

Forager Performance Webinar

Financial year ended 30 June 2019



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Forager Funds Management



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Today's webinar

Introduction

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Presentation

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Q&A

Disclaimer

General advice only

Forager Funds Management Pty Ltd (ABN 78 138 351 345, AFSL 459312) provides general information to help you understand our investment approach. Any financial advice we provide has not considered your personal circumstances and may not be suitable for you.

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The Trust Company (RE Services) Limited (ABN 45 003 278 831 and AFSL No. 235150) is the Responsible Entity and the issuer of the Forager Australian Shares Fund (ARSN No. 139 641 491). Fundhost Limited (ABN 69 092 517 087 and AFSL No. 233045) is the Responsible Entity and the issuer of the Forager International Shares Fund (ARSN No. 161 843 778). Before investing you should read the relevant Product Disclosure Statement and seek advice from investment and taxation professionals to determine if the product is appropriate for your needs. The PDS can be accessed on the website (<https://foragerfunds.com/international-shares-fund-pds/>) or by calling +61 (2) 8305 6050.

Performance

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This presentation contains 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. Actual performance of the portfolio companies will be impacted by a variety of factors, including circumstances that cannot be foreseen, and could differ significantly from the expectations of Forager Funds Management. These statements should therefore not be relied upon as an accurate representation or prediction as to any future matters. Where portfolio companies do not perform in line with Forager Funds Management's expectations, the funds could be adversely impacted.

Forager investment performance

FASF and FISF performance – FY19



- Terrible performance for the Australian Fund and a bad year for the International Fund
- Cash weighting and 'value' performance has been a significant drag
- Specific stock picking mistakes in both funds
- Some positive contributors and new investments

Forager Australian Shares Fund

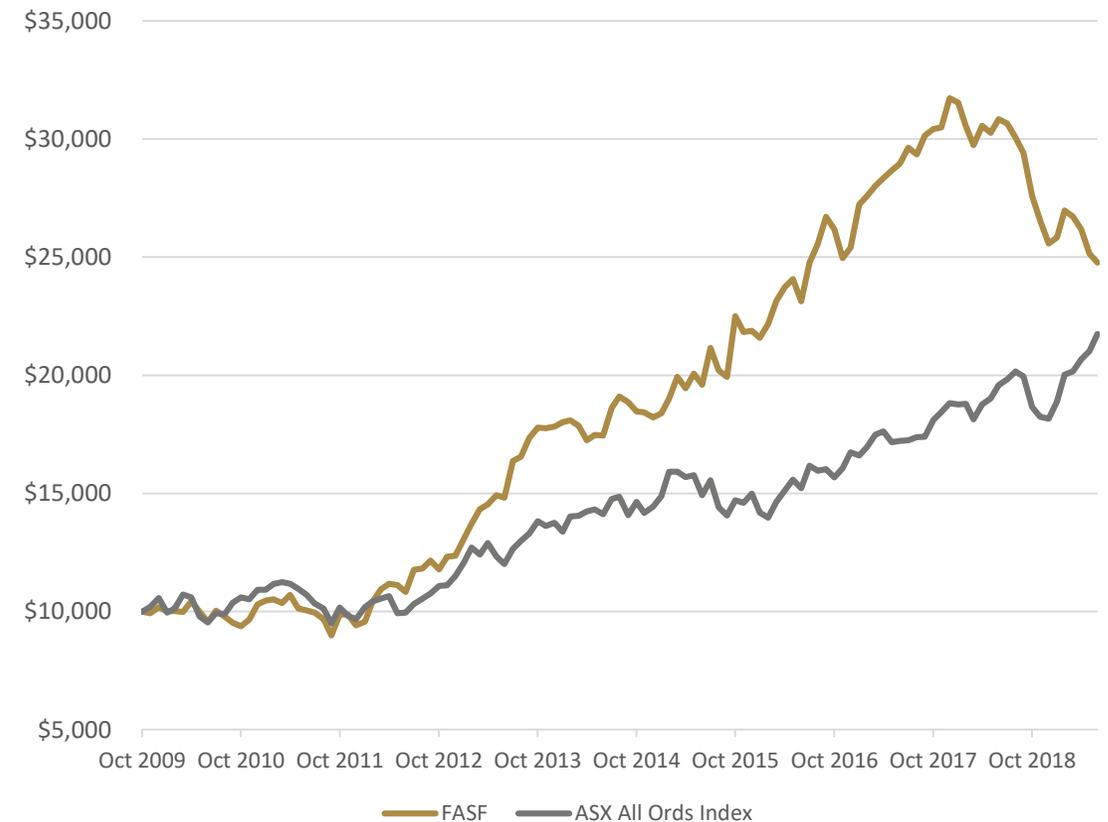
Performance

	FASF	S&P All Ords Accum.	Outperformance
1 year return	-19.66%	11.04%	-30.70%
3 year return (p.a)	2.31%	12.62%	-10.31%
5 year return (p.a)	7.26%	9.02%	-1.75%
Return since inception (p.a)	9.84%	8.37%	1.47%

*Inception 30 October 2009

Assumes reinvestment of all distributions. Investments can go up and down. Past performance is not necessarily indicative of future performance.

Comparison of \$10,000 invested in the FASF vs
ASX All Ordinaries Accumulation Index

