

# FORAGER

# AUSTRALIAN SHARES FUND

MONTHLY REPORT OCTOBER 2020

[www.foragerfunds.com](http://www.foragerfunds.com)

## PERFORMANCE (Net of all fees and expenses)

### FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 October 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>	7.79%	30.62%	56.44%	-1.11%	-3.43%	4.02%	11.32%	9.59%
<b>All Ordinaries Accumulation Index</b>	2.08%	2.24%	10.94%	-6.51%	4.78%	7.21%	6.99%	6.89%

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

The unit value of the Forager Australian Shares Fund jumped a further 7.8% in October. The ASX All Ordinaries Accumulation Index rose 2.1%.

**Thorn Group** (TGA) declared a fully franked dividend of \$0.075. That's 36% of the share price prior to the dividend being declared. More impressively, the dividend is more than double what Thorn's share price traded for back at the low in March.

It's not a sustainable yield. The cash is coming from customer payments at Thorn's Radio Rentals business, which has permanently closed all of its physical stores and is not writing much new business. As customer leases come to an end over the next few years, that cash inflow will come to an end.

But there is, potentially, plenty more to come. While the \$0.075 dividend equates to a total of \$24m, Thorn had \$61m of available cash at the end of September and no corporate debt. We expect it to generate another \$50m over the coming year. So the \$0.075 is a good start, but it is just a start.

And the dividend announcement came with a sting in the tail. Thorn's board applied a dividend reinvestment plan (DRP) to the large special dividend.

While DRPs are common and are rarely that important, this one is different. If allowed to proceed as is, the DRP will enable Thorn's largest shareholder, Somers Ltd, to acquire further control over the shares in Thorn in a manner that, in our opinion, is unacceptable. Forager has lodged an application with the Takeovers Panel, a body which resolves corporate takeover disputes, in relation to the DRP. Confidentiality means we can't say much while the process is underway.

The makeup of the share register is going to matter over the next few months. Thorn has finally locked down a date for an extraordinary general meeting called to replace two of the three existing board members. That will happen on 3 December. And at the same time as announcing the dividend, the existing board flagged a shareholder vote on a buyback this coming January.

We will have more to say about those events once the Takeovers Panel process has run its course and the existing board has provided (hopefully) further information about their plans for the company. If you are a fellow Thorn shareholder, keep an eye on our blog.

Elsewhere in the portfolio, trading updates have been coming thick and

fast as our portfolio companies hold their annual meetings. The good momentum seen at 30 June results has largely continued through the September quarter.

Marketing agency group **Enero** (EGG) announced that its first quarter revenue increased 11% on the previous year, and operating earnings almost doubled to \$9m for the quarter. Extrapolating one quarter is fraught with danger, but this business is clearly benefiting from its exposure to clients in the growing parts of the global economy.

Fund administrator **Mainstream Group** (MAI), too, has some growing clients. The biggest is Australian funds management juggernaut **Magellan Financial Group** (MFG). Mainstream's newly formed US private equity business now has \$20bn of funds under administration (FUA). In total, FUA grew 7% between the end of June and the end of September. Other investors seem to be finally waking up to Mainstream's progress and prospects. The share price is up 68% since the end of June. We think there is upside yet.

**SG Fleet** (SGF) and **Life360** (360) provided positive updates, while **RPM Global's** (RUL) AGM address was the one disappointment. Travel restrictions and COVID-related demurrals are slowing sales of RPM's mining software. Contracts executed so far this year represent \$3.3m worth of future revenue, significantly slower than last year.

As COVID disruptions subside new business wins should return to normal in the second half of the year. When they do, the recurring revenue, net cash balance sheet and savvy management team should start to be better appreciated by other investors.

