FORAGER

JUNE 2021 QUARTERLY REPORT

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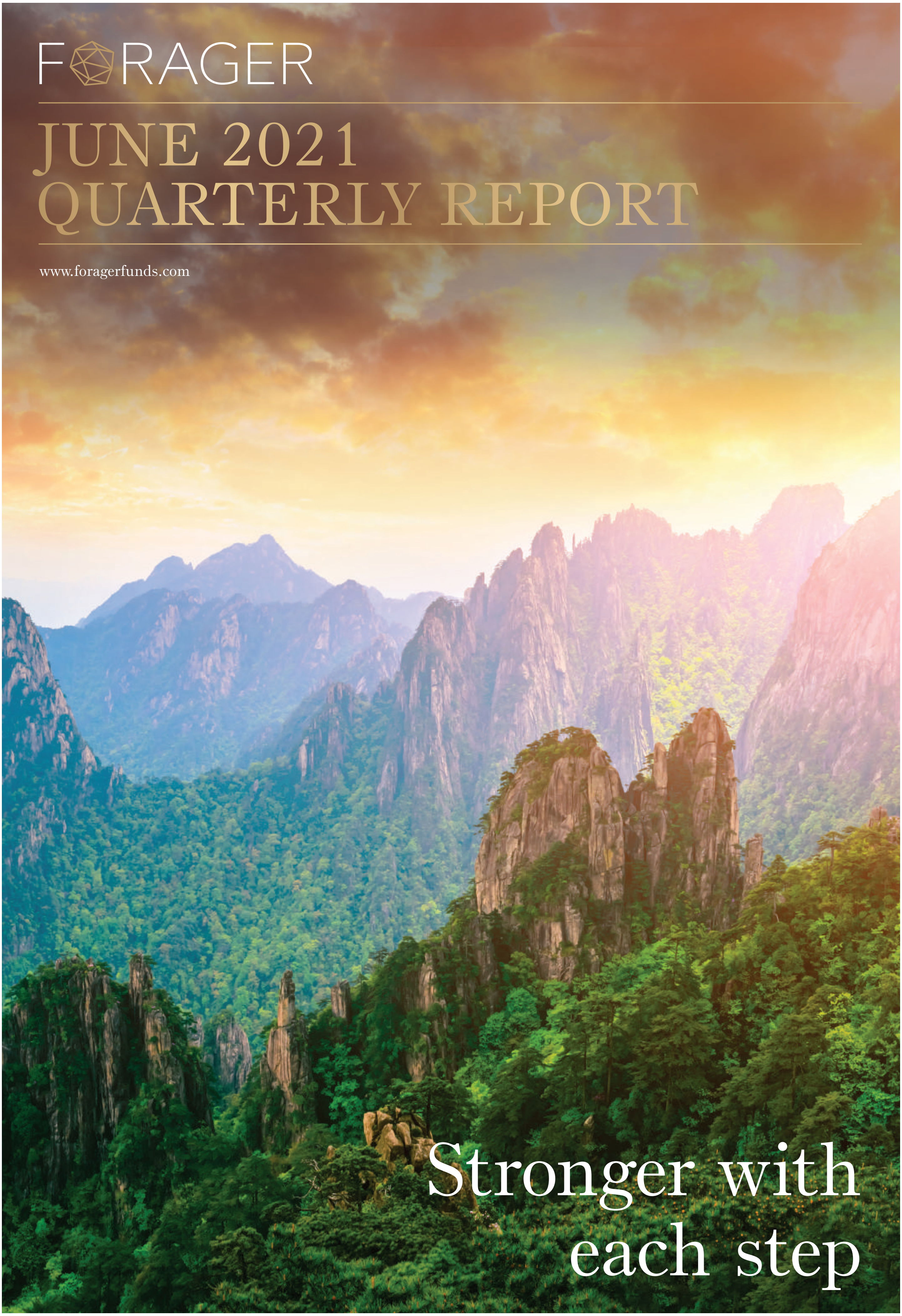

