



Product Review

Forager International Shares Fund

ISSUE DATE 21-04-2022

About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL LARGE CAP
SUB SECTOR REVIEWED	SPECIALISED
TOTAL FUNDS RATED	10

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	FORAGER INTERNATIONAL SHARES FUND
APIR CODE	FHT0032AU
PDS OBJECTIVE	OUTPERFORM THE BENCHMARK OVER A ROLLING FIVE-YEAR PERIOD
INTERNAL OBJECTIVE	+2-5% P.A. (NET) OVER THREE-TO-FIVE YEARS
STATED RISK OBJECTIVE	PREVENT PERMANENT LOSS OF CAPITAL
DISTRIBUTION FREQUENCY	ANNUALLY
FUND SIZE	AS\$221.5M (FEB 2022)
FUND INCEPTION	08-02-2013
MANAGEMENT COSTS	1.23% P.A.
PERFORMANCE FEE	12.53% (NET EXCESS RETURN OVER BENCHMARK)
RESPONSIBLE ENTITY	FUNDHOST LIMITED

About the Fund Manager

FUND MANAGER	FORAGER FUNDS MANAGEMENT PTY LTD
OWNERSHIP	65% STAFF, 35% EXTERNAL
ASSETS MANAGED IN THIS SECTOR	AS\$221.5M (FEB 2022)
YEARS MANAGING THIS ASSET CLASS	9

Investment Team

PORTFOLIO MANAGER	GARETH BROWN & HARVEY MIGOTTI
INVESTMENT TEAM SIZE	4
INVESTMENT TEAM TURNOVER	MODERATE
STRUCTURE / LOCATION	REGIONAL GENERALISTS/SYDNEY

Investment process

STYLE	VALUE
MARKET CAPITALISATION	ALL CAP (SMALL CAP BIAS)
BENCHMARK	MSCI ACWI IMI (NR) AS
TYPICAL NO. OF STOCKS	20-40
STOCK LIMITS	15% (ABS.) (SOFT)
SECTOR/INDUSTRY LIMITS	30% (ABS.) (SOFT)
COUNTRY/REGION LIMITS	US: 70% UK: 20% REST: 10% (ABS.) (SOFT)
EMERGING MARKETS LIMIT	20% (ABS.) (HARD)
CURRENCY EXPOSURE	UNHEDGED (PARTIAL HEDGE TO BENCHMARK)
CASH LIMIT	30% (TYPICALLY 5-15%)
UNLISTED INVESTMENTS LIMIT	10%

Fund rating history

APRIL 2022	INVESTMENT GRADE
MARCH 2021	INVESTMENT GRADE
FEBRUARY 2020	INVESTMENT GRADE

What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Strengths

- Steve Johnson, Chief Investment Officer, provides strong leadership to the investment team and discipline to the investment process.
- Boutique investment culture with a strong capacity management approach.
- High conviction portfolio of idiosyncratic stocks given the small-cap bias.
- Strong investor-alignment and high levels of accountability from key investors.

Weaknesses

- The co-portfolio management structure has been in place for a short period.
- Very high key person risk attached to Johnson who has a significant workload.
- Some concerns around philosophical and style drift.
- Small-sized investment team compared to peers.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK			●
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE		●	
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

ANALYST: MATTHEW TURNBULL | APPROVED BY: NATHAN UMAPATHY

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Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG	●		

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●
FEES VS. SUB-SECTOR	●		

Fee Biometrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- The Forager International Shares Fund ('the Fund') is an actively-managed, 'long only' and 'benchmark unaware', concentrated investment product that predominantly invests in listed equities across global stock markets, although unlisted equities are permitted. The Fund aims to outperform the MSCI All Country World Investable Market Index in A\$ by 2-5% p.a. over rolling three-to-five years (net) and to prevent permanent capital loss.
- Forager Funds Management Pty Ltd. (Forager or 'the Manager') targets undervalued companies considered to have strong business fundamentals to achieve superior risk-adjusted returns over the long term. The valuation framework seeks to identify undervalued globally listed companies that trade at a substantial discount (min. 20%) to intrinsic value. Lonsec highlights the strategy's style as 'value', however has observed over the past two years that style outcomes have drifted towards more growth-oriented holdings.
- Lonsec expects the Fund's performance to be largely driven by stock selection and thus, stock research and portfolio construction are critical success factors. Forager constructs a portfolio of typically 20 to 40 stocks analysing securities on an individual basis to determine mispricing using a bottom-up approach.
- Notably, the Fund's performance and positioning can vary significantly from its benchmark highlighted by its Active Share being historically above 90%. This is attributable to the Manager's benchmark unaware and stock selection approach that drives sector and country allocations and its distinctive small companies bias (market cap <\$5bn). That said, the Fund has migrated to holding significant exposure above this market cap band since mid-2019. The Fund is market capitalisation agnostic investing across the spectrum, although, historically, holding a substantial small caps allocation relative to the benchmark. As at February 2022, the portfolio held 66.4% in small caps relative to the benchmark's 13.2%. This significant differentiation provides opportunities to outperform but may also result in more volatile performance outcomes relative to the benchmark.
- The Fund may also invest in companies that are likely to be listed on an exchange in the near-term or remain invested in companies that have been delisted from an exchange. This is limited to 10% of NAV and there were no unlisted securities held as at February 2022. The Fund can hold a maximum of 30% in cash (7% on 28 February 2022) and this will vary depending on the opportunity set.

