FORAGER

JUNE 2020 QUARTERLY REPORT

INTERNATIONAL FUND RIDES THE REBOUND
New ideas were crucial contributors to performance of the International Fund this quarter.

SECOND CHANCE AT AUTODESK
Having wanted to own this wonderful business for some time, COVID-19 gave us our chance.

OPPORTUNITIES IN THE COVID-19 AFTERMATH
The market implosion in March offered up some stunningly low entry prices for listed stocks.

WILL WE EVER TRAVEL AGAIN?
Travel and leisure businesses, already reeling from bushfires and floods, have been poleaxed by COVID-19.

Investing in Volatile Markets

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VOLATILITY AND OPPORTUNITY THANKS TO COVID-19

The success of Forager's International Shares Fund shows money can be made in difficult markets. Our Australian Fund has catching up to do.

That was quick.

After March's dramatic selloff, global equities staged an equally dramatic recovery in the June quarter. The International Fund's 23.3% gain for the quarter took it to a 13.7% positive return for the full financial year, some 10.6% ahead of its benchmark. The Australian Fund's 39.3% gain was even more extreme, but still left it down 18.4% for the year and some 11.2% behind the All Ordinaries Accumulation Index.

You can read all of the details in our 2020 Performance Report.

I'm proud of the way the Forager team has performed through the volatility. The speed, magnitude and violent nature of March's selloff dwarfed the financial crisis. Many investors—including professionals—crystalised the losses by panicking at the worst possible time.

We've all been working from home, some juggling children and partners with their own stressful jobs. I don't think any of us would pitch it as the easiest bear market of our lives. Yet we have managed to be greedy when others were fearful. We were as fully invested as we have ever been at the market bottom and have added a significant number of new investments to both portfolios.

While we had no idea the recovery was going to come so quickly, we weren't going to miss it.

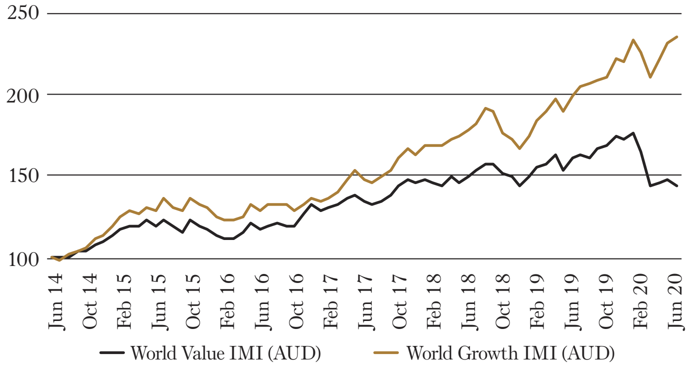
None of that takes away from the fact that, over the whole year, it has been another period of poor performance for our Australian Shares Fund. That's two horrible years in a row. We certainly don't want it to be three.

The 2019 financial year was one for reflection and change to some of our processes. A lot of progress has been made. Today's portfolio is in a much better place than it was a year ago. We have been able to change boards and management teams at several underperforming businesses, with some positive early signs of progress. We have exited some underperforming companies over the year. And with a little help from a market meltdown, have added a few new businesses about which we are quite excited.

SOURCE OF FRUSTRATION

That hasn't been reflected in overall performance, which is frustrating. While it is easy to blame markets—tech bubbles, value underperformance and the like—the outstanding year from the International Fund shows that all those hurdles can be overcome if we get more things right.

Chart 1: MSCI Value Versus Growth (Rebased to 100)



Source: MSCI

First, the benefits of diversity are significant. Diversity of ideas, diversity of people in the team and diversity of underlying business all allow a fund to be nimble. In the International Shares Fund, we owned a number of large, blue chip stocks that held up relatively well in the meltdown. That enabled us to recycle capital from the likes of **Yum China**, **Alphabet** and **Sony** into shares that had been punished much more severely. That's obviously harder to achieve in a fund restricted to Australian stocks but, when the opportunities were most abundant, the stocks we already held were among the most heavily punished. In many cases, they were impossible to sell (or buy) due to lack of liquidity.

I've made the case for less cash rather than more over recent years. Some investors vehemently disagree with that view. But one thing we can all agree on is that, if you are going to take maximum advantage of investor panic, you need access to liquidity. If that's not cash, it needs to be highly liquid assets that are as uncorrelated as possible with the rest of the portfolio.

The biggest difference between the two funds, however, had nothing to do with the market meltdown. In the International Fund, we have had just three stocks contribute almost 18% of positive performance between them. **GAN**, **Celsius** and **Blancco** all had market capitalisations of less than $500m at the time we purchased them and all have returned multiples of our investments. There have been a few things go wrong in that portfolio, too, but a few big winners make the world of difference.