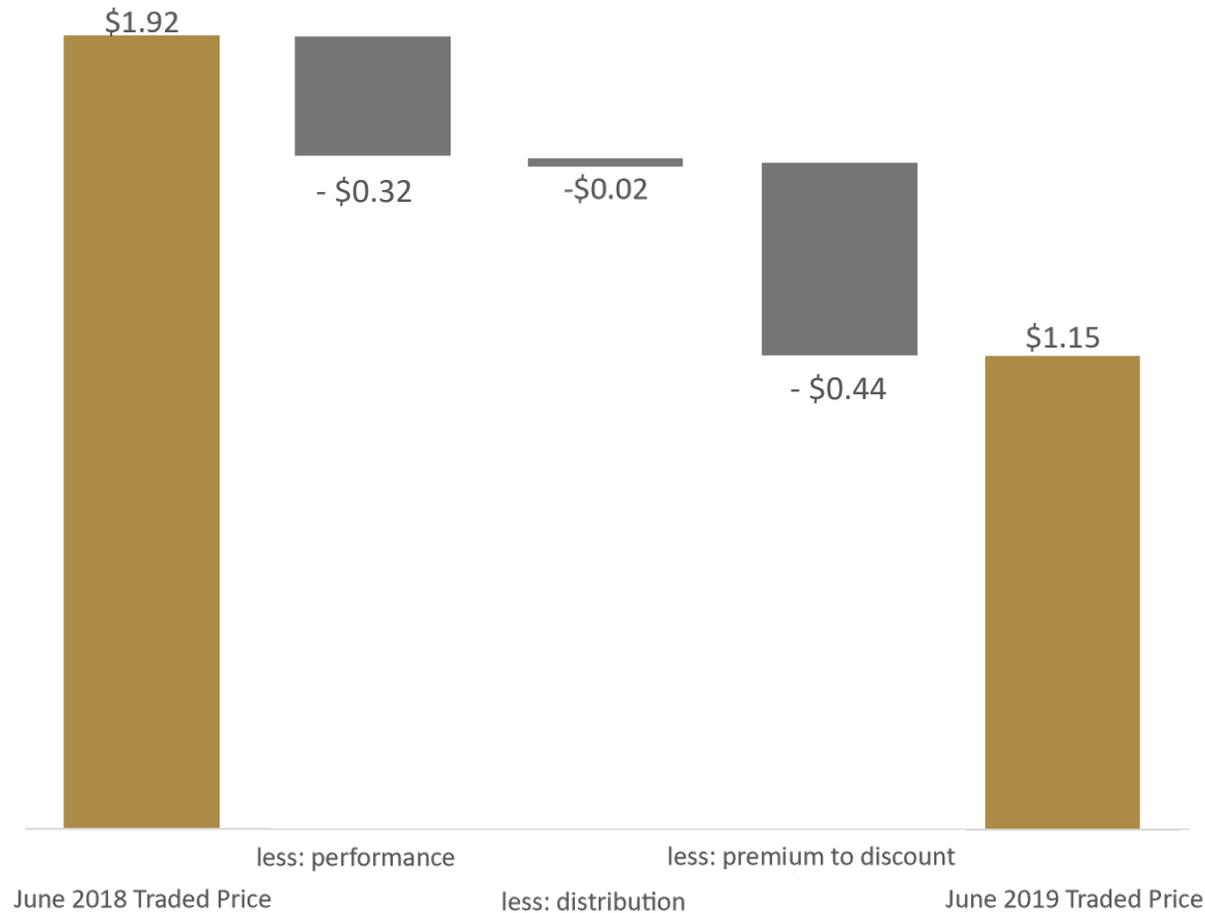


Source: Forager, S&P Capital IQ

6 Performance is calculated using Net Asset Value, not the market price.

FOR unit price movement

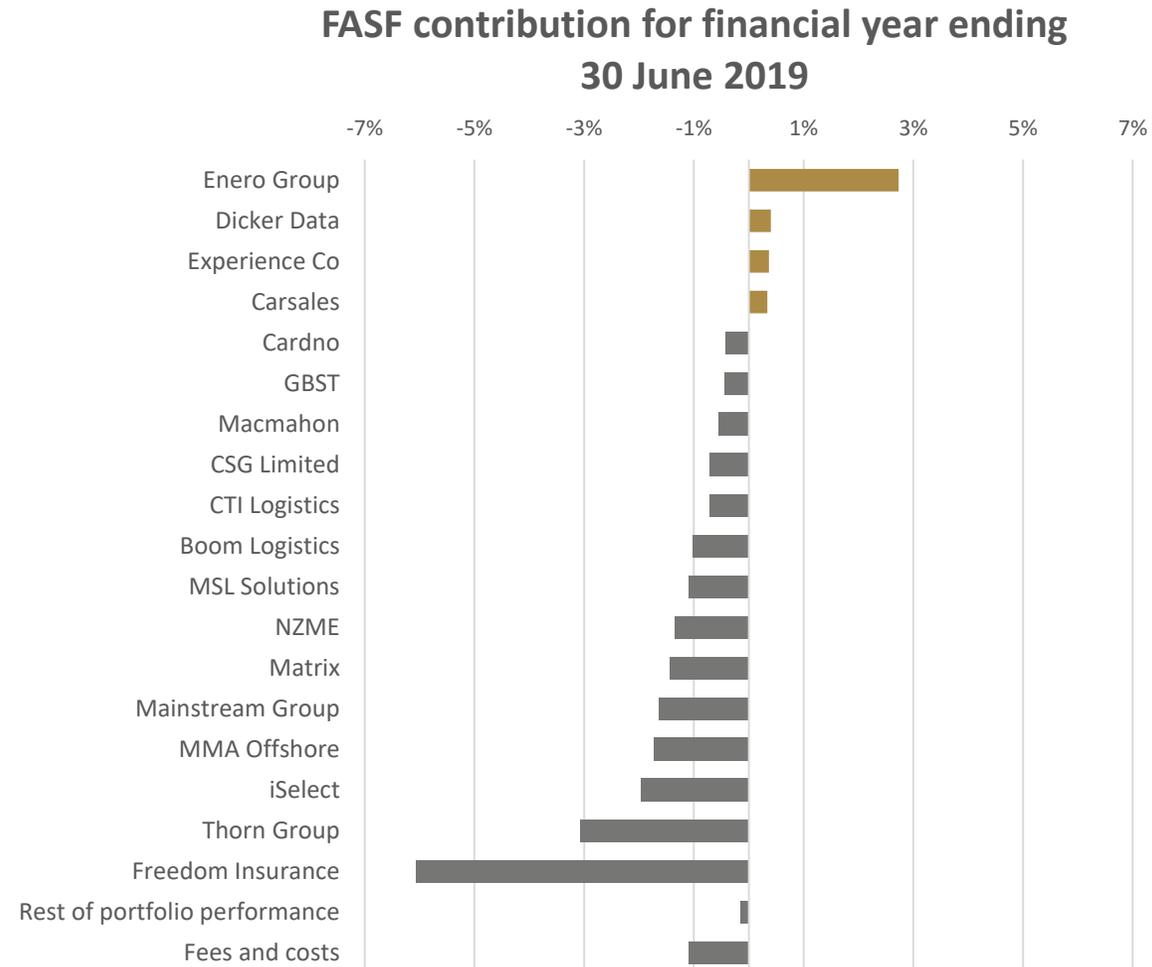
FOR – traded unit price movement



Premium / discount of traded price to Net Asset Value (NAV)



