30 June 2020

FORAGER

JUNE 2020 FINANCIAL YEAR PERFORMANCE REPORT

INTERNATIONAL SHARES FUND

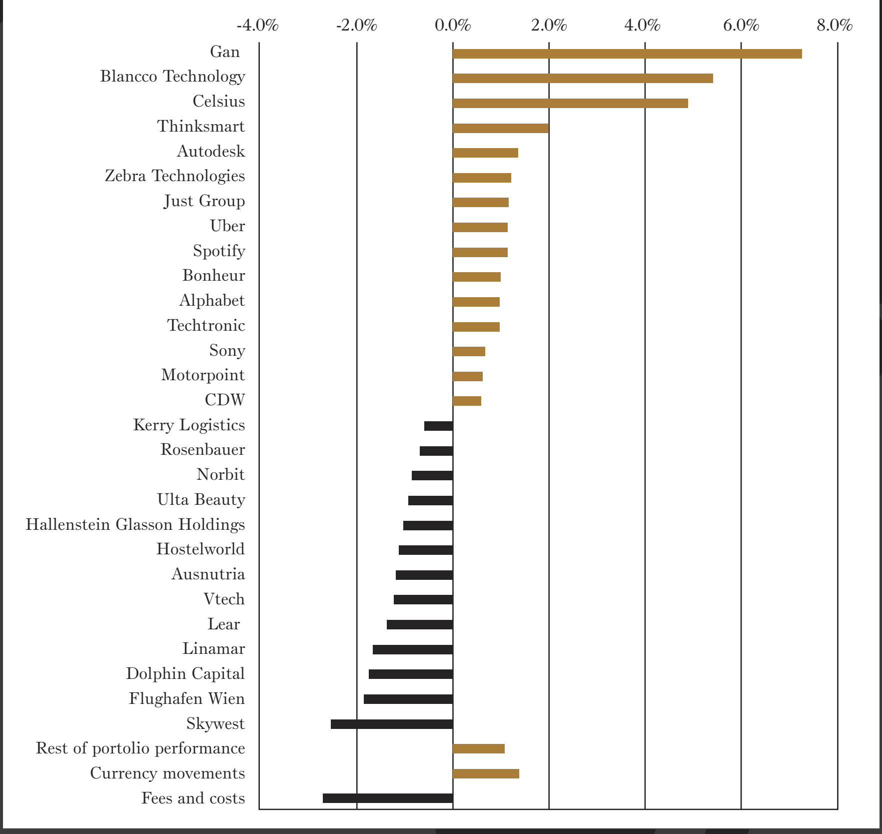
Table 1: Summary of Returns as at 30 June 2020

	International Shares Fund	MSCI AC World Net Index in $A	Outperformance
1 year	13.74%	3.12%	10.62%
2 year (p.a.)	4.87%	6.55%	-1.68%
3 year (p.a.)	6.17%	9.42%	-3.25%
4 year (p.a.)	11.12%	10.91%	0.21%
5 year (p.a.)	8.90%	8.47%	0.43%
6 year (p.a.)	9.74%	10.89%	-1.15%
7 year (p.a.)	11.22%	12.10%	-0.88%
Return since inception (p.a)	12.67%	13.44%	-0.77%

*Inception 8 February 2013.

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.

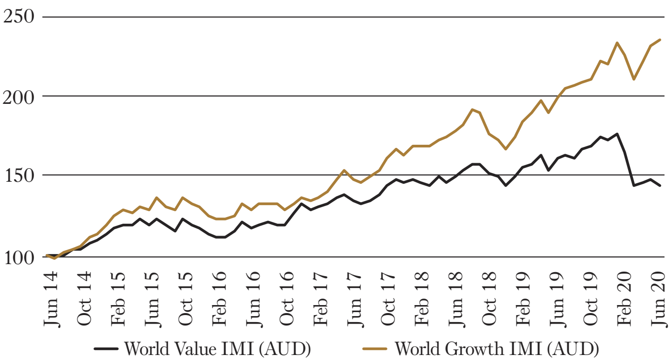
Chart 1: FISF Performance Contribution for the Year Ending 30 June 2020



It has been an outstanding year for the Forager International Shares Fund. The Fund returned 13.7% for the year, versus a touch over 3% for its benchmark, the MSCI AC World Net Index in $A. That takes the 5-year return for the Fund ahead of its benchmark and the since inception return to less than 1% p.a. shy of the index, after all fees and costs.