At heart we are stockpickers. Our job is to use our size, flexibility and contrarian nature to get out there and find investment opportunities that make a lot of money. They are always few and far between. And combining those opportunities with a portfolio of high-quality businesses has been a powerful recipe in the International Fund.

"MANY INVESTORS—INCLUDING PROFESSIONALS—CRYSTALISED THE LOSSES BY PANICKING AT THE WORST POSSIBLE TIME."

But the past three years has seen a drought of big winners in the Australian Fund. And that's been the biggest difference between the two Funds and the biggest difference between the past three years and the seven prior to that.

We will be bringing on a new senior team member in the Australian Shares Fund over the coming months, specifically aiming to complement the skills we already have. You will see further progress on portfolio liquidity, a more diverse mix of ideas and a few more of those problem children on a better path. At the end of the coming year, that needs to translate to substantially better returns.

FERTILE PADDOCK

It is the most fertile backdrop for stockpicking I have seen since the years following the financial crisis. That's true across both Funds.

Yes, the economic backdrop is going to be difficult for the next few years at least. Yes, the speed of the market rebound has surprised even the most optimistic of us. But I, unlike others, don't think current market levels are absurd. Company after company is showing that they can adapt and flex and still be profitable. And low long-term interest rates have to be taken into account. I'm highly confident that a broad equities index will do better than cash over the next decade.

It's not that that gets me excited, though. It's the difference in valuation being attributed to the underlying index constituents. Many stocks have been left behind in the rally. Many of those don't deserve to be. The gap between the popular and unpopular is as wide as I have ever seen it. And the reward for finding a stock that can jump the gap is immense.

In addition to highly attractive current portfolios, we are still finding plenty of prospective ideas. We have bemoaned the lack of variability over the past few years. Today we have no such excuse.

NEW PORTFOLIO MANAGERS

You may have already seen the news in an email towards the end of June, but I'd like to pass on my personal congratulations to Gareth Brown and Harvey Migotti on their promotions to joint Portfolio Managers of the International Shares Fund. It's been a horrible environment for value investing. It's been a horrible environment if you are doing anything other than buying tech stocks. That we have had such an outstanding year and are within a smidgen of the index's return since inception is a testament to the team's efforts.

You won't notice much different at a portfolio level, but you will see a lot more of them over the coming months and years.

2020 ROADSHOW

We won't be touring the country this year, but we'll still be running our annual roadshow. Put lunchtime on the 5th of August in your diary and we will be emailing you with further details soon.

Kind regards,

STEVEN JOHNSON
Chief Investment Officer

INTERNATIONAL SHARES FUND

FACTS

Inception date	8 February 2013
Minimum investment	$20,000
Monthly investment	Min. $200/mth
Income distribution	Annual, 30 June
Applications/redemptions	Weekly

UNIT PRICE SUMMARY

Date	30 June 2020
Buy price (cum distribution)	$1.7498
Redemption price (cum distribution)	$1.7429
Mid price (cum distribution)	$1.7464
Distribution	17.73c
Portfolio value	$165.5m

INTERNATIONAL FUND RIDES THE REBOUND

Panic abated and exuberance returned this quarter. New ideas added immensely to the Fund's returns. In this increasingly bifurcated market, we're accelerating the hunt for more.

Table 1: Summary of Returns as at 30 June 2020

	International Shares Fund	MSCI AC World Net Index in $A
1 month return	-0.22%	-0.50%
3 month return	23.34%	6.53%
6 month return	1.44%	-5.11%
1 year return	13.74%	3.12%
3 year return (p.a.)	6.17%	9.42%
5 year return (p.a.)	8.90%	8.47%
Since inception* (p.a.)	12.67%	13.44%

*Inception 8 February 2013

MSCI AC World Net Index in $A is an abbreviation of MSCI All Country World Investable Market Index (Net) in Australian dollars. Past performance is not indicative of future performance and the value of your investments can rise or fall.

The final quarter of the 2020 financial year saw equity markets stage a dramatic recovery from their March lows. Forager's International Shares Fund did better, leaving it up 13.7% for the financial year and some 10.6% ahead of its benchmark.

You can read the details in our 2020 Performance Report. We were able to add some high quality businesses at attractive prices in March's chaos. Most of our holdings have thankfully weathered the economic fallout of COVID-19 well. And, most importantly, a few of the Fund's smaller companies have had outstanding years and delivered large positive contributions to portfolio returns (see GAN and Celsius below).