- The Fund's currency exposures are matched via foreign exchange forwards to the benchmark weighting of each currency. This is designed to neutralise the Fund's significant currency relative positioning to the benchmark and provides investors with diversified currency exposure. The Manager does not use currency management as a source of alpha generation.
- As per the PDS dated 30 September 2021, the fee disclosure for the Fund is a management cost of 1.23% p.a. and a performance fee of 12.53%. Lonsec notes that in accordance with the Manager's interpretation of RG97, the performance fee has been disclosed for illustrative purposes only and the PDS acknowledges that the actual performance fee may be above or below this level. For the current PDS, the performance-related fee has been determined with respect to the twelve-month period ending 30 June 2021 and amounted to 3.40%. The performance fee is calculated as 12.53% of the difference between the Fund's performance and the benchmark's return after management costs. The performance fee is subject to a high-water mark (if the cumulative accrued performance amount is negative for any performance fee period, this underperformance is required to be recouped before a performance fee is payable). Lonsec considers the Fund to be moderately priced against sub-sector peers but high in absolute terms.
- During the financial year ended 30 June 2021, the Fund's net transaction costs were estimated at 0.46% of its NAV. Net transaction costs are costs incurred in managing the Fund (including explicit and implicit costs of buying and selling assets, the cost of hedging/protection strategies and/or when there are applications or redemptions of fund units by investors) that are not covered by the buy/sell spread. The Fund's buy/sell spread is 0.40% (round-trip). These costs are reflected in the Fund's unit price and are borne by investors, but they are not paid to the Responsible Entity or the Manager. Buy/sell spreads are subject to change depending on market conditions. Please refer to the PDS for further details on fees and costs and the Responsible Entity for current buy/sell spreads.
- Lonsec highlights that redemption requests are processed weekly by the Manager. Investors should carefully consider their need for liquidity prior to investing in the Fund.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD') which forms part of its design and distribution arrangements for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund provides investors with exposure to global equity markets and accordingly, may experience both positive and negative, at times sharp, movements in the value of capital invested. Given the Fund's style, it

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may be best suited for blending with complementary style products (e.g. growth). Notably, the Fund can be significantly invested in small cap stocks that should also exhibit 'value' characteristics. Lonsec believes that any exposure to small cap products should consider the relative risk of the sector and accordingly be limited in size.

- Lonsec highlights that while the Fund is a global equities strategy with an unconstrained mandate, it tends to be limited to mostly English-reporting countries (US and UK) along with other European Union countries (where companies also report in English). Historically, the Fund has maintained exposure to the US (c.30%), Europe (c.30%), and UK (c.15%) with the remainder comprising Emerging Markets and cash. Emerging markets exposure is limited to a maximum of 20%. Lonsec notes that given this specific regional concentration, this Fund is not expected to provide a diversified, broad market exposure and investors seeking a more geographically diversified capability would need to look elsewhere as the Manager is small cap, focused 'value'.
- Lonsec believes that this product may not be suitable for all investors. Investing in the Fund requires an ability to tolerate bouts of relative underperformance. Moreover, the portfolio may look very different from the benchmark in terms of regional, sector weights and stock holdings. Lonsec recommends that equity investments, given their volatility, are best suited for investors with an investment time horizon of at least five years.
- A 'value' investment style typically entails a manager investing in stocks that are 'cheaper' than the broader market (e.g. lower relative P/E ratio). Lonsec highlights that such approaches can underperform during bull-markets and in periods of short-term market stress (i.e. they tend to buy into falling stocks early). Lonsec notes that the investment style of this Fund can be flexible, and, at times, the Fund can hold more conventional 'growth' stocks (e.g. Twitter).

Suggested Lonsec risk profile suitability



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- In July 2021, a significant shareholder transaction was completed, resulting in staff ownership increasing from 44% to approximately 65%.
- In July 2021, Chloe Stokes was promoted to Senior Analyst.
- On 30 September 2021, the management fee was slightly reduced from 1.25% p.a. to 1.23% p.a.
- Lonsec has not been advised of any further changes since the previous review.