It hasn't been an easy backdrop. The Fund has been underinvested in the US, which has dramatically outperformed the rest of the world. We have carried significant amounts of cash at times, which has been a drag on performance. And the whole period has been one in which "expensive"—the subset that started with high price to earnings and price to book value multiples—has dramatically outperformed "cheap".

Chart 2: MSCI Value Versus Growth (Rebased to 100)



Source: MSCI

While the value underperformance only accelerated in 2020, new team resources brought fresh ideas in the US and the market meltdown brought great opportunities to deploy cash into some wonderful businesses. Most importantly, however, some of our small cap stockpicking paid off handsomely. Three stocks contributed almost 18% of absolute fund performance between them.

INCREASING OUR US EXPOSURE

Starting with the larger end of town, we bought into **Zebra Technologies** (Nasdaq:ZBRA) and **Spotify** (NYSE:SPOT) prior to March's bear market but both still finished the year with meaningful gains.

Zebra rose 33% from our initial purchase and added 1.2% to performance as the business showed its strength through COVID-19. Demand for the company's logistics technologies is accelerating, if anything, as retailers, grocers and delivery companies try to deal with the increased demands of inventory management and home delivery. Most of the world's best retailers already use Zebra. The rest have worked out they need it.

Spotify was one of the few companies to be seen as a beneficiary of people being forced to work from home. In reality, people used its music streaming service less. It turns out music and podcast listening is strongly correlated with commuting. Those at home watch **Netflix** (Nasdaq:NFLX).

Still, less listening didn't make for fewer subscribers. And Spotify has been busy building its moat, adding exclusive podcast content and new features to its service. Investors have woken up to this company's growth prospects and the share price rose 74% from our purchase to the end of the financial year, adding 1.1% to returns. As much as we like it, today's price is now factoring in a rosy future.

The two big opportunities that March did provide were **Uber** (NYSE:UBER) and **Autodesk** (Nasdaq:ADSK). You hopefully read our blog on Uber, but our view is that this much maligned business is much misunderstood. Despite rising 22% since our purchase and contributing 1.1% to portfolio returns this year, it is still an important investment in the Fund and a company that has a bright future.

About Autodesk, there is much less debate. Autodesk is the dominant provider of software to the global engineering and architecture industries. The company has been transitioning from perpetual, desktop licences for its software to monthly, cloud based subscriptions. While that has masked its wonderful economics, most investors understand that now. Our opportunity to invest only arose out of general market panic. It's up 40% since then, adding 1.4% to the Fund's return, but we are reluctant to let it go.

THE BIG WINNERS WERE SMALL CAPS

The three biggest contributors, though, were all small caps. **GAN** (Nasdaq:GAN), **Celsius** (Nasdaq:CELH) and **Blancco** (AIM:BLTG) contributed almost 18% of absolute return between them, showing that a couple of good ideas can offset a lot.

Celsius makes energy drinks targeting a more health-conscious niche than established brands. Every year, scores of new drink brands are created. Most fail. Perhaps a few times a decade, though, one breaks through to the big league and generates mammoth returns for shareholders. Both Monster and the privately held Red Bull have generated returns on initial investment for shareholders in the hundred-folds. **Fevertree** (LSE:FEVR) is a less extreme example of what is possible in narrower niches.

Celsius has surpassed a level of sales most also-rans never reach. It's still got a long growth runway ahead of it. The stock is up 115% on the Fund's average purchase price, and added 4.9% to Fund returns in 2020.

GAN provides backend software for online gambling. It allows casinos and sportsbook operators to run their business online while outsourcing much of the grunt work to an expert. In return, GAN takes a cut of the net gambling revenues. GAN's early focus on the US market, with its strange panoply of federal and state laws, generated a decade of frustration. That headache has become a moat as online gambling has been legalised in various states more recently. The company is signing up new customers at an impressive clip, accelerated by the pandemic and temporary closure of casinos.

When we bought GAN it was a geographical orphan. Natural investors for this company, based in the US, couldn't or didn't want to buy a micro-cap listed on the secondary AIM market in the UK. Management already had a plan to relist in the US, and did so a few months ago. The stock has rocketed since, up 217% on our average purchase price and contributing 7.3% to Fund returns.

