AUSTRALIAN SHARES FUND

FORAGER

MONTHLY REPORT JUNE 2021

www.foragerfunds.com

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 June 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)	1.62%	15.37%	17.80%	87.09%	7.06%	10.34%	14.18%	12.08%
All Ordinaries Accumulation Index	2.56%	8.66%	12.58%	30.24%	10.30%	11.54%	9.40%	8.63%

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 Forager Australian Shares Fund's June return of 1.6% topped off a year in which the net asset value rose 87%, the best result in its history.

The last quarter was as eventful as the prior year. Three takeovers were announced across the portfolio. One of the Fund's largest investments provided several positive updates. And a handful of long term holdings were sold.

MAINSTREAM THE MAIN RETURN

The **Mainstream** (MAI) takeover saga, stretching for three months and fifteen bids, seems to have finally come to a close. The last bid for the fund administration provider from Apex Group, at $2.80 per share, now looks to have won the day. Behemoth **SS&C** (NASDAQ:SSNC) flinched at paying the required price to continue in the auction.

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 went head to head to win control of the business.

This has been a stellar outcome for the Forager Australian Shares Fund, Mainstream's largest institutional shareholder. In June 2020 Mainstream's share price was trading at $0.57. The current bid represents a 391% increase.

In June the major shareholder of lender **Thorn Group** (TGA), Somers Limited, proposed to buy all the shares of the company for $0.21 per share. This is equivalent to $0.22 including a $0.01 dividend due to investors who held shares on the 1st of July. This wasn't an ordinary takeover. The price was a skinny 7% premium over Thorn's share price the prior day. Investors will get a chance to sell into the on-market bid until the 6th of August.

Readers of the Forager reports will have seen our continued efforts to realise value from Thorn. In October 2020 Forager applied to the Takeovers Panel, a body which resolves corporate takeover disputes, suggesting that the company's dividend reinvestment plan could hand control of the company to Somers. The Panel forced Thorn to pay Somers' dividend mostly in cash instead of shares, which would have been issued at about $0.15 per share. At Thorn's November 2020 extraordinary general meeting Forager voted to replace two of the company's board members, though the resolutions were very narrowly defeated.

Had the resolutions passed Thorn investors would have likely seen dividends and capital returns. Instead, the board and management are looking to spend Thorn's growing $68m cash pile on funding a new strategy. Details remain scant.

Somers has bid for the company at close to a 50% premium above the dividend reinvestment plan issue price. This has presented an opportunity for Thorn shareholders not keen on backing the board's new strategy to sell their shares to Somers. The Fund sold its entire Thorn holding in early July. While it has been a sorry saga and we see better opportunities elsewhere, the $0.295 received over the last 12 months, including 8.5c of fully-franked dividends, makes the effort of the past few years worth it.

A late addition to the takeovers list is software distributor **Rhipe** (RHP). The company confirmed a $2.50 per share bid from Norway's **Crayon** (OB:CRAYN) on the 1st of July. Crayon operates a similar business to Rhipe around the world, with a small Australian presence. The acquisition would bolster Crayon's presence in Australia and open up growing South East Asian markets.

Prior to the bid Rhipe had been recovering well from COVID-19. Operating profit was up 36% in the most recently announced three quarters. The company grew revenue 15%, mostly from reselling Microsoft's Office and Azure products. Costs have been well managed. And with a hefty cash pile earmarked for M&A, more acquisitions were on the horizon. The bid is a 33% premium to where Rhipe was trading just a month ago. The stock was halted from trading over year end, meaning the appreciation won't be seen in the Fund's net asset value until July.

It was also a great quarter for the Fund's second largest investment, mining software provider **RPMGlobal** (RUL). The company's most recent update showed a half year period in which RPM sold subscription software that will generate an additional $7.1m of annual recurring revenue.

RPM's software helps clients work out when to mine sections of a deposit, when dump trucks need a service, and how to best budget for future mine profitability. It is often a key part of the way a mine operates. Clients rarely switch enterprise software providers, making RPM's revenue very sticky. With recent sales momentum RPM should continue to add to its very valuable cashflows. The share price rose 29% during the quarter as good results also encouraged more investor attention.

Thorn isn't the only old friend leaving the portfolio. The Fund will be starting the 2022 financial year without a few familiar names.

Logistics company **CTI Logistics** (CLX) improved profits in the last reported half year as the West Australian economy rebounded. And its flooring storage business continues to benefit from COVID-19-induced border closures and a strong housing market. The property portfolio remains an attractive asset. But with the recent rally taking the share price to pre-COVID-19 highs and the valuation fair the Fund sold the entire holding in late June.