Lonsec Opinion of this Fund

People and resources

- Forager's investment team is led by Chief Investment Officer (CIO) Steve Johnson who spends 40% of his time on this Fund. Johnson co-founded Forager and is currently its largest shareholder. Lonsec considers Johnson to be an impressive investor with very strong buy-in to the Manager's 'value' investment philosophy.
- The strategy is co-managed by Gareth Brown and Harvey Migotti, both Portfolio Managers. Johnson however retains ultimate responsibility for the Fund. Brown holds 27 years' investment experience, 16 of which have been working alongside Johnson and Lonsec notes both have formed a cohesive partnership. Brown has built his entire global equities investment experience at the firm and was formerly a Senior Analyst covering predominantly European names prior to being appointed co-Portfolio Manager in July 2020. Lonsec has met with Brown since assuming coverage of the Fund and considers him to have strong familiarity with the strategy although holding minimal direct portfolio management experience. Lonsec will seek to build increased conviction in his ability to co-manage this strategy in future reviews.
- Brown is joined by Migotti who holds 11 years' industry experience, having only joined Forager as a Senior Analyst in June 2019 covering the US market. Migotti has built his investment career across a range of European and domestic hedge funds, notably previously co-managing global equities market-neutral and/or long-short strategies being of most relevance. Lonsec notes that Migotti's appointment, alongside that of Brown is recognition of the significant contribution each has made over their tenure per the Manager. Lonsec considers Migotti to be a capable investor and additive to Brown's skillset but notes the co-portfolio management team, in aggregate, is less experienced in a decision-making capacity compared to peers.
- Lonsec considers the co-portfolio management structure to be in its infancy and notes the long-term success of the strategy relies on the effectiveness of their collaboration given the joint model adopted. The significant acceleration in responsibility of both to this position raises some concerns for Lonsec given Brown and Migotti's very limited collective tenure, that of Migotti at the firm and investing to this style alongside their respective investment biases perceptibly contrasting with that of Fund's style. Brown's minimal direct prior portfolio management is also a concern. The strong oversight provided by Johnson including processes to deliberately curtail the co-portfolio managers' discretion is considered some recognition of this and provides some comfort but is viewed as unconventional and risks against co-portfolio manager buy-in. Lonsec will continue to build conviction in the co-portfolio management structure and strengthen its conviction in the co-portfolio managers and their working relationship in future reviews.
- Lonsec notes that Johnson has several competing duties at Forager limiting his time to this Fund. The co-portfolio management change alleviates some day-to-day responsibilities for Johnson although

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he retains overall responsibility for the strategy and remains intimately involved. Johnson is also the CIO/Portfolio Manager of Forager's Australian equities capability alongside holding other business responsibilities. Lonsec would prefer Johnson to be solely dedicated to investing and believes the firm could benefit from further experienced investment team additions albeit acknowledges steps undertaken by Forager to reduce his workload. That said, Lonsec highlights that global equities is a competitive space and that peers are typically both very experienced in the sector and supported by larger and dedicated resources.

- The team is rounded-out by Chloe Stokes, Senior Analyst, who holds four years' industry experience and is responsible for stock research. Lonsec considers the current level of resourcing and mix of responsibilities to be sub-optimal. Lonsec highlights that the small-sized investment team and their relatively short collective tenure is a weakness relative to peers. That said, the Manager has undertaken initiatives to address staffing and experience shortcomings in recent years (e.g. hiring personnel, centralising the investment team's location in Sydney and growing staff ownership via the long term incentive plan), which Lonsec views positively.
- Lonsec considers the alignment of interest between the investment team and end investors to be reasonably strong. Lonsec has been impressed by both Johnson and Forager's commitment to an investor centric culture demonstrated by its strong capacity discipline and educational content of the Manager's published literature. Lonsec also highlights Johnson's substantial (>30%) equity ownership in the firm, co-portfolio managers' combined equity interests above 10% and Forager's staff and shareholders co-investment into the Fund, whom collectively comprise the Fund's largest investors. Broader alignment is reasonably strong with Chief Executive Officer, Jeff Weeden, also being an equity-holder.
- Lonsec considers key person risk (KPR) for the Fund to be very high and to reside with Johnson. The appointment of Brown and Migotti to co-portfolio managers somewhat mitigates this risk although Lonsec's conviction rests with Johnson given his calibre, the pivotal role he holds as CIO and also in representing the Forager brand. Johnson's large equity stake and being a firm-founder provides some mitigation against his voluntary departure, but not against 'event risk' which would require the Fund's rating to be reassessed.

Research and portfolio construction

- Value investing is at the heart of Forager's investment philosophy. The Manager believes that security prices are influenced by investors' emotions and resulting in prices deviating from a company's intrinsic value. The aim is to purchase companies considered undervalued to their net asset value or long-term earnings power or at a discount to a business' sum of the parts over a three-to-five year view. Lonsec considers the Manager's 'sweet spot' as micro to small cap companies with a market cap of \$100m to \$1bn. Notably, the Fund has evolved to holding larger cap names since mid-2019 which the Manager highlights has been an outcome of its bottom-up process but also proactively aiming for greater liquidity within the portfolio. Lonsec is however mindful of the team deviating from its core skillset and investing into a larger capitalisation segment where competition is greater and assets more efficiently priced which will be monitored.
- Nonetheless, Lonsec notes that historically larger caps not necessarily displaying 'deep value' characteristics typically sought and more aligned to a GARP style have been held. This was however a legacy exposure being reflective of the Fund's launch and a funding source for small caps with this exposure generally having reduced through time. That said, more recently Lonsec highlights that names more conventionally associated as 'quality' and/or 'growth' have featured in the portfolio. This has coincided with team recruits, lacklustre performance outcomes (e.g. 2018-2019 in particular) and corrective actions to improve performance. Notably, Lonsec notes that the Fund's historically prominent 'value' tilts have diminished of late, suggestive of some style and philosophical drift which will be a continued discussion point in future reviews.
- Notwithstanding the Manager's 'buy and hold', low turnover approach, Lonsec has some reservations about the level of universe coverage the team can provide for this Fund. Lonsec considers the Manager's ability to identify new ideas from the vast global equities universe (c.10,000) is challenged given the limited team resourcing. Forager's use of quantitative screening tools is therefore integral in narrowing and prioritising the research effort albeit fundamental insights drive idea generation.
- Lonsec considers the Manager's bottom-up investment process to be logical. A blend of qualitative and quantitative methods are used to analyse companies that meet the initial investment criteria. Bottom-up fundamental analysis drives research, extensively focused on analysing a company's industry, competitors, risk, entry to market, history, management, amongst other factors. Lonsec considers the research depth to be supportive of the high conviction approach. Whilst not a hard requirement, Lonsec notes there generally needs to be at least a call with management before investing albeit this depends on the opportunity and the degree of undervaluation identified. Lonsec believes that company management meetings is an integral element for the idiosyncratic ideas that Forager generates and considers this a relative shortcoming.
- Forager uses multiple valuation techniques depending on the path and trajectory of cash flows

