



F RAGER

FORAGER AUSTRALIAN SHARES FUND

ARSN 139 641 491

APPENDIX 4E

FOR THE YEAR ENDED 30 JUNE 2019

MANAGER

FORAGER FUNDS MANAGEMENT PTY LTD
(ABN 78 138 351 345, AFSL 459312)

RESPONSIBLE ENTITY

THE TRUST COMPANY (RE SERVICES) LIMITED
(ABN 45 003 278 831, AFSL 235150)

Preliminary Final Report

This preliminary final report is for the reporting period from 1 July 2018 to 30 June 2019. The previous corresponding year end was 30 June 2018.

Results for announcement to the market

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 | Percentage increase/ (decrease) over corresponding year end |
|---|------------------------------------|------------------------------------|--|
| Net assets attributable to unitholders | 145,249 | 147,276 | (1.38)% |
| Investment income/(loss) from ordinary activities | (33,356) | 13,420 | (348.55)% |
| Operating profit/(loss) attributable to unitholders | (35,631) | 10,178 | (450.08)% |

Brief explanation of results

The \$35,631,000 net loss attributable to unitholders for the year represented a 450.08% decrease on the year ended 30 June 2018. Both the decrease in revenue and decrease in net profit were a function of the net negative portfolio performance for the year of (19.66)% which was lower than the positive portfolio performance of 6.50% return for the year ended 30 June 2018.

As of 30 June 2019, the net assets of the Fund were \$145,249,000, a 1.38% decrease from the balance as at 30 June 2018. The decrease in assets was a result of the negative performance for the year and the distribution payable at 30 June 2019, which were offset by a non-renounceable rights issue in September 2018 and additional units issued through the 2018 Distribution Reinvestment Plan.

Distribution information

| | Cents per unit | Total Amount \$'000 | Record Date | Date of Payment | Percentage Franked | Franking Credits \$'000 |
|-----------|---------------------------|------------------------------------|------------------------|----------------------------|-------------------------------|--|
| June 2019 | 2.1696 | 2,470 | 28/06/2019 | 19/07/2019 | 19.8% | 619 |
| June 2018 | 21.2917 | 19,416 | 29/06/2018 | 20/07/2018 | 4.5% | 913 |

Net tangible assets

| | 30 June 2019 | 30 June 2018 |
|----------------------------------|-------------------------|-------------------------|
| Net tangible assets per security | \$1.28 | \$1.62 |

Other information

There was no gain or loss of control of entities during the current year.

The Fund does not have associates or joint venture entities.

The Fund is not a foreign entity.

Additional Appendix 4E disclosure requirements can be found in the Notes to the Financial Statements for the year ended 30 June 2019.

Audit

This report is based on accounts which have been audited by the Fund's Auditors - Ernst & Young.

Sydney
22 August 2019



FORAGER AUSTRALIAN SHARES FUND

ARSN 139 641 491

ANNUAL REPORT


FOR THE YEAR ENDED 30 JUNE 2019

MANAGER

FORAGER FUNDS MANAGEMENT PTY LTD
(ABN 78 138 351 345, AFSL 459312)

RESPONSIBLE ENTITY

THE TRUST COMPANY (RE SERVICES) LIMITED
(ABN 45 003 278 831, AFSL 235150)



Forager Australian Shares Fund

ARSN 139 641 491

Annual Report

For the year ended 30 June 2019

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These financial statements cover Forager Australian Shares Fund as an individual entity.

The Responsible Entity of Forager Australian Shares Fund is The Trust Company (RE Services) Limited (ABN 45 003 278 831) (AFSL 235150). The Responsible Entity's registered office is:

Level 18 Angel Place
123 Pitt Street
Sydney NSW 2000

Investment Manager's Report

INTRODUCTION

The Forager Australian Shares Fund delivered a return of negative 19.7% for the year ended June 2019, underperforming the benchmark 30.7%. An investor that reinvested their dividends would have grown \$100,000 from inception in 2009 to \$247,765 at 30 June 2019 (ignoring taxes), compared to \$217,470 for the index.

Summary of fund returns as at 30 June 2019 (net of all fees)

| | FASF NAV | S&P All Ords. Accum. Index | Outperformance |
|-----------------------|----------|-------------------------------|----------------|
| 1 year | -19.66% | 11.04% | -30.70% |
| 2 year (p.a.) | -7.50% | 12.38% | -19.88% |
| 3 year (p.a.) | 2.31% | 12.62% | -10.31% |
| 4 year (p.a.) | 6.04% | 9.87% | -3.83% |
| 5 year (p.a.) | 7.26% | 9.02% | -1.75% |
| 6 year (p.a.) | 8.94% | 10.41% | -1.47% |
| 7 year (p.a.) | 12.55% | 11.82% | 0.73% |
| Since inception (p.a) | 9.84% | 8.37% | 1.47% |
| Cumulative | 147.76% | 117.47% | 30.30% |

*Inception 30 October 2009

Returns use the Net Asset Value (NAV) mid point and assume reinvestment of all distributions.
Investments can go up and down. Past performance is not necessarily indicative of future performance.

A Painful Year

Freedom Insurance Group (FIG) was the largest negative contributor to Fund performance by a wide margin, costing the Fund 6.1% in absolute performance. After a horrendous Royal Commission, the failings of its funeral insurance products, and the outbound phone calls used to sell them, were laid bare. The company has sold what remained of the business and is ceasing to operate.

Consumer leasing and equipment finance company Thorn Group (TGA) continued to be a thorn in our side. It cost the Fund 3.1% and was the second most significant detractor in the portfolio. Installations in its consumer-facing Radio Rentals business stabilised but after a few slow years the lease book shrunk. Bad debts rose to 18% as Thorn struggled to collect payments from clients after a change in collection methods. The company's small business lending was constrained by reduced access to capital and more clients are paying late, if at all. A class action continues to hang over Thorn. The business continues to have net tangible assets, mostly leases still to be paid by clients, of almost four times the year-end share price. We continue to actively engage with management and the Board to ensure that the best shareholder outcome is achieved.

Print and technology services provider CSG Limited (CSV) had another bad year, costing the Fund 0.7%. After taking on too much debt and seeing earnings fall the company raised fresh capital in August. Costs have been reduced, inventory slashed, and culture reformed. The company is on track to achieve the low end of its guided profit range this year and is expecting to grow earnings next year. It is unlikely to ever be worth our original estimate of value but is also unlikely to be worth as little as the current price.

The Thesis Is Still Intact

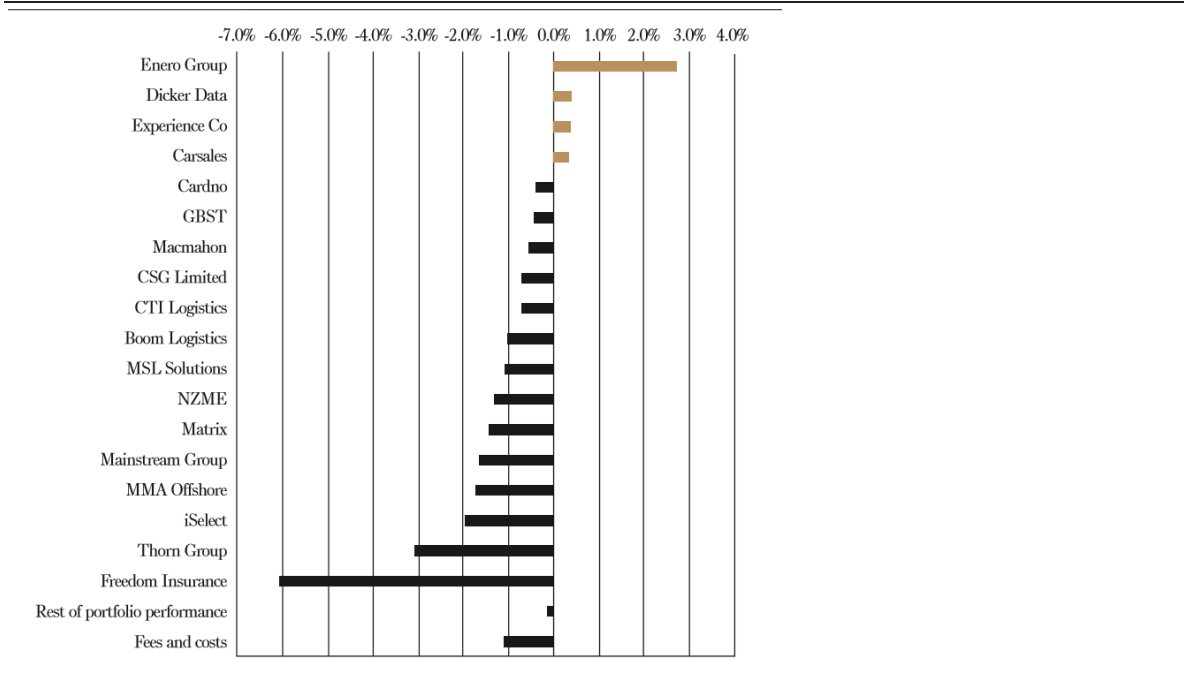
Many share price falls were unjustified. One of the Fund's largest investments, online comparison website iSelect (ISU), has made plenty of progress over the year. Yet the share price has fallen 24% and the investment has cost the Fund 2.0%. New management, under the direction of managing director

Brodie Arnhold, have spent the year improving marketing productivity and reducing costs And iMoney, a similar business to iSelect operating in South East Asia, grew 19% last half. Selling some or all of iMoney would pin a valuation to this lossmaking division. The investment thesis is on track, and the Fund could still benefit from a merger between iSelect and its major competitor (and largest shareholder) Compare the Market.

