FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT DECEMBER 2020 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 December 2020)

	1 month return	3 month return	6 month return	1 year return	3 year return (p.a.)	5 year return (p.a.)	10 year return (p.a.)	Since inception* (p.a.)
Australian Shares Fund (ASX:FOR)	3.56%	26.39%	58.82%	21.63%	0.42%	7.99%	12.04%	11.01%
All Ordinaries Accumulation Index	1.75%	14.43%	15.69%	3.64%	7.44%	9.26%	7.89%	7.88%

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

*30 October 2009

The 2020 calendar year finished with the ASX All Ordinaries Accumulation Index up a mundane 4%. But under the surface the swings were extreme. We saw the fastest bear market on record, the first recession in nearly 30 years and big parts of the Australian economy brought to a standstill. The index fell by more than a third in March. Then government stimulus, subsiding investor panic and vaccine hopes saw the index rally more than 50% from the trough.

The Fund underperformed during the fall, with some smaller stocks being indiscriminately sold down during the late March bloodbath. We took advantage of panicked selling in some existing investments and added new positions. The Fund's recovery was much more pronounced than the fall, finishing the year up 22%.

We have more work to do to rectify the underperformance of the last few years, but it has been pleasing to see the Fund perform well in what has been one of the most volatile years on record.

WPP GETS A BID

The 2020 year finished with a new takeover offer for **WPP AUNZ** (WPP), one of the Fund's larger investments. The marketing services business received a bid from its parent company **WPP plc** (LSE:WPP). The Brits already own 62% of the business and the local arm works within the sprawling 130,000-person international empire. In the November monthly report, we called the bid, then at $0.55 per share, opportunistically timed.

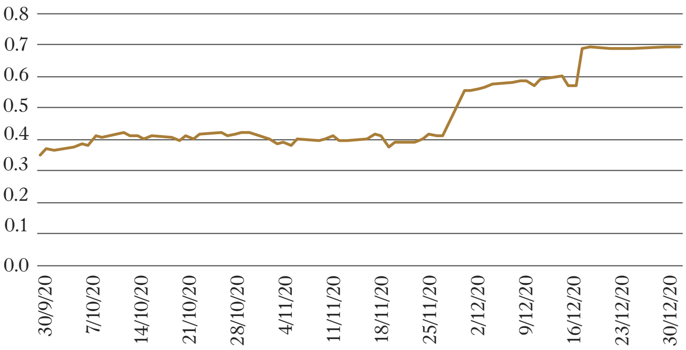
The independent directors agreed, negotiating with the parent to increase the bid to $0.70 per share. Details are still being finalised, but part of the cash is due to come as a $0.15 per share fully franked dividend.

When the Fund first bought into WPP AUNZ in June 2019, the investment case was simple. The company has a major local presence, was recovering from issues with one of its divisions while trying to sell another and had just appointed a new CEO. Trading at a price to earnings multiple of just six times and offering a 13% fully franked dividend yield, the valuation was attractive.

And there was a kicker. The low valuation also meant it made sense for its London-listed majority owner to eventually buy the whole business. It could also cut away the costs of a separately listed entity. The investment thesis stacked up, and the takeover appeal provided another way to realise the value in the business.

The final price makes for a 71% premium over where the local WPP shares were trading just a month ago, and a 54% return on our initial purchase including dividends.

WPP AUNZ SHARE PRICE



Source: Bloomberg

Corporate action has been a frequent path to value realisation over the history of the Forager Australian Shares Fund. Including WPP, 17% of the current portfolio has been the subject of publicly disclosed takeover approaches over the last few years.