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being returned to investors over a five-year valuation horizon. Lonsec believes this flexible valuation approach to be robust, particularly with Johnson providing direct oversight.

- The challenging performance experienced by the strategy across 2018-2019 led to some introspection by the Manager and the integration of a number of portfolio management tools designed to address perceived causes of the subdued performance over this period. These enhancements include systems to improve monitoring of portfolio exposures alongside integration of risk-based enhancements within portfolio construction to improve the Fund's diversification and liquidity and formal risk monitoring processes. Lonsec welcomes the Manager's willingness to proactively address perceived shortcomings and will continue to monitor the effectiveness of these and any further enhancements in future reviews.
- Portfolio construction is devolved to Brown and Migotti although within a framework set by Johnson. Whilst Johnson has oversight over the entire investment process as normally expected from a CIO, Lonsec notes that he appears to exercise significant control over portfolio construction, specifically, being responsible for setting of the Fund's risk tolerance and allowable exposures (e.g. regional, sector) alongside final discretion on portfolio transactions. This contrasts notably with peers operating a similar model where assigned portfolio managers are afforded significant discretion to construct and manage the portfolio autonomously. Lonsec acknowledges that such close oversight and control by Johnson may be somewhat understandable although considers this structure unconventional which may curtail the full buy-in of the co-portfolio managers and have the potential to dilute accountability. Lonsec will seek to build conviction in this approach in future reviews.
- Portfolio construction is a patient process with the portfolio being built without consideration of the benchmark, consistent with the investment philosophy. The main objective is to invest in companies considered undervalued, as judged from the research process, that reduce overall risk and enhance the returns of the portfolio. The Fund typically holds between 20-40 positions and can hold a relatively high degree of cash (max. 30%), if no attractive investment opportunities are available.
- Lonsec is pleased to observe the close relationship between the team's conviction in a stock and the portfolio construction process. Only names that clear the detailed research process are included in the portfolio with the aim to construct a portfolio of 'best ideas' with names typically introduced at a 3-5% weight.
- Portfolio positions are reviewed weekly, with risk reviewed monthly. Stocks at a 10% or greater weight are subject to a separate review by the firm's compliance committee. No stocks were held at or above this weight at the time of the review (Feb. 2022). The review process is similar to the initial construction phase, with stocks continually analysed to ensure the investment thesis remains valid. Lonsec believes the Manager's portfolio construction and

management aligns with their philosophy given the diligence executed and conviction-based approach.

ESG integration

- The Manager has a commitment to ESG, however there is little evidence in their public positioning. The Manager has appropriate policies in place, however, they are not clearly accessible on the firms website. Overall Lonsec views the strength of this commitment to be behind peers in this sector.
- The Manager has no publicly disclosed proxy voting policy but has provided a policy to Lonsec for review. Overall the level of detail provided within the proxy voting policy and outcomes is assessed as being behind peers with a limited proxy voting policy framework. No reporting on voting decisions is made publicly available. The Manager does not provide any details on engagement policy or engagement outcomes.
- There is no evidence of ESG integration within the research elements of the investment process. Some elements of ESG are visible within the valuation processes with no overall integrated approach to ESG portfolio risk being implemented. Overall ESG integration within the investment process is significantly below peers. The investment team demonstrates an ability to engage on broad ESG topics and the Forager has a systematic approach to track engagement outcomes. The Manager has no observable approach to the collection or use of ESG data within their investment process however.
- On a peer relative basis, Lonsec considers the overall level of ESG integration within this fund to be low.

Risk management

- The Manager's primary focus is on preventing the permanent loss of capital. Risk is primarily founded on discretionary principles being knowledge of the company gained from bottom-up research, which Lonsec considers thorough. This is combined with stress-testing and scenario analysis at the individual stock and portfolio level. The scenario analysis is a qualitative process of measuring the likelihood and loss of an event using a scoring system. Alphadesk, Bloomberg and a range of internal tools are used for portfolio exposure monitoring.
- Forager implements reporting and tracking systems for unrealised losses incurred at the portfolio and individual stock levels depending on the magnitude of the loss. Lonsec considers the implementation of this review process positively, as it promotes sell discipline robustness given the potential material impact of stock selection in this high conviction-based portfolio.
- Volatility is considered a potential buying opportunity, relative to risk, provided satisfactory research supports the stock idea. Lonsec believes that the Fund's small cap exposure could lead to volatile periods, with a high Standard Deviation. The Manager has a long-term focus of five years on their holdings and weekly reviews are held to review each position barring meaningful position moves. Lonsec believes the Fund would benefit from risk oversight being broadened beyond the investment team, given the likely meaningful exposure to under-researched (by the broader market) contrarian, global small cap

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stocks and particularly given the investment team's large remit.