Our investment thesis is also on track for fund administrator Mainstream Group (MAI), despite the share price falling by more than a third and the investment costing the Fund 1.6%. The company continued to grow funds under administration during the year, hitting a record \$173bn. Mainstream is winning new clients in Australia and around the world. Last year's acquisitions seem to have settled well within the larger group. Profit will fall this year as the company invests in growth. But, quite rarely in our portfolio, we would prefer more revenue to more profit over the next few years. As management drives to \$100m of annual revenue, the business gains scale and becomes more valuable both to existing shareholders and potential acquirers.

New Zealand media conglomerate NZME Limited (NZM) was another investment to shed more than a third of its share price over the year. It cost the Fund 1.3%. The company, publisher of the NZ Herald, continues to see lower revenues in its print and radio businesses. The decline has forced NZME to reconsider its debt load, lower its dividend and commit to pay debt down. Profit last year fell 29%. But the business looks to be in a stronger position going into next year. Digital advertising revenue grew 9% from the past financial year. A recently introduced online news paywall has more subscribers in two months than management expected in a year. And NZME's online property classifieds website, OneRoof, has grown quickly. It now ranks second in New Zealand among online property classified websites by weekly unique visitors and continues to grow traffic, listings and revenue. This traditional media business, reaching 80% of the New Zealand population, has the potential to spawn a very valuable online business.

FASF Contribution for the 12 months ending 30 June 2019



Some Good News

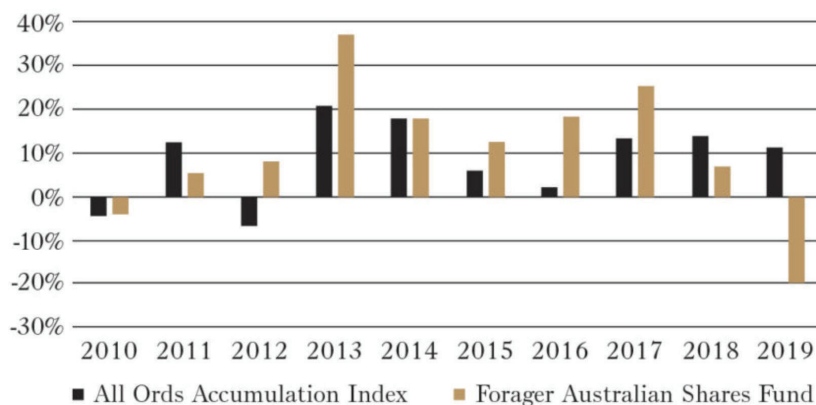
On to better news: investments that contributed to Fund performance over the year. Unfortunately, this is a small list. Fortunately, a few positive contributors are recent investments and will need more time to contribute meaningfully. Headlining the list is marketing services group Enero (EGG), which had struggled to grow revenue for years. Over the past 12 months, though, Enero has returned to growth. The company's most exciting asset, US and UK based technology public relations firm Hotwire, has been growing as its technology customers deal with well-publicised issues. With costs well controlled, profit grew sharply. In the last half-year earnings rose 91%. That sort of profit growth won't continue. But Enero does have operational momentum: for people businesses, wins often breed further wins.

Another investment contributing positively to Fund performance was Experience Co (EXP). The skydiving and adventure tourism business downgraded earnings expectations in February as disruptive weather led to fewer Cairns tourists. The CEO departed the business. Founder and major shareholder Anthony Boucaut agreed to step back into a non-executive role. This was the Fund's opportunity to act on months of research and buy from distressed sellers. Since then, interim management has improved disclosure and began tidying up the business and restoring confidence. A well credentialed CEO has been appointed, starting in July.

Carsales (CAR), the owner of the dominant online car classifieds website in Australia, was another new investment during the year which contributed 0.3% to performance. Short-term concerns around an economic slowdown and falling new car sales turned plenty of investors off. While the concerns are valid, we're confident the business will be making a lot more money ten years from now than it does today. And there is plenty of optionality if Carsales's investments in Korea and Brazil realise their growth potential. It is a high-quality business, perhaps the highest the Fund has held, and we expect to earn a healthy return on the investment.

Forager Returns In Context

While the Fund's performance was poor in the past twelve months, it is worthwhile putting it in some historical context. Over the past 10 years, the annual 12-month performance of FOR has exhibited largely uncorrelated performance compared to the index. The concentrated nature of the FOR portfolio is central to producing this characteristic.



*including distributions

Source: S&P Capital IQ, Forager analysis

Outlook

New investments have reduced the cash weighting to 18% by the end of the year, down from 30% at 30 June 2018. While the wider sharemarket has risen 11% in the 2019 financial year, disdain for certain sectors and types of businesses has created an attractive set of opportunities. The Fund's NAV rose 6.7% in July and, if the underlying portfolio investments can produce some decent results, we hope to add meaningfully to that over the course of 2019/20.

Forager Australian Shares Fund
Investments at Market Value
As at 30 June 2019

Investments at Market Value

| | \$ | % | | \$ | % |
|--|-------------------|---------------|---|--------------------|----------------|
| ENERGY | | | CAPITAL GOODS | | |
| MATRIX COMPOSITES & ENGINEERING LIMITED | 4,876,548 | 4.03% | BOOM LOGISTICS LIMITED | 3,381,597 | 2.79% |
| | 4,876,548 | 4.03% | LOGICAMMS LIMITED | 2,168,933 | 1.79% |
| | | | MACMAHON HOLDINGS LTD | 9,847,211 | 8.13% |
| MEDIA | | | | 15,397,741 | 12.71% |
| ENERO GROUP LIMITED | 17,254,573 | 14.25% | COMMERCIAL SERVICES & SUPPLIES | | |
| NZME LIMITED | 6,269,488 | 5.18% | SMARTGROUP CORPORATION LIMITED | 6,805,548 | 5.62% |
| WPP AUNZ LIMITED | 4,273,547 | 3.53% | | 6,805,548 | 5.62% |
| | 27,797,608 | 22.96% | CONSUMER DURABLES & APPAREL | | |
| DIVERSIFIED FINANCIALS | | | EXPERIENCE CO LIMITED | 5,342,461 | 4.41% |
| MAINSTREAM GROUP HOLDINGS LIMITED | 6,183,890 | 5.11% | | 5,342,461 | 4.41% |
| SG FLEET GROUP LIMITED | 5,041,984 | 4.16% | RETAILING | | |
| | 11,225,873 | 9.27% | THORN GROUP LIMITED | 5,555,920 | 4.58% |
| SOFTWARE & SERVICES | | | NATIONAL TYRE AND WHEEL LIMITED | 1,980,044 | 1.63% |
| CARSALES.COM LIMITED | 7,490,966 | 6.19% | | 7,535,965 | 6.21% |
| MSL SOLUTIONS LIMITED | 2,967,215 | 2.45% | TELECOMMUNICATION SERVICES | | |
| | 10,458,181 | 8.64% | CSG LIMITED | 5,444,475 | 4.50% |
| INSURANCE | | | | 5,444,475 | 4.50% |
| FREEDOM INSURANCE GROUP LIMITED | - | 0.00% | TRANSPORTATION | | |
| ISELECT LTD | 11,698,163 | 9.66% | CTI LOGISTICS LTD | 5,672,168 | 4.68% |
| | 11,698,163 | 9.66% | MMA OFFSHORE LIMITED | 8,856,188 | 7.31% |
| UNLISTED | | | | 14,528,356 | 11.99% |
| CENTREBET INTERNATIONAL LIMITED LITIGATION CLAIM UNIT | - | 0.00% | TOTAL | 121,113,383 | 100.00% |
| CENTREBET INTERNATIONAL LIMITED LITIGATION CLAIM RIGHT | - | 0.00% | | | |
| BROOKFIELD AUSTRALIAN OPPORTUNITIES TRUST UNLISTED | 2,464 | 0.00% | | | |
| HUGHES DRILLING LIMITED | - | 0.00% | | | |
| | 2,464 | 0.00% | | | |

Background

The Trust Company (RE Services) Limited (“Responsible Entity”) is the responsible entity for the Forager Australian Shares Fund (“trust”), a registered managed investment scheme that is listed on the Australian Securities Exchange (“ASX”).

The Responsible Entity is a wholly-owned subsidiary of Perpetual Limited (ASX: PPT) (“Perpetual”).

The Responsible Entity is reliant on Perpetual for access to adequate resources including directors, management, staff, functional support (such as company secretarial, responsible managers, legal, compliance and risk, finance) and financial resources. As at the date of this Corporate Governance Statement, Perpetual has at all times made such resources available to the Responsible Entity.

In operating the Trust the Responsible Entity's overarching principle is to always act in good faith and in the best interests of the trust's unitholders, in accordance with our fiduciary duty. The Responsible Entity's duties and obligations in relation to the trust principally arise from: the Constitution of the trust; the Compliance Plan for the trust; the Corporations Act 2001 (“Act”); the ASX Listing Rules; the Responsible Entity's Australian Financial Services License; relevant regulatory guidance; relevant contractual arrangements; and other applicable laws and regulations.

Corporate Governance

At Perpetual, good corporate governance includes a genuine commitment to the ASX Corporate Governance Council Principles and Recommendations (“ASX Principles”).

The Directors of the Responsible Entity are committed to implementing high standards of corporate governance in operating the trust and, to the extent applicable to registered schemes, are guided by the values and principles set out in Perpetual's Corporate Responsibility Statement and the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (“Principles”). The Responsible Entity is pleased to advise that, to the extent the Principles are applicable to registered schemes; its practices are largely consistent with the Principles.

As a leading independent responsible entity, the Responsible Entity operates a number of registered managed investment schemes (“Schemes”). The Schemes include the trust as well as other schemes that are listed on the ASX. The Responsible Entity's approach in relation to corporate governance in operating the trust is consistent with its approach in relation to the Schemes generally.