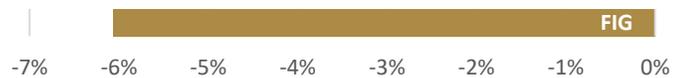
Performance contribution



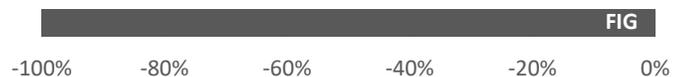
Lowlight



- Funeral insurance distribution business
- ASIC report banned outbound sales of insurance over the phone. The Royal Commission showed cases of inappropriate selling
- Research identified the regulatory and business model risk but believed upside compensated for this risk
- Risk became reality. Continuing policy administration sold and business being wound down
- Unlikely to see any return



Portfolio Contribution



Share Price Performance

Freedom Insurance - share price (AUD)



Source: S&P Capital IQ

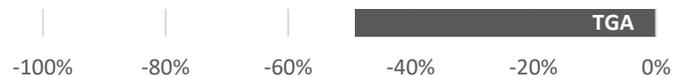
Lowlight



- Two financing businesses: Radio Rentals consumer leases and Thorn Equipment Finance for businesses
- Loss for the past year on poor operational performance
- Faced pressure from ASIC action, a class action lawsuit and a specific bad debt in equipment finance
- Given the regulatory and competitive risks, substantial changes need to be made to the business to realise value for shareholders
- Over the last year we have engaged with the Board, management and other shareholders to realise the value in Thorn