It should come as no surprise that our aim is to deliver more of the same over the next few years. While markets might look expensive relative to a fairly dismal economic outlook, plenty of opportunities for outsized returns remain. The current portfolio is exposed to an economic recovery, but largely focused on businesses that have the wherewithal to survive a significant recession.

Since March, the cash weighting has risen and will likely rise further as current holdings reach fair value, giving us ammunition if markets retrace some of their gains. There are several new small companies in the pipeline or recently added to the Fund. You shouldn't expect the extravagant returns we have seen over the past 12 months to come all at once, but it is clearly an area where we can add something unique to your portfolio.

The three biggest contributors to the portfolio over the past 12 months all had market capitalisations of less than $500m at the time of purchase. **GAN Limited** (Nasdaq:GAN) was mentioned in the Fund's last two monthly updates (see the further update below). **Blancco Technology** (AIM:BLTG) should be familiar to long-term investors—it has been a key performer for the Fund for a number of years. The third of the troika, **Celsius Holdings** (Nasdaq:CELH), hasn't been mentioned before.

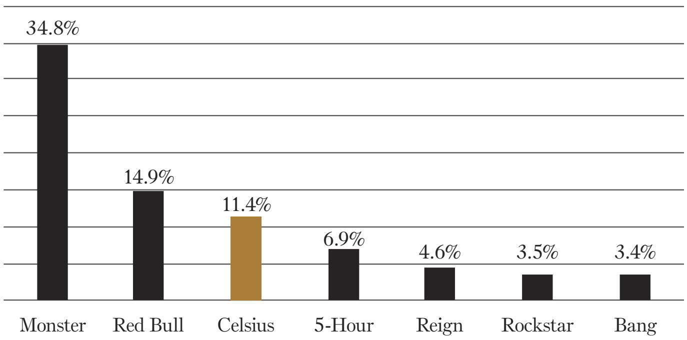
MANY DEGREES OF CELSIUS

Celsius manufactures and distributes its products in the hyper-competitive energy drinks market. With globally established marketing juggernauts like **Monster** (Nasdaq:MNST) and Red Bull competing alongside hundreds of new startups every year, it isn't easy to make your caffeinated lolly water stand out from the rest. But the rewards for the winners are enormous.

With revenue of less than $100m, Monster itself was a $50m minnow back in 2002. In less than 20 years, sales have grown to more than $4bn and investors have made some 700 times their money. Our expectations are more modest than that. But Celsius has been able to build a niche among gym-goers and image conscious consumers as a healthier alternative to the established players. It's a niche that is growing rapidly.

From just over $10m of sales in 2013, Celsius reported more than $75m of sales last year and is expected to exceed $115m in 2020. If the first quarter is anything to go by, it should sail on by that. Its products are now the third best selling energy drinks on Amazon, with a market share of 11%.

Chart 2: Energy Drink Market Share on Amazon*



*For the 13 weeks ended 11 April 2020
Source: Stackline, Amazon

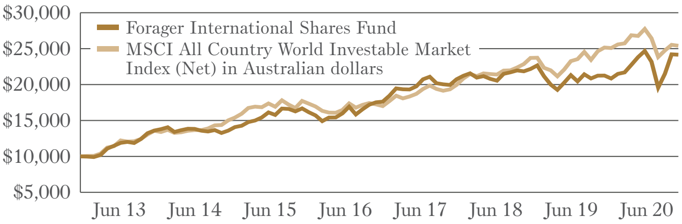
"WHILE MARKETS MIGHT LOOK EXPENSIVE RELATIVE TO A FAIRLY DISMAL ECONOMIC OUTLOOK, PLENTY OF OPPORTUNITIES FOR OUTSIZED RETURNS REMAIN."

We need it to keep growing rapidly. The share price has doubled since our first purchase and the market capitalisation is now just north of $800m. While we are usually wary of such lofty expectations, our confidence in future growth is high. In fact, the blue sky scenario here could involve them capturing up to 10% of the $14bn US energy drinks market, resulting in $1.4bn of sales—more than 10 times the current run-rate.

While it already sells nationally in shops such as Target, CVS and Walmart, Celsius is currently in advanced negotiations with several large Direct Store Delivery ("DSD") partners for significant regional expansion. These partners bring thousands of new stores, inclusion in coolers, better shelf placement and reduced inventory shortages. A recent due diligence trip to a few stores in the US showed a much more significant presence today than six months ago.

While the company expects organic growth of 30% from its traditional channels, this growth rate could more than double when DSD partnerships are added.

Chart 3: Comparison of $10,000 Investment Over Time



Source (MSCI AC World Net Index in $A): S&P Capital IQ. The above figures assume that all distributions have been reinvested. Past performance is not indicative of future performance.