The Responsible Entity addresses each of the Principles that are applicable to externally managed listed entities in relation to the Schemes, including the trust, as at the date of this Corporate Governance Statement.

Principle 1 - Lay solid foundations for management and oversight

The role of the Responsible Entity's Board is generally to set objectives and goals for the operation of the Responsible Entity and the Schemes, to oversee the Responsible Entity's management, to regularly review performance and to monitor the Responsible Entity's affairs acting in the best interests of the unitholders of each of the trust. The Responsible Entity's Board is accountable to the unitholders of each of the trust, and is responsible for approving the Responsible Entity's overall objectives and overseeing their implementation in discharging their duties and obligations and operating the Trust.

The role of the Responsible Entity's management is to manage the business of the Responsible Entity in operating the trust. The RE Board delegates to management all matters not reserved to the Responsible Entity's Board, including the day-to-day management of the Responsible Entity and the operation of the trust. Directors, management and staff are guided by Perpetual's Code of Conduct which is designed to assist them in making ethical business decisions.

Principle 2 - Structure the board to add value

At present the RE Board consists of four executive directors and two alternate directors. The names of the current Directors and year of appointment is provided below:

| Name of Director | Year of appointment |
|------------------------------|----------------------------|
| Glenn Foster | 2015 |
| Michael Vainauskas | 2015 |
| Vicki Riggio | 2018 |
| Richard McCarthy | 2018 |
| Andrew McIver (Alternate) | 2017 |
| Philip Blackmore (Alternate) | 2018 |

As the Responsible Entity's Board consists of only executive directors, a Compliance Committee is appointed in relation to each of the Schemes (refer to Principle 7). None of the executive directors of the Responsible Entity are independent and they are not remunerated by the Responsible Entity. The Compliance Committee comprises of a majority of external members and is chaired by an external member who is not the chair of the RE Board.

Principle 3 - Promote ethical and responsible decision-making

The Responsible Entity has a Code of Conduct and espoused Core Values and a further values framework known as "The Way we Work" within which it carries on its business and deals with its stakeholders.

These apply to all directors and employees of Perpetual, and the Responsible Entity. The Code of Conduct, Core Values, and supporting risk framework supports all aspects of the way the Responsible Entity conducts its business and is embedded into Perpetual's performance management process.

The Code of Conduct is available on Perpetual's website (www.perpetual.com.au).

Principle 4 - Safeguard integrity in financial reporting

The RE Board does not have an audit committee. Under delegation by the RE Board, the Responsible Entity Services management and staff operate within a Compliance and Risk Management framework with specific policies and procedures designed to ensure that the trust's

- financial reports are true and fair and meet high standards of disclosure and audit integrity; and
- other reports released on ASX are materially accurate and balanced.

This includes policies relating to the preparation, review and sign off process required for the trust's financial reports including the operation of an Internal Accounts Review Committee and RE Board approval process, the engagement of the trust independent auditors and the review and release of certain reports on the ASX.

The declarations under section 295A of the Corporations Act 2001 (the Act) provide formal statements to the RE Board in relation to the trust (refer to Principle 7). The declarations confirm the matters required by the Act in connection with the financial reporting. The Responsible Entity receives confirmations from the service providers involved in financial reporting and management of the trust, including the Investment Manager. These confirmations together with the overarching Responsible Entity's Risk and Compliance Framework which includes the service provider oversight framework assist its staff in making the declarations provided under section 295A of the Act.

The Responsible Entity manages the engagement and monitoring of independent 'external' auditors for the trust. The RE Board receives periodic reports from the external auditors in relation to financial reporting and the compliance plan for the trust.

Principle 5 - Make timely and balanced disclosure

The Responsible Entity has a continuous disclosure policy to ensure compliance with the continuous disclosure requirements of the Corporations Act and the ASX Listing Rules in relation to the trust. The policy requires timely disclosure of information to be reported to the Responsible Entity's management and/or Directors to ensure that, information that a reasonable person would expect to have a material effect on the unit price or would influence an investment decision in relation to any of the Schemes, is disclosed to the market. The Responsible Entity's Company Secretary assists management and/or the Directors in making disclosures to the ASX after appropriate Responsible Entity's Board consultation. The Responsible Entity requires service providers, including the Investment Manager, to comply with its policy in relation to continuous disclosure for the trust.

Principle 6 - Respect the rights of unitholders

The Responsible Entity is committed to ensuring timely and accurate information about the trust is available to security holders via the trust's website. All ASX announcements are promptly posted on the trust's website: www.foragerfunds.com. The annual and half year results financial statements and other communication materials are also published on the website.

In addition to the continuous disclosure obligations, the Responsible Entity receives and responds to formal and informal communications from unitholders and convenes formal and informal meetings of unitholders as requested or required. The Responsible Entity has an active program for effective communication with the unitholders and other stakeholders in relation to trust.

The Responsible Entity handles any complaints received from unitholders in accordance with Perpetual's Complaints Handling Policy. The Responsible Entity is a member of the Australian Financial Complaints Authority (AFCA), an independent dispute resolution body, which is available to unitholders in the event that any complaints cannot be satisfactorily resolved by the Responsible Entity.

Principle 7 - Recognise and manage risk

The Responsible Entity values the importance of robust risk management systems and maintains a current risk register as part of its formal risk management program. The Responsible Entity has established a Compliance Committee, comprised of Michael Vainauskas, Michelene Collopy and Virginia Malley.

The Compliance Committee meets at least quarterly. In 2018/2019 there were five meetings held attended by all members. The Compliance Committee Charter sets out its role and responsibilities, available upon request. The Compliance Committee is responsible for compliance matters regarding the Responsible Entity's Compliance Plan and Constitution and the Corporations Act. Perpetual's Audit, Risk and Compliance Committee is responsible for oversight of the Perpetual's risk management and internal control systems. The Audit, Risk and Compliance Committee is comprised of Ian Hammond, Philip Bullock, Nancy Fox and P Craig Ueland. In 2018/19 financial reporting period there were six meetings held which were attended by all members. The Audit, Risk and Compliance Committee terms of reference sets out its role and responsibilities. This can be obtained on the Perpetual website. The majority of the Compliance Committee and the Audit, Risk and Compliance Committee members are external members. They are chaired by external members.

The Responsible Entity manages the engagement and monitoring of independent external auditors for the trust. The Responsible Entity's board receives periodic reports in relation to financial reporting and the compliance plan audit outcomes for the trust.

Perpetual has a risk management framework in place which is reviewed annually. The declarations under section 295A of the Act provide assurance regarding sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The Responsible Entity also receives appropriate declarations from the service providers involved in financial reporting.

Perpetual has an Internal Audit function which reports functionally to Perpetual Limited Audit Risk & Compliance Committee (ARCC), and for administrative purposes, through the General Manager - Risk & Internal Audit, and is independent from the external auditor. Perpetual Internal Audit establishes a risk based audit plan each year that is approved formally by the ARCC, and executes internal audits of Perpetual Business Units in accordance with the plan. The plan is re-assessed quarterly and reviewed to ensure that it is dynamic and continues to address the key risks faced by the Group. Progress against the plan, changes to the plan, and the results of audit activity are reported quarterly to the ARCC.

The Fund invests predominantly in securities listed on the ASX. The companies in which the Fund invests may have a material exposure to economic, environmental or social sustainability risks and these risks are evaluated as part of the investment decision making process.

Principle 8 - Remunerate fairly and responsibly

The fees and expenses which the Responsible Entity is permitted to pay out of the assets of the trust are set out in the trust constitution. The trust financial statements provide details of all fees and expenses paid by the trust during a financial period.

Directors' Report

The Trust Company (RE Services) Limited (ABN 45 003 278 831) is the responsible entity (the "Responsible Entity") of Forager Australian Shares Fund (the "Fund"). The Directors of the Responsible Entity (the "Directors") present their report together with the financial statements of the Fund for the year ended 30 June 2019.

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia.

The Fund invests predominantly in securities listed on the ASX and investments that are likely to be listed on the ASX in the future and Australian denominated cash. The Fund's goal is to produce superior long-term returns from a selected number of underlying investments, irrespective of short term price movements.

The Fund was constituted on 22 September 2009 and commenced operations on 30 October 2009.

The Fund did not have any employees during the year.

The Fund is currently listed on the Australian Securities Exchange (ASX).

There were no significant changes in the nature of the Fund's activities during the year

Directors

The Directors of The Trust Company (RE Services) Limited during the year and up to the date of this report are shown below. The Directors were in office for this entire period except where stated otherwise:

Glenn Foster

Christopher Green (resigned 17 October 2018)

Michael Vainauskas

Andrew McIver (Alternate Director for Michael Vainauskas)

Vicki Riggio

Gillian Larkins (Alternate Director for Glenn Foster) (resigned 12 October 2018)

Phillip Blackmore (Alternate Director for Christopher Green and Vicki Riggio) (appointed 6 July 2018)

Phillip Blackmore (Alternate Director for Christopher Green) (resigned 17 October 2018)

Richard McCarthy (appointed 17 October 2018)

Units on Issue

Units on issue in the Fund at year end are set out below:

| | 30 June 2019 No. | 30 June 2018 No. |
|----------------|---------------------------------|------------------------|
| Units on issue | <u>113,843,839</u> | <u>91,188,438</u> |

**Forager Australian Shares Fund
Directors' Report
For the year ended 30 June 2019
(continued)**

Review and results of operations

During the year, the Fund invested in accordance with the investment objective and guidelines as set out in the governing documents of the Fund and in accordance with the provision of the Fund's Constitution.

