FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT SEPTEMBER 2020 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 30 September 2020)

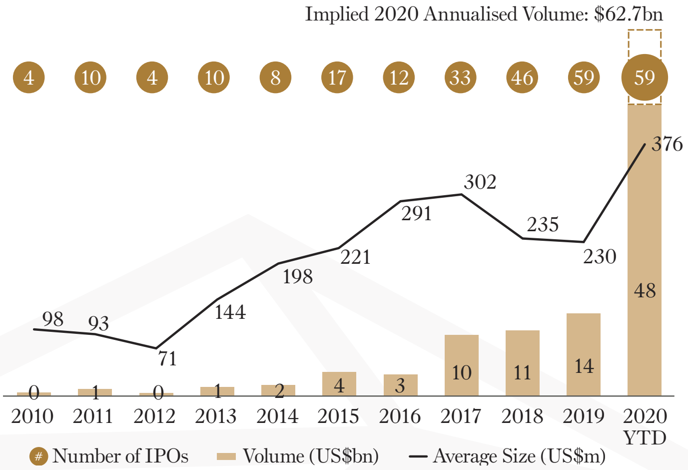
	1 month return	3 month return	6 month return	1 year return	3 year return (p.a.)	5 year return (p.a.)	Since inception* (p.a.)
International Shares Fund	1.63%	13.36%	39.82%	27.43%	9.70%	10.98%	14.08%
MSCI AC World Net Index in $A	-0.02%	3.84%	10.62%	3.10%	9.73%	9.52%	13.52%

MSCI AC World Net Index in $A is an abbreviation of MSCI All Country World Investable Market Index (Net) in Australian dollars. *8 February 2013
Past performance is not indicative of future performance and the value of your investments can rise or fall.

The Forager International Shares Fund rose 1.6% in September against an index that was broadly flat, continuing a strong run of recent results. The Fund has now returned 27.4% for the past year, versus 3.1% for the MSCI AC World Net Index in $A benchmark.

New investments were made at a rapid rate during the quarter. Two of them were thanks to the huge level of activity in the Special Purpose Acquisition Company ("SPAC") market. SPACs are publicly-traded vehicles formed to raise capital for the purpose of acquiring a single business down the track. It's like raising money for an Initial Public Offering (IPO) before you know what the investment will be.

SPAC CAPITAL RAISINGS



Source: Morgan Stanley

Investors park their capital for up to two years while the managers go looking for targets, in exchange for downside protection (redemption rights) and additional upside (fractional warrants). SPACs have been extremely active this year, with $48bn raised in 2020 to date—more than double last year's total volume—and there is currently more than $54bn of SPAC cash seeking acquisitions in the market.

There have been a number of highly successful SPAC transitions this year, such as **DraftKings** (NASDAQ:DKNG) and **Virgin Galactic** (NYSE:SPCE). Over 40% of IPOs this year have been through this avenue rather than the traditional public offering route.

We haven't any interest in putting in money blind, but Forager has invested in a few of these vehicles after the deal had been done, including **Open Lending** (NASDAQ:LPRO) and **APi Group** (NASDAQ:APG).

Navigating through a landscape of companies with limited public market history and only a few years of financials can sometimes be a minefield. It also allows funds such as Forager to get an edge versus the broader market and buy some high quality businesses at very attractive prices before the herd discovers them.

Open Lending owns a technology platform that provides lending enablement and risk analytics solutions to credit unions, regional banks and auto lenders in the United States. Their solutions include loan analytics, risk-based pricing, risk modeling and default insurance to help ensure profitable auto loan portfolios for financial institutions.

The US auto loan market has historically been bifurcated—you are either a prime customer and get very attractive interest rates or you are sub-prime and find yourself paying sky-high rates. There is a whole cohort of "near-prime" customers that have low default risks but are being charged sub-prime rates. It is these potential customers that Open Lending allows loan providers to target.