The company remains one of our largest investments, despite having taken significant money off the table as the share price has risen rapidly. We will continue to do so if the price keeps rising. But this business has a bright future. In March, **PepsiCo** (Nasdaq:PEP) agreed to buy Rockstar Energy for US$3.85bn. We believe a similar fate ultimately awaits Celsius, and we would like to be shareholders when it happens.

COVID-19 GIVES US AN AUTODESK

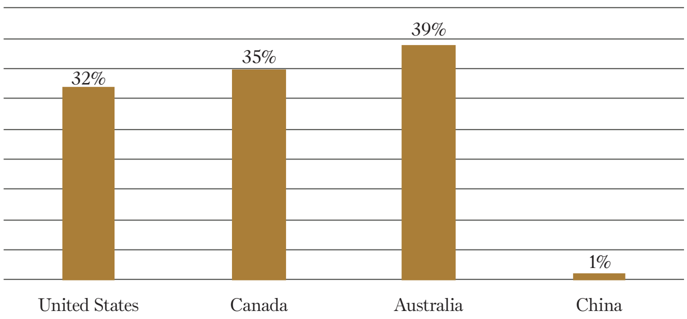
Autodesk (Nasdaq:ADSK) is the global market leader in design software for the engineering, construction, manufacturing and media and entertainment industries. We did a lot of work on the stock in 2019, but the share price ran up before we placed a bet. COVID-19 gave us an unmissable second chance.

The company's flagship product AutoCAD was launched more than three decades ago and is the most popular and widely-used mechanical computer-aided design product on the market. But the tailwinds remain strong. Construction, making up 60% of group sales, is still in the early stages of a compelling digitalisation shift.

"The biggest enemy of the construction industry was the arrival of email. Two parties would make amendments to the drawings, but they wouldn't tell anyone else. With BIM, everyone can see what has happened"
– Construction Industry Council CEO, Graham Watts

Building Information Modeling ("BIM") is the term used for an intelligent 3D model-based process that gives architecture, engineering and construction professionals the insight and tools to efficiently plan, design, construct and manage buildings and infrastructure, and to work on them simultaneously. More countries and companies are mandating BIM. It helps reduce waste, adding to companies' green credentials, and ensures completions are done on time. BIM penetration is still low in most developed markets (15-35%) and there is a huge opportunity in emerging markets as they migrate to more efficient architectural and construction standards.

Chart 4: Building Information Modeling Penetration



Source: Autodesk, Forager

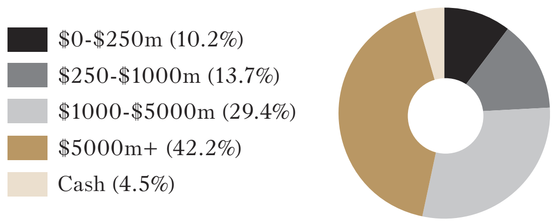
Moreover, COVID-19 and the rapid shift to work from home has driven acceleration in customers taking up their cloud product offerings. This should continue to be a tailwind over the coming years.

> "FROM JUST OVER $10M OF SALES IN 2013, CELSIUS REPORTED MORE THAN $75M OF SALES LAST YEAR AND IS EXPECTED TO EXCEED $115M IN 2020."

Autodesk also has a big incremental revenue opportunity given a large base of 'pirate' users who don't currently pay to use its software. The company has five million paying subscriptions and an estimated 14 million non-compliant users of legacy software. Its conversion to a subscription model gives the company much better control over usage, and that should mean more paying clients.

Unlike many other Software-as-a-Service companies, Autodesk is already profitable. It has spent the last few years migrating customers over from perpetual licences to subscriptions, temporarily crimping its profitability. As this migration ends over the coming few years, profit margins, as a percentage of revenue that itself should grow quickly, will increase significantly.

Chart 5: Portfolio Distribution According to Market Capitalisation

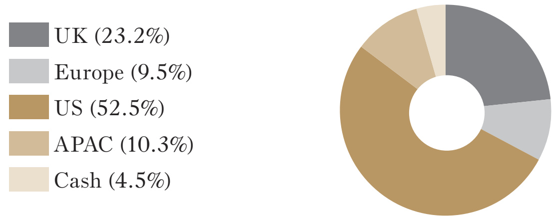


Given that the company is growing revenue at 15-20% per annum, we estimate profits can grow at closer to 30% per annum. Thanks to a COVID-induced selloff, we've been able to buy a piece of that at a perfectly reasonable price.

DEALS ON DEMAND AT UBER

Uber (Nasdaq:UBER) management has had a busy start to the northern summer. Negotiations to acquire one of the three largest US food delivery players, **Grubhub** (NYSE:GRUB), were ended at the last minute due to disagreements on deal break fees. Antitrust was always going to be an issue, as the two companies would end up controlling over 40% of the US market, making any large break fee a big issue for Uber shareholders. The European market-leader, Takeaway.com, then lobbed its own bid for Grubhub.