The board of AIM-listed **Blancco** should seriously consider a Nasdaq relisting too. Blancco dominates its small but growing software niche—paid erasure software used to clear data from IT hardware at end of life or change of ownership. It's developing another leading business in mobile diagnostics. A tech business with high customer retention, growing markets and pricing power—all the factors US investors might go crazy for. Businesses like this often trade at eight or more times revenue in the US, while on the AIM Blancco trades closer to four times.

Not to complain, Blancco has been an outsized contributor for a third year running, adding 5.4% to Fund performance. Although we've taken some profits this year in the name of portfolio balance, we think there's more to come.

VALUE IN EUROPE

Elsewhere in Europe, the gains were of the more traditional value type.

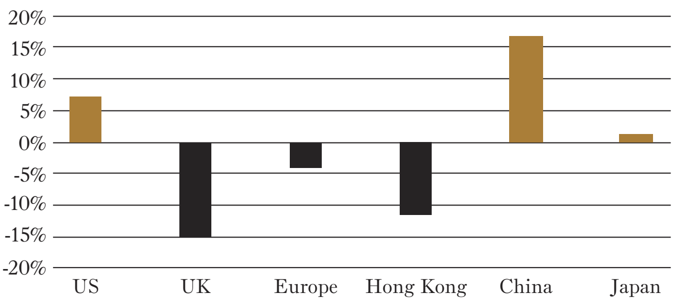
Norwegian conglomerate **Bonheur** (OB:BON) has, like Blancco, made the winner's list for a third year running. In 2017 it was a misunderstood conglomerate, written off as an oil services business despite the overwhelming proportion of its value residing in wind farms and renewable energy-related assets. A quirk of accounting also made it look deeply indebted, despite the fact it was actually sitting on a large pile of surplus cash.

That fog has slowly lifted, and the stock has become something of an ESG darling in a market starved of such opportunities. We've been slowly selling down and continued doing so this year, providing valuable liquidity for reassignment elsewhere. Bonheur contributed 1.0% to Fund performance over 2020.

All the elements of our original **ThinkSmart** (AIM:TSL) thesis proved wrong. But the company developed a buy-now, pay later

Afterpay (ASX:APT) copycat in the UK called Clearpay. While Afterpay was busy elsewhere, Clearpay developed relationships with UK retailers. It was probably never going anywhere as an independent. But by the time Afterpay decided to take on the UK, buying Clearpay was the path of least resistance. The purchase left ThinkSmart with a bunch of cash (since distributed to shareholders) and a 6.5% stake in Clearpay. The business has been growing impressively since. Thinksmart owns something of value here, and we've added to the position over the past few years. While it's added 2.0% to Fund returns this year, the stock has significantly lagged its ASX-darling partner in recent months.

Chart 3: Major Market Returns for the Year to 30 June 2020*



*Net returns in AUD
Source: MSCI

Wrapping up the main contributors, **Just Group** (LSE:JUST) recouped some of its prior year losses before its exit from the portfolio in January. The past three years have been a rollercoaster ride for shareholders of this British annuities company. We took advantage of some temporary optimism to exit our investment at a price 29% higher than its close at 30 June 19, making for a 1.2% contribution to this year's return. That only offset some of the prior year losses, however, and its performance since has vindicated the decision to sell.

INFECTED BY COVID-19

Not surprisingly given COVID-19, the negative performers for the year were dominated by businesses in the travel, tourism and retail industries.

Our thesis documents for each of our tourism-related investments all highlighted many potential risks—including terrorism, recessions, even war. But the idea that the global aeroplane fleet would be grounded for months on end by a pandemic? That possibility eluded our forethought.

Traffic at Vienna Airport is down more than 99% over the past few months. That's reflected in our investment in **Flughafen Wien** (WBAG:FLU), which clipped Fund returns by 1.9%. By luck or design, the company has been paying down debt for over a decade to nearly zero, almost unique in the infrastructure world. Add in some government assistance for furloughed employees, and the company was well placed for this downturn. It has the wherewithal to survive at least a few years like this, if need be, and then profit from the recovery.

Same goes for **Skywest** (Nasdaq:SKYW), a US airline with a difference. Most of its revenue comes from long term contractual payments from mainline carriers like **United Airlines** (Nasdaq:UAL), more than covering operating costs and leaving a quite predictable level of profit. Of course, the very survival of those customers has been called into question. So Skywest stock has been hammered like everything else, detracting 2.5% from Fund performance this year. Domestically-focused, Skywest is well placed for recovery.

