

# FORAGER

# AUSTRALIAN SHARES FUND

MONTHLY REPORT AUGUST 2021

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## FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 August 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.)
<b>Australian Shares Fund (ASX:FOR)</b>	2.58%	9.47%	25.78%	63.59%	10.68%	9.79%	15.45%	12.60%
<b>All Ordinaries Accumulation Index</b>	2.60%	6.34%	14.75%	29.00%	10.56%	11.29%	10.40%	8.84%

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

August was as eventful as ever, with the majority of portfolio investments revealing financial results for the past six months. Lingering COVID-19 lockdowns caused trouble for some, while the same forces propelled the results of others. Financials across the market were messier than usual, with companies making rosy adjustments to reported results.

With so many disruptions throughout the year, many management teams preannounced result expectations, often updating these many times as the environment shifted. In these actual results, outlook commentary focused on recurring supply chain issues and labour inflation. Uncertainty around the length of lockdowns and the post-COVID-19 state of the world meant very few companies were confident enough to provide earnings guidance for the coming year.

**Motorcycle Holdings (MTO)**, the motorcycle dealer and seller of motorcycle accessories, saw its profit expectations increase a few times during the 2021 financial year. With profits coming in at the higher end of its May guidance, the company's net profit surged 86%. Gross profit from new motorcycle sales rose 69%, with more bikes being sold at much higher prices. An overly leveraged business before COVID-19, Motorcycle Holdings ended the year with \$5m in cash and no corporate debt.

Will the good times come to an end this year? Management, led by 19% shareholder and managing director Dave Ahmet, suggest demand is sustainable and that the elevated profit margins of the past 12 months will continue for another year at least. Investors don't seem as convinced. Shares are trading at ten times this year's lockdown affected earnings with profit falls assumed in 2023. With plenty of levers for management to pull in the meantime, including sensible acquisitions, the business should positively surprise investors.

Last year didn't get off to a good start for mining software company **RPM Global (RUL)**. With COVID slowing decision-making for many enterprise software companies and mining executives largely working from home, deals were hard to come by. The first half of the financial year saw only \$9.9m worth of subscription software sales.

That makes the full-year number of \$47.7m quite an achievement. The second half of the financial year delivered subscription software sales of \$37.8m, far outstripping the best software sales half in the company's history.

Neither of those numbers turns up in RPM's financial statements, though. A switch from selling software upfront to offering it to

clients on an annual subscription has dampened reported software revenue, leaving it flat for the year. Next year, reported subscription revenue should almost double, with most of the increase already contracted.

Software sales may not continue at quite the same heated pace as the second half of last year. And costs will rise. But the business should continue to add significant amounts of incremental revenue and profit every year for the foreseeable future.

Another enterprise software provider, **Fineos (FCL)**, reported sound revenue growth and upped expectations for the next year. The insurance software provider services some big global insurers, which had a distinctly smaller appetite for large software projects during the year. Despite this, the business has kept growing. Revenue excluding acquisitions rose 13%, and the important and sticky subscription software revenue kicked up by 32%.

Fineos isn't looking to slow down, providing guidance for subscription software revenue to grow at 30% this financial year. Existing customers taking on more of the company's software modules provide the majority of this growth. As a key part of an insurer's internal processes, once a customer is tied in to Fineos's software, few will ever stop using it.

To fund continued spending on product improvements, the company raised \$70m in early September and now has cash to fund its operations for years. A separate transaction saw CEO Michael Kelly spend \$4m to increase his shareholding to 56% of the business. Kelly seems optimistic the company can deliver on its growth ambitions. We agree.

### TOP 5 HOLDINGS (as % of NAV)

<b>Mainstream Group Holdings Ltd</b>	<b>(ASX:MAI)</b>	7.8%
<b>RPM Global Holdings Limited</b>	<b>(ASX:RUL)</b>	6.5%
<b>Fineos Corporation Holdings Plc</b>	<b>(ASX:FCL)</b>	4.1%
<b>Experience Co Limited</b>	<b>(ASX:EXP)</b>	3.6%
<b>Tourism Holdings Ltd</b>	<b>(ASX:THL)</b>	3.2%
<b>Cash</b>		5.4%

**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<sup>^</sup>.

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%	2.58%											7.72%

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**

<b>Fund inception</b>	30 October 2009
<b>ASX Code</b>	FOR
<b>Distribution</b>	Annual, 30 June

**UNIT PRICE SUMMARY**

<b>As at</b>	31 August 2021
<b>NAV</b>	\$2.04
<b>Market Price</b>	\$1.78
<b>Portfolio Value</b>	\$223.0m

**ABOUT FORAGER**

With approximately \$490 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

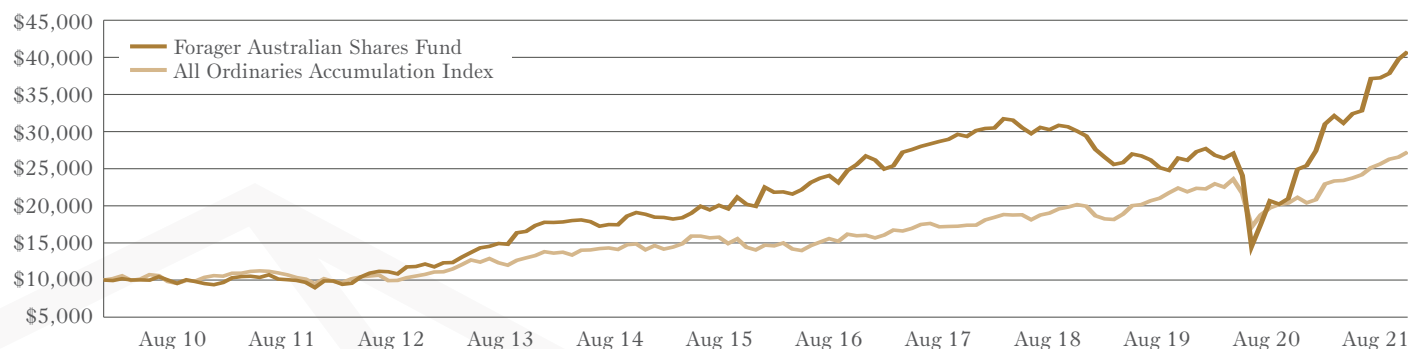
Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

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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