Chart 6: Stock Exposure by Geography



While it was initially puzzling that Uber would walk away from such an important consolidation deal (even allowing for potential break fee losses), this decision became clearer recently when the New York Times reported that Uber is in talks to buy Postmates for $2.6bn.

Postmates is a nine-year-old delivery service and the smallest of the big four that are fighting for control of the US food delivery ecosystem. An Uber/Postmates combination would result in a 30% market share. The deal would pose much less regulatory risk than Grubhub, while still creating 'metro area dominance' across some key regions.

We continue to like Uber irrespective of any potential transaction, with the company rapidly exiting unprofitable business ventures and the whole group moving towards profitability in 2021.

Table 2: Top 5 Investments

Celsius Holdings Inc	7.1%
Blancco Technology Group Plc	6.1%
Gan Ltd	5.1%
CDW Corporation	4.2%
Zebra Technologies Corp	4.0%
Cash	4.5%

“UNLIKE MANY OTHER SOFTWARE-AS-A-SERVICE (“SAAS”) COMPANIES, AUTODESK IS ALREADY PROFITABLE, HAVING SPENT THE LAST FEW YEARS MIGRATING CUSTOMERS OVER FROM PERPETUAL LICENCES TO SUBSCRIPTIONS.”

PORTFOLIO NEWS

The **Spotify** (NYSE:SPOT) share price has increased more than 60% since mid-May, adding more than US$15bn to its market capitalisation. The rally started after the company announced a multi-year exclusive licencing deal with Joe Rogan, one of the most popular podcast interviewers in the world. Since then, Spotify has announced additional exclusive contracts with Kim Kardashian and Barack Obama.

While that may seem like a lot of value to attribute to a couple of celebrity podcasts, it’s further evidence that Spotify is building a moat around its business. Prior to these investments, Spotify announced that 19% of users listened to podcasts in the first quarter of 2020, up from just 5% of users two quarters prior. That’s an additional 20 million people that started listening to podcasts on Spotify in a six month period.

The stock is becoming more popular than Kim Kardashian herself.

Gambling software business **GAN** (Nasdaq:GAN) released its first quarter result to 31 March 2020. It contained no surprises—the numbers had been well-flagged in its US relisting documents. The focus was more recent trading. COVID-19 has temporarily suspended sports-betting opportunities but created a substitution effect, with punters moving to online casino games, which are significantly higher margin products.

Industry-wide online gaming turnover in New Jersey, the most established state, was up more than 50% compared with the months immediately prior to COVID-19. Growth has been faster still in Pennsylvania. The pandemic has also encouraged casinos to speed up their online plans. GAN won some significant new casino customers during the past few months and is about to net a whale (rumoured to be Churchill Downs Incorporated), having reached an in-principle agreement in recent weeks.

Online gambling has a long way to grow in the US, and GAN is carving out an important role in the ecosystem. It’s still early in the game. But the stock has rocketed since relisting in the US and a lot of growth is now priced in. By quarter end, we’d sold more than half of the Fund’s peak holding, but the weighting still sat at 5.1%. We’ve sold more in the early days of July.

We wrote about the takeover proposal submitted to **Gulf Marine Services** (LSE:GMS) in the April Monthly Report. Given the current opportunity set, we decided to take advantage of the offer and sold the Fund’s entire holding for 10p per share in May.

AUSTRALIAN SHARES FUND

FACTS

Inception date	30 October 2009
ASX Code	FOR
Income distribution	Annual, 30 June

UNIT PRICE SUMMARY

Date	30 June 2020
NAV (cum distribution)	$1.04
Market price (cum distribution)	$0.87
Distribution	0.8c
Portfolio value	$118.2m

STRONG END TO A DISMAL YEAR

Stock markets rebounded in the June quarter and the Fund's stocks rallied even harder. That wasn't enough to offset the damage from March.

Table 3: Summary of Returns as at 30 June 2020

	Australian Shares Fund (ASX:FOR)	All Ordinaries Accumulation Index
1 month return	-2.16%	2.34%
3 month return	39.25%	17.75%
6 month return	-23.42%	-10.42%
1 year return	-18.36%	-7.21%
3 year return (p.a.)	-11.27%	5.43%
5 year return (p.a.)	0.64%	6.22%
10 year return (p.a.)	7.78%	7.78%
Since inception* (p.a.)	6.82%	6.80%

*Inception 30 October 2009

The value of your investments can rise or fall. Performance is calculated using Net Asset Value (NAV), not the market price. Past performance is not indicative of future performance.