Another long held investment, oil and gas equipment provider **Matrix Engineering** (MCE), was sold in early July. The business has struggled for years with a weak offshore oil and gas industry. Diversification initiatives have not amounted to much. And, despite the higher oil price recently, it might be a long time before that flows into higher revenue and profits. The board and management seem content with the status quo. As with CTI Logistics, there are better risk-adjusted returns to be found elsewhere.

Most of these companies we have parted ways with were extremely illiquid, not paying us much in the way of dividends and not growing. Combined with the significant number of takeovers, their departure has released a substantial portion of the portfolio for new investments.

RETAIL OPPORTUNITIES IN 2022

Retail stocks fell into two buckets as the COVID-19 pandemic developed. The early winners were mostly e-commerce players, benefitting from the closure of physical outlets. The later winners benefited from buoyant consumer confidence, government support and strong disposable income.

Almost everyone was a winner. But as we roll into the new financial year, both groups face some headwinds.

Share prices of the early winners rose markedly as COVID-19 took hold. Despite early COVID-19 expectations for lower consumer spending, the closure of physical retail meant more dollars for online shopping. Valuations expanded to all time highs. As the economy has reopened and vaccine rollouts showed success overseas, businesses like **Temple & Webster** (TPW) and **Redbubble** (RBL) have seen substantial retractions in share prices. While those two companies have good long term prospects, that is already reflected in their current price.

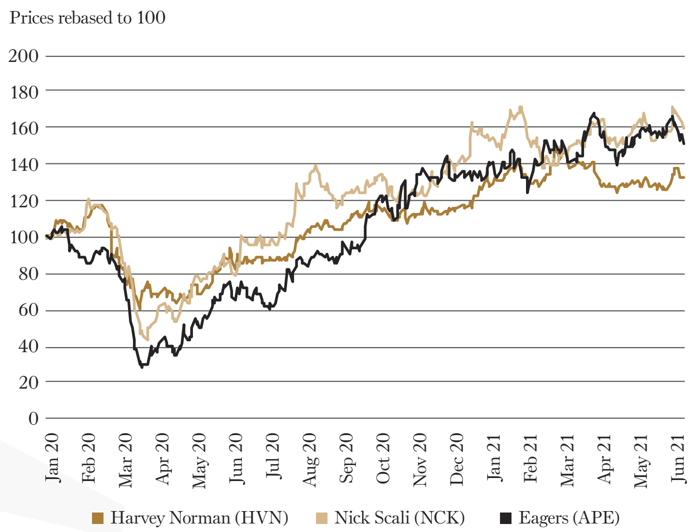
One winner we have pulled the trigger on is online beauty company **Adore Beauty** (ABY). Adore's share price was down a third since its well-timed October 2020 IPO. Yet its online skincare business is still growing quickly. This company has a good management team, outstanding goodwill built through years of great customer service and a long runway of increasing online penetration ahead of it. The next 12-months might disappoint relative to a lockdown fuelled 2021, but the five-year outlook is rosy.

Shaver Shop (SSG) is another business the market is pricing for a fall. It doesn't have the growth opportunity of Adore, but the company has a well planted foot in the online world. Online sales have risen to 30% of overall sales but the stock is priced as a dying old-world physical retailer. Again, more people will head back to a physical barber in 2022, but the trend towards male grooming isn't about to reverse.

STRUCTURAL WINNERS IN THE OFFLINE WORLD

The delayed winners started winning when consumers started feeling confident. No overseas trips. More time spent at home. Some useful government support. This drove many investors to purchase big ticket items. New car sales soared. So did sales of new couches and TVs. Large listed electronics and furniture retailers **Harvey Norman** (HVN) and **Nick Scali** (NCK) are trading substantially above pre-COVID-19 highs. So is auto dealer **Eagers Automotive** (APE).

BIG TICKET RETAILER SHARE PRICE PERFORMANCE



Source: Bloomberg

These businesses are still enjoying strong trading conditions. But they remain cyclical. Big ticket items are not frequent repeat purchases. And when the cycle peaks, there is only one way to go.

As the Reserve Bank of Australia starts withdrawing the extraordinary monetary stimulus support that has kept interest rates low, the federal government rolls back programs like JobKeeper, and international borders eventually open up, big ticket retailers are going to start facing headwinds. Australian banks have already increased fixed mortgage rates to reflect higher market interest rates. The moves were a modest 0.2% to 0.3%, but if interest rate increases continue the average mortgage borrower will need to think twice about their new car or couch.

Still, there are opportunities. Motorcycle retailer **Motorcycle Holdings** (MTO) has used the pandemic to reduce high levels of pre-COVID-19 debt and it is trading at a very attractive valuation, even assuming a return to more normal profit margins. In this select case, the market seems to be forgetting that 2019 represented a 20-year nadir for motorbike sales in Australia. Motorcycle holdings used the downturn to make attractively priced acquisitions and cement its market leading position. We think it's a much better business than it was.

