result. We expect that the portfolio will remain relatively concentrated and the number of portfolio investments will generally be in the 15 to 50 range.

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%	-3.05%	4.07%	1.21%	13.23%	0.26%		84.10%

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FACTS

Fund inception 30 October 2009

ASX Code FOR

Distribution Annual, 30 June

UNIT PRICE SUMMARY

As at 31 May 2021

NAV \$1.90

Market Price \$1.67

Portfolio Value 207.9m

ABOUT FORAGER

With approximately \$470 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.

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