We've become increasingly uncomfortable with the prospects for **Hostelworld** (LSE:HSW), a stock purchased just months before the crisis. The app facilitates online and mobile bookings for hostels. For some years the company had suffered at the hands of larger competitors but we felt it was making the right steps towards better serving its niche. At the least it would prove a useful acquisition target for one of those competitors. Then COVID-19 hit and destroyed revenues and balance sheets across the industry. Despite our position size never being large, it's detracted 1.1% from returns. The company has raised fresh equity and should survive, but we've chalked it up as a mistake and moved on.

Dolphin Capital Investors (AIM:DCI), owner of some high end tourism development sites in Greece and Cyprus, has proven a more arduous undertaking than anticipated. COVID-19 has caused temporary development delays and also likely impaired the value of the tourism assets Dolphin is hoping to sell over the next few years. The stock cost the Fund 1.7% of return this year, with much of the damage pre-dating the virus. There's work to be done here, and we're hopeful of resolution over the next 18 months.

New Zealand-listed retailer **Hallenstein Glasson Holdings** (NZSE:HLG) suffered through physical store closures this year, like most other discretionary retailers. Its New Zealand business was hit even harder, forced to stop fulfilling online orders as well. Despite a better than expected trading update in May, HLG's shares have fallen 32% this year, reducing portfolio returns by 1.0%.

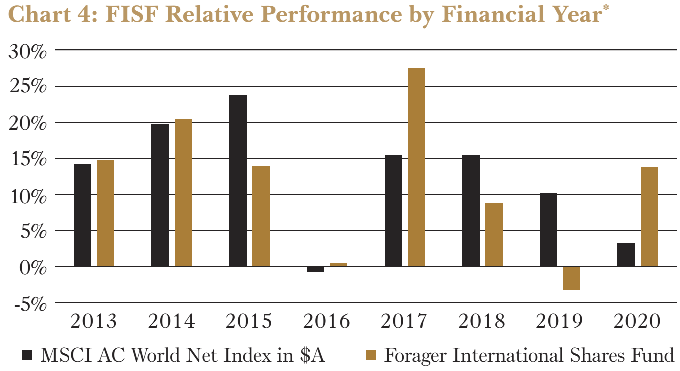
The global auto industry was struggling before COVID-19 hit. The pandemic didn't help. Car seat manufacturer **Lear** (NYSE:LEA) clipped 1.4% from results, while auto parts, industrial and agricultural machinery manufacturer **Linamar** (TSX:LNR) cost 1.7%. We sold out of Lear and lightened our Linamar stake in the teeth of the panic, seemingly an inopportune time as both stocks are up handily since. But we sold to fund even more attractive investments elsewhere, and the net result has been additive to performance.

Our Asian investments were a net negative to the portfolio. Small wins in **Sony** (TSE:6758), **Techtronic** (SEHK:669) and **Yum China** (NYSE:YUM) weren't enough to offset losses from **Vtech** (SEHK:303) and **Ausnutria** (SEHK:1717).

We sold our shares in infant milk formula company Ausnutria after a weak result and the release of a report highlighting concerns about its accounting. While the share price has since recovered, we thought the 27% loss between our purchase and sale was a small price to pay. We continue to watch it closely, but are yet to see evidence that the concerns are unfounded. The losses knocked 1.2% off portfolio returns.

Wrapping up the significant negative contributors, Vtech was another to only enjoy a short stint in the portfolio. The Hong Kong manufacturer of infant toys and baby monitors, among other things, has been heavily impacted by the COVID-19 fallout. With our Asia expert, Paul Quah, leaving the team, we decided to move on. The share price decline while held made for a 1.2% loss at the portfolio level.