The performance of the Fund, as represented by the results of its operations, was as follows:

| | Year ended | |
|---|-------------------------|-----------------|
| | 30 June 2019 | 30 June 2018 |
| Operating profit/(loss) for the year (\$'000) | (35,631) | 10,178 |
| | | |
| | Year ended | |
| | 30 June 2019 | 30 June 2018 |
| | \$ | \$ |
| Distributions payable (\$'000) | 2,470 | 19,416 |
| Distributions (cents per unit) | 2.1696 | 21.2917 |

Financial Position

As at 30 June 2019, the Fund's total assets amounted to \$148,379,000 (30 June 2018: \$167,082,000).

Net Tangible Assets (NTA) per unit as disclosed to the ASX were as follows:

| | 30 June 2019 | 30 June 2018 |
|----------------------|-------------------------|-------------------------|
| | \$ | \$ |
| At reporting period* | 1.30 | 1.83 |
| High during period | 1.83 | 1.91 |
| Low during period | 1.29 | 1.73 |

*The above NTA per unit was the cum-price which includes 2.17 cents per unit distribution (2018: 21.29 cents per unit).

Significant changes in state of affairs

A non-renounceable rights issue offer to existing unitholders of the Fund of 1 new unit at an issue price of \$1.58 for every 6 units held was made on 30 August 2018. A total of \$23,265,000 was raised under this offer with 14,724,513 new units issued to unitholders. As a result of the rights issue, the Fund completed the acquisition of the Forager Wholesale Value Fund's portfolio on 28 September 2018, a Fund which Forager Funds Management Pty Ltd had resigned as Investment Manager, and which was terminated at this time.

On 4 June 2019 the Investment Manager in consultation with the Responsible Entity of the Fund, announced that the Dividend reinvestment plan was suspended for the year ended 30 June 2019.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed, and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of the Responsible Entity or the auditors of the Fund. So long as the officers of the Responsible Entity act in accordance with the Fund's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

The auditors of the Fund is in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity and its associates

Fees paid to the Responsible Entity and its associates out of the Fund's property during the year are disclosed in Note 16 to the financial statements.

No fees were paid out of Fund property to the Directors of the Responsible Entity during the year.

The number of units in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 16 to the financial statements.

Units in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 7 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

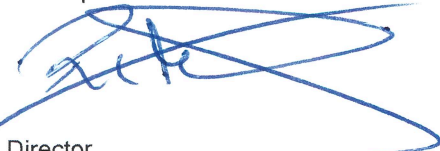
Rounding of amounts to the nearest thousand dollars

The Fund is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191* issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that *ASIC Corporations Instrument*, unless otherwise indicated.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

This report is made in accordance with a resolution of the Directors of The Trust Company (RE Services) Limited.



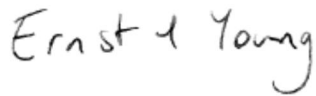
Director
The Trust Company (RE Services) Limited

Sydney
22 August 2019

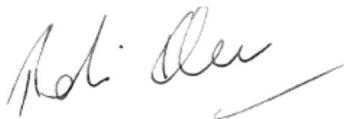
Auditor's Independence Declaration to the Directors of The Trust Company (RE Services) Limited as Responsible Entity for Forager Australian Shares Fund

As lead auditor for the audit of the financial report of Forager Australian Shares Fund for the year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Rohit Khanna
Partner
Sydney
22 August 2019

Forager Australian Shares Fund
Statement of Comprehensive Income
For the year ended 30 June 2019

Statement of Comprehensive Income

| | | Year ended | |
|--|-------|-------------------|----------------|
| | | 30 June | 30 June |
| | | 2019 | 2018 |
| | Notes | \$'000 | \$'000 |
| Investment income | | | |
| Interest income from financial assets at amortised cost | | 600 | 655 |
| Dividend and distribution income | | 1,680 | 3,038 |
| Net gains/(losses) on financial instruments at fair value through profit or loss | 5 | (36,191) | 9,260 |
| Expense reimbursement income | 16 | 555 | 467 |
| Total investment income/(loss) | | (33,356) | 13,420 |
| Expenses | | | |
| Responsible Entity's fees | 16 | 157 | 153 |
| Management fees | 16 | 1,565 | 1,624 |
| Performance fees | 16 | - | 958 |
| Administration fees | | 122 | 120 |
| Custody fees | | 35 | 36 |
| Transaction costs | | 67 | 104 |
| Registry fees | | 55 | 26 |
| Other operating expenses | | 274 | 221 |
| Total operating expenses | | 2,275 | 3,242 |
| Operating profit/(loss) | | (35,631) | 10,178 |
| Finance costs attributable to unitholders | | | |
| Distributions to unitholders* | 8 | - | (19,416) |
| (Increase)/decrease in net assets attributable to unitholders | 7 | - | 9,238 |
| Profit/(loss) for the year | | (35,631) | - |
| Other comprehensive income | | - | - |
| Total comprehensive loss for the year | | (35,631) | - |

*Net assets attributable to unitholders are reclassified from liabilities to equity as at 30 June 2018. As a result, the Fund's distributions are no longer classified as finance costs in the Statement of Comprehensive Income, but rather as distributions payable in the Statement of Changes in Equity. Refer to Notes 1, 7 and 8 for further detail.

| | | Year ended | |
|---|-------|-------------------|----------------|
| | | 30 June | 30 June |
| | | 2019 | 2018 |
| | Notes | Cents | Cents |
| Earnings per unit for profit attributable to unitholders of the Fund | | | |
| Basic earnings/(loss) per unit | 14 | (32.48) | 11.19 |
| Diluted earnings/(loss) per unit | 14 | (32.48) | 11.19 |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Forager Australian Shares Fund
Statement of Financial Position
As at 30 June 2019

Statement of Financial Position

| | | As at | |
|---|-------|-----------------|-----------------|
| | | 30 June 2019 | 30 June 2018 |
| | Notes | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 9 | 26,710 | 43,139 |
| Receivables | 11 | 335 | 175 |
| Due from brokers - receivable for securities sold | | 220 | - |
| Financial assets at fair value through profit or loss | 6 | 121,114 | 123,768 |
| Total assets | | 148,379 | 167,082 |
| Liabilities | | | |
| Payables | 12 | 529 | 390 |
| Distributions payable | 8 | 2,470 | 19,416 |
| Due to brokers - payable for securities purchased | | 131 | - |
| Total liabilities | | 3,130 | 19,806 |
| Net assets attributable to unitholders - equity* | 7 | 145,249 | 147,276 |

*Net assets attributable to unitholders are classified as equity as at 30 June 2018.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**Forager Australian Shares Fund
Statement of Changes in Equity
For the year ended 30 June 2019**

Statement of Changes in Equity

| | Notes | Year ended | |
|---|-------|---------------------------|---------------------------|
| | | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Total equity at the beginning of the year | | 147,276 | - |
| Reclassification due to AMIT tax regime implementation* | | - | 147,276 |
| Comprehensive income for the year | | | |
| Profit/(loss) for the year | | (35,631) | - |
| Other comprehensive income | | - | - |
| Total comprehensive income/(loss) | | <u>(35,631)</u> | <u>-</u> |
| Transactions with unitholders | | | |
| Applications - Non-renounceable rights issue | 7 | 23,265 | - |
| Reinvestment of distributions | 7 | 12,809 | - |
| Distributions payable | 7, 8 | <u>(2,470)</u> | <u>-</u> |
| Total transactions with unitholders | | <u>33,604</u> | <u>-</u> |
| Total equity at the end of the year | | <u>145,249</u> | <u>147,276</u> |

*As at 30 June 2018, the Fund's units have been reclassified from financial liability to equity. Refer to Notes 1, 7 and 8 for further details.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Forager Australian Shares Fund
Statement of Cash Flows
For the year ended 30 June 2019

Statement of Cash Flows

| | Year ended | |
|--|-----------------------|----------------|
| | 30 June | 30 June |
| | 2019 | 2018 |
| Notes | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Proceeds from sale of financial instruments at fair value through profit or loss | 28,563 | 77,097 |
| Purchase of financial instruments at fair value through profit or loss | (61,801) | (58,864) |
| Interest income received from financial assets at amortised cost | 616 | 639 |
| Dividends and distributions received | 1,292 | 2,678 |
| Expense reimbursement fees received | 386 | 473 |
| Responsible Entity's fees paid | (158) | (108) |
| Management fees paid | (1,440) | (1,623) |
| Performance fees paid | - | (2,712) |
| Transaction costs paid | (67) | (104) |
| Other operating expenses paid | (478) | (320) |
| Net cash inflow/(outflow) from operating activities | 10(a) (33,087) | 17,156 |
| Cash flows from financing activities | | |
| Proceeds from applications by unitholders | 36,074 | - |
| Distributions paid | (19,416) | (3,709) |
| Net cash inflow/(outflow) from financing activities | 16,658 | (3,709) |
| Net increase/(decrease) in cash and cash equivalents | (16,429) | 13,447 |
| Cash and cash equivalents at the beginning of the year | 43,139 | 29,692 |
| Cash and cash equivalents at the end of the year | 9 26,710 | 43,139 |
| Non-cash financing activities | 10(b) 12,809 | 6,090 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

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1 General information

These financial statements cover Forager Australian Shares Fund (the "Fund") as an individual entity. The Fund was constituted on 22 September 2009, commenced operations on 30 October 2009, and will terminate in accordance with the provisions of the Fund's Constitution or by Law. The Fund was admitted to the Australian Securities Exchange ("ASX") on 14 December 2016.

The Responsible Entity of the Fund is The Trust Company (RE Services) Limited (ABN 45 003 278 831) (AFSL 235150) (the "Responsible Entity"). The Responsible Entity's registered office is Level 18 Angel Place, 123 Pitt Street, Sydney, NSW 2000.

The Responsible Entity is incorporated and domiciled in Australia.

The investment manager of the fund is Forager Funds Management Pty Ltd (the "Investment Manager").