- The Fund's currency exposures are matched via foreign exchange forwards to the benchmark weighting of each currency. Lonsec notes this is designed to neutralise the Fund's significant currency relative positioning to the benchmark and provides investors with diversified currency exposure and is not a source of alpha. For example, if the Fund had a 20% exposure to the Euro and the benchmark's Euro exposure was 12%, the Fund would enter into a currency forward to decrease its Euro exposure to 12%.

Capacity management

- Capacity for the Fund has been advised as A\$1bn, albeit the Manager is resourced constrained requiring additional headcount to reach this level. In its current structure, a capacity review level has been set at A\$500m. The level of AUM for the strategy was A\$221.5m (Feb. 2022) which provides modest headroom at this operational capacity review band. Lonsec notes that AUM was in decline throughout CY2019/20, exacerbated by redemptions due to weak relative performance, although AUM steadily increased in CY2021 due to steady net inflows.
- Lonsec is pleased with the Manager's approach to capacity management. The Manager is considered to be highly aware of the limitations of managing high AUM and the potential detrimental impacts to alpha generation given the 'deep value, small cap' stocks generally targeted. The Manager's tight capacity limit is considered to somewhat justify the Fund's high overall fee load.

Performance

- The Fund uses the MSCI All Country World Investable Market Index (A\$) as its performance benchmark. Lonsec notes the IMI version of the ACWI benchmark is all-cap but with a larger allocation to small companies and is well suited to the Fund's strategy. The internal investment objective is to deliver 2-5% p.a. outperformance (net) over three-to-five years. Lonsec notes the floor of this range may not truly reflect the Fund's risk profile. All figures below are to February 2022 (net) unless otherwise stated.
- The Fund has met its investment objective over three years, outperforming the benchmark by 3.7% p.a. however over five years the Fund has delivered -1.0% p.a. underperformance, thus failing to meet its objective over this timeframe. The Fund has surpassed the Specialised sub-sector peers over these time periods.
- Performance has been significantly impacted over the one year period with a total return generated of -7.1%, underperforming the benchmark by -21.2%. While the Fund enjoyed solid returns in the first half of CY 2021, performance over the past six months has been notably weak, falling -19.6% compared with the benchmark return of -5.0%. The primary reason is due to the small cap growth names in the portfolio that sold-off in the back half of the year. Lonsec notes that this outcome highlights that performance of the Fund can vastly differ from the benchmark, particularly in times of elevated volatility, as witnessed in recent months.

- Returns have been delivered with markedly higher volatility (i.e. standard deviation) than peers over all time periods attributable to the Fund's concentrated, small cap bias. The Fund has exhibited a higher tracking error of 13.4% p.a. and 11.0% p.a. compared to the Specialised peer median of 8.7% p.a. and 8.2% p.a., over three and five years, respectively.

Overall

- Lonsec has maintained the Fund's 'Investment Grade' rating. This rating is strongly driven by Lonsec's high regard for Forager's Chief Investment Officer, Steve Johnson, and his strong alignment and disciplined implementation of the investment process.
- That said, Lonsec requires additional time to gain greater conviction in the updated co-portfolio management structure and the strategy's co-portfolio managers themselves, who are considered less experienced relative to peers. The investment team is viewed as small-sized compared to peers and Lonsec has some concerns around philosophical and style drift which will be acutely monitored in future reviews.

People and Resources

Corporate overview

Forager Funds Management is a boutique Australian asset manager managing A\$409m in assets (February 2022).

Forager was founded by Steve Johnson in 2009 and was formerly known as 'Intelligent Investors Funds Management'. The firm was rebranded in 2014 following a management buyout and the separation from The Intelligent Investor, a newsletter provider.

Size and experience

NAME	POSITION	EXPERIENCE
		INDUSTRY / FIRM
STEVE JOHNSON*	CHIEF INVESTMENT OFFICER	23 / 12
GARETH BROWN	PORTFOLIO MANAGER	27 / 9
HARVEY MIGOTTI	PORTFOLIO MANAGER	11 / 2
CHLOE STOKES	SENIOR ANALYST	4 / 4

*Spends 40% of his time on this product.

Steve Johnson founded the firm and holds the largest beneficial interest in Forager. With the support of the Intelligent Investor Group shareholders and brand he helped purchase in 2004, Johnson founded the Manager, under the Intelligent Investor umbrella and launched an Australian equities strategy in October 2009 followed by the Fund in 2013.

Johnson is the Portfolio Manager for the Australian equities capability and held the same role for the Fund until 1 July 2020 when Gareth Brown and Harvey Migotti, both formerly Senior Analysts, were promoted to co-Portfolio Managers. Johnson retains ultimate accountability for the Fund however and continues to spend 40% of his time on this Fund with the remainder split across Australian equities (40%) and business management (20%).