Chart 4: FISF Relative Performance by Financial Year*



*Including distributions
Source: Forager, S&P Capital IQ

AUSTRALIAN SHARES FUND

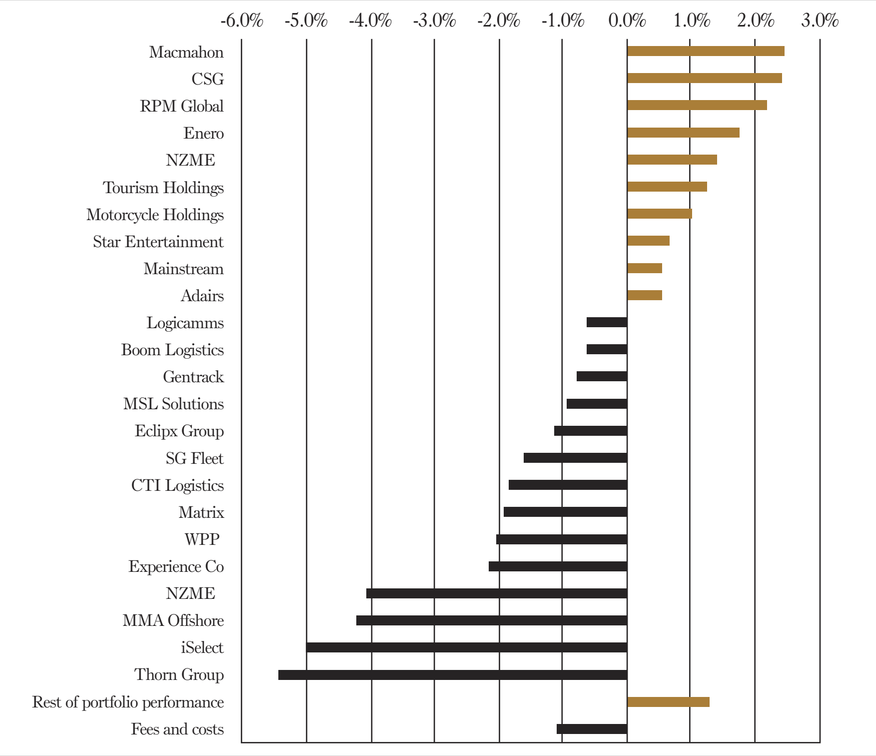
Table 2: Summary of Returns as at 30 June 2020

	Australian Shares Fund (ASX:FOR)	All Ordinaries Accumulation Index	Outperformance
1 year	-18.36%	-7.21%	-11.15%
2 year (p.a.)	-19.01%	1.51%	-20.52%
3 year (p.a.)	-11.27%	5.43%	-16.70%
4 year (p.a.)	-3.30%	7.30%	-10.60%
5 year (p.a.)	0.64%	6.22%	-5.58%
6 year (p.a.)	2.49%	6.13%	-3.64%
7 year (p.a.)	4.54%	7.70%	-3.16%
8 year (p.a.)	8.12%	9.24%	-1.12%
9 year (p.a.)	8.08%	7.30%	0.78%
10 year (p.a.)	7.78%	7.78%	0.00%
Return since inception (p.a)	6.82%	6.80%	0.02%

*Inception 30 October 2009

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.

Chart 5: FASF Performance Contribution for the Year Ending 30 June 2020



It has been a frustrating year for the Forager Australian Shares Fund. After a shocker in 2019, our aim was to reverse a good chunk of the damage. The plan was to force change at some of our underperforming investments and improve the quality and liquidity of the remainder of the portfolio. In 2020, we made significant progress on those fronts and saw improving operational performance across the first half of the year.

The portfolio was absolutely walloped when COVID-19 hit, however, and hasn't fully recovered those losses despite a significant bounce. Over the year, the portfolio fell 18%, versus a decline for the All Ordinaries Accumulation Index of 7%. In combination with last year, that has erased all of the returns over the past five years and leaves the Fund returns only a touch ahead of the index since inception.

March's selloff has enabled us to accelerate some of those desired changes and we start the year with a much better balanced portfolio. The combination of attractively priced, well run businesses with turnarounds that are well underway augurs well for the year ahead. It needs to deliver on the promise.

REPEAT OFFENDERS ON THE LOSER LIST

Some of this year's poor performers were repeat offenders.

Thorn Group (TGA) alone cost investors 5.4% of the portfolio as its share price fell 71% over the year. The entire board and Thorn's CEO have been replaced, but the damage already inflicted was significant. Its small business equipment financing division has likely been wiped out by COVID-19, making the decision not to sell it last year a calamity. And dithering over the future of Radio Rentals has eroded the value of that division. Still, the new board has moved quickly to cut costs and finally decided Radio Rentals is worth more dead than alive, at least in its previous format. With a growing cash balance much larger than the current market capitalisation, it is time for shareholders to see some return.