The Fund principally invests in securities listed on the ASX and investments that are likely to be listed on the ASX in the future and Australian denominated cash. The Fund's goal is to produce superior long-term returns from a selected number of underlying investments, irrespective of short term price movements.

On 30 June 2018, the Fund has elected into the AMIT tax regime. The Fund's Constitution has been amended and it no longer has a contractual obligation to pay distributions to unitholders. Therefore the net assets attributable to unitholders of the Fund meet the criteria set out under AASB 132 and are classified as equity from 30 June 2018 onwards.

The financial statements of the Fund are for the year ended 30 June 2019. The financial statements are presented in the Australian currency.

The financial statements were authorised for issue by the Directors (the "Directors of the Responsible Entity") on 22 August 2019. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial assets through profit or loss, financial liabilities and net assets attributable to unitholders.

The Fund manages financial assets at fair value through profit or loss and financial liabilities based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within twelve months, however, an estimate of that amount cannot be determined as at year end.

(i) Compliance with International Financial Reporting Standards

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards adopted by the Fund

- AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in AASB 139 *Financial Instruments: Recognition and Measurement*. The derecognition rules have not changed from the previous requirements, and the Fund does not apply hedge accounting.

Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. AASB 9 also introduces a new expected credit loss (ECL) impairment model.

AASB 9 has been applied retrospectively by the Fund without the use of hindsight and it has determined that adoption did not result in a change to the classification or measurement of financial instruments in either the current or prior periods. The Fund has elected to restate the comparative period presented to comply with AASB 9. The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held to contractual cash flows that are solely payments of principal and interest continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

- AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

AASB 15 became effective for annual periods beginning on or after 1 January 2018 which is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the previous notion of risks and rewards.

The Fund's main sources of income are interest, dividends and distributions, and gains on financial instruments at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the adoption of AASB15 does not have a material impact on the Fund's accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

(b) Financial instruments

(i) Classification

- Financial assets

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Classification (continued)

- Financial liabilities

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (due to brokers, distributions payable, management fees payable, administration fees payables and custodian fees payable).

(ii) Recognition and derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the Statement of Comprehensive Income within 'net gains/(losses) on financial assets at fair value through profit or loss' in the period in which they arise.

Further details on how the fair value of financial instruments are determined are disclosed in Note 4.

(iv) Impairment

At each reporting date, the Fund shall measure the loss allowance on financial assets at amortised cost (cash, due from broker and receivables) at an amount equal to the lifetime ECL if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month ECL. Significant financial difficulties of the counter party, probability that the counter party will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the amortised cost. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

(v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when the Fund has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

As at the end of the reporting period, there are no financial assets or liabilities offset or which could be offset in the Statement of Financial Position.

(c) Net assets attributable to unitholders

The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put the unit back to the Fund.

The Fund is a closed-end Fund and is not subject to applications and redemptions, other than those disclosed in note 7.

2 Summary of significant accounting policies (continued)

(c) Net assets attributable to unitholders (continued)

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial Instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

As at 30 June 2018, the Funds' units have been reclassified from financial liability to equity as they satisfied all the above criteria. This has been consistently applied during the year.

(d) Cash and cash equivalents

Cash comprises deposits held at custodian banks. Cash equivalents are short-term, highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

(e) Investment income

Interest income from financial assets at amortised cost is recognised on an accrual basis using the effective interest method and includes interest from cash and cash equivalents.

Dividend and distribution income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend and distribution income when the Fund's right to receive payments is established.

Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b) to the financial statements.

Other income is recognised on an accruals basis.

(f) Expenses

All expenses, including management fees, performance fees, Responsible Entity's fees, administration fees and custody fees, are recognised in the Statement of Comprehensive Income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

2 Summary of significant accounting policies (continued)

(h) Distributions and Dividends

Distributions are payable as set out in the Fund's offering document. Such distributions are determined by the Responsible Entity of the Fund. Distributable income includes capital gains arising from the disposal of financial instruments. Unrealised gains and losses on financial instruments that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised.

Financial instruments at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the statement of comprehensive income.

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. As the Fund's units are classified as equities, movements in net assets attributable to unitholders are recognised in the Statement of Changes in Equity.

(j) Receivables

Receivables may include amounts for dividends, interest, trust distributions and receivable from Investment Manager. Dividends and trust distributions are accrued when the right to receive payment is established. Amounts are generally received within 30 days of being recorded as receivables.

Receivables also include such items as Reduced Input Tax Credits (RITC).

Receivables are recognised at amortised cost using the effective interest method, less any allowance for ECL. The Fund has applied a simplified approach to measuring ECL, which uses a lifetime expected loss allowance. To measure the ECL, receivables have been grouped based on days overdue.

The amount of the impairment loss, if any, is recognised in the Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

(k) Payables

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting year.

The distribution amount payable to unitholders as at the end of each reporting year is recognised separately in the Statement of Financial Position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

2 Summary of significant accounting policies (continued)

(l) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as investment management fees have been passed onto the Fund. The Fund qualifies for RITC at a rate of at least 55%; hence investment management fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(m) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available.

For more information on how fair value is calculated please refer to Note 4 to the financial statements.

(n) Rounding of amounts

The Fund is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars unless otherwise indicated.

(o) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and are recognised initially at fair value and subsequently measured at amortised cost.

3 Financial risk management

(a) Overview

The Fund's activities expose it to a variety of financial risks. The management of these risks is undertaken by the Fund's Investment Manager who has been appointed by the Responsible Entity under an Investment Management Agreement to manage the Fund's assets in accordance with the investment objective and strategy.

The Responsible Entity has in place a framework which includes:

- The Investment Manager providing the Responsible Entity with regular reports on their compliance with the Investment Management Agreement;
- Completion of regular reviews on the Service Provider which may include a review of the investment managers risk management framework to manage the financial risks of the Funds; and
- Regular reporting on the liquidity of the Fund in accordance with the Fund's Liquidity Risk Management Statement.

The Fund's Investment Manager has in place a framework to identify and manage the financial risks in accordance with the investment objective and strategy. This includes an investment due diligence process and on-going monitoring of the investments in the Fund. Specific controls which the Investment Manager applies to manage the financial risks are detailed under each risk specified below.

(b) Market risk

Market risk is the risk that changes in market risk factors, such as equity prices, foreign exchange rates, interest rates and other market prices will affect the Fund's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

3 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk

The Fund is exposed to equity securities listed or quoted on recognised securities exchanges price risk. This arises from investments held by the Fund for which prices in the future are uncertain. They are classified on the Statement of Financial Position as financial assets at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Investment Manager mitigates this price risk and related concentration risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Product Disclosure Statement. Between 75% and 100% of the net assets attributable to unitholders are invested in Australian shares. The Australian shares (being primarily smaller companies) are listed on the Australian Securities Exchange. The Fund has not invested in any derivatives during the financial year (2018: nil).

The Fund is exposed, particularly through its equity portfolio, to concentration and market risks influencing investment valuations. These include Australian economic factors, changes in a company's internal operations or management, and also relate to changes in taxation policy, monetary policy, interest rates and statutory requirements.

The Fund has built in procedures to ensure adherence to the Fund's investment guidelines at all times.

As at year end, the overall net market exposures were as follows:

| | As at | |
|--|------------------------------------|------------------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Listed equity securities | 121,112 | 123,742 |
| Unlisted equity securities and unit trusts | 2 | 26 |
| | 121,114 | 123,768 |

The table in Note 3(c) summarises the impact of an increase/decrease of underlying investment prices on the Fund's operating profit and net assets attributable to unitholders. The analysis is based on the assumption that the underlying investment prices changed by +/- 10% (2018: +/- 10%) from the year end prices with all other variables held constant.

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The majority of the Fund's assets are held in equities which are non-interest bearing securities. Hence, the Fund is not exposed to significant interest rate risk. The impact of interest rate risk on net assets attributable to unitholder and operating profit is considered immaterial to the Fund.

3 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risk.

As at 30 June 2019

| | Floating interest rate \$'000 | Fixed interest rate \$'000 | Non- interest bearing \$'000 | Total \$'000 |
|---|-------------------------------------|----------------------------------|---------------------------------------|-----------------|
| Assets | | | | |
| Cash and cash equivalents | 26,710 | - | - | 26,710 |
| Receivables | - | - | 335 | 335 |
| Due from brokers - receivable for securities sold | - | - | 220 | 220 |
| Financial assets at fair value through profit or loss | - | - | 121,114 | 121,114 |
| Total assets | 26,710 | - | 121,669 | 148,379 |
| Liabilities | | | | |
| Distributions payable | - | - | 2,470 | 2,470 |
| Payables | - | - | 529 | 529 |
| Due to brokers - payable for securities purchased | - | - | 131 | 131 |
| Total liabilities | - | - | 3,130 | 3,130 |
| Net exposure | 26,710 | - | 118,539 | 145,249 |

As at 30 June 2018

| | Floating interest rate \$'000 | Fixed interest rate \$'000 | Non- interest bearing \$'000 | Total \$'000 |
|---|--|-------------------------------------|---------------------------------------|-----------------|
| Assets | | | | |
| Cash and cash equivalents | 43,139 | - | - | 43,139 |
| Receivables | - | - | 175 | 175 |
| Financial assets at fair value through profit or loss | - | - | 123,768 | 123,768 |
| Total assets | 43,139 | - | 123,943 | 167,082 |
| Liabilities | | | | |
| Distributions payable | - | - | 19,416 | 19,416 |
| Payables | - | - | 390 | 390 |
| Total liabilities (excluding net assets attributable to unitholders) | - | - | 19,806 | 19,806 |
| Net exposure | 43,139 | - | 104,137 | 147,276 |

3 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

The table in Note 3(c) summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 100 basis points (2018: +/- 100 basis points) from the year end rates with all other variables held constant.