We're not for a moment shying away from the poor performance of the Forager Australian Shares Fund. But the past three months have provided ample evidence for our conviction that March's share price falls were an absurd over-reaction to the impact of an economic downturn on this portfolio.

The portfolio net asset value has rebounded 39% in the June quarter. More importantly, we avoided any recapitalisations* and a significant number of companies have released positive trading updates.

From smash repair company **AMA** (AMA), to auto leasing business **Eclipx** (ECX) and homewares retailer **Adairs** (ADH), business has rebounded quickly after lockdown. Government support in the form of Jobkeeper means many are reporting profits higher than the prior period. The Fund's largest investments, **RPM Global** (RUL), **Macmahon** (MAH) and **Enero** (EGG) seem to be largely unaffected by the economic backdrop. And those that have been heavily affected have battened down the hatches, minimised cash outflow and look like they have the wherewithal to make it through to 2021.

While none of that stopped the share prices getting walloped, it does give us confidence in our valuations. And further confidence that the share price recoveries have a long way to go.

OPPORTUNITIES IN THE COVID DRAWDOWN

The market implosion in March offered up some stunningly low entry prices for listed stocks. But it came with a catch. Many businesses were impacted quickly and ferociously. How long can they survive without revenue? This question very quickly became the first one for analysis of beaten down companies. But through the fear, value emerged. And with a quick resumption of activity, some share prices rallied hard.

Table 4: Biggest movers in the All Ords

Falls from 20 February to 23 March 2020	
Ardent Leisure	-91%
IVE Group	-88%
Mosaic Brands	-84%
Credit Corp	-83%
Helloworld Travel	-83%
Southern Cross Media	-81%
AMA Group	-80%
Kathmandu Holdings	-80%
Carbon Revolution	-80%
Emeco Holdings	-80%

Rises from 23 March to 30 June 2020	
Sezzle Inc	916%
Afterpay	585%
Splitit Payments	449%
De Grey Mining	376%
Adairs	365%
Redbubble	348%
Pointsbet Holdings	345%
Zip Co	327%
Temple & Webster	302%
Pantoro	284%

Source: Bloomberg

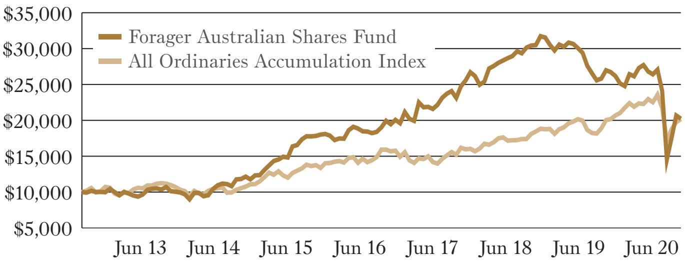
*We did make small investments in a number of companies we thought were likely to need capital, with a mixed record of picking the right ones.

"STAR'S ASSETS ARE HIGH QUALITY AND HIGHLY CASH GENERATIVE. LESS THAN 10% OF THE COMPANY'S EARNINGS COME FROM INTERNATIONAL CUSTOMERS."

One of these was Star City casino owner **Star Entertainment** (SGR). Its casinos were closed on 23 March, 90% of its 9,000 employees were stood down and spending was wound back. The stock lost more than 60% of its value. But since then the picture has improved quickly.

Star Entertainment is awakening already. Star City reopened on 1 June and from 1 July was able to host up to 5,000 patrons. In the private gaming rooms, turnover returned to last year's levels. The Queensland casinos reopened on 3 July. Auckland casino owner **Sky City** (SKC) reopened earlier and is already seeing pokie machine revenue recover to 86% of last year's level. Table games, subject to more stringent physical distancing, are at 65% of prior levels. It is forecasting a roughly breakeven result for the three months to June.

Chart 7: Comparison of $10,000 Investment Over Time



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

Star's assets are high quality and highly cash generative. Less than 10% of the company's earnings come from international customers. It might take a few years, but earnings should move to prior levels. If they do it remains an attractive investment.

Another to cop a big hit and then see a subsequent reversal was **Motorcycle Holdings** (MTO), Australia's largest retailer and wholesaler of motorcycles and accessories.

The business had a market capitalisation of $37m in late March, down 70% from the February peak. Its net debt balance was a scary $68m. The situation looked dire as the company cut costs, sought rent reductions and prepared to bunker down. The Fund held a small position from February, but increased it by two-thirds in early April.

By late June, Motorcycle Holdings forecast half year profits to more than double from the prior year. It is also swimming in more than $30m of cash. How did the company's fortunes reverse so suddenly?

