

# FORAGER

## AUSTRALIAN SHARES FUND

MONTHLY REPORT APRIL 2020

www.foragerfunds.com

### PERFORMANCE (Net of all fees and expenses)

#### FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 April 2020)

	1 month return	3 month return	6 month return	1 year return	3 year return (p.a.)	5 year return (p.a.)	10 year return (p.a.)	Since inception* (p.a.)
<b>Australian Shares Fund (ASX:FOR)</b>	20.57%	-35.28%	-36.78%	-33.11%	-14.82%	-2.08%	5.30%	5.48%
<b>All Ords. Accum. Index</b>	9.54%	-20.39%	-15.73%	-9.22%	2.12%	3.66%	5.88%	6.18%

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.

\*30 October 2009

COVID-19 fears subsided in April as global social distancing eased infection numbers. As these uncertainties faded and both central banks and governments finalised gigantic support programs, global markets rose sharply. Australian stocks were up 10%, posting the best monthly performance in more than 30 years. While the Fund's 21% increase for the month was its largest on record, there remains much catching up to do.

It has been a busy few months for **Thorn Group (TGA)**. Its equipment finance division provides equipment-backed loans to small and medium businesses. Losses from customer payment delays increased even before COVID-19. Now many customers are asking for reduced or deferred payments. With a significant amount of debt, Thorn's equity in this division is probably worthless. That is painful—especially given the company spurned an offer for this division at multiples of Thorn's current market capitalisation—but it is the smaller of the two divisions by some margin.

And there is encouraging news at Thorn's Radio Rentals arm. The provider of washing machines and TVs to cash strapped consumers will cease physical operations, closing 62 stores permanently and cutting 300 staff in stores, warehouses and head office.

The consumer leasing business is not going away completely. Radio Rentals will move online, where 77% of enquiries already start. The business model will need to change. However, with high brand recognition the company has a chance to move some of its business into a digital future. In the meantime, it should generate a lot of cash. Existing customers still owe Radio Rentals \$123m for products already leased.

The Fund's largest investment, mining software company **RPM Global (RUL)** continued to win new customers despite the crisis. As COVID-19 was raging, contracted subscriptions rose by another \$4.6m in the month to mid-April. Annual subscription revenues now total \$12.8m, three times the run-rate last June.

As prices collapsed there were many new investments to consider in March and April. Two new additions to the portfolio are **Perenti (PRN)** and **Star Group (SGR)**.

Mining services provider Perenti makes most of its money helping miners extract gold from mines in Australia and Africa. Most of the company's work takes place underground,

using know-how and equipment to build infrastructure, explode rock and haul it up to the surface.

During COVID-19 the share price fell by 70% on concerns about mine closures and debt levels. With more than 8,000 staff working and living in close quarters, the company has had to be particularly careful to avoid the spread of COVID-19. With the virus subsiding, Perenti has felt minimal impact from closures. Whilst the debt makes it riskier than our other mining services company, **Macmahon (MAH)**, it also has a lot more upside. We have reallocated a small portion of the Macmahon investment to Perenti and kept the overall industry exposure roughly the same.

Star Group, owner of casinos in Sydney and Queensland, felt the brunt of social distancing measures. At first, visitors were forced to spread out. Then full closures were announced. With net debt of \$1.2bn, the company was at risk of needing to sell new shares to supplement cash reserves.

But Star's assets are high quality and almost impossible to replicate. Domestic visitors make up more than 90% of profits and growth in domestic revenue at its main casino in Sydney has been 4% annually for the last two decades. Despite the current debt levels, the company can access enough financing to withstand a shutdown until early 2021. With recent successes in battling COVID-19, the casinos should reopen much sooner than that.

#### TOP 5 HOLDINGS (as % of NAV)

<b>RPM Global Holdings Limited</b>	<b>(ASX:RUL)</b>	14.9%
<b>Macmahon Holdings Limited</b>	<b>(ASX:MAH)</b>	7.9%
<b>Thorn Group Limited</b>	<b>(ASX:TGA)</b>	6.8%
<b>Enero Group Limited</b>	<b>(ASX:EGG)</b>	6.4%
<b>Mainstream Group Holdings Ltd</b>	<b>(ASX:MAI)</b>	5.2%
<b>Cash</b>		0.4%

**FUND OBJECTIVE**

The Fund targets securities that Forager believes are undervalued and invests predominately in securities listed on the ASX. Its investment objective is to outperform the S&P/ASX All Ordinaries Accumulation Index over a rolling 5-year period and its goal is to produce superior long-term returns from a select number of underlying investments, irrespective of short-term price movements<sup>^</sup>.