(c) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit/(loss) and net assets attributable to unitholders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate having regard to a number of factors, including historical levels of changes in interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variances in the risk variables.

| | Impact on operating profit/(loss)/ net assets attributable to unitholders | | | |
|---------------------|--|--------|--------------------|---------|
| | Price risk | | Interest rate risk | |
| | -10% | +10% | -100bps | +100bps |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 30 June 2019 | (12,111) | 12,111 | (267) | 267 |
| 30 June 2018 | (12,374) | 12,374 | (431) | 431 |

(d) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

Investment management processes include the consideration of counterparty risk. The Fund trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Fund's policy to securitise its trade and other receivables.

The main concentration of credit risk, to which the Fund is exposed, arises from cash and cash equivalents and amounts due from brokers balances. None of these assets are impaired nor past due. The maximum exposure to credit risk at the reporting date is the carrying amount of cash and cash equivalents and amounts due from brokers.

(i) Bank deposits, assets held with the custodian

As at 30 June 2019

| Banks and Custodian | \$'000 | Credit rating | Source of credit rating |
|---|---------|---------------|-------------------------|
| BankWest | 10 | A-1+ | Standard and Poor's |
| Australia and New Zealand Banking Group Ltd | 21,145 | AA- | Standard and Poor's |
| JP Morgan Chase Bank N.A (Sydney Branch) | 126,669 | A+ | Standard and Poor's |

The custody balance with JP Morgan Chase N.A (Sydney Branch) includes investments in equities totalling \$121,114,000.

3 Financial risk management (continued)

(d) Credit risk (continued)

(i) Bank deposits, assets held with the custodian (continued)

As at 30 June 2018

| Banks and Custodian | \$'000 | Credit rating | Source of credit rating |
|---|---------|---------------|-------------------------|
| BankWest | 10 | A-1+ | Standard and Poor's |
| Australia and New Zealand Banking Group Ltd | 39,878 | AA- | Standard and Poor's |
| JP Morgan Chase Bank N.A (Sydney Branch) | 127,019 | A+ | Standard and Poor's |

The custody balance with JP Morgan Chase Bank N.A (Sydney Branch) includes investments in equities totalling \$123,768,000.

(e) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund will invest in no more than 10% of its assets into unlisted securities and will typically only do so if a security is expected to become listed in the future or was listed at the time of purchase but has delisted. During 2019 and 2018, the Fund's strategy was to hold at least 90% of the net assets attributable to unitholders in liquid assets, which include cash and cash equivalents and listed securities.

(i) Maturities of non-derivative financial liabilities

All non-derivative financial liabilities of the Fund in the current and prior year have maturities of less than one month.

4 Fair value measurement

The Fund measures and recognises financial assets and liabilities at fair value on a recurring basis.

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting year.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the close of trading at the end of the reporting year without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

4 Fair value measurement (continued)

(ii) Fair value in an inactive or unquoted market (level 2 and 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

(iii) Recognised fair value measurements

The following table presents the Fund's assets measured and recognised at fair value as at 30 June 2019 and 30 June 2018.

| As at 30 June 2019 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|---------------------------|---------------------------|---------------------------|-------------------------|
| Financial assets at fair value through profit or loss | | | | |
| Listed equity securities | 121,112 | - | - | 121,112 |
| Unlisted equity securities and unit trusts | - | - | 2 | 2 |
| Total financial assets at fair value through profit or loss | 121,112 | - | 2 | 121,114 |

| As at 30 June 2018 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| Financial assets at fair value through profit or loss | | | | |
| Listed equity securities | 123,742 | - | - | 123,742 |
| Unlisted equity securities and unit trusts | - | - | 26 | 26 |
| Total financial assets at fair value through profit or loss | 123,742 | - | 26 | 123,768 |

(iv) Transfers between levels

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year.

During the year, following the delisting of one investment and management's decision to suspend the trading of another investment, these investments were reclassified from level 1 to level 3.

4 Fair value measurement (continued)

(v) Fair value measurements using significant unobservable inputs (level 3)

| As at 30 June 2019 | Unlisted unit trust \$'000 |
|--|---------------------------------------|
| Opening balance - 1 July | 26 |
| Gains and losses recognised in the Statement of Comprehensive Income | 24 |
| Return of capital | (48) |
| Closing balance - 30 June | 2 |
| | |
| As at 30 June 2018 | Unlisted unit trust \$'000 |
| Opening balance - 1 July | 459 |
| Gains and losses recognised in the Statement of Comprehensive Income | (383) |
| Return of capital | (50) |
| Closing balance - 30 June | 26 |

Level 3 investments comprise:

1. An investment was previously held in Centrebet International Limited, formerly listed on the ASX. A scheme of arrangement was entered into with all shareholders in August 2011 resulting in the shareholders receiving a cash payment as well as one litigation claim unit and one litigation claim right per share.

Following delisting of Centrebet International Limited and receipt of litigation claim units and litigation claim rights, the Fund's investment was reclassified from "level 1" to "level 3". Additional units were purchased in August 2011.

For these financial instruments the fair value has been estimated using a valuation technique that uses non-market observable data. Payments were completed in July 2018.

2. An investment held in Brookfield Australian Opportunities Fund was delisted on 29 October 2012, and wound up on 30 October 2012. Unitholders in the Fund received one unit in BAO Trust for each unit held in the Fund. The security is unlisted and is valued at 0.0005 cents per unit.

3. An investment held in Hughes Drilling Limited was delisted from the ASX on 27 June 2019 following a suspension from quotation of 3 years.

The security is unlisted and is valued at \$0.0000 cents per unit.

4. An investment held in Freedom Insurance Group Ltd was suspended from quotation on the ASX on 7 February 2019, following a voluntary trading halt on 5 February 2019.

Following the trade suspension, Freedom Insurance Group Ltd announced its intention to wind down in response to the release of ASIC Report 587 following the findings of the Royal Commission into the misconduct in the Banking, Superannuation and Financial Services Industry .

The security has been valued at \$0.0000.

(vi) Valuation processes

Valuation of level 3 securities is performed monthly, or when distribution payments are received from the underlying investments.

The impact of changes in significant unobservable inputs of level 3 is not expected to be material to the Fund.

4 Fair value measurement (continued)

(vii) Fair values of other financial instruments

The Fund did not hold any financial instruments which were not measured at fair value in the Statement of Financial Position. Due to their short-term nature, the carrying amounts of receivables and payables are assumed to approximate fair value.

5 Net gains/(losses) on financial instruments at fair value through profit or loss

| | Year ended | |
|---|---------------------------|---------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Financial assets | | |
| Net realised gain/(loss) on financial assets at fair value through profit or loss | 2,634 | 19,354 |
| Net unrealised gain/(loss) on financial assets at fair value through profit or loss | (38,825) | (10,094) |
| Total net gains/(losses) on financial instruments at fair value through profit or loss | (36,191) | 9,260 |

An overview of the risk exposure relating to financial assets at fair value through profit or loss is included in Note 3.

6 Financial assets at fair value through profit or loss

| | As at | |
|--|---------------------------|---------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Financial assets at fair value through profit or loss | | |
| Listed equity securities | 121,112 | 123,742 |
| Unlisted equity securities and unit trusts | 2 | 26 |
| Total financial assets at fair value through profit or loss | 121,114 | 123,768 |

The market values of all investments as at 30 June 2019 are disclosed on page 5 of the Annual Report. Listed securities are readily saleable with no fixed terms.

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in the Statement of Comprehensive Income.

(a) Risk exposure and fair value measurements

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Notes 3 and 4 to the financial statements.

7 Net assets attributable to unitholders

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. On 30 June 2018, the Fund has elected into the AMIT tax regime and consequently the Fund's Constitution has been amended. The Fund does not have a contractual obligation to pay distributions to unitholders. Therefore, the net assets attributable to unitholders of the Fund meet the criteria set out under AASB 132 and are classified as equity from 30 June 2018 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund's distributions will no longer be classified as finance costs in the Statement of Comprehensive Income, but rather as distributions paid in the Statement of Changes in Equity.

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

| | Year ended | | | |
|---|-------------------------------|---------------------------|-------------------------------|---------------------------|
| | 30 June 2019 Units '000 | 30 June 2019 \$'000 | 30 June 2018 Units '000 | 30 June 2018 \$'000 |
| Opening balance | 91,188 | 147,276 | 87,640 | 150,424 |
| Applications - Non-renounceable rights issue | 14,725 | 23,265 | - | - |
| Reinvestment of distributions | 7,931 | 12,809 | 3,548 | 6,090 |
| Increase/(decrease) in net assets attributable to unitholders | - | - | - | (9,238) |
| Distributions payable | - | (2,470) | - | - |
| Profit/(loss) for the year | - | (35,631) | - | - |
| Closing balance | 113,844 | 145,249 | 91,188 | 147,276 |

As stipulated within the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

A non-renounceable rights issue offer to existing unitholders of the Fund of 1 new unit at an issue price of \$1.58 for every 6 units held was made on 30 August 2018. A total of \$23,265,000 was raised under this offer with 14,724,513 new units issued to unitholders.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital.

Generally, the Fund's strategy is to hold liquid investments. Liquid assets include cash and cash equivalents and listed investments.

The Fund is a closed-end Fund and is not subject to applications and redemptions. The movements in the number of units during the year were as a result of additional units being allotted under the dividend reinvestment plan and rights issue.

8 Distributions to unitholders

Distributions are payable at the end of each financial period. Such distributions are determined by reference to the net taxable income of the Fund.