Open Lending has facilitated more than US$7bn automotive loans and currently serves over 300 automotive lenders. The company generates revenues through program fees that are paid by lenders as well as profit share and claims administration service fees paid by insurance partners. We were drawn to the business due to its high margins, explosive revenue growth (expected to double in 2021) and a potential rebound in auto loan originations post COVID-19.

We expect the accelerated revenue growth to be sustained over the mid-term given a large US$250bn addressable market and secular growth driven by increased auto sales and the expansion of the near-prime customer market. In addition, its proprietary risk-based pricing model, based on more than 15 years of data and a fully integrated, cloud-based platform, provide a moat around the business. More importantly, when we first bought the shares a few days after the SPAC transaction closed at US$15, our entry price implied a price-to-earnings multiple of only 16 times, highly attractive for a business with these kinds of growth prospects.

APi Group is a slightly less exciting business, but its maintenance services in the fire safety, utilities and telecommunications sector provide predictable revenue and profitability, and its capacity to buy and improve smaller companies in the same sectors provides a long runway for growth. In fact, the company has grown revenues at an annual rate in excess of 12% over the past decade. APi also trades at an attractive valuation of just 12 times earnings. We feel this is far too low given the secular growth that it is exposed to.

These opportunities are COVID-related, with the SPACs able to make their acquisitions at attractive prices. The window is closing fast, though, and with so much money sloshing around it is almost certain to end in tears for investors that don't tread carefully.

COMPANY RESULTS

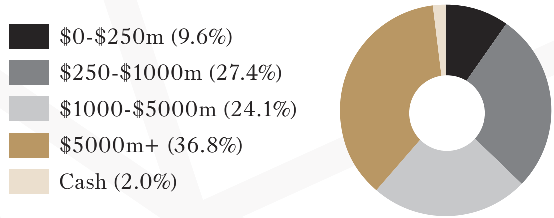
Data erasure and mobile diagnostics software business **Blancco** (AIM:BLTG) reported a decent increase in revenue for its full year to 30 June 2020, up 9% to £33.4m. A second half deceleration, with sales flat at £16.0m, was partly caused by the loss of a large customer last year. But the bigger impact was from COVID-19 interruptions. Fewer used mobile phones were processed by Blancco's customers, and it was also difficult to sell erasure software to new enterprise customers, who had more urgent things to deal with.

Geographic splits give a hint to the rebound potential. North American sales during the second half were down 22% versus the same period last year, impacted by that customer loss mentioned above. European sales were flat. Asia, the first region into lockdown and the first to emerge, saw sales grow 27%.

These days, the main asset of **ThinkSmart** (AIM:TSL) is a 6.5% stake in ClearPay, the operating name of **Afterpay**'s (ASX:APT) business in the UK. ThinkSmart's recent results to 30 June 2020 included little new operationally, but there was a big upward revaluation of the Clearpay stake in its books. The new book value of £53.7m and the methodology behind it lines up well with the assumptions we've been using the past two years. From 1 January to 30 June 2020, Afterpay rose 108% (a rocky ride to be sure), with a lot of its growth coming out of the UK. It struck us as absurd that ThinkSmart's share price fell 11% over the same period. Over the following quarter to 30 September, Afterpay rose 36% and ThinkSmart 105%, unwinding much of the silliness and slimming the discount. We've been trimming.

Kiwi fashion retailer **Hallenstein Glasson Holdings** (NZSE:HLG) released its full year results to 1 August 2020 this month. Despite significant challenges for all retailers throughout the period, the company managed to generate sales in line with last year and net profit only decreased 4%. While this is an impressive result, it wasn't the highlight of the release. HLG declared a final dividend of NZ$0.24 per share, with total dividends for the year representing a 9% yield on the stock price prior to the announcement. On top of that, sales in the first eight weeks of the current financial year grew 11% compared to the previous year. Not an easy feat with store closures continuing in New Zealand and Victoria.