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

<b>Mainstream Group Holdings Ltd</b>	<b>(ASX:MAI)</b>	7.9%
<b>RPM Global Holdings Limited</b>	<b>(ASX:RUL)</b>	7.3%
<b>NZME Limited</b>	<b>(ASX:NZM)</b>	6.7%
<b>AMA Group Limited</b>	<b>(ASX:AMA)</b>	6.0%
<b>Thorn Group Holdings Limited</b>	<b>(ASX:TGA)</b>	4.9%
<b>Cash</b>		2.7%

## 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 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>.

## FUND PERFORMANCE BY MONTH AND FINANCIAL YEAR

FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total Return
2010					-0.69%	2.52%	-1.66%	0.08%	-0.34%	4.60%	-4.27%	-4.40%	-4.41%
2011	4.97%	-2.40%	-2.80%	-1.54%	3.12%	6.59%	1.58%	0.47%	-1.49%	3.40%	-5.39%	-0.82%	5.12%
2012	-1.00%	-2.61%	-7.20%	9.89%	-0.02%	-4.62%	1.53%	8.90%	5.02%	2.17%	-0.51%	-2.64%	7.76%
2013	8.70%	0.44%	2.83%	-3.07%	4.57%	0.33%	5.83%	4.86%	4.51%	1.41%	2.65%	-0.69%	36.87%
2014	10.45%	1.13%	4.77%	2.50%	-0.11%	0.38%	1.05%	0.48%	-1.28%	-3.44%	1.28%	-0.15%	17.73%
2015	6.70%	2.56%	-1.23%	-2.06%	-0.21%	-1.15%	0.94%	3.38%	4.87%	-2.42%	3.13%	-2.34%	12.31%
2016	7.94%	-4.46%	-1.38%	12.87%	-2.97%	0.22%	-1.33%	2.70%	4.40%	2.48%	1.51%	-3.91%	18.06%
2017	6.99%	3.25%	4.50%	-1.99%	-4.65%	1.76%	7.20%	1.29%	1.60%	1.16%	1.16%	1.00%	25.16%
2018	2.32%	-0.95%	2.69%	0.95%	0.21%	4.06%	-0.57%	-3.18%	-2.64%	2.77%	-0.97%	1.91%	6.50%
2019	-0.62%	-1.90%	-2.19%	-6.16%	-3.78%	-3.68%	0.98%	4.46%	-0.95%	-2.02%	-3.97%	-1.46%	-19.66%
2020	6.67%	-1.09%	4.38%	1.54%	-3.22%	-1.50%	2.46%	-10.97%	-39.71%	20.57%	18.04%	-2.16%	-18.36%
2021	3.70%	18.80%	2.00%	7.79%									35.46%

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## FACTS

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

## UNIT PRICE SUMMARY

As at	31 October 2020
NAV	\$1.40
Market Price	\$1.25
Portfolio Value	\$156.2m

## ABOUT FORAGER

With approximately \$340 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.

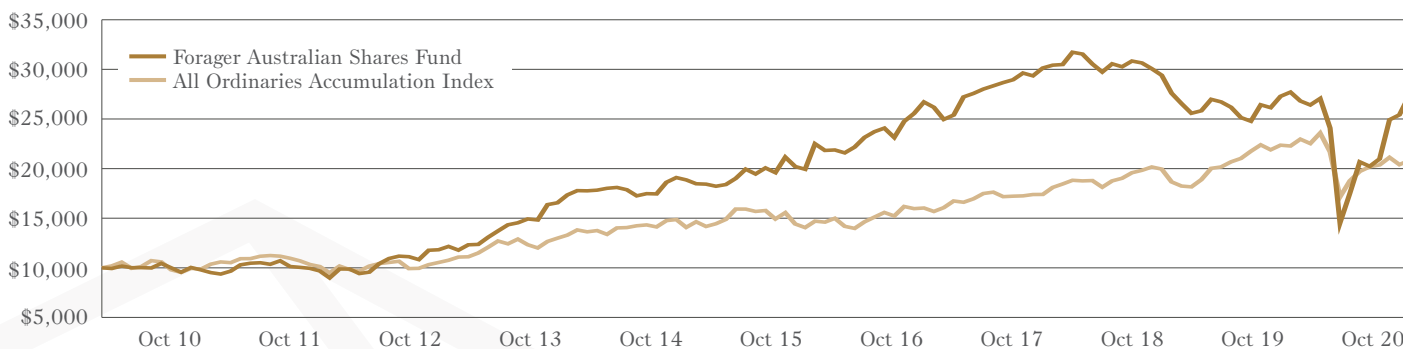
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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 OVER TIME



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.

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