The distributions for the year were as follows:

| | Year ended | | | |
|------------------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | 30 June 2019 \$'000 | 30 June 2019 CPU* | 30 June 2018 \$'000 | 30 June 2018 CPU* |
| Distributions payable | 2,470 | 2.1696 | 19,416 | 21,2917 |
| Total distributions payable | 2,470 | 2.1696 | 19,416 | 21,2917 |

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund's distributions will no longer be classified as finance costs in the Statement of Comprehensive Income, but rather as distributions paid in the Statement of Changes in Equity.

The distributions are largely comprised of discount capital gains, 30 June 2019 (75%) and 30 June 2018 (94%).

*Distribution is expressed as cents per unit amount in Australian Dollar.

9 Cash and cash equivalents

| | As at | |
|--|---------------------------|---------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Cash at bank | 26,710 | 43,139 |
| Total cash and cash equivalents | 26,710 | 43,139 |

10 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

| | Year ended | |
|---|---------------------------|---------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Profit/(loss) for the year | (35,631) | - |
| Increase/(decrease) in net assets attributable to unitholders | - | (9,238) |
| Distributions to unitholders | - | 19,416 |
| Proceeds from the sale of financial assets at fair value through profit or loss | 28,563 | 77,097 |
| Purchase of financial assets at fair value through profit or loss | (61,801) | (58,864) |
| Net losses/(gains) on financial assets at fair value through profit or loss | 36,191 | (9,260) |
| Dividend and distribution income reinvested | (388) | (360) |
| Net change in receivables | (160) | 114 |
| Net change in payables | 139 | (1,749) |
| Net cash inflow/(outflow) from operating activities | (33,087) | 17,156 |

10 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities (continued)

(b) Non-cash financing activities

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| The following distribution payments to unitholders were satisfied by the issue of units under the distribution reinvestment plan | 12,809 | 6,090 |
| Total non-cash financing activities | 12,809 | 6,090 |

As described in Note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost at it is not settled in cash until such time as it becomes distributable.

11 Receivables

| | As at | |
|-------------------------------------|---------------------------|---------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Interest receivable | 40 | 56 |
| GST receivable | 69 | 62 |
| Receivables from Investment Manager | 226 | 57 |
| Total receivables | 335 | 175 |

12 Payables

| | As at | |
|---------------------------------|---------------------------|---------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Responsible Entity fees payable | 82 | 83 |
| Management fees payable | 270 | 148 |
| Custodian fees payable | 8 | 8 |
| Administration fees payable | 97 | 61 |
| Other payables | 72 | 90 |
| Total payables | 529 | 390 |

13 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditors of the Fund:

| | Year ended | |
|---|-------------------------|-------------------------|
| | 30 June 2019 | 30 June 2018 |
| | \$ | \$ |
| Ernst & Young | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial statements | 38,000 | 42,000 |
| Total remuneration of audit and other assurance services | 38,000 | 42,000 |
| Total remuneration of Ernst & Young | 38,000 | 42,000 |
| | | |
| Pitcher Partners | | |
| <i>Taxation services</i> | | |
| Taxation services | 12,000 | - |
| Total remuneration of taxation services | 12,000 | - |
| Total remuneration of Pitcher Partners | 12,000 | - |
| | | |
| PricewaterhouseCoopers Australian Firm | | |
| <i>Audit and other assurance services</i> | | |
| Audit of compliance plan | 2,475 | 7,635 |
| Total remuneration of audit and other assurance services | 2,475 | 7,635 |
| Total remuneration of PricewaterhouseCoopers Australian Firm | 2,475 | 7,635 |

The auditor's remuneration is borne by the Fund. Fees are stated exclusive of GST.

14 Earnings per unit

Basic earnings/(loss) per unit amounts are calculated by dividing net profit/(loss) attributable to unitholders before distributions by the weighted average number of units outstanding during the year.

Diluted earnings per unit are the same as basic earnings per unit.

| | Year ended | |
|---|-------------------------|-------------------------|
| | 30 June 2019 | 30 June 2018 |
| Profit/(loss) attributable to unitholders (\$'000) | (35,631) | 10,178 |
| Weighted average number of units in issue ('000) | 109,706 | 90,973 |
| Basic and diluted earnings/(loss) per unit in cents | (32.48) | 11.19 |

15 Segment information

The Fund has only one reportable segment. The Fund operates predominantly in Australia and is engaged solely in investment activities, deriving revenue from dividend and distribution income, interest income and from the sale of its investment portfolio.

16 Related party transactions

For the purpose of these financial statements, parties are considered to be related to the Fund if they have the ability, directly or indirectly, to control or exercise significant influence over the Fund in making financial and operating disclosures. Related parties may be individuals or other entities.

The Responsible Entity of Forager Australian Shares Fund is The Trust Company (RE Services) Limited (ABN 45 003 278 831) (AFSL 235150). The Investment Manager of the Fund is Forager Funds Management Pty Limited.

(a) Directors

Key management personnel include persons who were Directors of the Responsible Entity at any time during the financial year as follows:

Glenn Foster
Christopher Green (resigned 17 October 2018)
Michael Vainauskas
Andrew McIver (Alternate Director for Michael Vainauskas)
Vicki Riggio
Gillian Larkins (Alternate Director for Glenn Foster) (resigned 12 October 2018)
Phillip Blackmore (Alternate Director for Christopher Green and Vicki Riggio) (appointed 6 July 2018)
Phillip Blackmore (Alternate Director for Christopher Green) (resigned 17 October 2018)
Richard McCarthy (appointed 17 October 2018)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

(c) Key management personnel unitholdings

During or since the end of the year, none of the Directors or Director related entities held units in the Fund, either directly, indirectly or beneficially.

Neither the Responsible Entity nor its affiliates held units in the Fund at the end of the year.

(d) Key management personnel compensation

Key management personnel do not receive any remuneration directly from the Fund. They receive remuneration from the Responsible Entity in their capacity as Directors or employees of the Responsible Entity or its related parties. Consequently, the Fund does not pay any compensation to its key management personnel. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel.

(e) Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting year.

(f) Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

16 Related party transactions (continued)

(g) Responsible Entity/Investment Manager's fees and other transactions

Under the terms of the Fund's Constitution and Product Disclosure Statement, the Responsible Entity and Investment Manager are entitled to receive management fees of up to 1% per annum (inclusive of GST and net of RITC) of the net assets of the Fund calculated and accrued daily and is payable monthly in arrears.

The Investment Manager is also entitled to a performance fee from the Fund. The performance fee is equal to 10% (inclusive of GST and net of RITC) of the return of the Fund in excess of 8% per annum, calculated and paid semi-annually in arrears based on the average net asset value of the Fund over the relevant six month period.

The transactions during the year between the Fund, the Responsible Entity and the Investment Manager were as follows:

| | 30 June 2019 | 30 June 2018 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| Investment management fees for the year | 1,564,597 | 1,624,040 |
| Performance fees for the year | - | 958,127 |
| Expense reimbursement income for the year | (555,309) | (466,710) |
| Responsible Entity fees for the year | 156,636 | 153,071 |

The ordinary expenses for the Fund are capped at 0.10% per annum of the Fund's net asset value as per the Product Disclosure Statement. For the first three years after the Fund's listing date, which was 14 December 2016, the Investment Manager has agreed to pay any expense recoveries incurred by the Fund that are in excess of the Fund's average expense recoveries for the previous three years. This expense recovery cap is 0.054% and the expense reimbursement income for the year noted above represent the monies put into the Fund to ensure that the Fund's overall management costs remain within that disclosed in the Product Disclosure Statement.

The amounts payable as at year end between the Fund, the Responsible Entity and the Investment Manager were as follows:

| | 30 June 2019 | 30 June 2018 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| Total fees payable to the Investment Manager at year end | 270,186 | 148,108 |
| Total fees receivable for reimbursement income at year end | (225,810) | (57,175) |
| Total fees payable to the Responsible Entity at year end | 81,821 | 82,725 |

The Fund has entered into a Management Agreement with Forager Funds Management Pty Ltd ("Investment Manager") such that it will manage investments of the Fund, ensure regulatory compliance with all the relevant laws and regulations, and provide administrative and other services for a fee.

(h) Related party unitholdings

Parties related to the Fund (including The Trust Company (RE Services) Limited, its related parties and other funds managed by The Trust Company (RE Services) Limited and the Investment Manager), held units in the Fund as follows:

30 June 2019

| Unitholder | No. of units held opening (Units) | No. of units held closing (Units) | Interest held (%) | No. of units acquired (Units) | No. of units disposed (Units) | Distributions paid/payable by the Fund (\$) |
|------------------------------|--|--|----------------------------------|--|--|--|
| Senefelder Super Fund | 641,892 | 847,598 | 0.74 | 205,706 | - | 18,390 |
| The Senefelder Trust | 54,430 | 89,873 | 0.08 | 35,443 | - | 1,950 |
| Tema Super Fund | 142,610 | 200,000 | 0.18 | 57,390 | - | 4,339 |
| Equitas Nominees Pty Limited | - | 381,456 | 0.34 | 381,456 | - | 8,276 |

16 Related party transactions (continued)

(h) Related party unitholdings (continued)

30 June 2018

| | No. of units held opening (Units) | No. of units held closing (Units) | Interest held (%) | No. of units acquired (Units) | No. of units disposed (Units) | Distributions paid/payable by the Fund (\$) |
|-----------------------|--|--|-------------------------|--|--|--|
| Senefelder Super Fund | 485,281 | 641,892 | 0.7000 | 156,611 | - | 136,670 |
| The Senefelder Trust | 168,457 | 54,430 | 0.0600 | 10,973 | (125,000) | 11,589 |
| Tema Super Fund | 133,889 | 142,610 | 0.1600 | 8,721 | - | 30,364 |

(i) Investments

The Fund did not hold any investments in The Trust Company (RE Services) Limited or its related parties during the year (2018: nil).