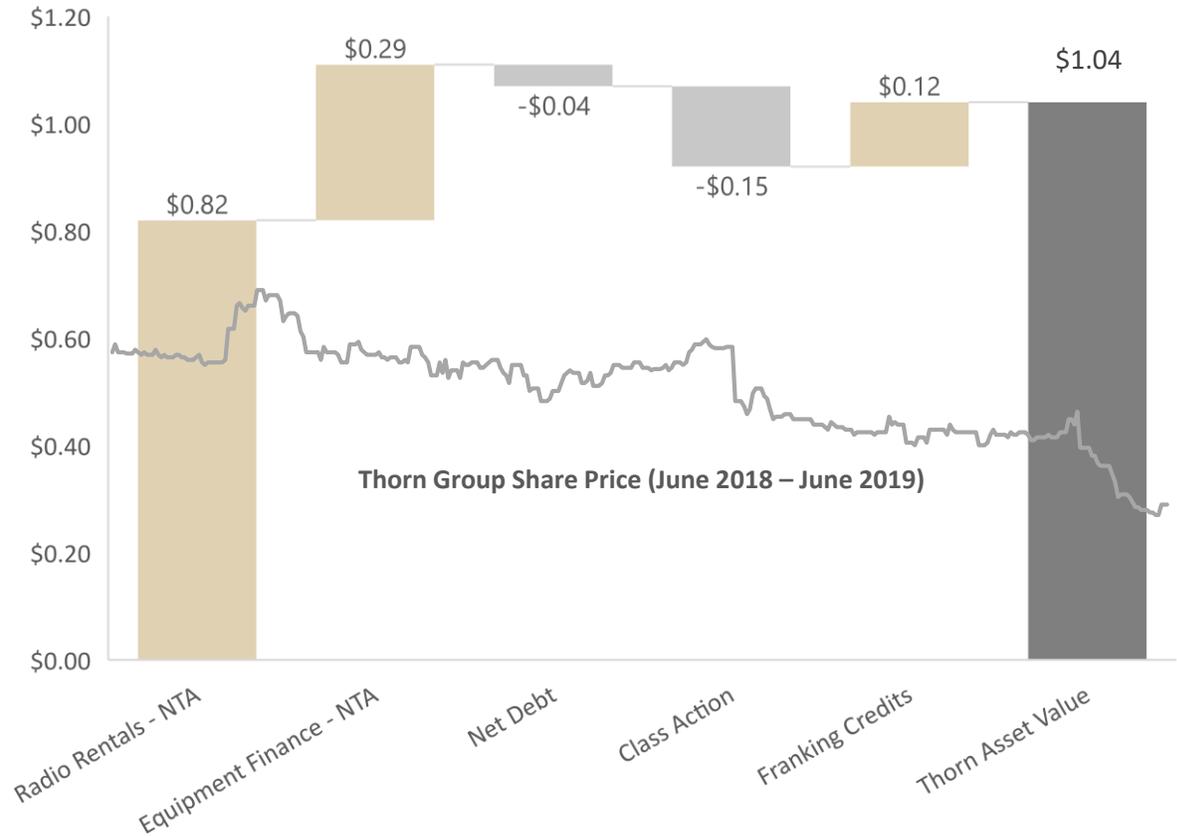


Portfolio Contribution



Share Price Performance

Thorn - asset value per share and one year share price

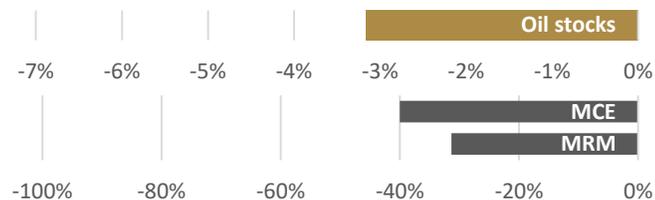


Source: Thorn Group, Forager Analysis

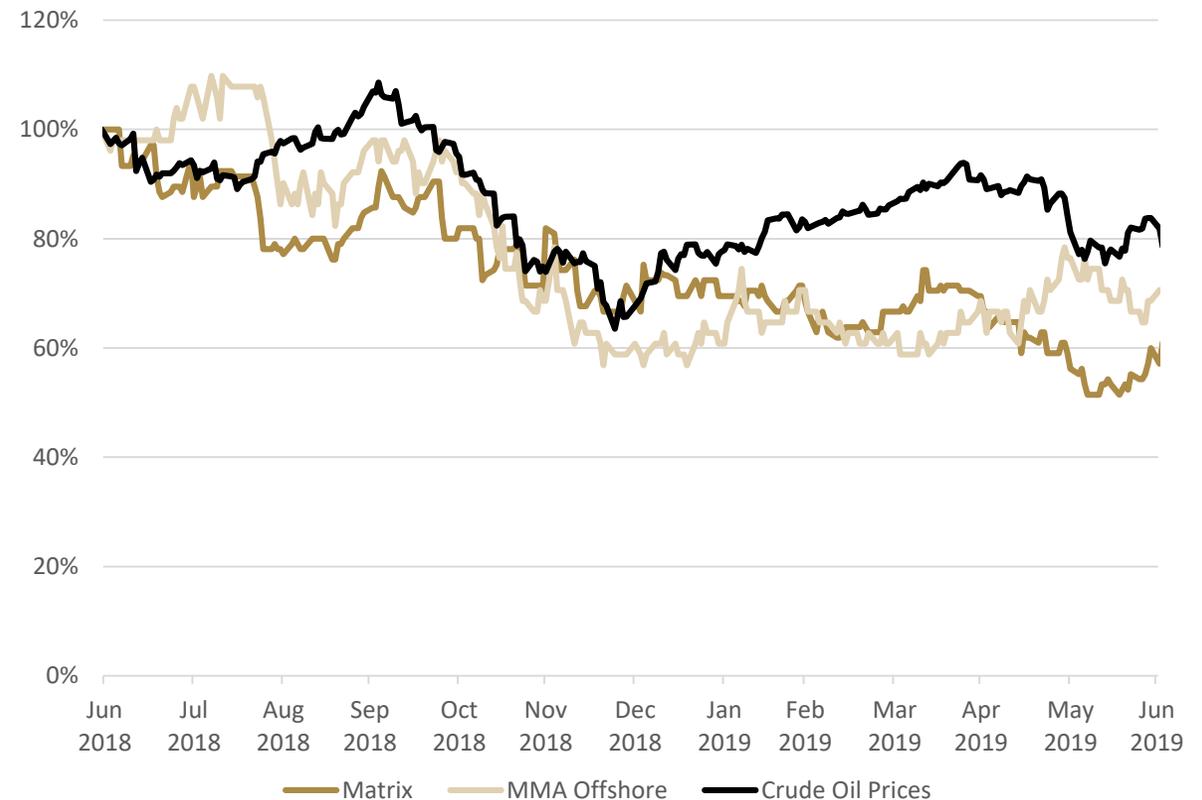
Lowlight



- Oil and gas services investments of 9%
- Rollercoaster ride for oil price over the year. Early signs of a recovery in offshore oil and gas spending
- MMA Offshore is within debt covenants and will be cash flow breakeven this year. Utilisation is recovering but day rates are still to improve
- Matrix announced the first large order in three years and revenue almost doubled this year. Further orders are required for sustained profitability
- Both investments have significant upside as offshore spending recovers



MMA Offshore & Matrix share prices and Crude Oil prices (rebased to 100)



Source: S&P Capital IQ, Bloomberg

Lowlight

iSelect

- Online comparison website for insurance, telco and energy services
- Good progress over the last year: improving marketing productivity, reducing costs and growing South East Asian business
- Strong first half earnings with positive changes continuing into next year
- iMoney, operating in South East Asia, is growing quickly. Selling some or all of iMoney would pin a value to this loss-making division
- Investment thesis is on track. A combination with major competitor (and largest shareholder) Compare the Market possible

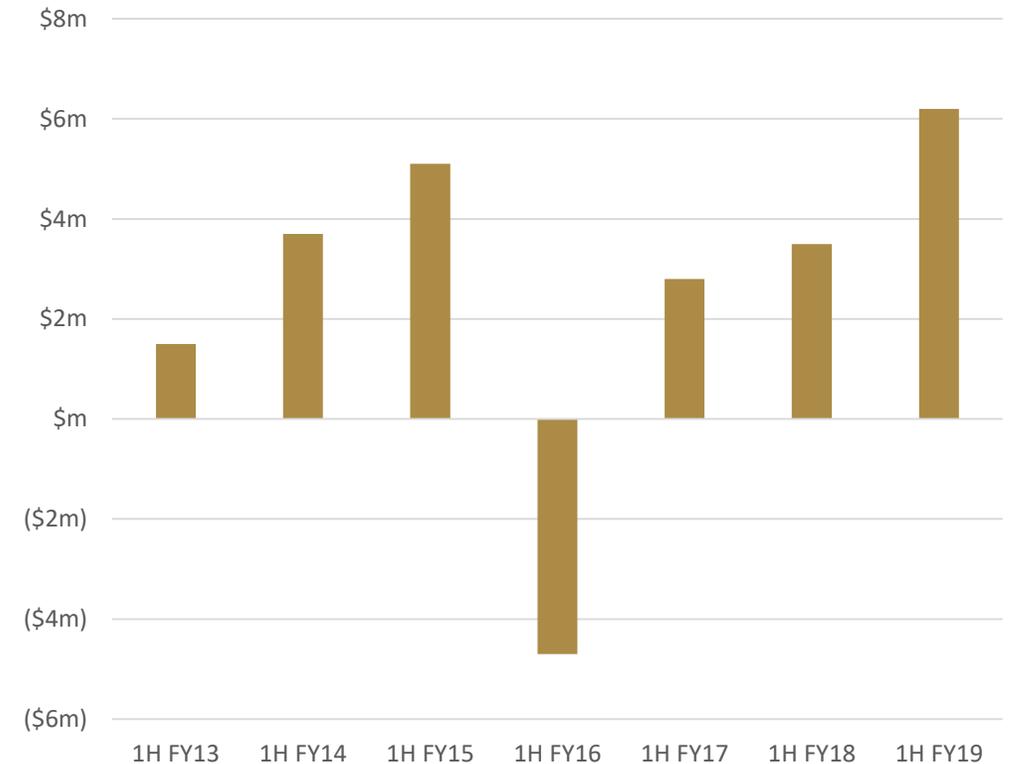


Portfolio Contribution



Share Price Performance

iSelect – first half underlying EBIT



Source: iSelect

Highlight



- Marketing services group: creative, PR and research agencies
- Returned to organic growth and acquisitions lead to first half earnings up 91%
- US and UK based technology public relations firm Hotwire growing as its technology customers deal with well publicised issues. Other portfolio businesses, like creative agency BMF, also grew
- Operational momentum: for people businesses wins often breed further wins
- Largest investment in the Fund: still trading on ~10x earnings this year