Fellow problem investment **MSL Solutions** (MSL) also had a complete board makeover at our instigation. Like Thorn, though, the mess left behind has taken some fixing. New Chairman Tony Toohey, formerly of eBet fame, and CEO Pat Howard have moved quickly to cut costs and focus the business on a narrower range of growth options. While it looks to have turned the corner, the share price fell 53% over the year and detracted 1.0% from the Fund.

Two businesses that won't be turning a corner any time soon are **MMA Offshore** (MRM) and **Matrix Composites and Engineering** (MCE). Both were showing signs of recovery up until Christmas. But the COVID-related slump in oil consumption is likely to reduce demand for both companies' services for many years to come. With $275m of debt still outstanding, MMA will probably need another capital injection to survive. We cut our losses and reallocated the capital to more certain opportunities, but not before the share price fell 66% and cost the Fund 4.2%.

Matrix cost us 1.9% thanks to a 51% share price fall but we have maintained the investment. Its cash-heavy balance sheet means it has more time on its side, but management and the board should be posing serious questions about the future prospects for this business too.

CTI Logistics (CLX) is in a much better position but still struggling to turn a profit. This business has battled alongside a struggling WA economy. With 43% of the outstanding shares, management are suffering alongside us and have led this company through difficult times before. Still, we were expecting a recovery by now and its 44% share price fall over the year reflects investors getting tired of waiting.

INFECTED BY COVID-19

Other companies heavily impacted by COVID-19 include **Experience Co** (EXP), **NZME** (NZM) and **WPP AUNZ** (WPP). Experience's skydiving operations and barrier reef tours have both been shuttered. Management moved quickly to minimise the cash impact on the balance sheet and it should be an early beneficiary from any resumption of domestic tourism. It is going to be several years, though, until the business is any hope of achieving historical profitability. Having been down 85% at its March lows, EXP's share price ended the year down 46%.

NZME and WPP have both been impacted by a collapse in advertising spend in Australia and New Zealand. The share price falls, both down 44%, look overcooked.

NZME, owner of the *NZ Herald* and Kiwi radio assets, has said it expects to improve on last year's profitability in the first half of 2020, thanks to cost cutting and government support. WPP will do it tougher, but has also moved quickly to adjust its cost base. Both companies should bounce back quickly and return to paying dividends over the next 18 months. They were cheap prior to the selloff, and are more so now.

LEASING COMPANIES SHOW THEIR STRENGTH

Car leasing companies **Eclipx** (ECX) and **SG Fleet** (SGF) were treated like vulnerable advertising agencies, but their businesses are a lot more resilient. Eclipx's regular market updates have confirmed as much and new CEO Julian Russell's turnaround plan remains on track. While new business wins will be less than usual this year, we haven't adjusted our valuation by much. The share price fell 24% between our purchase and the end of the year, but fell 75% and rose 203% in between.

With a stronger balance sheet, SG Fleet's share price wasn't quite as volatile. The net fall was more, though, down 48% from our purchase to 30 June. This company generates more of its revenue from novated leases, which depend on consumer demand, and add-on products like insurance. Those segments have a more difficult future than corporate leasing, but it is a relatively boring, reliable business. We still expect it to be a profitable investment.

This time last year, **iSelect** (ISU) was looking like a profitable investment. It had been one of the few positive contributors in 2019. In the 2020 financial year, its share price fell 67%. As one of our largest investments, that made for a portfolio hit of 5.0%.

The fall was severe punishment for a company with net cash on the balance sheet and a large receivables balance from credit-worthy insurance companies.

Changes to the electricity retail market didn't help, but iSelect's core health comparison service seems to be losing relevance among consumers. Competitor Compare the Market continues to creep up the share register, reducing iSelect's strategic opportunities. And its cash balance is slowly dwindling.

The company's experienced board and management team are well aware of the issues and are considering a number of opportunities that would change the downwards momentum. This business has a strategic value well in excess of its tangible asset backing, while the latter is already much more than the share price. We need to see some action for the sharemarket to recognise it.

THE SAME NAMES ATOP THE LEADERBOARD

On the positive side of the ledger, there are some familiar names in 2020. Like the previous year, however, it is too short of a list and the magnitude of the wins have been less than our successful years.