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Brown and Migotti co-manage the strategy. Brown has built the majority of his investment experience at Forager and Intelligent Investor joining in 2002 working alongside Johnson as a senior member of the analyst team. Brown was a Senior Analyst with the Fund from 2013 before being promoted to co-Portfolio Manager in July 2020.

Migotti joined Forager in June 2019 as a Senior Analyst and was promoted to co-Portfolio Manager in July 2020. Migotti has gained investment experience across a range of hedge funds having joined Forager from Watermark Funds Management, where he was a global equities Investment Analyst and Portfolio Manager. Migotti previously held analyst and portfolio management roles across a range of asset managers.

The senior investors are supported by Senior Analyst, Chloe Stokes, who joined in December 2017.

All investment team members are responsible for generating investment ideas, providing stock recommendations, contributing to portfolio construction and client communications.

Remuneration/Alignment of interests

All staff are subject to market-linked salaries. For Brown and Migotti, base salaries vary on AUM levels subject to defined thresholds (i.e. a reduction when AUM falls below A\$200m and an increase above A\$250m). Short-term incentives (STI) are set at a maximum of base pay per band. An equity scheme (LTI) was implemented in July 2019, and is linked to strategy performance. Staff at and above the Senior Analyst level earn performance rights, awarded as a percentage of STI which vest to equity at three, four and five years, depending on business-wide AUM.

Johnson is a significant equity holder in Forager. Most staff who have the ability to invest in the Fund have elected to do so.

Research Approach

Overview

RESEARCH PHILOSOPHY	ACTIVE, FUNDAMENTAL AND BOTTOM-UP
TARGET COMPANY	UNDERVALUED BY THE MARKET
MINIMUM MARKET CAPITALISATION	US\$50M
NO. STOCKS IN UNIVERSE	20,000
NO. OF STOCKS FULLY RESEARCHED/MODELLED	200
RESEARCH INPUTS	QUALITATIVE
BROKER RESEARCH	SOME CONSIDERATION
VALUATION OVERVIEW	PROPRIETARY DCF AND SUM OF PARTS

Universe filtering

The universe is filtered through three main sources: stock filters/screens, news and media reports, and market announcements. The Manager seeks to identify companies trading at a significant discount to their underlying asset value, their sustainable earnings or where the whole is trading at a discount to the sum of the parts.

The Manager tends to be micro-to-small cap focused and contrarian, seeking undervalued or 'unloved' companies that are not widely researched. Preliminary findings are presented to the research team and an initial decision is made as to whether to conduct a full analysis.

Research process

Potential ideas are subject to an investment analysis framework that examines the competitive landscape, sovereign/economic environment, business strategy, management team, historical financial record, balance sheet structure, threats and opportunities and, ultimately, stock valuation. This process has recently been enhanced through refinements to stock research notes.

Stocks that offer an attractive return relative to the risk of capital impairment are potential candidates. The Manager predominantly uses financial statement analysis or financial ratios coupled with value realisation mechanisms such as asset sales, capital returns, or takeovers. Company visits are generally not considered critical to the research effort, but this will depend on the nature of the business, existing knowledge of the business and industry, and the level of disclosure of the company. Company management calls are held where there are concerns about management, the company is particularly management dependent or where insight can be gained via a meeting.

Valuation

Forager employs different valuation techniques depending on the view and path of cash flows being returned to investors. These include: Discounted Cash Flow, Value of Assets and P/E. The Manager has a hurdle rate of return of 10%.

Portfolio Construction

Overview

FUND BENCHMARK	MSCI ACWI IMI (NR) AS
EMERGING MARKETS PERMITTED	YES
INTERNAL RETURN OBJECTIVE	+2-5% (NET) OVER THREE-TO-FIVE YEARS
INTERNAL RISK OBJECTIVE	PREVENT PERMANENT LOSS OF CAPITAL
PORTFOLIO MANAGEMENT APPROACH	BENCHMARK UNAWARE
INVESTMENT STYLE	VALUE
PORTFOLIO DECISION MAKING	CO-PM WITH CIO OVERSIGHT
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	LIMITED TO REGIONAL ALLOCATIONS
TYPICAL NUMBER OF HOLDINGS	20-40
MARKET CAPITALISATION BIAS	ALL-CAP (SMALL BIAS)
EXPECTED PORTFOLIO TURNOVER	20-30% P.A.
OBSERVED ACTIVE SHARE	98.8% (FEB. 2022)
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	37.3% (FEB. 2022)

Decision making

The co-Portfolio Managers are responsible for portfolio construction within a framework set by Johnson. The overall aim is to maximise risk-adjusted returns. The CIO sets various Fund parameters (e.g. target cash range, max. sector and country exposures and min. liquidity levels). Maximum portfolio weightings are jointly agreed among the co-Portfolio Managers and Johnson. Johnson retains the ability to override investment decisions.

Portfolio additions and sizing depends on: the risk/reward trade-off relative to other candidates and current holdings, correlations impact, limits, and the impact to portfolio risk and return, amongst other factors. A stock is only added to the portfolio to the extent it increases its

ANALYST: MATTHEW TURNBULL | APPROVED BY: NATHAN UMAPATHY

Forager International Shares Fund

expected return. The typical initial stock position will be in the range of 2-5%.

