FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT FEBRUARY 2021 www.foragerfunds.com

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 28 February 2021. Net of all fees and expenses)

	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)	4.07%	4.48%	30.06%	34.52%	2.00%	7.89%	11.92%	10.93%
All Ordinaries Accumulation Index	1.43%	3.52%	12.42%	9.56%	8.11%	11.19%	7.84%	7.93%

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*30 October 2009

Most of the Forager Australian Shares Fund's investments reported their half-year results in February. The Fund rose 4.1% while the All Ordinaries Accumulation Index was up 1.4%. But it wasn't all good news.

Perenti (PRN), a mining services provider in Australia and Africa, reported that underlying net profit for the six months to December was down by a quarter from the prior year. Its two main business segments performed very differently. Underground mining is traditionally the stronger segment: better margins, higher returns on capital and more growth opportunities. Management's preferred measure of profit for the segment was up 12% from the prior year.

But surface mining, traditionally more competitive, was pressured by troubled contracts in Africa. Despite tying up $645m of assets it contributed only $4m of segment profit for the half-year. Perenti is taking action by exiting problematic contracts and redeploying the cash at better returns. New underground jobs are ramping up. And the pipeline of opportunities is strong. Perenti now needs to execute on the plan.

Stellar profit improvement at tyre distributor **National Tyre** (NTD) was overshadowed by news that the company's primary supplier, **Cooper Tire** (NYSE:CTB) will be absorbed into behemoth **Goodyear** (NASDAQ:GT). This places a quarter of the company's revenue at risk as the Cooper family of tyre brands may be distributed by the Goodyear distribution network in Australia, bypassing National Tyre.

It won't happen immediately though, with the distribution agreement running to September 2027. National Tyre's holding of Cooper tyre inventory is due to be bought back. It is worth about a quarter of the market capitalisation. And there is time to introduce other brands and make efficient use of the large logistics network that the company has built up. The well-flagged result saw net profit up nearly fourfold. While second-half profits won't match the first half, activity levels remain high.

Outside those two blips, it was largely a story of healthy profits, dividend resumption and growth.

The Fund's retailers have had a particularly good time of the Australian economy's COVID-19 recovery. **Shaver Shop** (SSG) reported a half-year profit of $14.2m, up 86% on the prior year. **Motorcycle Holdings** (MTO) bettered that, with a 258% increase in earnings. While both are clear COVID beneficiaries, today's stock market prices imply a significant drop in future profitability. That could prove too conservative. Both have improved their market position over the past few years and Australian consumers look like they want to keep spending for some time yet.

Family monitoring app **Life360** (360) was a clear COVID-19 loser. Parents don't need to track their children when the children aren't allowed out of the house. But the company managed to navigate that difficult environment better than expected. Its revenue was still 37% higher than the previous year and cost cuts meant losses were smaller than expected. Management also flagged strategic options including relisting in the US, being acquired or acquiring another similar business. Life360 is a prime recovery candidate as the world's children get back outside. Management's expectations of 23% to 34% run rate revenue growth may prove conservative.

The Fund's largest investment, **RPMGlobal** (RUL), also reported better than feared numbers. With salespeople grounded and miners dealing with their own logistics trouble, selling RPM's mining software hasn't been easy. It still managed $14.5m worth of sales in the eight months to February and most of that came after the company's AGM in November. If the recent run rate can be maintained for the next few years—the environment for its mining clients is looking increasingly buoyant—RPM's earnings will grow quickly and today's share price will look extraordinarily cheap.

Enero Group (EGG) wins the award for the portfolio's most outstanding result. Marketing agencies were supposed to be suffering in 2020. Profits for competitor **WPP** (WPP) fell 32% for the year ended 31 December. Enero bucked the trend reporting a 129% increase in earnings for the latest six-month period. Its main agencies, led by tech public relations firm Hotwire, are exposed to some healthy end markets. Modest but impressive revenue growth was bolstered by a lack of travel and other expenses Enero didn't have to incur.

But the juice came from advertising tech company OB Media, a business Enero bought 51% of way back in 2007. It didn't contribute much for the subsequent decade, but in recent years OB has become the primary driver of Enero's growth. In addition to helping its clients with email and other digital marketing, OB's platform places Google shopping ads on some 300 publishers' websites. It clips the ticket for each transaction and, with online shopping growing like a weed, there have been a lot of tickets to clip. With just 18 employees, OB looks to have generated $9.4m of profit in the first half of the year alone.

We've been worried that this business could return to the dark old days but management are increasingly confident that its growth is sustainable. If so, Enero still looks cheap. The company's board showed their confidence with a 320% increase in the interim dividend to $0.105 per share.

While that is a particularly large increase, we have collected or are due to collect healthy dividends across most of the portfolio this financial year. Some of that is one off, but you should also take it as a sign of the healthy state of the underlying businesses and continuing attractive value on offer.

TOP 5 HOLDINGS (as % of NAV)

Mainstream Group Holdings Ltd	**(ASX:MAI)**	7.1%
RPM Global Holdings Limited	**(ASX:RUL)**	6.5%
Enero Group Limited	**(ASX:EGG)**	5.0%
Thorn Group Holdings Limited	**(ASX:TGA)**	4.9%
NZME Limited	**(ASX:NZM)**	4.8%
Cash		3.6%

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%	-3.05%	4.07%					**60.23%**

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

FACTS

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

UNIT PRICE SUMMARY

As at	28 February 2021
NAV	$1.66
Market Price	$1.40
Portfolio Value	$182.3m

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.

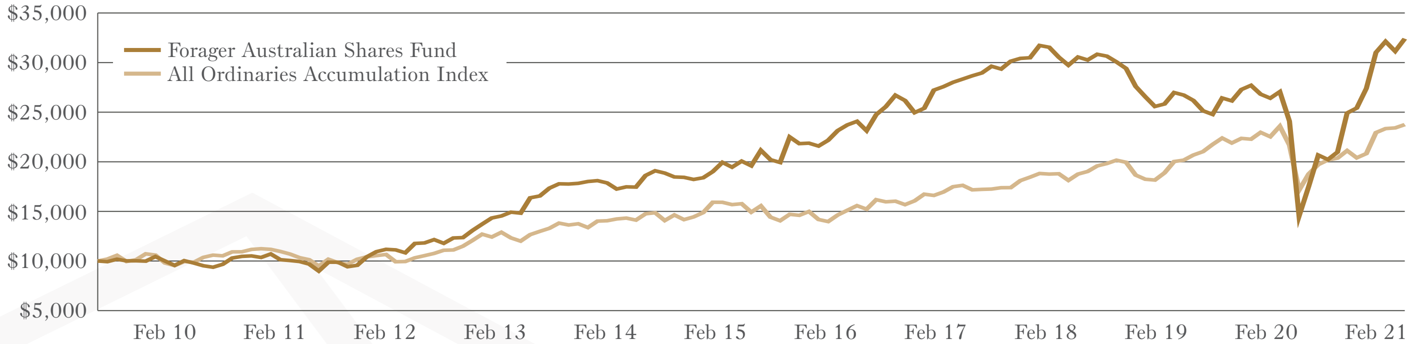
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.