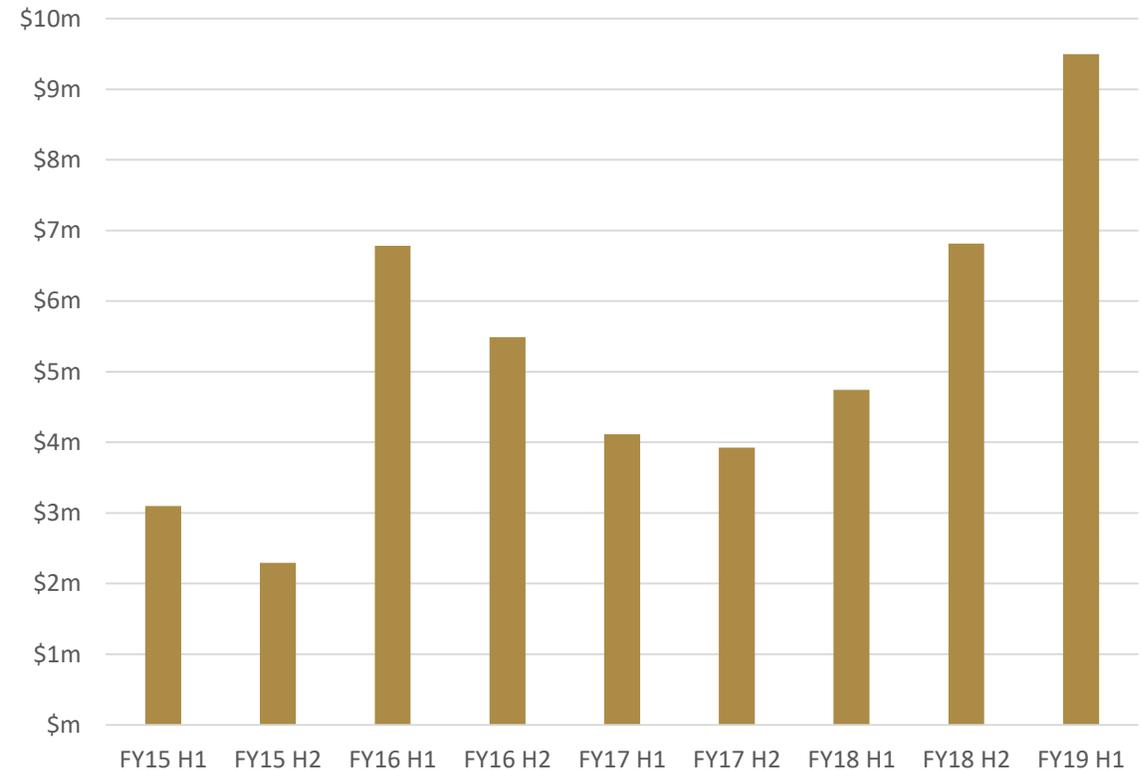
Portfolio Contribution



Share Price Performance



Enero – EBIT by half year



Source: Enero Group

Highlight



- Operates skydiving activities in Australia and New Zealand, and adventure activities (rafting, reef trips, etc) based mostly in Cairns
- Former market darling with share price down more than 80% after a series of earnings downgrades
- Adventure division acquired quickly and failing to match pre-acquisition expectations. Cairns tourism arrivals fall.
- Skydiving volumes have grown by 7% per year for 15 years. Recently slowed due to fatalities and poor weather. 70%+ market share
- New management is improving disclosure, tidying up the business and restoring confidence

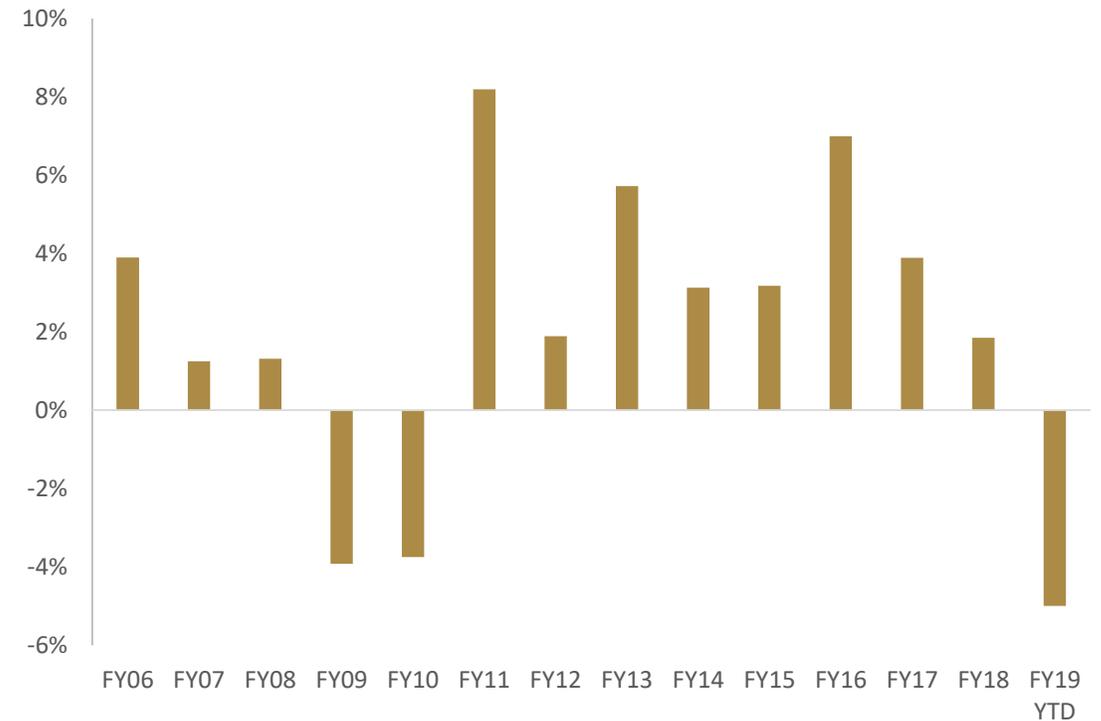
Portfolio Contribution



Share Price Performance



Cairns Airport – annual international and domestic passenger growth (%)