COVID-19 restrictions lifted quicker than many feared while government JobKeeper support kept more people employed and spending. It also meant Motorcycle's salespeople had a portion of their wages subsidised. With travel off the calendar and access to $10,000 of superannuation, Australians turned to spending on discretionary items like motorcycles. With public transport suddenly less appealing, motorcycles present a cheap way to get around. And farmers are having their best season in a long time, increasing demand for ag bikes.

This government induced spike in spending won't last; JobKeeper is due to end in September and only one more $10,000 super withdrawal is available. But there has been enough progress for the company to pay down significant amounts of debt, allaying investor concerns. And the industry was at a cyclical low prior to COVID-19. The new motorcycle sales market should see a benefit from lone transit riders for a while to come.

Lining up the long-term earnings trajectory is going to be impossible with so much noise in the numbers, but this small business should come out of COVID-19 stronger than it went in.

The Fund also used the market volatility to invest in UK bank **Virgin Money** (VUK). The business was separated from the **National Australia Bank** (NAB) as Clydesdale Bank and later merged with a similar sized Virgin Money. The share price fell by 70% in a straight line from late February to late March. Virgin Money was trading at only one quarter of the value of its net tangible assets.

The UK economy was being ravaged by COVID-19. Investors were concerned that borrowers would not repay the banks. These bad debts can very quickly overwhelm not just a bank's profits in a given year, but also the capital it has set aside for difficult times.

UK regulators and the Bank of England acted quickly. Interest rates were cut, banks were told to stop the payment of dividends and were offered access to more funding. The UK government stepped up to help borrowers by paying some wages and extending credit and grants to small businesses and the self-employed.

"THE NEW MOTORCYCLE SALES MARKET SHOULD SEE A BENEFIT FROM LONE TRANSIT RIDERS FOR A WHILE TO COME."

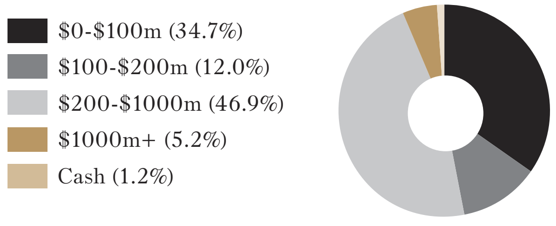
Virgin Money won't be spared the damage from COVID-19, but it does have some good attributes to help it survive and return to earning decent returns. Mortgage lending, where banks have traditionally not lost much money, represents 82% of loans. Of these loans, the value of the homes exceed the loan by 75% on average. And, due to its recent merger, cost reductions are still in progress. Senior leadership believes the cost base of the bank can drop by more than 20% over the next few years. An insurance selling scandal, which has plagued UK banks for years and cost £3.1bn, is finally behind them.

It won't be a smooth ride, and we have kept the investment small, but Virgin UK should be a beneficiary of a return to a more normal situation.

Not all businesses were severely impacted by COVID-19. Mining services provider **Perenti** (PRN) makes most of its money helping miners extract gold from mines in Australia and Africa. Most of the company's work takes place underground, using know-how and equipment to build infrastructure, explode rock and haul it up to the surface.

During COVID-19 the share price fell by 70% on concerns about mine closures and debt levels. With more than 8,000 staff working and living in close quarters, the company has had to be particularly careful to avoid the spread of COVID-19. With the virus subsiding, Perenti has felt minimal impact from closures. In late June the company reinstated its profit forecast at a level 8% lower than its pre-COVID expectations.

Chart 8: Portfolio Distribution According to Market Capitalisation

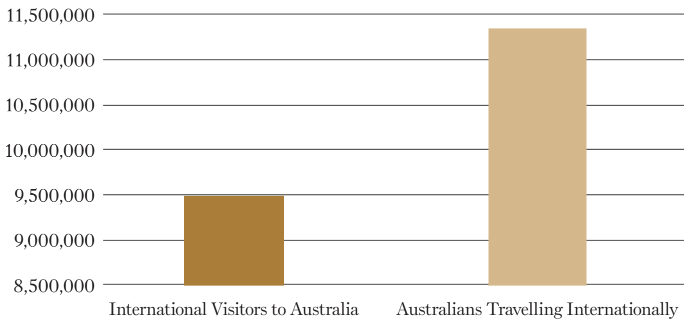


Whilst the debt makes it riskier than our other mining services company, **Macmahon** (MAH), it also has a lot more upside. We have reallocated a small portion of the Macmahon investment to Perenti and kept the overall industry exposure roughly the same.

WILL WE EVER TRAVEL AGAIN?