17 Significant events during the year

A non-renounceable rights issue offer to existing unitholders of the Fund of 1 new unit at an issue price of \$1.58 for every 6 units held was made on 30 August 2018. A total of \$23,265,000 was raised under this offer with 14,724,513 new units issued to unitholders. As a result of the rights issue, the Fund completed the acquisition of the Forager Wholesale Value Fund's portfolio on 28 September 2018, a Fund which Forager Funds Management Pty Ltd had resigned as Investment Manager, and which was terminated at this time.

On 4 June 2019 the Investment Manager in consultation with the Responsible Entity of the Fund, announced that the Dividend reinvestment plan was suspended for the year ended 30 June 2019.

In the opinion of the Directors, there were no other significant events during the year.

18 Events occurring after the reporting period

The Directors are not aware of any event or circumstance since the end of the financial year not otherwise addressed within this report that has affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in subsequent years. The Fund continues to operate as a going concern.

19 Contingent assets and liabilities and commitments

There are no contingent assets, liabilities or commitments as at 30 June 2019 and 30 June 2018.

Directors' Declaration

In the opinion of the Directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 14 to 38 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2019 and of its performance for the financial year ended on that date,
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and
- (c) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors of The Trust Company (RE Services) Limited.



Director
The Trust Company (RE Services) Limited

Sydney
22 August 2019

Independent Auditor's Report to the Unitholders of Forager Australian Shares Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Forager Australian Shares Fund (the Fund), which comprises the statement of financial position as at 30 June 2019, the statement comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2019, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of Forager Australian Shares Fund is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Fund's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Investment existence and valuation

| Why significant | How our audit addressed the key audit matter |
|---|--|
| <p>The Fund has a significant investment portfolio consisting primarily of listed and unlisted securities. As at 30 June 2019, the value of these financial assets, was \$121,113,383 which represented 82% of the total assets of the Fund.</p> <p>As detailed in the Fund's accounting policy described in Note 2(b) of the financial report, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standards.</p> <p>Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report. Accordingly, valuation of the investment portfolio was considered a key audit matter.</p> | <p>We assessed the effectiveness of the controls relating to the recognition and valuation of investments.</p> <p>We obtained and considered the assurance report on the controls of the Fund's administrator in relation to Fund Administration Services for the year ended 30 June 2019 and considered the auditor's qualifications, competence and objectivity and results of their procedures.</p> <p>We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2019.</p> <p>We assessed the fair value of all investments in the portfolio held at 30 June 2019. For all listed securities, the values were verified against independently sourced market prices. For unlisted securities, prices were derived from management's model which we reviewed and for which we agreed the relevant inputs to source data.</p> <p>We assessed the adequacy of the disclosures in Note 4 of the financial report in accordance with the requirements of Australian Accounting Standards.</p> |

2. Management Fees and Performance Fees

| Why significant | How our audit addressed the key audit matter |
|---|--|
| <p>Management fees and performance fees, paid to the Investment Manager, Forager Funds Management Pty Ltd, are the most significant operating expense for the Fund.</p> <p>The Fund's accounting policy for management fees and performance fees is described in Note 16(g) to the financial report. Performance fees are recognised in the financial report if the performance hurdles for the Fund has been met at the end of the relevant measurement period, which is the date that the performance criteria are met and the liability has been crystallised.</p> | <p>We assessed the effectiveness of the controls in relation to the calculation of management and performance fees of the Fund's administrator, who has responsibility for the calculation.</p> <p>We recalculated management fees, in accordance with the Fund's Product Disclosure Statement and the Fund's Constitution, including verifying the fee rate to such agreements.</p> <p>We assessed the performance fee calculation, including testing the inputs into the calculation model and assessed whether the calculation was in line with the relevant Fund's Product Disclosure Statement and the Fund's</p> |

2. Management Fees and Performance Fees (continued)

| Why significant | How our audit addressed the key audit matter |
|--|--|
| <p>For the year ended 30 June 2019, the management fees totalled \$1,564,597 which represented 69% of the total expenses.</p> | <p>Constitution, including verifying the fee rate to such agreements.</p> |
| <p>For the year ended 30 June 2019, the Fund had nil performance fees.</p> | <p>We also assessed whether the criteria for accrual of a performance fee liability were met at 30 June 2019.</p> |
| <p>The assessment of performance fee arrangements can be complex and judgmental due to uncertainty around future performance.</p> | <p>We assessed the adequacy of the disclosures in Note 16(g) of the financial report in accordance with the requirements of Australian Accounting Standards.</p> |
| <p>Accordingly, this was considered a key audit matter. The disclosure of these amounts is included in Note 16(g) of the financial report.</p> | |

Information Other than the Financial Report and Auditor's Report

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in Fund's 2019 Annual Report but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors of the Responsible Entity for the Financial Report

The Directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors of the Responsible Entity are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors of the Responsible Entity either intend to liquidate the Fund or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Responsible Entity.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors of the Responsible Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors of the Responsible Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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From the matters communicated to the Directors of the Responsible Entity, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young

Ernst & Young

Rohit Khanna
Partner
Sydney
22 August 2019

**Forager Australian Shares Fund
Unitholder and Other Information**

The information set out below was applicable as at 31 July 2019

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report, is listed below.

A. Distribution of unitholders

Analysis of numbers of unitholders by size of holding:

| Size of holding | Number of unitholders | Number of units | % of units issued |
|-------------------|-----------------------|--------------------|-------------------|
| Ranges | | | |
| 1 to 1,000 | 143 | 75,440 | 0.07 |
| 1,001 to 5,000 | 299 | 908,134 | 0.80 |
| 5,001 to 10,000 | 349 | 2,669,249 | 2.34 |
| 10,001 to 100,000 | 1,318 | 45,911,633 | 40.33 |
| 100,001 and Over | 216 | 64,279,383 | 56.46 |
| Total | 2,325 | 113,843,839 | 100.00 |

The number of unitholders holding less than a marketable parcel of \$500 worth of units is 51 and they hold a total of 9,247 units.

B. Largest unitholders

Twenty largest unitholders

The names of the twenty largest holders of quoted units are listed below:

| Name of unitholder | Number of units | % of units issued |
|---|-------------------|-------------------|
| BRAZIL FARMING PTY LTD | 4,949,182 | 4.35 |
| TRANSFIELD FINANCE PTY LTD | 2,965,051 | 2.60 |
| MR IAN WILLIAM TURNBULL | 1,500,000 | 1.32 |
| CATRETA PTY LTD | 1,475,319 | 1.30 |
| MR AARON SHELLEY & MISS TENNILLE SHELLEY | 1,384,519 | 1.22 |
| JELLY PTY LTD <MACLEOD SUPER FUND> | 1,247,023 | 1.10 |
| CITICORP NOMINEES PTY LIMITED | 1,224,389 | 1.08 |
| BIG MAX INDUSTRIES PTY LTD | 1,157,335 | 1.02 |
| SUPER SUPER NO 1 PTY LTD | 1,035,214 | 0.91 |
| BNP PARIBAS NOMINEES PTY LTD | 978,170 | 0.86 |
| JELLY PTY LTD <CHALE TRUST> | 961,399 | 0.84 |
| MR JOHN MICHAEL WOODHEAD & MRS TUTZ WOODHEAD | 936,493 | 0.82 |
| MR RICHARD COLLINS & MRS MARY MARION COLLINS | 898,593 | 0.79 |
| MR STEVEN JOHNSON & MR BRENDON JOHNSON | 847,598 | 0.74 |
| MR GAVIN GERARD DOUGLAS & MRS SALLY MAREE DOUGLAS | 825,000 | 0.72 |
| WRITEMAN PTY LIMITED | 814,199 | 0.72 |
| TROBER NO 57 PTY LTD | 795,752 | 0.70 |
| MR SCOTT PLUNKETT | 791,545 | 0.70 |
| PLATINUM MANAGEMENT GROUP PTY LTD | 737,365 | 0.65 |
| MR SIMON PLUNKETT | 630,028 | 0.55 |
| Total | 26,154,174 | 22.99 |

C. Substantial holders

There are no substantial unitholders.

D. Voting rights

Voting rights which may attach to or be imposed on any unit or class of units is as follows:

- (a) On a show of hands every unitholder present will have 1 vote; and
- (b) On a poll every unitholder present will have 1 vote for each dollar of the value of the total interests they have in the Fund.

E. Investment Transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 304. Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$121,567.

F. Stock Exchange Listing

The Fund's units are listed on the Australian Securities Exchange and are traded under the code "FOR".

G. Unquoted Units

There are no unquoted units on issue.

H. Voluntary Escrow

There are no restricted units in the Fund or units subject to voluntary escrow.

I. On-Market Buy-Back

There is no current on-market buy-back.

J. Registered Office of the Responsible Entity

The Trust Company (RE Services) Limited
Level 18, Angel Place
123 Pitt Street
Sydney NSW 2000
Telephone: 02 8295 8100

K. Unit Registry

| | |
|----------------------------|--|
| Name: | Link Market Services Limited |
| Street address: | Level 12, 680 George Street Sydney NSW 2000 |
| Postal address: | Locked Bag A14 Sydney South NSW 1235 |
| Phone (inside Australia): | 1800 502 355 |
| Phone (outside Australia): | +61 2 8280 7111 |
| Fax: | +61 2 9287 0303 |
| Email: | registrars@linkmarketservices.com.au |
| Website | www.linkmarketservices.com.au |

L. Responsible Entity Company Secretaries

Sylvie Dimarco
Eleanor Padman
Gananatha Minithantri



Forager Funds Management
Level 14, 56 Pitt Street
Sydney NSW 2000

P +61 (0) 2 8305 6050
W foragerfunds.com

Forage

verb, for-aged, for-ag-ing.

to search about; seek; rummage; hunt (for what one wants).
