FORAGER AUSTRALIAN SHARES FUND

MONTHLY REPORT FEBRUARY 2020 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 29 February 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.)
Australian Shares Fund (ASX:FOR)	-10.97%	-10.15%	-7.84%	-10.69%	-4.40%	4.85%	9.17%	8.88%
S&P All Ords. Accum. Index	-8.08%	-5.59%	-0.99%	8.24%	8.54%	6.37%	7.90%	7.77%

*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 an indicator of future performance.

After a long period of steady increases, global stockmarkets suffered a violent reversal in February. The Australian market was up there with the worst performers, with the All Ordinaries Accumulation Index falling 8.1% over the month.

Investors were remarkably sanguine about the outbreak of COVID-19 in China. But when this latest deadly coronavirus spread to the rest of the world in the middle of February, panic set in.

A sell-off was justified. Investors had become complacent and the cost of this virus—both human and economic—is going to be significant. The sell-off has also been indiscriminate, though, and in some cases disproportionate. Cash levels in the Fund were elevated thanks to the receipt of proceeds from the CSG takeover and we were able to put a meaningful proportion to work in new and existing ideas.

Details of significant new investments can wait for the quarterly report, but we made initial investments in smash repairs business **AMA Group** (AMA) and Kiwi billing software company **Gentrack** (GTK), and re-established a small investment in **Smartgroup** (SIQ). We also added to a number of existing investments, particularly those posting good results through the month.

You would be right to be sceptical, given the underlying stock price movements, but it was another reporting period of significant portfolio progress. With a few frustrating exceptions, the vast majority of the portfolio is generating cashflow and doing sensible things with it.

To the exceptions first. Insurance comparator **iSelect**'s (ISU) result was no worse than its September guidance, but that doesn't make it good. Regulatory changes in the electricity retailing market have whacked that division's profits and advertising on Google continues to get more expensive. The first half of the year is always quiet for iSelect but, unlike last year, the company lost money. Corporate action remains likely, but iSelect won't be negotiating from a position of strength.

And skydiving and reef adventure business **Experience Co** (EXP), too, reported a significant decline in profit. That's largely a function of bushfires and windy weather impacting on the core business, but previous management's acquisition binge also continues to weigh. Coronavirus and its impact on Chinese tourism won't help in the second half of the year. But the sale of its helicopter business leaves Experience Co with a strong balance sheet, with a few remaining asset sales likely moving the business into a net cash position. The new management team is making good progress and presenting the right strategy for long term growth.

News elsewhere was much better. **Macmahon** (MAH) reported another significant increase in revenue and profitability, upgraded its guidance for full-year profitability and declared another dividend. The share price is up—even through February's sell-off—but it remains attractively priced. Significant contract extensions and expansions look likely and profit margins have further room for improvement.

RPM Global (RUL) also reported a stellar result. Progress will remain less obvious while RPM transitions to a subscription model for its mining software, but new project wins are at the top end of our expectations. If that can continue or accelerate over the next few years, RPM will become a cashflow machine and an attractive takeover candidate.

Marketing services businesses **Enero** (EGG) and **WPP AUNZ** (WPP) remain profitable and paying fully franked dividends. Enero is growing a bit, WPP shrinking a bit and both trade at attractive multiples.

And even maligned Kiwi media company **NZME** (NZM) is performing better than the share price suggests. It's NZ$20m of operating profit was a touch higher than the previous year, as growth in subscriptions, radio and property portal Oneroof offset most of the decline in its traditional newspaper business. At almost NZ$24m, free cashflow was slightly better than profit and represents a return of some 34% on the company's current market capitalisation. Shareholders will have to wait another 12 months before seeing that cash, as management want to continue repaying debt for now. But the business continues to show progress while the share price continues to decline.

TOP 5 HOLDINGS (as % of NAV)

RPMGlobal Holdings Limited	**(ASX:RUL)**	10.3%
Macmahon Holdings Limited	**(ASX:MAH)**	10.0%
Enero Group Limited	**(ASX:EGG)**	6.2%
Thorn Group Limited	**(ASX:TGA)**	6.0%
Eclipx Limited	**(ASX:ECX)**	5.9%
Cash		2.8%

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^.

FACTS

Fund inception	30 October 2009
ASX Code	FOR
Distribution	Annual, 30 June

UNIT PRICE SUMMARY

As at	29 February 2020
NAV	$1.24
Market Price	$1.07
Portfolio Value	141.2m

ABOUT FORAGER

With over $300 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.

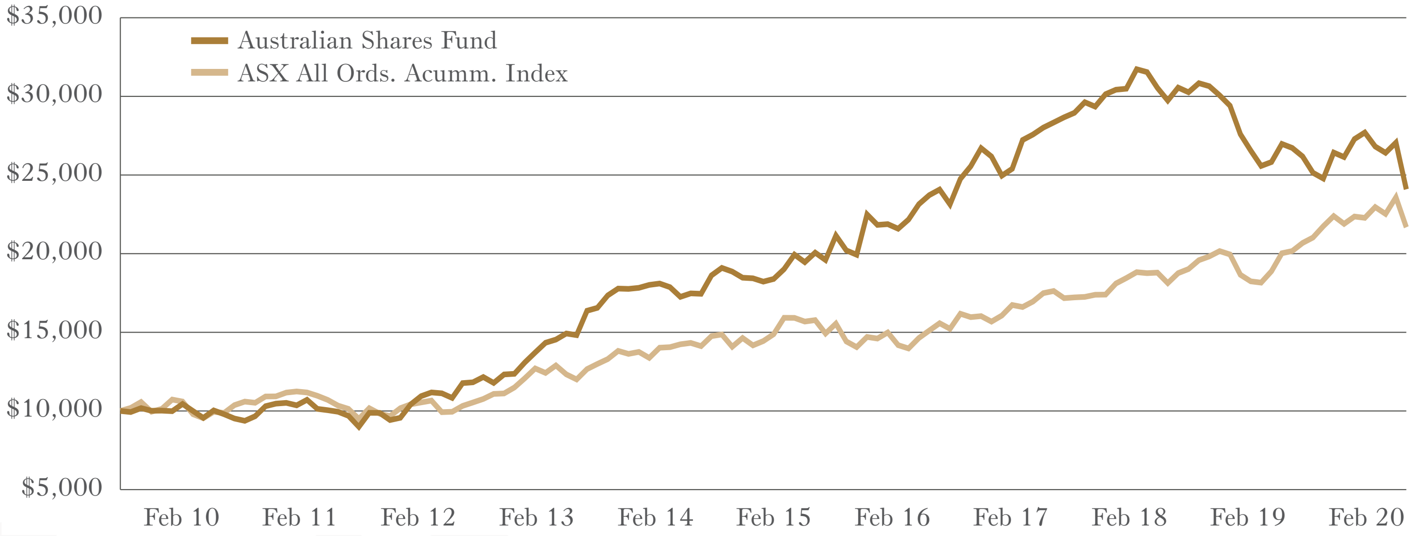
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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 a reliable indicator of future performance and the value of your investments can rise or fall.