Australians won't be travelling overseas any time soon. That's 11.3 million trips that we won't be taking overseas in the coming 12 months. And with the country's borders closed, 9.5 million trips by foreign visitors won't be made here either. Travel and leisure businesses, already reeling from bushfires and floods, have been poleaxed by COVID-19. Many are in hibernation, operating with a handful of employees to keep the cobwebs away until things improve. But the businesses in this sector aren't all the same.

Chart 9: Australia's 2019 Inbound and Outbound Trips



Source: Australian Federation of Travel Agents Limited (AFTA)

Some cater mostly to business travellers. That is all of **Corporate Travel**'s (CTD) and two-fifths of the **Flight Centre**'s (FLT) businesses. Smaller companies like NZ upstart **Serko** (SKO) and small agency **Helloworld** (HLO) play in the space as well. To say the state of business travel is uncertain would be an understatement.

Employees have found that meeting via video conferencing using tools like **Zoom** (NASDAQ:ZM) works just fine. It's far cheaper and easier than sending employees around the country or around the world. And with many businesses facing revenue declines, travel has been an easy place to cut costs. A mid-June survey of corporate clients by agency Uniglobe Travel found that more than half of their clients had made changes to travel policies. The most common were limiting or banning travel for internal meetings and limiting conference related travel. People will start flying once borders open, but it may never be the same again. The Fund has stayed away from investments in this corner of the travel sector.

Others cater to leisure travellers or provide experiences. **Experience Co** (EXP) operates skydives and Great Barrier Reef trips. **Tourism Holdings** (NZX:THL) and **Apollo** (ATL) rent recreational vehicles. These three are current investments in the Fund, totaling about 9% of the portfolio.

"TRAVEL WILL NEVER, EVER GO BACK TO THE WAY IT WAS."

At the moment the situation for these businesses is also difficult. International visitors were about two thirds of Experience Co's business. With international borders closed, those visitors are not coming into the country. The company has responded by going into hibernation. Skydives and reef trips are operating only when they make economic sense. Leases and salaries have been slashed. The business is still burning cash to the tune of $1m per month after government support through JobKeeper. Assuming increased costs after JobKeeper expires in September, the business has enough cash and access to debt to survive into late 2021 without any additional capital.

Luckily for Experience Co, it shouldn't have to wait that long. Opening interstate borders will restart domestic tourism. Queensland, an important state for the business, will be opening its borders on 10 July. And Australians unable to travel internationally will redirect at least some of their travel domestically, boosting this further. Cairns hosted 2.4 million visitors last year. Many of those were international tourists who won't be coming back, but some of the 1.8 million Australians who travelled to Indonesia, Thailand and Fiji on holidays might just plug the gap. If a New Zealand bubble opens up travel with our neighbour, the company's businesses on both sides of the Tasman will benefit.

THE ISO-HOLIDAY BENEFICIARIES

In a recent interview, Airbnb's CEO Brian Chesky put it plainly: "Travel will never, ever go back to the way it was". He predicts travellers will holiday closer to home, in smaller cities and spend more time visiting national parks. Recreational vehicle rental companies Tourism Holdings and Apollo are aligned to this vision. Both have seen healthy demand from travellers seeking a socially distant local holiday. And both have had to make big adjustments to improve their financial position.

Apollo is a small investment in the Fund owing to its high debt load. During the crisis the company sought to delay debt repayments, sold its US fleet to reduce debt, and cut its employment costs by 70%. Domestic rental bookings have improved. Apollo is trading at a similar price to its February peak, despite falling by 75% and then rising more than 300%.

Tourism Holdings has also made some difficult but necessary decisions in the last few months. The business is larger and went into the year with lower debt levels. The company has struck a new deal with banks in June, delaying debt maturity to after September 2021. It also allayed investor concerns around a capital raising, stating it does not need to issue new shares. A rarity in the tourism space, the company also guided for a slight profit in the second half of the financial year. An improving market for secondhand recreational vehicles has allowed the business to sell campers it doesn't need at a profit, while reducing debt. The change was so dramatic that on 11 June the company estimated it would finish the year with $165m of debt, by 25 June that estimate had improved to $140m.

Travel and leisure businesses have been some of the hardest hit from COVID-19. And the Fund added to its investment in the sector during some of the darkest days of the crisis. These stocks have been strong performers since, and as the country continues to cautiously open they should continue to be good investments.

Table 5: Top 5 Investments

RPM Global Holdings Limited	13.0%
Enero Group Limited	6.4%
Mainstream Group Holdings Limited	6.3%
Eclipx Group Limited	5.8%
AMA Group Limited	5.1%
Cash	1.2%

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Forage
verb, for·aged, for·ag·ing.
to search about; seek; rummage; hunt (for what one wants).