Stronger with each step

FORAGER

CHIEF INVESTMENT OFFICER LETTER

QUARTERLY LETTER JUNE 2021

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FORAGER FUNDS PERFORMANCE SUMMARY (as at 30 June 2021)

	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	1.62%	15.37%	17.80%	87.09%	7.06%	10.34%	14.18%	12.08%
Forager International Shares Fund	7.75%	18.07%	31.24%	78.88%	25.30%	22.22%	-	19.05%

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

If in 2019 nothing went right, the 2021 financial year was the antithesis. Both the Forager International Shares Fund and Forager Australian Shares Fund posted record returns, in absolute numbers and relative to their respective indices.

There is nothing like a period of dramatic underperformance to force some introspection. In funds management, that introspection can sometimes draw the wrong conclusion. It is not uncommon to see someone change an investing style because it hasn't been working, only to see the old way of doing things start working again.

For Forager, valuation has been our guiding light. Buying businesses for less than they are worth has made sense to me since I was a teenager.

What a business is worth, though, depends on the future. And the future is uncertain.

Our valuation process needed to evolve in a world where intangible assets have become paramount. And our portfolio management needed an overhaul. Managing hundreds of millions of dollars requires an attention to portfolio liquidity, diversity and frictional costs that were far less at a smaller size.

We changed the fee structure for the Forager International Shares Fund, cutting the base fee and introducing a performance fee. We invested heavily in attracting new talent and implemented a remuneration system that strongly aligns staff pay with fund performance. And we implemented internal limits on portfolio liquidity and sector diversity, reducing the risk of inadvertently exposing too much of a portfolio to one particular industry or macroeconomic input.

There is no doubt luck played a part in exacerbating both the bad and the good.

Across both portfolios, there are growth stocks, turnaround stocks, small companies, large companies and everything in between contributing to the stellar results. Some we owned for less than a year, others we have owned for a decade. Every single one was bought at what we thought was a discount to its underlying fair value. For some that valuation assumed the company would grow a lot. Others assumed it would shrink.

Perhaps most importantly, in the International Fund in particular, almost every single successful investment idea was introduced to the portfolio by someone other than me. You might argue that this was the secret all the way along. Just get out of the way. And you might be right. We have some very talented investors in the business today.

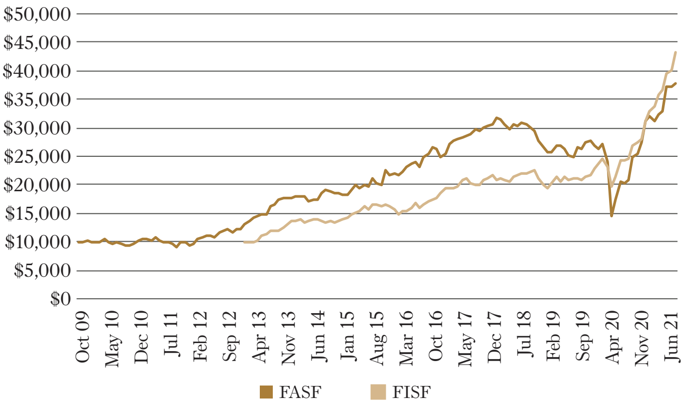
That in itself is something to be proud of. Funds management companies that thrive beyond their founder are rare. We are going to go through difficult periods again. We will need to further tweak and adjust what we do as our business evolves and the world changes. But last year's returns were a wonderful reward for the prior years' hard work, willingness to adapt and client loyalty.

THE POWER OF COMPOUNDING

The since-inception numbers for both funds are adding up. Investments of $10,000 in each of the Forager Funds at their respective inceptions ($20,000 in total) would be worth more than $80,000* today, assuming you reinvested all of your distributions. That assumption is an important one.

An investor who didn't tick the reinvestment box would have $47,300 and $14,600* in cash (assuming they didn't earn any other return on it).

COMPARISON OF $10,000 INVESTED IN THE FORAGER INTERNATIONAL SHARES FUND AND FORAGER AUSTRALIAN SHARES FUND SINCE INCEPTION



Source: Forager. *Past performance is not indicative of future performance. Returns are not guaranteed.

