

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT JULY 2021

www.foragerfunds.com

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 July 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)	5.01%	7.00%	27.60%	89.46%	9.05%	9.93%	14.85%	12.45%
All Ordinaries Accumulation Index	1.06%	5.67%	13.43%	30.38%	10.24%	10.42%	9.90%	8.66%

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 made a solid start to the new financial year. The net asset value rose 5.1% in July, versus a 1.1% increase in the All Ordinaries Accumulation Index. A takeover offer for software reseller **Rhipe** (RHP) helped but the gains were widespread.

Norwegian software company Crayon bid \$2.50 per share for Rhipe, including up to \$0.13 of franked dividends. While we thought that sort of price might be a sensible first shot, Rhipe's board seems to think this is as good as it gets. They have recommended the offer and agreed to proceed with a scheme of arrangement (the friendliest sort of takeover path, requiring 75% of shareholders to approve).

There is no sign of any competing offer and, with the shares trading slightly above the bid price, we have sold the investment and deployed the proceeds elsewhere. It's been a successful result from a relatively small investment—returning 57% over roughly 15 months since our first purchase—but we are left with a lingering feeling that it could have been better.

Quarterly cashflow statements provide an early preview of earnings for some smaller ASX-listed companies. The turnaround of golf, stadium and club software company **MSL Solutions** (MSL) has been impressive. A few years ago it was burning cash and generating losses, forcing us to instigate board changes and the new board to install new management. For the June quarter of this year, it generated \$2.0m of operating cash and \$5.7m for the full financial year.

The share price has more than doubled over the past year but the market value of the company is still less than \$60m. With management now able to spend their time growing rather than fixing the business, there should be more upside from here.

Two recent additions to the portfolio are fintech lenders **Wisr** (WZR) and **Plenti** (PLT). Both released cashflow statements and trading updates that suggest the investment cases are on track. New loan values written for the June quarter were up 193% and 260% respectively from last year.

The opportunity for these companies to grow has been created by Australia's largest banks stepping back from personal and auto lending. The Hayne Royal Commission has made compliance cumbersome and regulatory changes since the financial crisis have made it expensive for them to hold personal loans on their own balance sheets.

The word fintech sounds new and disruptive but many of the old rules of lending still apply. Lending to people who can repay is a good start.

Both Wisr and Plenti target prime borrowers who would have been good bank customers.

And when it comes to profitability, lending is a scale business. Larger players have access to cheaper funding, enabling them to offer clients better prices and further increase market share. And the fixed costs—compliance, overheads and listing costs—are substantial. That's why **Latitude** (LFS), with its \$6.5bn loan book, is profitable and Wisr and Plenti are not, yet, making any money.

They are writing enough business to cross that threshold soon and we are anticipating a sector with a small number of nicely profitable large players in a few years' time. Both have recently announced funding arrangements that are clearly showing the benefits of scale. While it is still early days and the portfolio weightings for both are small, there are encouraging early signs.

The Fund sold the last of its **Thorn** (TGA) shares in July into the \$0.21 takeover offer from Thorn's largest shareholder. It has been a frustrating journey with this company but the efforts over the past 12 months have at least been worth it.

We remain unsure where this business is headed. Cashflows from its rapidly shrinking Radio Rentals book are dwindling and the new so-called strategy is yet to show any signs of life. Thorn has its current market capitalisation in cash and there is some chance its equipment finance business is worth more than the zero it is currently valued at. How much is left in a few years' time, however, is anyone's guess.

The Fund has received almost \$0.30 per share in total proceeds, more than a quarter in the form of fully franked dividends. That is a decent final outcome and capital that can be better deployed elsewhere.

TOP 5 HOLDINGS (as % of NAV)

RPM Global Holdings Limited	(ASX:RUL)	8.2%
Mainstream Group Holdings Ltd	(ASX:MAI)	8.1%
Experience Co Limited	(ASX:EXP)	3.6%
iSelect Limited	(ASX:ISU)	3.4%
AMA Group Limited	(ASX:AMA)	3.4%
Cash		4.7%

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%
2022	5.01%												5.01%

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FACTS

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

UNIT PRICE SUMMARY

As at	31 July 2021
NAV	\$1.99
Market Price	\$1.77
Portfolio Value	\$217.4m

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.

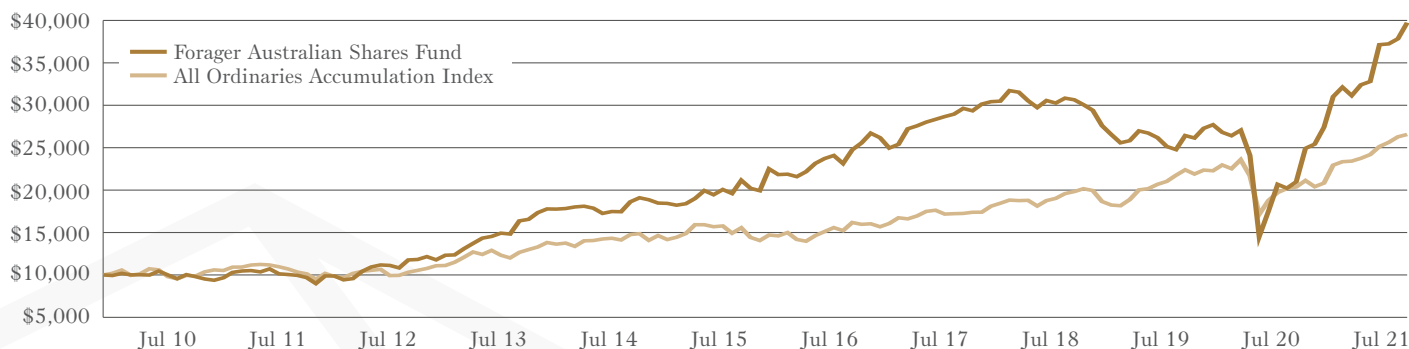
Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

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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