



28 May 2019

Dear investor,

RE: Introduction of performance fee from 1 July 2019 for Forager International Shares Fund ("Fund")

Fundhost is the Responsible Entity of the Fund and would like to give 30 days' notice of material changes to the fee structure of the Fund. At the request of the investment manager Forager Funds Management Pty Ltd ("**Forager**"), the following changes will take place from 1 July 2019.

Investment Management Fee

The Investment Management Fee payable to Forager will be reduced from 1.17% to 1.02% per annum.

Performance Fee

The performance fee, which has sat dormant in the constitution of the Fund, will be activated, though at a lower level than is permitted (12.53% versus 15%).

The performance fee is 12.53% of the amount by which the Fund outperforms the Benchmark (being the MSCI ACWI IMI (AUD)) after other fees and expenses have been deducted. The performance fee accrues, and will be reflected in the unit price, when the Fund outperforms the Benchmark (whether the Fund's performance is positive or negative). If the Fund has underperformed the Benchmark (from 1 July 2019 onwards), no further performance fee can accrue until all of the relative underperformance has been made up.

Any accrued performance fee will be paid to Forager at the end of a 6 month period ending 30 June or 31 December, if performance has been positive. The constitution has been amended to provide that the performance fee can only be paid when performance is positive.

Fees subject to change from 1 July 2019	Current position	From 1 July 2019
Investment Management Fee	1.17% per annum	1.02% per annum
Performance Fee	NIL	12.53% of out-performance of Benchmark

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Will past underperformance be made up?

From the date of introduction of the performance fee, 1 July 2019 any future underperformance relative to the Benchmark will need to be made up prior to the performance fee being accrued.

Any historic underperformance of the Fund against the Benchmark before 1 July 2019 will not need to be made up prior to the performance fee being accrued and payable.

More information

For Investors wanting more information on the mechanics of, and rationale for, the activation of the performance fee, please refer to the enclosed letter from Forager. The constitution is also available on request.

A new PDS setting out the new fee structure will be issued 1 July 2019. The table provided in this letter only shows the fees subject to change at 1 July 2019. For a full picture of the Fund fee and expense structure investors should refer to the PDS.

Yours sincerely

Anne Monge
CEO

28 May 2019



Dear Investors,

As you will have read in the above letter from Fundhost, the fee structure for the Forager International Shares Fund (Fund) is changing from 1 July 2019.

The introduction of a performance fee on the Fund is an important development for both Forager and the Fund's investors.

In February we conducted a survey of Fund investors and found overwhelming in principle support for a performance fee. We also received a lot of feedback and have endeavoured to address many of the valuable points raised. Thank you for your participation in this.

Why is a Performance Fee important?

In summary, from 1 July the base fee on the Fund will reduce by 0.15% per annum. In exchange, a performance fee will be introduced whereby Forager will be paid an additional fee if the Fund outperforms the MSCI ACWI IMI Index (Benchmark). This performance fee will be 12.53% of the outperformance, after first offsetting any prior period underperformance. However, fund underperformance prior to 1 July 2019 does not need to be made up.

The introduction of a performance fee is important for a number of reasons:

1. *It will allow for a 0.15% reduction in the ongoing base fee for the Fund.*
The reduction in the base fee flows immediately back to investors in the form of lower fund expenses.
2. *It will further align investor outcomes with the Forager investment team.*
In aggregate, Forager staff and shareholders continue to be the largest investor in the Forager International Shares Fund. When Forager first





launched the Fund, all key individuals involved in the management of the Fund also had equity investments in the Forager management company, creating strong alignment without the need for a performance fee.

While that alignment still exists for Gareth Brown and I, the Forager business has matured and the team has grown. A performance fee allows us to establish a clear link between Fund performance and individual contribution for those newer team members with less or no equity in the management company.

- 3. It will assist Forager to attract and retain the investment team it requires*
We have recruited two additional senior resources this year, which will add important geographic and subject matter specialist knowledge. Our ability to do this is in large part only possible where there is capacity to reward individuals for outstanding contributions to fund performance. As a small business, a performance fee is central to our ability to do this.

Notable features of the Performance Fee

The performance fee

The Performance Fee is 12.53% of the amount by which the fund outperforms the benchmark, which is the MSCI ACWI IMI (Net)(AUD) or Benchmark.

Catch-up is required after periods of underperformance

The fee is designed such that any period of underperformance against the Benchmark, from after it is introduced on 1 July 2019, will need to be made up before any performance fee is payable to Forager. Fund underperformance relative to the Benchmark prior to 1 July 2019 will not need to be made up.

When fund performance is negative, but where there is outperformance relative to the Benchmark

In periods where fund performance has been negative, but where there has been outperformance relative to the Benchmark, performance fees will be provisioned, but not paid to Forager at that time. For example, if the Benchmark is down -5%, and the Fund is down -1%, the performance fee will be calculated and provisioned on 4% outperformance. This fee provision will then be accrued into the unit price on a weekly basis. Payment to Forager of any provisioned fees will only take place once the Fund experiences positive performance for a period of six months and the





accrued fee can be reduced by any underperformance between the fee being accrued and it becoming payable.

Performance fees are net of management fees

The determination of any performance fee is based on fund performance, after base fees and expenses are subtracted from the Fund.

The right structure for long-term outperformance

Over the past 18 months, the performance of both Forager funds has been disappointing to say the least. Much of what has made us successful over the past 10 years is permanent, but it is also clear that much needs to change for the funds and business to remain successful at a larger scale.

We have been working furiously to implement some of those changes, including attracting the right people and setting up the right incentive schemes to reward them.

All that ultimately matters is whether we deliver you outperformance. The implementation of a performance fee on the International Fund is an important step in creating the best structure to do so. And, if we don't succeed in delivering outperformance, you will have paid less in fees.

We have tried to consult with as many investors as possible while contemplating this change but please don't hesitate to contact us if you have further questions. You can call 02 8305 6050 or email admin@foragerfunds.com.

Kind Regards,

A handwritten signature in black ink, appearing to read "Steve", with a long horizontal flourish extending to the right.

Steve Johnson
Chief Investment Officer, Forager Funds



Appendix - Survey Results Summary

Over 90% of respondents to the survey indicated they would be supportive, in principle, of the introduction of a performance fee, in exchange for a reduction in base fees.

Of the 10% who indicated they would not be supportive, many of their comments centred around not being able to give a yes / no answer without knowing the full details. Other comments were around whether we were creating the wrong incentives and whether this was an appropriate pay structure for staff.

Those who gave in principle support were then asked to comment on an initial proposal for a 15% performance fee and a 0.15% reduction in base fee, and the use of the MSCI All World Index as a performance reference.

The fees suggested were supported (or investors were indifferent to) by 66% of people who responded to that question.

Of the investors who were not supportive of the proposed performance fee benchmark, or the actual fees proposed, there were a number of common concerns expressed in the questions which prompted for comments.

These concerns are listed below, and Forager hopes that these have been addressed in the revised fee changes and communications above. Most significantly, the proposed performance fee was reduced from the 15% that was canvassed in the survey.

- A 15% performance fee for a base fee reduction of 0.15% was not the correct trade-off.
- A 15% performance fee is too high.
- Concerns about a fee being earned when Fund performance is negative, even if there was out-performance against the index
- The fee should have a minimum hurdle - absolute or % above index.
- Wish to see periods of underperformance made up.
- MSCI is not the right index / Fund might become index aware.
- Potential for unnecessary risk taking
- Concern that focus will become short term
- Concern that this is the wrong incentive producing the wrong sorts of behaviours