Source: Cairns Airport

Portfolio status

Holding	Weighting
Enero Group	11.7%
iSelect	7.9%
Macmahon Holdings	6.7%
MMA Offshore	6.0%
Carsales	5.1%
Smartgroup	4.6%
NZME Limited	4.3%
Mainstream Group	4.1%
Thorn Group	3.8%
CTI Logsitcs	3.8%
Cash	18.1%

- Two largest holdings: Enero and iSelect are crucial to near term results
- Minimal exposure to Australian housing or consumer spending. Cash at 18%
- More balanced exposures to higher quality businesses – new investments in Carsales, SG Fleet, Smartgroup
- Growing activism – substantial in 14 portfolio holdings
- Six new investments in the last six months
- Good watchlist of investment opportunities, continuing to add better quality, dividend paying stocks to the portfolio

Forager International Shares Fund

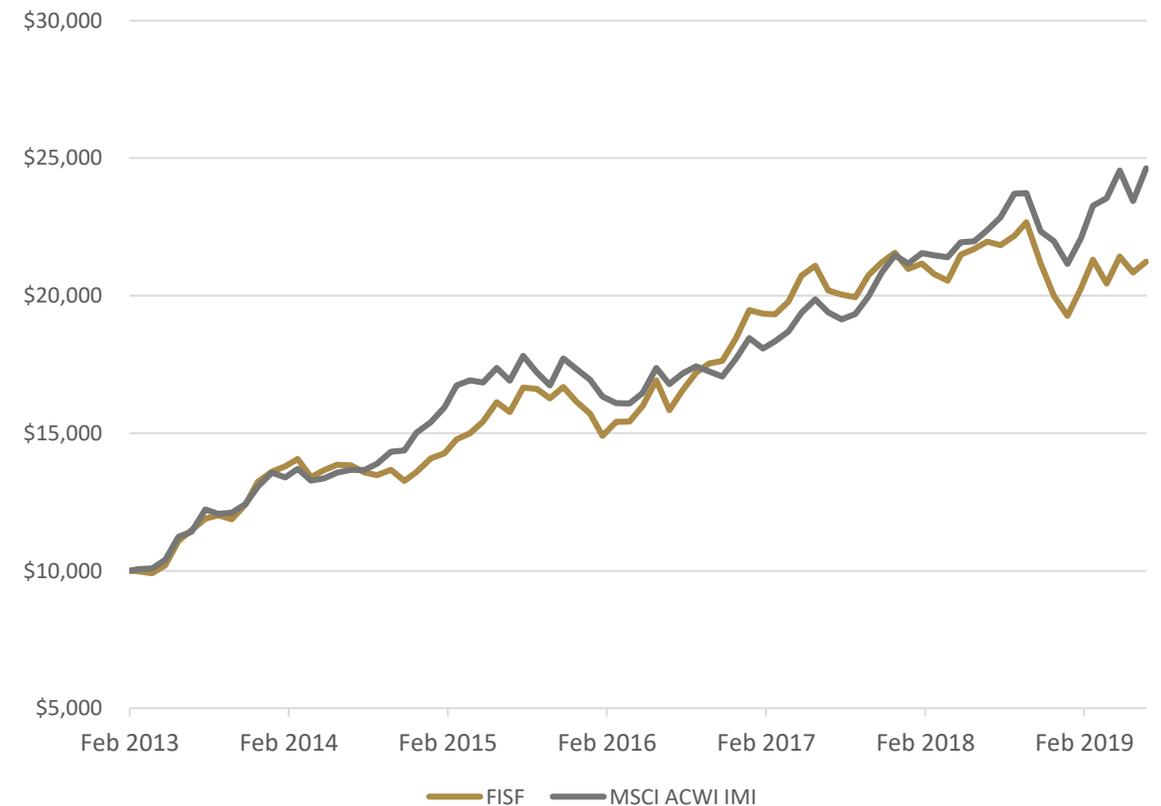
Performance

	FISF	MSCI ACWI IMI	Outperformance
1 year return	-3.31%	10.09%	-13.40%
3 year return (p.a)	10.26%	13.64%	-3.38%
5 year return (p.a)	8.96%	12.51%	-3.55%
Return since inception (p.a)	12.51%	15.15%	-2.64%

*Inception 8 February 2013

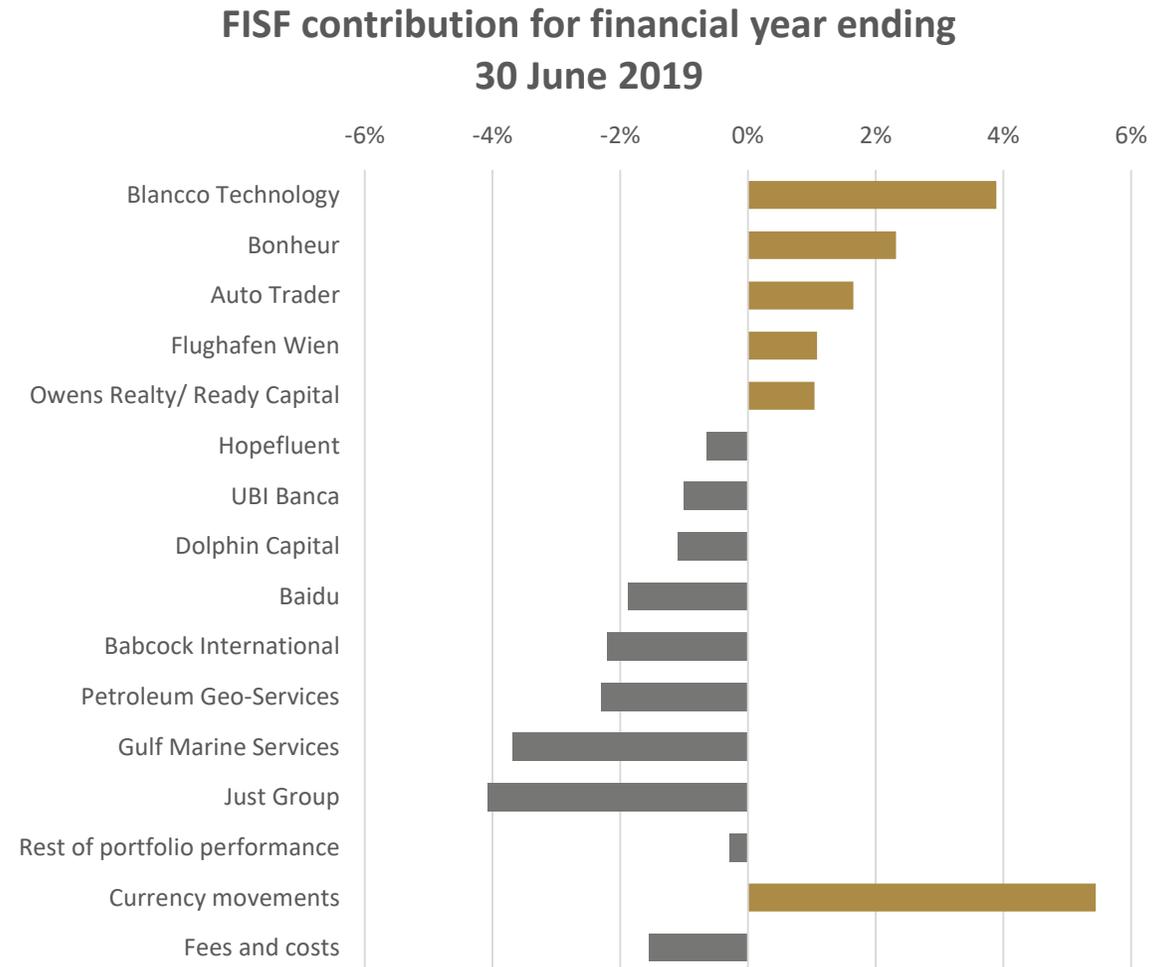
Assumes reinvestment of all distributions. Investments can go up and down. Past performance is not necessarily indicative of future performance.