**FACTS**

<b>Fund inception</b>	30 October 2009
<b>ASX Code</b>	FOR
<b>Distribution</b>	Annual, 30 June

**UNIT PRICE SUMMARY**

<b>As at</b>	30 April 2020
<b>NAV</b>	\$0.90
<b>Market Price</b>	\$0.78
<b>Portfolio Value</b>	\$102.7m

**ABOUT FORAGER**

With approximately \$250 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

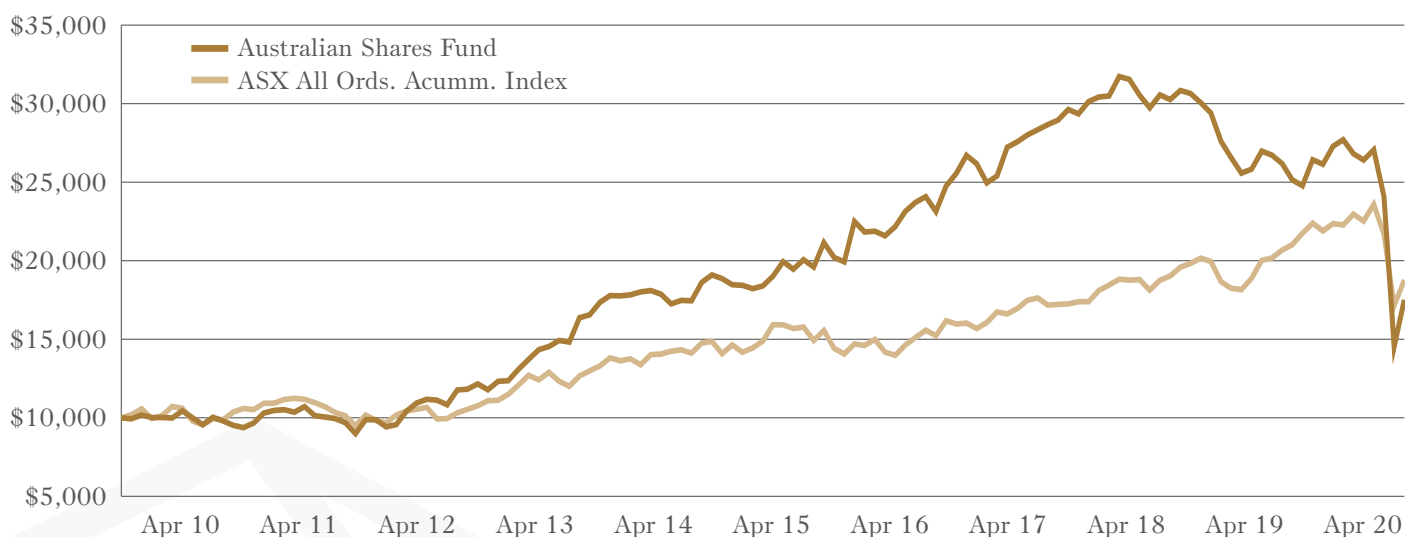
Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

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 ASX-listed stocks
- Long track record in identifying unloved gems
- Restricted fund size allows investment in smaller businesses
- Strong focus on managing portfolio risks
- Listed on ASX as a Listed Investment Trust (LIT)
- Structure offers Forager flexibility in distressed markets

**COMPARISON OF \$10,000 INVESTMENT IN THE FORAGER AUSTRALIAN SHARES FUND VS ASX ALL ORDS. ACCUM. INDEX**

Source (All Ords): S&P Capital IQ. The above figures assume that all distributions have been reinvested. Performance is calculated using Net Asset Value (NAV), not the market price. Past performance is not indicative of future performance.

**WARNING** The information given by Forager Funds Management is general information only and is not intended to be advice. You should therefore consider whether the information is appropriate to your needs before acting on it, seeking advice from a financial adviser or stockbroker as necessary. This presentation may contain some forward-looking statements which reflect the expectations of Forager Funds Management about the future prospects of companies held within the portfolios of the funds. While Forager Funds Management considers its expectations to be based on reasonable grounds, there is no guarantee that those expectations will be met. **DISCLAIMER** Forager Funds Management Pty Ltd operates under AFSL No: 459312. The Trust Company (RE Services) Limited (ABN 45 003 278 831, AFSL No: 235 150) is the responsible entity and the issuer of the Forager Australian Shares Fund (ARSN 139 641 491). You should obtain and consider a copy of the product disclosure statement relating to the Forager Australian Shares Fund before acquiring the financial product. You may obtain a product disclosure statement from The Trust Company (RE Services) Limited, or download a copy at [www.foragerfunds.com](http://www.foragerfunds.com). To the extent permitted by law, The Trust Company (RE Services) Limited and Forager Funds Management Pty Limited, its employees, consultants, advisers, officers and authorised representatives are not liable for any loss or damage arising as a result of reliance placed on the contents of this document. <sup>^</sup>Although the S&P/ASX All Ordinaries Accumulation Index benchmark largely represents the available listed investment universe for the Fund, the concentrated nature of the Portfolio and the Fund's ability to invest in securities that are not included in this index means the Fund's results may not be correlated with this index. This investment objective is not a forecast and returns are not guaranteed.