Compounding, sometimes called the eighth wonder of the world, becomes more powerful the longer it has to work its magic. If Forager's funds can keep earning 10% per annum, that $80,000 will double in seven years, quadruple in 14 years and, in 21 years' time, be worth $640,000*. Not bad for a $20k investment. That is a big if, of course. Especially when the starting point is high asset prices and ultra-low interest rates. But the power of compounding still manages to astound me.

BEING WRONG AND RECOGNISING IT

It is incredibly hard in a society and an industry that glorifies people who claim to know the future. But recognising that we are often wrong is one of our greatest competitive advantages.

There is no shortage of wisdom about the importance of a willingness to change your mind. Philip Tetlock and Dan Gardner's book, *Superforecasting: The Art and Science of Prediction* devotes chapters to showing how the world's best forecasters constantly adapt their predictions as new information arises, sometimes dramatically.

Not that we needed further evidence, but the past 18 months provided billions of examples of humans finding changing their mind incredibly difficult to do. Do masks work? Do lockdowns work? Are lockdowns worth the economic impact? Do vaccines work? Will it be a V shaped recovery or a U shaped recovery? Are stockmarkets overvalued or undervalued?

Whatever the topic, humans form their opinion early on. And the vast majority of them refuse to budge. No matter how much contradictory evidence they receive, especially if their reputation is closely intertwined with a prior view.

This intransigence makes Twitter almost unbearable some days. When it comes to investing, our inability to recognise that our prior opinion was wrong can prove extremely expensive.

I learned that lesson the hard way. It was psychologically painful to change my view when writing for *The Intelligent Investor*. It isn't much easier as a relatively transparent fund manager. And all of my prognostications and presentations about the importance of understanding human psychology hasn't always stopped me succumbing to the pitfalls.

The past couple of years suggest we are getting better. Particularly as a team. A big part of my job as Forager CIO is creating an environment where people are encouraged to change their mind and where I help them recognise when that needs to happen. Psychological bias is much easier to see in other people than it is to notice in yourself.

Staying open minded and nimble helped us successfully navigate a past 12 months that were even more unpredictable than most. It helped us recognise when our own assumptions were wrong and, in many cases, allowed us to take advantage of others' unwillingness to accept mounting evidence that didn't align with their prior view.

It is an attribute that is only becoming rarer in a world of armchair experts.

ROADSHOW

Our annual roadshow is fast approaching. We were hoping to see you in the flesh but, given Sydney's extended lockdown, 2021 will be online again. Put 11 August in your diaries and we will be in touch with details in the very near future.

I look forward to catching up with you then, even if it is over Zoom.

Kind regards,

Steven Johnson
Chief Investment Officer

FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT JUNE 2021

www.foragerfunds.com

FORAGER INTERNATIONAL 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.)	Since inception* (p.a.)
International Shares Fund	7.75%	18.07%	31.24%	78.88%	25.30%	22.22%	19.05%
MSCI AC World Net Index in $A	4.47%	8.86%	15.95%	29.40%	13.68%	14.39%	15.23%

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

The final quarter was a bumper end to a bumper year for the Forager International Shares Fund. The June quarter return for the Fund was 18%, taking the full-year return to 79% after all fees and costs. That's 9% and almost 50% better than the MSCI AC World Net Index in Australian dollars for the respective periods.