This group includes panel beater **AMA Group** (AMA), which saw a bid from private equity group Blackstone two years ago before the deal was scuttled due to a tax issue. The business has become bigger and stronger since, continuing to consolidate Australian panel beaters. For now, a recovery to repair volumes and profit margins remain key. With private equity investors having lots of capital to deploy, AMA may once again be on the radar.

iSelect (ISU), the comparison website, was in the sights of its largest competitor just six months ago. Compare the Market already has a 29% stake in the business and the combination of the two would make for a strong proposition to health insurers. It would also be able to operate with much lower costs. Tabled at $0.40 per share when iSelect's share price was trading closer to $0.20 the bid was opportunistically timed. After announcing a strong first quarter, a change of CEO and a marketing partnership deal with **News Corp** (NWS), iSelect seems to be getting on with business. Given the synergies on offer, a takeover remains a logical outcome.

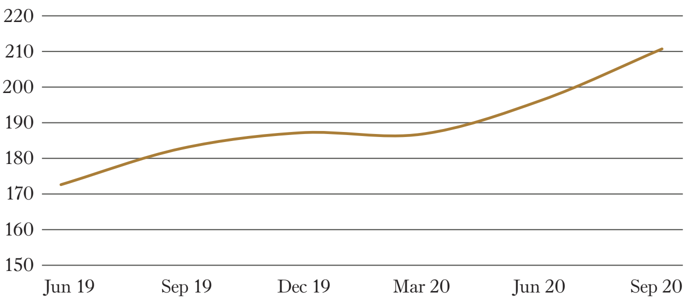
Another to have attracted takeover speculation is fleet management business **Eclipx** (ECX). Two years ago the company was dealing with approaches from both **SG Fleet** (SGF) and **McMillan Shakespeare** (MMS). The suitors must have thought themselves lucky to miss out. Acquisitions by the old Eclipx management team soured and the business struggled under too much debt. A new team, led by CEO Julian Russell, then navigated the business through a radical process of asset sales, deleveraging and refocusing on the attractive fleet management segment. We can now add COVID to the list of challenges the business has successfully overcome.

The case for consolidation among the fleet management and novated leasing players remains strong. Scale will bring more efficiency. There are possibly two major deals to be done before the ACCC starts to cast a disapproving gaze. Eclipx is more likely to be prey than predator.

Another 18% of the portfolio is made up of investments which are more valuable in the hands of an acquirer. This includes the Fund's two largest investments.

Mainstream (MAI), the fund administrator, has been performing very strongly despite COVID disruption. Last quarter the business surpassed $210bn of funds under administration. And a new US private equity administration business is going gangbusters. Mainstream brought in $12bn of new client money in the last quarter of 2020 and $24bn for the past year. The share price had a stellar run, up 87% for the year.

MAINSTREAM FUNDS UNDER ADMINISTRATION



Source: Mainstream

Meanwhile acquirers' attention has turned to the funds administration space. Super admin business **Link** (LNK) has been fielding offers from private equity groups and **SS&C Technology** (NYSE:SSNC), an aggressive global acquirer. Fund administrator **Onevue** (OVH) was acquired by financial technology player **Iress** (IRE) in November at a 67% premium to the pre-bid price. Given the recurring revenue, scale advantages and growth opportunities, it wouldn't be surprising to see Mainstream end up in the same boat.

The team at mining software business **RPM Global** (RUL) has been hard at work for years building new products for miners around the world. The industry-leading products were selling fast before the pandemic, with recurring software revenue rising 26% last year. While it has been tough to sign new deals while COVID runs rampant in many important mining geographies, the business should be back on track as the virus subsides.

CEO Richard Matthews has form running and selling software businesses: first Mincom and then eServeGlobal (which remains listed but sold a big division). The growing recurring revenue will be attractive to a range of large suitors. With a high corporate overhead, any sale will allow the acquirer to reduce costs dramatically. Owning 3.5% of the company, all acquired on-market, Matthews has a big incentive to maximise value if any bidder shows interest.

Purely speculating on takeovers is not an easy way to make money. And when the prospect of a takeover has become your last bastion of hope for value realisation, it is usually a sign that the investment has soured. Businesses that are growing and performing well or have already turned themselves around make for far more attractive targets, with WPP being a case in point. But a takeover bid can help to accelerate the realisation of existing value. When an acquirer comes knocking, years of hard work can pay off in a day.