Two long-held stocks making back-to-back appearances are **Macmahon** (MAH) and **Enero** (EGG). Both companies' turnarounds started to gain traction five years ago and the momentum has continued into 2020. Macmahon was struggling to turn a profit back in 2014. In the 2018 and 2019 financial years it made $34m and $57m of earnings before interest and tax, respectively. This year it has reiterated guidance of $90-95m. Its order book of future work looks healthy and Macmahon can grow further from here. Alongside a few timely sales and purchases, the 39% share price rise added 2.5% to fund performance.

Enero isn't growing that quickly but it, too, has become regularly profitable and reliable. Unlike WPP, it expects the impact of COVID-19 to be minor and could even grow a touch in 2020. With the departure of respected CEO Matt Melhuish, though, and a new Chair of the board, our confidence around Enero's future has fallen. While the share price finished the year roughly where it started, our sales at much higher prices led to a 1.7% positive contribution to performance.

An investment we exited in full was **CSG** (CSV), thanks to a takeover by Japanese printing giant Fuji Xerox. This wasn't our greatest investment—the takeover price was a touch higher than our average purchase price—but it was a substantial 76% premium to its closing price at the end of 2019. CSG added 2.4% to performance.

One stock we think can be a great investment is mining software company **RPM Global** (RUL). This company's profitability and growth is being clouded by a transition from upfront lifetime software sales to subscription-based monthly revenue. It has invested a lot in rewriting its software and is now reaping the benefits. Management made solid progress on new sales throughout the year and incremental profitability should become obvious to all through 2021 and 2022. It remains the Fund's largest investment by some margin, boosted by a 35% share price rise from first purchase to the end of the financial year.

Mainstream (MAI), too, has been prioritising growth over profit margins. While the share price only rose 11% in the year, this funds management administrator continued to grow its assets under administration. It also showed its resilience through volatile markets, with the business holding up surprisingly well through March and April. Mainstream probably gets bought by a global competitor at some point, but the value keeps growing while we wait.

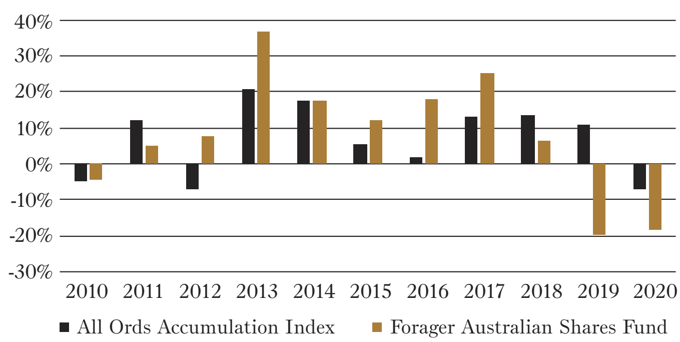
COVID OPPORTUNITIES

The rest of the positive contributors were a result of well timed purchases in March and April's volatile markets. **Adairs** (ADH) and **Star Entertainment** (SGR) added 0.5% and 0.6% to fund returns respectively. Adairs ended the year 219% up on our initial purchase, however the first purchase was only small and the weighting at 30 June was still only 1.3%. Star Entertainment rose a more modest 42% but was a larger investment and retains its place in the portfolio.

Tourism Holdings (NZSE:THL) and **Motorcycle Holdings** (MTO) both ended the year with share prices slightly lower than our initial purchase. But we bought both aggressively at much lower prices. Recent trading updates have been positive and both have regained most of their losses, leaving us with meaningful positive contributions. Tourism Holdings added 1.2% and Motorcycle Holdings 1.1%.

The Fund also participated in a number of emergency capital raisings throughout the year and made some profits on small holdings that were purchased in anticipation of needing fresh money. The net impact of these trades, none of which were still owned at the end of the year, was approximately 0.6% of positive contribution.

Chart 6: FASF Relative Performance by Financial Year*



*including distributions
Source: Forager, S&P Capital IQ

Forager's focus is long-term returns. We try and avoid talking about price gyrations in our monthly and quarterly reports and instead focus on the businesses in which we have invested your money. Our annual performance report is where we do focus on share price movements, giving you as much transparency as possible into what has worked and what hasn't.

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Forage
verb, for·aged, for·ag·ing.
to search about; seek; rummage; hunt (for what one wants).