Additionally, while ultimately depending on individual risk/reward characteristics, the typical minimum discount desired tends to be 20% to intrinsic value.

Buy/sell drivers

Stocks which satisfy the research criteria are candidates for inclusion. Portfolio additions are subject to ongoing review and reassessment. Positions are monitored for changes in fundamentals (deterioration or improvement), to the risk/reward trade-off relative to other candidates and holdings, and position sizing (e.g. market movement).

Positions are trimmed on valuation and portfolio fit grounds, amongst others. Sales can occur for a variety of reasons including target valuation reached, catalyst realisation, and thesis breaks.

Risk Management

Risk limits

SEPARATE RISK MONITORING	NO
STOCK LIMITS	15% (SOFT)
SECTOR/INDUSTRY LIMITS	30% (SOFT)
COUNTRY/REGION LIMITS	US: 70% UK: 20% REST: 10% (SOFT)
EMERGING MARKETS LIMIT	20% (SOFT)
CASH LIMIT	30% (MAX.)
UNLISTED INVESTMENT LIMIT	10% (MAX.)

The Fund is managed to a range of broad, absolute and soft risk limits at the stock, sector and country levels.

Risk monitoring

Forager has a risk management procedure that assesses risk on qualitative measures of consequence and likelihood. Each risk identified is analysed and rated according to this framework, and then risk mitigation strategies, appropriate courses of action and monitoring or review requirements are noted. No external risk monitoring is conducted.

Prevention of capital loss is the primary focus and risk management is founded on discretionary principles. Some exposure and factor monitoring is provided through Alphadesk, Bloomberg and Excel as risk management tools.

There is reporting at the individual stock and total portfolio level:

- Individual stock risk management triggers:
 - >10% below purchase price or 30-day VWAP – co-Portfolio Manager review;
 - >20% below purchase price or 30-day VWAP – CIO review.
- Portfolio review triggers:
 - >3% underperformance versus market over week, month, quarter and year – co-portfolio manager review;
 - >5% underperformance versus market over week, month, quarter and year – potential for portfolio rebalancing.

Currency management

Lonsec notes that the Fund matches the currency exposure of its benchmark through currency forwards. For example, if the Fund had a 20% exposure to the Euro and the benchmark's Euro exposure was 12%, the Fund would enter into a currency forward to decrease its Euro exposure to 12%.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

Liquidity risk

Liquidity risk differs between funds depending on their style/market cap bias. Exposures to emerging market countries can potentially give rise to heightened liquidity risk. Stocks domiciled in emerging markets are generally considered to be less liquid than those domiciled in developed markets, particularly during times of extreme market dislocation. Small cap stocks also have the potential to suffer from liquidity risk. Further, the relatively high allocation to illiquid assets, where it can be more difficult to trade and realise assets in a timely fashion to meet withdrawal requests. Up to 10% of the Fund may consist of unlisted investments that are generally illiquid (i.e. may not be readily converted to cash).

Market risk

The Fund is managed to soft but wide country and sector constraints. Emerging Markets are limited to 20%. Stocks domiciled in emerging markets are typically associated with higher market risk, relative to those domiciled in developed markets. The Fund's 'deep value' bias increases the Fund's risk profile. Additionally, the Fund is managed with a small cap bias relative to the market. Accordingly, investors should be mindful of the potential for sharper movements in market price of these investments.

Concentration risk

The Fund is generally invested in between 20 to 40 different stocks biasing small cap names with a high exposure to top 10 holdings. On occasion the portfolio may be more concentrated which may cause the value of the Fund's investments to be more affected by any single adverse business, economic, political or regulatory event than the investments of a more diversified portfolio. The Manager is expected to build a portfolio that may vary markedly from the benchmark (e.g. concentration risk and/or sector, industry or country exposures). Accordingly, investors should be mindful of the potential for sharper movements in the market price of these investments.

Currency risk

The Fund predominantly invests in assets that are denominated in non-A\$ currencies. A rise in the relative value of the A\$ vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective. The Fund is not

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hedged for currency risk. The Manager will however seek to neutralise significant currency deviations relative to the benchmark.

Unlisted investment risk

The Fund may also invest in companies that are likely to be listed in the near future or securities which have been listed in the past and are in the process of winding up or have been de-listed. The Fund will not invest more than 10% of its portfolio in assets that are unlisted. Listed investments are traditionally considered to offer greater liquidity vis-à-vis unlisted investments.

Redemption risk

Investors may be exposed to securities which are thinly traded or illiquid in nature. It may not be possible to sell such securities in a timely fashion or at a price at which is perceived to be at fair value.