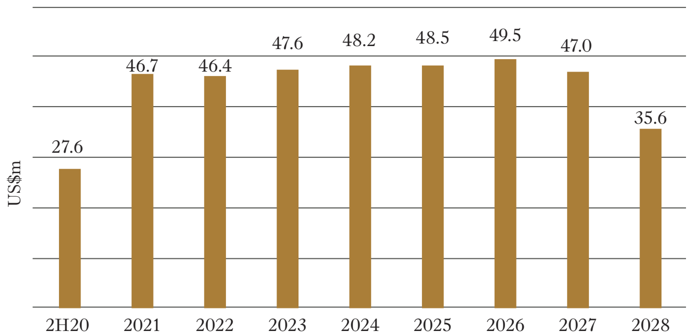
Many of the trends defining markets in 2020 have withered in the 2021 calendar year. Large tech and growth stocks have generally underperformed, and value stocks even had their day in the sun. The Fund's continued outperformance has been partly a result of our valuation methodology, enabling us to identify attractive investments in a variety of different markets and types of businesses. Many of our long-held investments outside the US have been trucking along nicely, while that progress has only been turning up in share prices more recently. You can read some updates later in this report.

But the biggest recent contribution has come from new investments that have only entered the portfolio this calendar year. While we don't expect all new ideas to contribute to the portfolio immediately, the importance of recycling investments that have run their course and constantly searching for attractively priced replacements has been paramount.

THE CLASS OF 2021

Our most successful new idea was **PLBY Group** (NASDAQ: PLBY). The owner of the Playboy brand returned to public markets earlier this year at a price which severely undervalued the underlying cash flows of the business and the iconic "bunny" brand. Playboy currently ranks #17 on the "world's most powerful brands" rankings by Licensing Global. Its licensees generate more than US$3bn of annual sales across 180 countries, including at well known stores such as Walmart and CVS in the US. Despite this, it was trading at a market capitalisation of less than US$500m earlier this year—a fraction of what we felt the business was worth.

PLBY GROUP: ROYALTY-BASED REVENUE PROVIDES STRONG CONTRACTED CASH FLOWS (US$m)



Source: PLBY Group Investor Presentation

The first thing investors were missing is that PLBY is no longer a magazine. The current management led by CEO Ben Kohn aims to harness the brand power cultivated over the past 70 years and monetise it through the most attractive channels. Kohn is an experienced private equity investor who has little attachment to the company's legacy, other than a burning desire to turn that legacy into cash flow.

There is tremendous scope to grow the brand in everything from apparel (it is already one of the leading menswear brands in China) to digital gaming. Perhaps the category with the greatest immediate potential is sexual wellness, which includes everything from condoms to topical sprays to lingerie. Anyone who has walked into a pharmacy or big box retailer recently in the US would have noticed the vast increase in such items for sale. A cultural shift around sexual health has cleared the way for retailers to add new products and Playboy is a natural fit.

The market may have missed it initially but it soon got the message. The stock appreciated more than 200% since we made our first investment earlier this year.

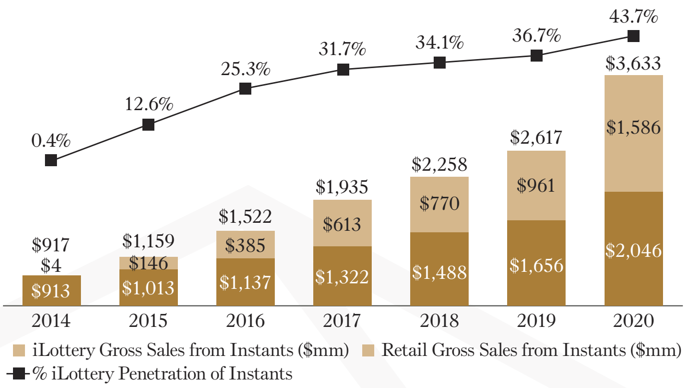
ANOTHER OPPORTUNITY IN ONLINE LOTTERIES

Over the past decade, Forager has had a lot of success with lottery businesses like **Jumbo Interactive** (ASX:JIN) and **Lotto24** (XTRA:LO24) and in the broader gambling sector with **Betfair** and **GAN** (NASDAQ:GAN). So we knew what to look for when the next stock came onto our radar.

Neogames (NASDAQ:NGMS) offers technology platforms and services to help state lottery authorities move their business online. As with GAN, it does so for a cut of the (growing) revenues generated. Most lotteries in North America are still exclusively offline affairs. But those states that have adopted iLotteries, like Michigan, have seen takeup trajectories at least as steep as what's been experienced in more developed markets in Europe. Importantly, those earlier-adopting states have noticed that iLotteries has grown the total lottery pie rather than merely taking a slice.