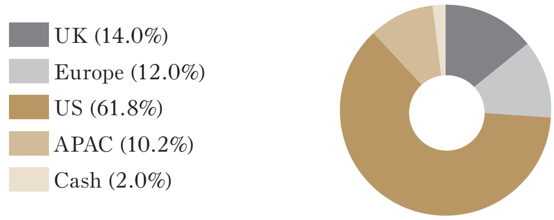
PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



UK-listed online retailer **Boohoo** (AIM:BOO) is another one of the Fund's new investments. The business has been growing rapidly for almost a decade and generating lots of cash while doing so. The stock has been under pressure, though, due first to COVID-19 and then to allegations of wrongdoings within the company's supply chain (prior to our investment). Boohoo has since conducted an independent review of its Leicester supply chain and released the findings in full to the public. While the review found evidence of poor working conditions and low pay, the company has committed to actioning all recommendations in the report. There is a lot of work to be done, but the company's transparency demonstrates commitment to making the necessary improvements.

Boohoo also released results for the half year ended 31 August 2020. Revenue increased 45% in the half to £816.5m, with operating profit margin increasing to 9.7% (from 9.1%) despite increased freight and distribution costs. Management now expects revenue for the full year to increase by 28-32%. We think they're being conservative.

STOCK EXPOSURE BY GEOGRAPHY



TOP 5 HOLDINGS (as % of NAV)		
Blancco Technology Group Plc	**(AIM: BLTG)**	5.8%
Celsius Holdings Inc	**(Nasdaq:CELH)**	5.4%
Open Lending Corp	**(Nasdaq:LPRO)**	5.0%
Motorpoint Group Plc	**(LSE:MOTR)**	3.8%
eGain Corp	**(Nasdaq:EGAN)**	3.6%
Cash		2.0%

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%										**13.36%**

Past performance is not indicative of future performance and the value of your investments can rise or fall.

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	30 September 2020
Buy Price	$1.7823
Redemption Price	$1.7752
Mid Price	$1.7787
Portfolio Value	$178.8m

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

ABOUT FORAGER

With approximately $320 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.

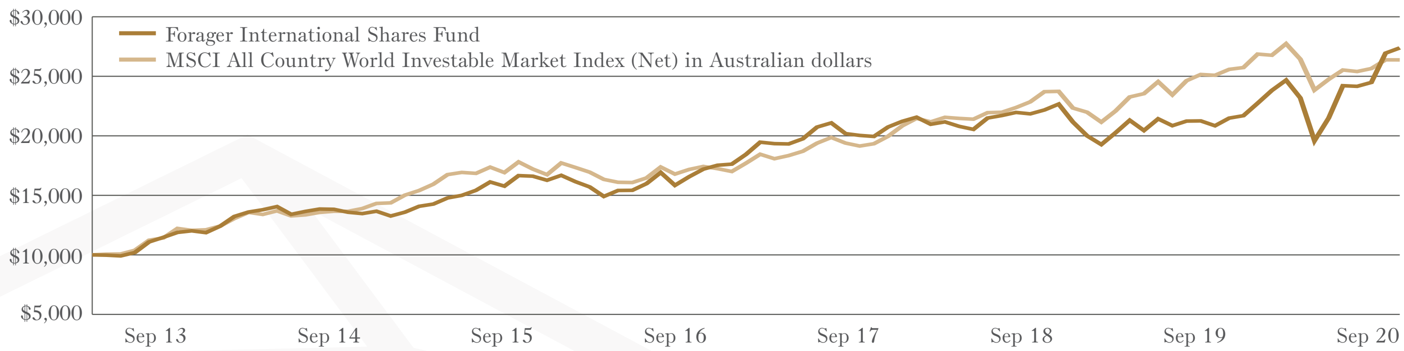
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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
- Investments mainly in small and medium sized businesses
- Flexible mandate allows for a wide range of markets
- Investment team with deep pockets of expertise
- Strong focus on managing portfolio risks
- Potential complement to index or ETF funds
- 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.