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Forager International Shares Fund

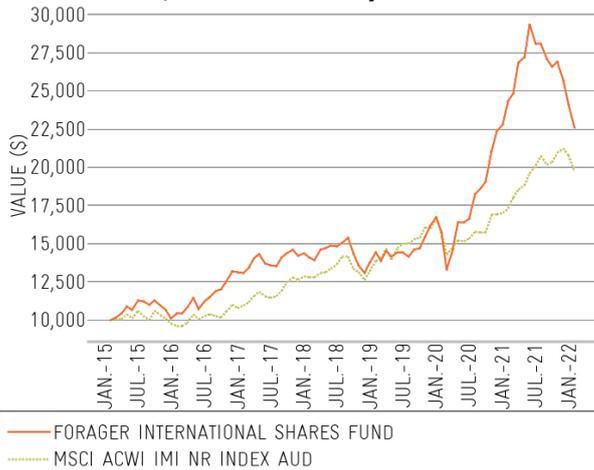
Quantitative Performance Analysis - annualised after-fee % returns (at 28-2-2022)

Performance metrics

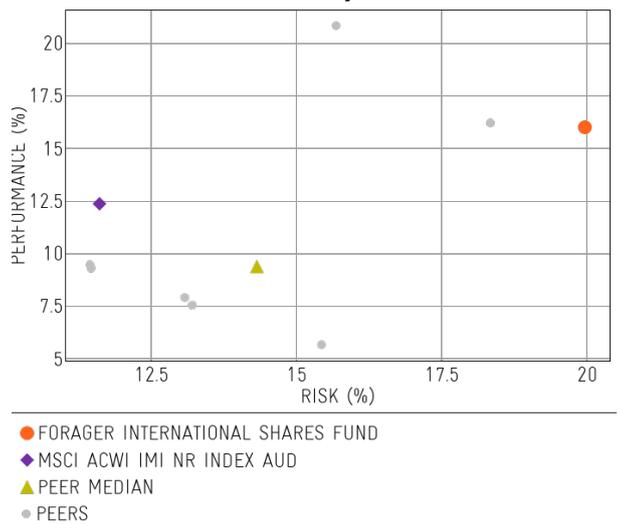
	1 YR		3 YR		5 YR		7 YR	
	FUND	PEER MEDIAN						
PERFORMANCE (% PA)	-7.14	2.58	16.01	9.39	11.49	10.80	12.33	10.79
STANDARD DEVIATION (% PA)	16.97	14.87	19.97	14.32	17.05	13.76	15.70	13.79
EXCESS RETURN (% PA)	-21.16	-15.58	3.64	-3.28	-0.99	-1.93	2.15	0.27
OUTPERFORMANCE RATIO (% PA)	25.00	33.33	58.33	44.44	48.33	48.33	55.95	52.38
WORST DRAWDOWN (%)	-23.05	-13.10	-23.05	-13.21	-23.05	-15.61	-23.05	-17.06
TIME TO RECOVERY (MTHS)	NR	NR	NR	NR	NR	3	NR	6
SHARPE RATIO	-0.42	0.17	0.78	0.77	0.61	0.77	0.70	0.69
INFORMATION RATIO	-1.77	-1.77	0.27	-0.61	-0.09	-0.38	0.21	0.00
TRACKING ERROR (% PA)	11.98	7.53	13.44	8.65	10.96	8.22	10.02	8.64

PRODUCT: FORAGER INTERNATIONAL SHARES FUND
 LONSEC PEER GROUP: GLOBAL EQUITIES - GLOBAL LARGE CAP - SPECIALISED
 PRODUCT BENCHMARK: MSCI ACWI IMI NR INDEX AUD
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

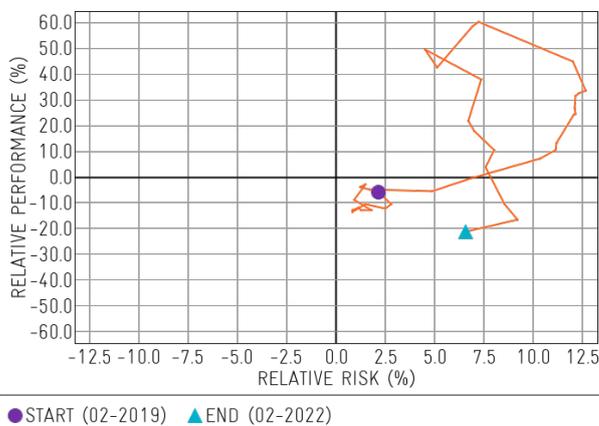
Growth of \$10,000 over seven years



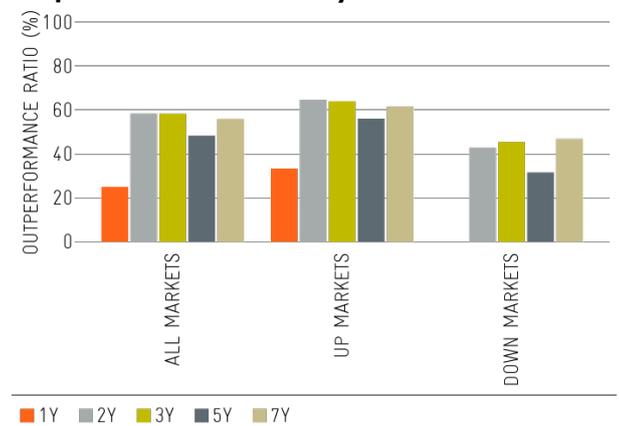
Risk-return chart over three years



Snail trail



Outperformance consistency



Forager International Shares Fund

Glossary

Total return ‘Top line’ actual return, after fees
Excess return Return in excess of the benchmark return
Standard deviation Volatility of monthly Absolute Returns
Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst drawdown The worst cumulative loss (‘peak to trough’) experienced over the period assessed
Time to recovery The number of months taken to recover the Worst Drawdown
Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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