Comparison of \$10,000 invested in International Fund and MSCI ACWI IMI



Source: Forager, S&P Capital IQ

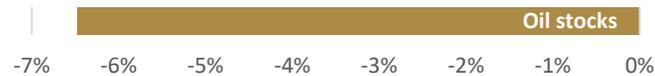
Performance contribution



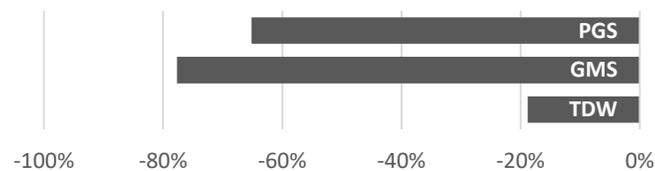
Lowlight



- Rollercoaster ride for oil price over the year. Oil services stocks fared much worse
- Recovery in exploration spend and development work delayed even further
- Significant potential upside, but weak balance sheets mean timing of recovery is increasingly important
- Reduced exposure to the sector

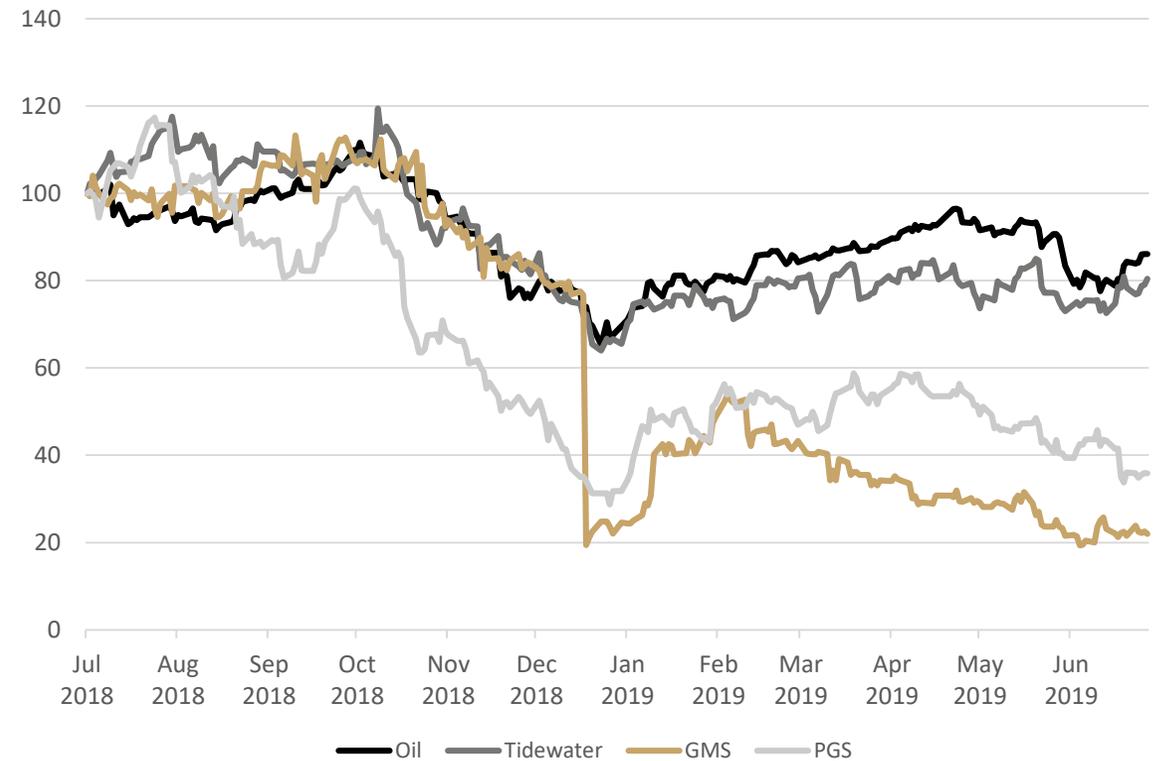


Portfolio Contribution



Share Price Performance

Tidewater, GMS, PGS and Oil Price (rebased to 100)



Source: S&P Capital IQ, Bloomberg

Lowlight



- Specialist engineering services provider, with majority of revenue in the UK
- Profit margins remain high. Cash conversion has been excellent. Debt repaid and dividend increased
- Growth lower than expectations. New work won not significant enough to offset large contracts ending in 2020
- Brexit impacting UK business, particularly new contract awards in the government sector
- Price to earnings ratio less than 6 times. Dividend yield 7% with potential for further shareholder returns in coming years



Babcock International – one year share price (GBP)

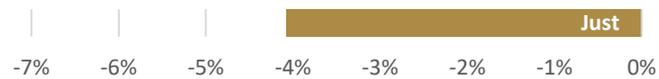


Source: S&P Capital IQ

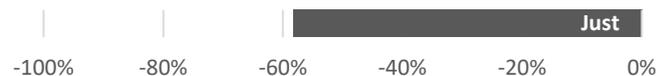
Lowlight

JUST.