RUSH OF IPOS: THE OPPORTUNITIES OF THE FUTURE

From miners to lenders, the initial public offering (IPO) market is back in full swing. And so it should be. Equity prices are high and equity investors are opening their wallets in search of the next big success story.

Resource prices have rallied strongly over the past year. And plenty of junior resource companies are raising fresh capital by listing. For many explorers the funds will go straight into drilling out their deposits. Recently listed copper miner **29Metals** (29M) is a rarity—the company is actually producing copper.

Finance companies have also filled up the boards over the last six months. Major non-bank lenders **Latitude** (LFS), **Liberty Financial** (LFG) and **Pepper Money** (PPM) have expanded the ranks of financial companies available to stock market investors. Borrowers are paying promptly, lower interest rates have meant lower costs of funding, and major banks are giving ground to the upstarts.

The non-bank lenders are not the only companies to come to the listed market as a result of private equity selldowns. With a strong equity market, private equity firms are rushing to sell businesses via IPOs. Macquarie's **Nuix** (NXL) has been the most publicised disaster of late. From accusations of dressed up prospectus numbers to a $110m options debacle, Nuix has been a boom for financial journalists. For investors not so much. It is trading at less than half the IPO price and is down more than 80% from lofty January peaks. Nuix won't be the last private equity float that scars investors.

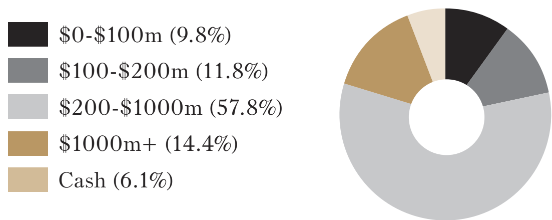
NUIX (NXL) SHARE PRICE SINCE LISTING

Source: Bloomberg

One of the more interesting, eventually aborted, IPOs was Quadrant Private Equity's ecommerce platform GraysOnline. Grays was a listed company until it was bought by **Eclipx** (ECX) in early 2017 for $179m. The new management team at Eclipx sold Grays to Quadrant for $60m in mid-2019 as it struggled to clean up the business and reduce debt. The mooted price tag of Grays' aborted IPO was $500m. Sure, COVID-19 was good for the business. But eight times Quadrant's investment in 18 months would have been egregious.

We remain on the lookout for opportunities as the post-IPO blues send some newly listed stocks far below their listing price. In addition to Adore, the Fund has invested in fintech lender **Plenti** (PLT), purchased a quarter below its IPO price. These are unlikely to be the last blown-up IPOs offering the patient investor opportunities.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



TOP 5 HOLDINGS (as % of NAV)		
Mainstream Group Holdings Ltd	**(ASX:MAI)**	10.8%
RPMGlobal Holdings Limited	**(ASX:RUL)**	8.5%
Ama Group Limited	**(ASX:AMA)**	4.0%
Experience Co Limited	**(ASX:EXP)**	3.9%
Fineos Corporation Holdings Plc	**(ASX:FCL)**	3.5%
Cash		6.1%

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%	1.62%	**87.09%**

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FACTS

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

UNIT PRICE SUMMARY

As at	30 June 2021
NAV	$1.93
Market Price	$1.63
Portfolio Value	$211.2m

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.

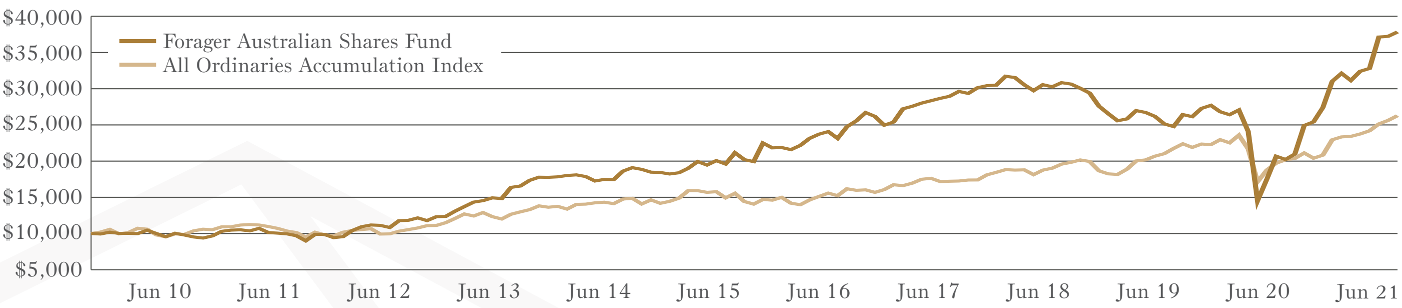
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.