A THORNY SAGA THAT SEEMINGLY NEVER ENDS

Two of our troubled investments of the past five years have been showing excellent signs of turnaround. After significant Forager involvement, new management appointments and solid signs of financial progress, both Logicamms and **MSL Solutions** (MSL) had good years in 2020, with the respective share prices rising 46% and 35%. Logicamms, which recently changed its name to **Verbrec** (VBC), made a small, sensibly priced acquisition in late December and MSL bought an important provider of technology to its golf and stadium operations software. Both transactions are signs that the worst is well and truly behind both of these businesses.

The last remaining problem child, **Thorn Group** (TGA), remains in the naughty corner. We have invested an inordinate amount of time trying to convince directors of this company to act in the best interests of its shareholders. Initially we were fighting directors who had no ownership of the business and were incapable of making unpleasant but important strategic decisions.

Now shareholders have a board that is dominated by nominees of its largest shareholder. They have made some of those unpleasant decisions, and as a result the company's cash balance is growing rapidly. But we are fighting with them too.

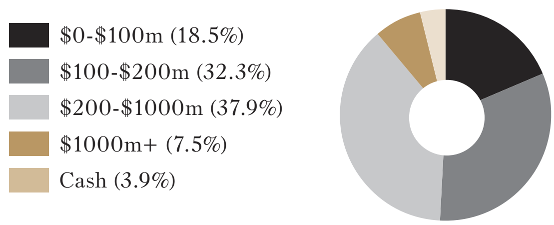
Our dispute culminated in an application to the Takeovers Panel to stop the company applying its dividend reinvestment plan (DRP) to a large fully franked dividend paid in October. It's our opinion that the DRP was specifically designed to give its largest shareholder, the Duncan Saville controlled Somers and other related parties, control without offering the rest of us a takeover bid.

The Takeovers Panel sided with Forager, forced the company to cancel most of the shares issued to Somers under the DRP and ordered Thorn to pay some of the legal costs incurred by Forager. It was a big win, the first ruling we know of in relation to a DRP, but ultimately not enough.

Thorn held an extraordinary general meeting on the 4th of January to consider resolutions to remove the Somers nominated directors and appoint two small Thorn shareholders to the board. Despite 80% of the non-Somers shareholders voting for the incumbents' removal, the vote fell short by a slim margin.

We have spoken with other shareholders and are still considering further options, but with Australia's takeovers laws allowing a significant shareholder to continue increasing their holding by 3% every 6 months, the likelihood of minorities having a say in Thorn's future are diminishing by the day. We will continue to push for dramatically improved governance. The cash will keep rolling in. But whether and when it rolls back to shareholders is as uncertain as ever.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



TOP 5 HOLDINGS (as % of NAV)

RPM Global Holdings Limited	**(ASX:RUL)**	7.4%
Mainstream Group Holdings Ltd	**(ASX:MAI)**	7.0%
NZME Limited	**(ASX:NZM)**	6.3%
Thorn Group Holdings Limited	**(ASX:TGA)**	5.4%
AMA Group Limited	**(ASX:AMA)**	5.1%
Cash		3.9%

FUND OBJECTIVE

The Fund targets securities that Forager believes are undervalued and invests predominately in securities listed on the ASX. Its investment objective is to outperform the All Ordinaries Accumulation Index over a rolling 5-year period and its goal is to produce superior long-term returns from a select number of underlying investments, irrespective of short-term price movements^.