Neogames, through a joint venture, has run the iLotteries business for Michigan for a handful of years. With that same joint venture partner, the company more recently started running online lotteries in New Hampshire, North Carolina, Virginia and Alberta. When we bought Neogames shares in March, we thought the share price was almost fully justified by the steep trajectories in these states alone. But it's not the whole story.

MICHIGAN ILOTTERY PENETRATION



Source: Neogames Presentation

Lotteries are a widely accepted form of gambling in the US. 47 of the 50 states run state lotteries. But less than 10 of those states offer the ability to buy tickets and scratchies online. That's changing, not the least because state officials are looking closely at the success of markets like Michigan. Neogames is well placed to win a good share of any new state contracts. There are only two genuine competitors (three at a stretch), but Neogames has the largest market share today and the states it manages are performing better than other states.

The stock is up more than 80% on our purchase price. We trimmed quite aggressively at even higher prices, but it remains a 3.0% position for the Fund.

OLD TIMERS NOT TO BE FORGOTTEN

It's been an incredibly fast moving year, with more turnover than usual. But some of our long-held stocks have performed well, even better than the share price suggests.

When erasure and diagnostics software business **Blancco** (AIM:BLTG) announced its interim results back in February, it showed a business whose sales were flat (mostly due to COVID-19 interruptions) but a pretty bullish outlook for the second half of the year. That bullish outlook was confirmed with a trading update in June. Second half sales are now in line with prior expectations (+20%) and profit margins are expected to be significantly above the board's prior outlook. On the matter of margins, a lot of the increase relates to one-off pandemic cost reductions in areas such as travel. But we also theorise the business is starting to show how profitable it can be as it grows.

Linamar Corporation's (TSX:LNR) first quarter results showed it firing on all cylinders. The automotive segment grew sales 15%, with big wins in North American market share. Profit margins bounced strongly and now sit somewhat elevated versus historical norms. Linamar's automotive operations are successfully adapting to a changing world, 34% of new business wins in the quarter were for electrified vehicles. The smaller Industrial segment makes access equipment like telehandlers and scissors lifts as well as agricultural equipment. The segment is rebounding from a cyclically tougher period and sales rose 17%. Linamar shares trade at 10 times expected earnings for 2021. It's a cyclical business but it's also a structural grower that has generated outsized returns for shareholders over many decades.

Motorpoint (LSE:MOTR) is the best traditional used car dealer in the UK—lowest costs and highest inventory turns leading to superb return on capital. It's also been handily adapting to the online world. The company sold £721m of cars in the year to 31 March 2021, down only 29% despite dealerships being shut half the year. The group responded rapidly to the pandemic, selling cars via home delivery from May 2020. Motorpoint's retail channel sold 43,000 cars in the year. More than 20,000 of them were online, including about 8,000 in the March quarter when dealerships were shut.

Hyped UK online dealership Cazoo sold 9,762 cars online in that same quarter. Cazoo is a competitor that demands respect, but it's coming to the stockmarket via a SPAC deal with an implied valuation 16 times that of Motorpoint's market capitalisation. Our only prior criticism of Motorpoint's management was that they needed to push the accelerator harder. That was rectified with new strategic objectives—a plan to almost double the sales and collection branch network and grow revenue to £2bn (including £1bn online) over 3-4 years. We applaud the plan and think it's achievable.

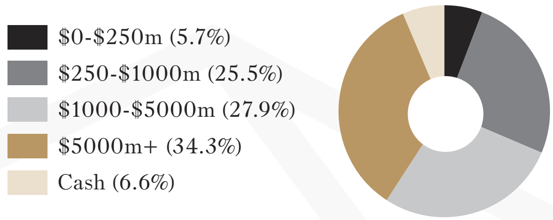
Hong-Kong based luxury watch retailer, **Oriental Watch** (SEHK:0398) had its most profitable year on record. Chinese consumers were forced to put their international holidays on hold and make luxury purchases on home soil instead. Revenue generated from the People's Republic of China more than doubled in the 2021 financial year, more than offsetting weaker performance in the company's other geographies. Oriental Watch pays out most of its earnings as distributions to shareholders, offering an 11% dividend yield on a share price that has increased more than 120% this year.

