

FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT JANUARY 2021

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FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 January 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	2.07%	19.90%	37.25%	36.19%	16.65%	17.65%	16.39%
MSCI AC World Net Index in \$A	0.40%	8.05%	10.94%	2.61%	9.71%	11.74%	14.00%

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

January was an exciting month for share traders. News of a **GameStop Corp** (NYSE:GME) “short squeeze” dominated the media.

Short selling is the process of selling stock you don't own, with the intention of buying it back later at a lower price. Short sellers make money if the stock price falls and lose money if the stock price rises. In order to short-sell a stock, you need to borrow it from someone who does own it.

A short squeeze occurs when a large number of short sellers are forced to unwind (or close out) their short position en masse. This could happen due to risk management. As a stock price rises, the size of a short seller's exposure increases. Or there could be issues related to borrowing the shares. Sometimes, because of lack of supply, the cost of borrowing a stock increases dramatically. Sometimes stock is entirely unavailable. So short sellers need to close out their positions by buying shares on market. Buying on market often pushes the price of shares up, further compounding a short seller's problems, hence the term short “squeeze”.

More than 100% of GameStop's shares were sold short, making it a prime candidate for a short squeeze. Enter WallStreetBets, a posting board on Reddit. There, an army of retail investors (some of them very sophisticated) engineered a short squeeze by buying GameStop stock, causing some of the short sellers to exit their positions for risk management. Borrowing the stock got more expensive, brokers forced short sellers to cover their positions and a major fund, Melvin Capital, lost a big chunk of its portfolio value and required a capital injection. At their peak, GameStop shares were trading at US\$483 in January. Up from less than \$5 just six months ago.

But what does this have to do with the Forager International Shares Fund? Early this month, before all the action on GameStop, we were looking closely at US homewares retailer **Bed Bath & Beyond Inc** (NASDAQ:BBBY).

It's a classic retail turnaround story. A traditional bricks and mortar retailer with an overpaid management team who were late to the eCommerce party. Almost two years ago, a group of activist investors pushed for change within the company. Since then, we've seen a complete board and management team overhaul, and huge improvements in the online offering. In the last quarter, 31% of Bed Bath & Beyond's sales were online, and that number should continue trending higher. So the risk that current management can't manage the transition to online is falling. With the worst of COVID-19 behind them and a net cash balance sheet, the business looked attractive based on fundamental analysis.

So we like the long-term story. But, as the GameStop saga spread, the

potential for a short squeeze meant we had to get in quickly. With more than 60% of the equity base sold short, Bed Bath & Beyond is another of the market's most shorted stocks.

The short squeeze thesis proved prescient. At one point this month, Bed Bath & Beyond's share price had doubled from our entry price, allowing Forager to realise gains almost equal to the initial investment. That leaves us with a bet on the turnaround thesis, at a cost of close to zero.

Frantic trading and wild share price moves are emblematic of highly speculative pockets of the market. But those pockets remain relatively small. Elsewhere, the prospects of a rapid economic recovery are yet to be fully priced.

More than 10% of the US and 15% of the UK population has already received a COVID-19 vaccination. Estimates suggest that most developed nations will have vaccinated over 50% of their population six months from now. Between the economy reopening, further fiscal stimulus and falling unemployment, a consumption boom is almost certain. Goldman Sachs estimates that US consumers have accrued well over a trillion in savings throughout 2020, as the savings rate jumped to 15.7% of disposable income. Assuming this normalises to a rate closer to 10% (still well above the 7-8% seen over the past decade), there could be almost a trillion US dollars worth of pent up consumer demand to be spent this year.

Various names in the Forager portfolio will benefit from this theme, including Bed Bath & Beyond, **Ulta Beauty** (NASDAQ:ULTA), **MasterCraft** (NASDAQ:MCFT), **Boohoo** (AIM:BOO), **Hallenstein Glasson Holdings** (NZE:HLG), **Motorpoint** (LSE:MOTR) and **Open Lending** (NASDAQ:LPRO). They remain perfectly sensibly valued.

TOP 5 HOLDINGS (as % of NAV)

Whole Earth Brands Inc	(NASDAQ:FREE)	5.6%
Blanco Technology Group Plc	(AIM:BLTG)	4.5%
Keysight Technologies Inc	(NYSE:KEYS)	4.2%
API Group Corp	(NYSE:APG)	4.0%
Boohoo Group Plc	(AIM:BOO)	3.8%
Cash		8.9%

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%						39.12%

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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	31 January 2021
Buy Price	\$2.0850
Redemption Price	\$2.0766
Mid Price	\$2.0808
Portfolio Value	\$218.3m

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

ABOUT FORAGER

With approximately \$400 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

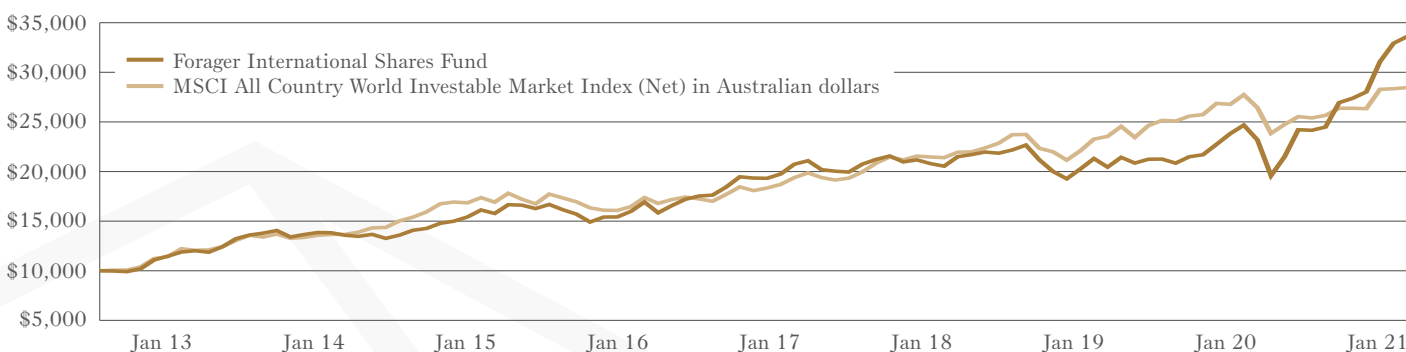
Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

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.

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