FUND PERFORMANCE BY MONTH AND FINANCIAL YEAR

FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total Return
2010					-0.69%	2.52%	-1.66%	0.08%	-0.34%	4.60%	-4.27%	-4.40%	**-4.41%**
2011	4.97%	-2.40%	-2.80%	-1.54%	3.12%	6.59%	1.58%	0.47%	-1.49%	3.40%	-5.39%	-0.82%	**5.12%**
2012	-1.00%	-2.61%	-7.20%	9.89%	-0.02%	-4.62%	1.53%	8.90%	5.02%	2.17%	-0.51%	-2.64%	**7.76%**
2013	8.70%	0.44%	2.83%	-3.07%	4.57%	0.33%	5.83%	4.86%	4.51%	1.41%	2.65%	-0.69%	**36.87%**
2014	10.45%	1.13%	4.77%	2.50%	-0.11%	0.38%	1.05%	0.48%	-1.28%	-3.44%	1.28%	-0.15%	**17.73%**
2015	6.70%	2.56%	-1.23%	-2.06%	-0.21%	-1.15%	0.94%	3.38%	4.87%	-2.42%	3.13%	-2.34%	**12.31%**
2016	7.94%	-4.46%	-1.38%	12.87%	-2.97%	0.22%	-1.33%	2.70%	4.40%	2.48%	1.51%	-3.91%	**18.06%**
2017	6.99%	3.25%	4.50%	-1.99%	-4.65%	1.76%	7.20%	1.29%	1.60%	1.16%	1.16%	1.00%	**25.16%**
2018	2.32%	-0.95%	2.69%	0.95%	0.21%	4.06%	-0.57%	-3.18%	-2.64%	2.77%	-0.97%	1.91%	**6.50%**
2019	-0.62%	-1.90%	-2.19%	-6.16%	-3.78%	-3.68%	0.98%	4.46%	-0.95%	-2.02%	-3.97%	-1.46%	**-19.66%**
2020	6.67%	-1.09%	4.38%	1.54%	-3.22%	-1.50%	2.46%	-10.97%	-39.71%	20.57%	18.04%	-2.16%	**-18.36%**
2021	3.70%	18.80%	2.00%	7.79%	13.22%	3.56%							**58.82%**

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FACTS

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

UNIT PRICE SUMMARY

As at	31 December 2020
NAV	$1.64
Market Price	$1.39
Portfolio Value	$183.1m

ABOUT FORAGER

With approximately $400 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

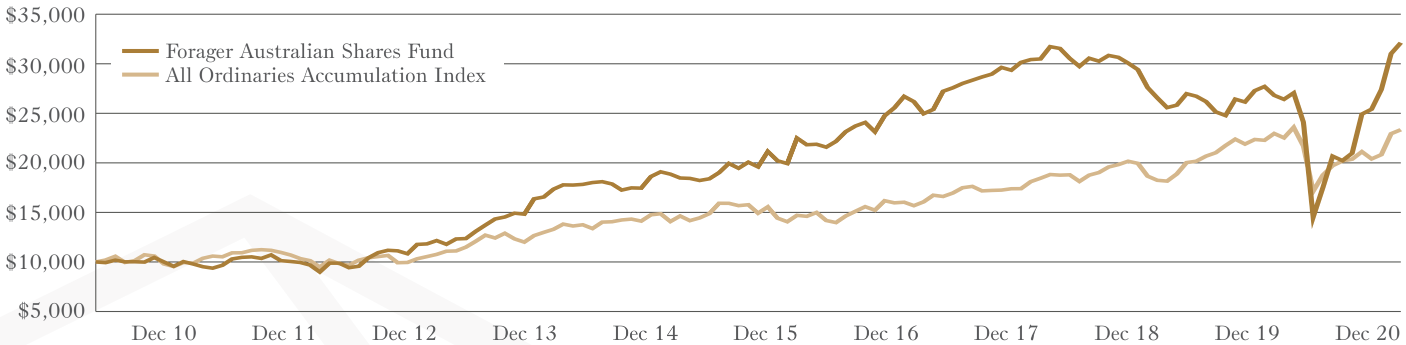
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

Key investment staff are strongly aligned with investors through co-investment and / or equity in the Forager business.

FUND CHARACTERISTICS

- Concentrated portfolio of ASX-listed stocks
- Long track record in identifying unloved gems
- Restricted fund size allows investment in smaller businesses
- Strong focus on managing portfolio risks
- Listed on ASX as a Listed Investment Trust (LIT)
- Structure offers Forager flexibility in distressed markets

COMPARISON OF $10,000 INVESTMENT OVER TIME



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