BIG RETURNS, BIG DISTRIBUTIONS

Investors will have received an estimate of the June 2021 distribution early last month. The final distribution amount of approximately $0.39 per unit is slightly higher than that estimate. In combination with the two interim distributions ($0.10 in January and $0.15 in March), that brings the total distribution for the year to $0.64 per unit. This substantial distribution is a function of higher than usual portfolio turnover and the returns generated throughout the year.

Undiscounted capital gains (realised profits on investments held for less than 12 months) will be a meaningful component of the distribution due to the short-term nature of some of the share price movements, as you've read in this report. While we try to avoid realising gains within the first 12 months, we do it if we think it will be additive to overall post-tax returns. Rest assured, the investment team has a big chunk of its collective wealth invested alongside you.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION

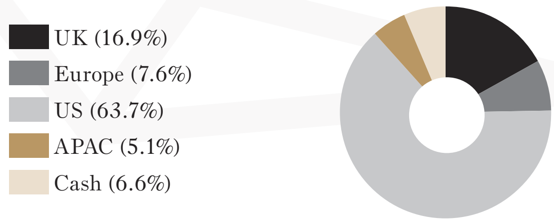


A NEW RACE BEGINS

The current portfolio remains a good balance of old and new. Many of the Fund's longer-term holdings have come out of a year of turmoil in a stronger competitive position and should show commensurate results over the coming years. The market for IPOs and SPACs remains extremely volatile, feeding a new idea pipeline that remains robust. You will read about a few of them in the September report.

While no investor should expect a repeat of 2021 any time soon, we remain confident of delivering on the Fund's objective of outperforming the market over a three to five year period. Hopefully by more than a bit.

STOCK EXPOSURE BY GEOGRAPHY



TOP 5 HOLDINGS (as % of NAV)

Whole Earth Brands Inc	**(NASDAQ:FREE)**	5.8%
AMMO, Inc	**(NASDAQ:POWW)**	5.6%
Twitter Inc	**(NYSE:TWTR)**	3.9%
Blancco Technology Group Plc	**(AIM:BLTG)**	3.8%
Motorpoint Group Plc	**(LSE:MOTR)**	3.6%
Cash		6.6%

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%	2.07%	6.56%	2.20%	8.05%	1.41%	7.75%	**78.88%**

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	30 June 2021
Buy Price	$2.4996
Redemption Price	$2.4896
Mid Price	$2.4946
Portfolio Value	$285.1m

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

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.

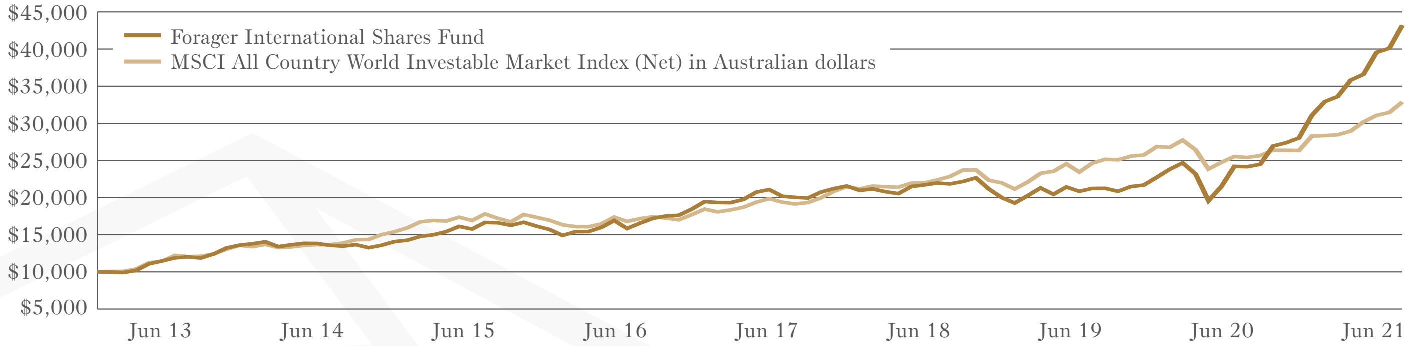
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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

FUND CHARACTERISTICS

- Concentrated portfolio of 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.