- Established player in attractive, growing market for lifetime annuities in the UK
- Healthy revenue growth and attractive margins in 2018
- Regulatory changes have made the business significantly more capital intensive
- Dilutive equity raise and expensive debt issuance will have a significant negative impact on future earnings per share
- Attractively priced at less than one third of book value, but realising that value is contingent on being acquired or a switch to a less capital intensive business model



Portfolio Contribution



Share Price Performance

Just Group – one year share price (GBP)



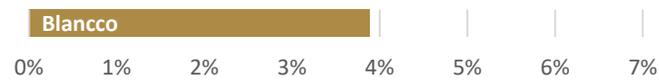
Source: S&P Capital IQ

Highlight



- Global leader in data erasure software. Newer business in rapidly growing mobile diagnostics sector
- Strong growth in revenue and profit for year ended 30 June 2019
- Management are focused on significant long-term growth opportunity, although profitability has exceeded expectations
- Large growing market, and significant opportunity for market share growth. Minimum growth expectations in excess of 10% per annum
- Profitability will follow. Global leadership in a software niche is usually high margin

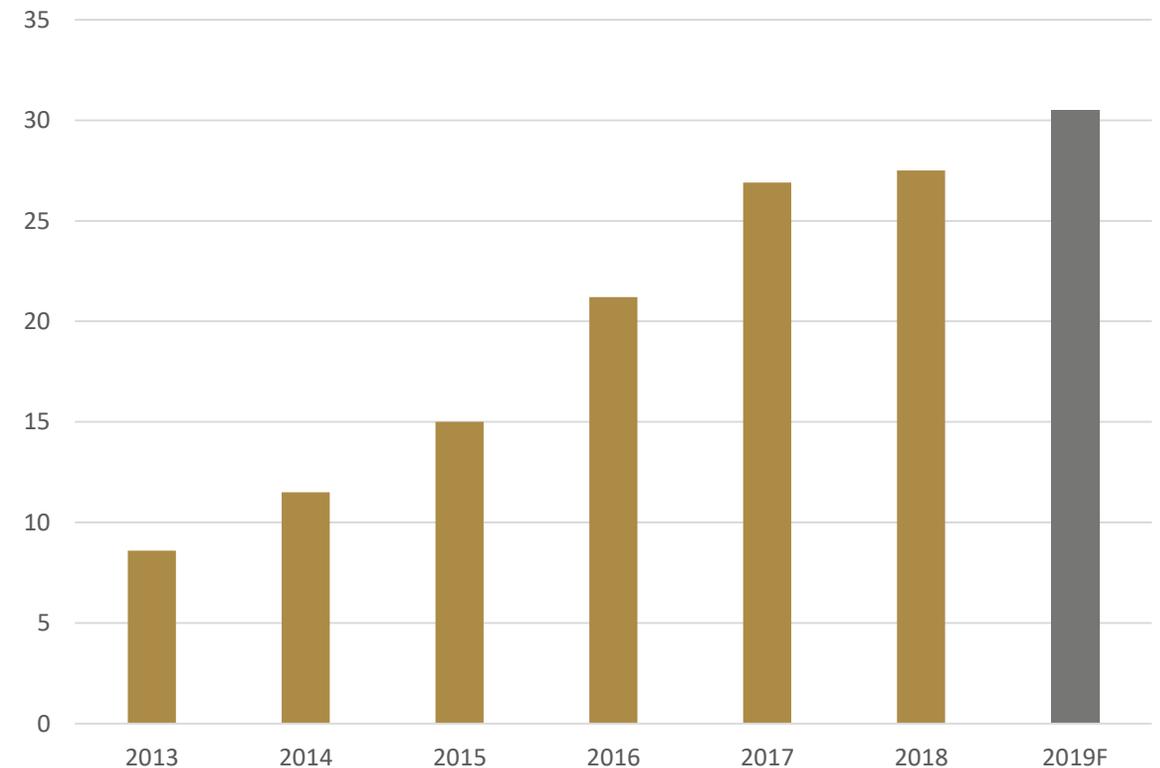
Portfolio Contribution



Share Price Performance



Blanco Erasure and Diagnostics revenue (£ millions)



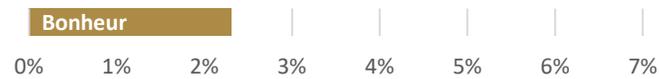
Source: Forager, company filings, S&P Capital IQ

Highlight

Bonheur ASA

- Norwegian conglomerate with investments in wind farms, cruise ships and offshore wind installation services
- Refinanced UK wind portfolio thanks to high secondary market prices. Returned capital to parent company
- Walked away from Fred Olsen Energy, simplified financial statements and removed exposure to oil sector
- Stock on the radar of Environment, Social, Governance (ESG) investors
- Doubled dividend, yield now 2.3%. Good prospects for further increases

Portfolio Contribution



Share Price Performance



Bonheur – one year share price (NOK)



Source: S&P Capital IQ

Portfolio status

Holding	Weighting
Blancco Technology	10.3%
Alphabet Inc	5.8%
Flughafen Wien	5.8%
Linamar	5.4%
Cementir	5.3%
Bonheur	4.5%
Babcock International	4.4%
Zebra Technologies	4.1%
Auto Trader	3.7%
Dolphin Capital Investors	3.5%
Cash	3.0%

-  Large exposure to Blancco maintained due to confidence in future growth
-  Reduced weighting in Bonheur and Auto Trader as investment theses play out
-  Increased exposure to US and Asia due to additions to investment team
-  More balanced exposures to geographies, sectors and business types
-  Ended year with historically low cash weighting
-  New ideas will replace investments that have played out, or are not working

What's changing

- Portfolios a better mix of quality, value and liquidity
- Enhanced focus on value realisations for shareholders
- More willingness to exit investments when underperforming investment thesis
- Bigger and stronger investment team

What's not changing

- Continuing to seek opportunities in unlikely places
- Crisis in active management creating opportunities for the contrarian investor
- Resolute focus on investment rather than speculation
- Strong business foundations and staff alignment

Q&A