FORAGER

AUSTRALIAN SHARES FUND

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.

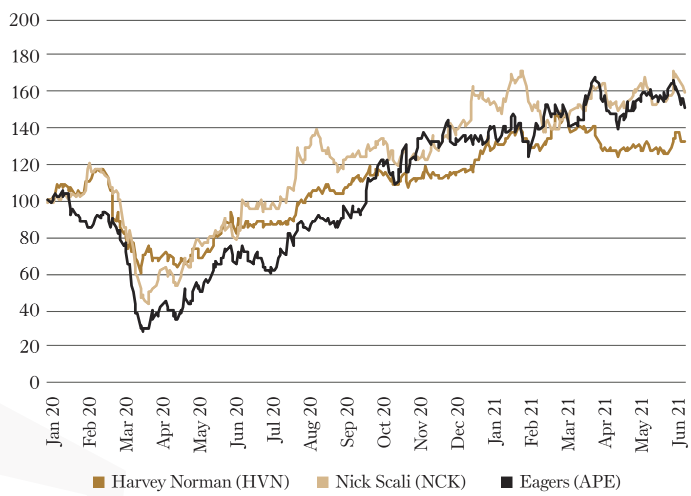
Shaver Shop (SSG) is another business the market is pricing for a fall. It doesn't have the growth opportunity of Adore, but the company has a well planted foot in the online world. Online sales have risen to 30% of overall sales but the stock is priced as a dying old-world physical retailer. Again, 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

Prices rebased to 100



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.

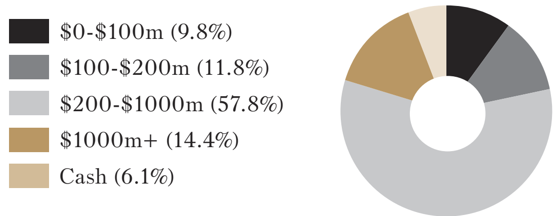
NUIX (NXL) SHARE PRICE SINCE LISTING

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%**

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	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.

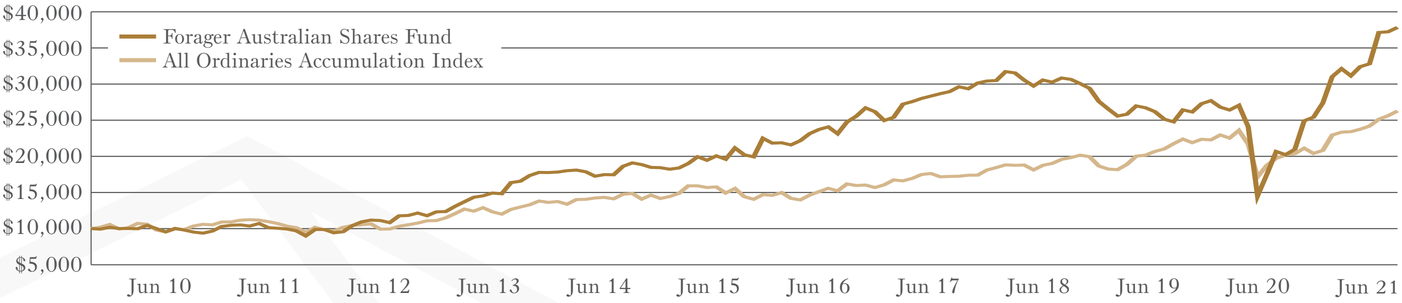
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.

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