

# FORAGER

# AUSTRALIAN SHARES FUND

MONTHLY REPORT DECEMBER 2021

www.foragerfunds.com

## FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 December 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.)
<b>Australian Shares Fund (ASX:FOR)</b>	2.81%	3.02%	11.47%	31.31%	18.15%	10.68%	16.17%	12.55%
<b>All Ordinaries Accumulation Index</b>	2.67%	2.48%	4.58%	17.74%	14.82%	10.43%	11.01%	8.66%

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

### A GOOD YEAR

The curtains have closed on an eventful 2021 for the Forager Australian Shares Fund. Lockdowns, new COVID strains, inflation, labour shortages, takeovers and IPOs all made an impact this year. The Fund delivered a return of 31%—a strong 14% above the benchmark for the calendar year.

The positive contributors were numerous, but the largest contributions came from long-held (and, in some cases, long-suffering) investments.

The **Mainstream** (MAI) takeover saga, which we chronicled in our June Monthly Report, finished with Apex Group paying \$2.80 per share and driving the share price 180% higher for the year. It was the Fund's largest success to date.

Mining software provider **RPMGlobal** (RUL) came in second place, with great momentum in its subscription software sales and some investor recognition driving the share price up 73% for the year. It was, and remains, a large investment and looks like it still has more in the tank (see below).

### ASX TECH INDEX UNDERPERFORMING ALL ORDS INDEX FOR Q2 FY22

Index Return (rebased to 100)



Source: Bloomberg

Rounding out the top three contributors to performance was a stock that has been part of the portfolio for more than a decade. Marketing services group **Enero** (EGG) saw its investment in US-based ad-tech business OB Media yield fantastic results, driving earnings per share growth of 76% and a share price increase of 94%.

The share prices of **NZME** (NZM), **Life360** (360) and **MSL Solutions** (MSL) all more than doubled, too, though we didn't own NZME or Life360 for the entirety of the year. That was something of a theme for 2021. If the end-of-year share prices are anything to go by, we either significantly reduced or exited exposure to a number of the Fund's best performers too early.

Further reducing returns were the Fund's investments in higher-growth businesses, which fell by 17% on average in the face of a rout in small-cap growth stocks in the last quarter of the year. Communications platform **Whispir** (WSP), sales-enablement platform **Bigtincan** (BTH) and sports tech business **Catapult** (CAT) grew their sticky and highly recurring revenue streams by an average of more than 35%.

### ASX TECH INDEX OUTPERFORMING ALL ORDS INDEX OVER 3 YEARS

Index Return (rebased to 100)



acquired complementary businesses and progressed in new geographies. With their starting weights relatively small, the overall damage has been manageable so far. This provides some very interesting opportunities in 2022.

### NEW NEWS IN DECEMBER

Despite being a large contributor during the calendar year, the business of RPMGlobal continues to strengthen. In late November, the company's regular updates confirmed that RPM secured a large customer contract worth \$7 million, which will contribute \$2 million per year when the software is fully deployed. For now, with only a quarter of this contract in place, RPM increased subscription revenues by \$3.5 million during the first half of this financial year to a total of \$25.4 million. The business also made three small acquisitions to bolster its technology offering. But one of the more interesting bits of news wasn't from RPM itself. Major competitor Deswik was sold to mining equipment behemoth **Sandvik Mining** (STO:SAND) in December. The price paid implies that, if RPM is ever sold to a larger group, the premium to the current traded price is likely to be significant.

While on the lucrative topic of mergers and acquisitions, two of the Fund's investments have proposed a merger. Recreational vehicle operator **Tourism Holdings** (NZX:THL) has bid for rival **Apollo Tourism** (ATL) in an all-share deal at a 33% premium to Apollo's share price.

Both did a fantastic job navigating the COVID-induced international visitor decimation over the last two years. And both have credible plans to recover when international tourists return. But the businesses are stronger together.

For one, the operating cost synergies of NZ\$18 million are significant. With an overlapping presence in Australia, New Zealand, North America and Europe, the ability to reshuffle the RV fleet will reduce debt by more than NZ\$38 million. The Trouchet family, major shareholders of Apollo, will end up with 13% of the combined entity. Lastly, the ASX will gain another major tourism group as THL, previously only listed in New Zealand, will dual list in Australia. It's a great deal which should be consummated by June, provided the relevant competition regulators are favourably disposed.

### THE LAY OF THE LAND IN 2022

Last year was one of transitions for the Forager Australian Shares Fund. With a number of our oldest investments coming to fruition in 2021, they are either no longer in the portfolio or are much smaller weightings. That has freed up capital to redeploy.

The top five holdings should give you a good feel for the most prospective opportunities we are finding, with plenty of upside remaining in idiosyncratic opportunities like RPMGlobal and **AMA Group** (AMA).

But it is also a time for patience.

It is hard to see 2022 breaking the trend of particularly eventful years. In the face of dangerously persistent inflation,

monetary policy—a constant tailwind for the past decade—is likely to become a headwind for asset valuations. While remaining highly supportive, fiscal policy is also becoming less expansionary than it was in the thick of the pandemic.

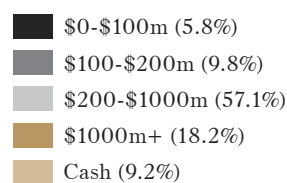
New COVID variants; a looming Federal election; a cooling housing sector; a decelerating Chinese economy eroding demand for commodities and the Aussie dollar. There is a long list of known potential speed bumps and, undoubtedly, a few that no-one is yet thinking about. The ability to capitalise on any ensuing panic will be key, hence a relatively balanced Forager Australian Shares Fund at present.

Along with a healthy cash balance, the current portfolio is well distributed across exciting, early stage companies with considerable upside potential, stable and more mature companies that offer the potential for steady returns and good liquidity, as well as a selection of beaten up, idiosyncratic opportunities.

Although the portfolio remains mostly smaller companies, the Fund's exposure to stocks with market capitalisations below \$200 million dropped from 64% at 31 December 2020 to 17% at the end of 2021. The top three stocks in the portfolio are now a combined 14% weighting in contrast to 24% two years ago.

While we are optimistic about the returns this portfolio can generate, there will be a time for more aggressive positioning. Hopefully in the year ahead.

### PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



### TOP 5 HOLDINGS (as % of NAV)

<b>RPMGlobal Holdings Limited</b>	(ASX:RUL)	6.5%
<b>Experience Co Limited</b>	(ASX:EXP)	3.8%
<b>Tourism Holdings Ltd</b>	(NZE:THL)	3.7%
<b>AMA Group Limited</b>	(ASX:AMA)	3.6%
<b>Seven West Media Limited</b>	(ASX:SWM)	3.6%
<b>Cash</b>		9.2%

## 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<sup>^</sup>. The portfolio has historically generally held 15 to 25 securities but in recent times the number of investments has increased to around 35 securities. This has reflected the fact that the Fund has grown, the investment team has grown and the Manager has enhanced the portfolio liquidity requirements as a result. We expect that the portfolio will remain relatively concentrated and the number of portfolio investments will generally be in the 15 to 50 range.

## 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%	1.21%	13.23%	0.26%	1.62%	87.09%
2022	5.01%	2.58%	0.45%	1.57%	-1.35%	2.81%							11.47%

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## FACTS

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

## UNIT PRICE SUMMARY

As at	31 December 2021
NAV (cum distribution)	\$2.12
Market Price	\$1.77
Portfolio Value	\$227.9m

## ABOUT FORAGER

With approximately \$480 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.

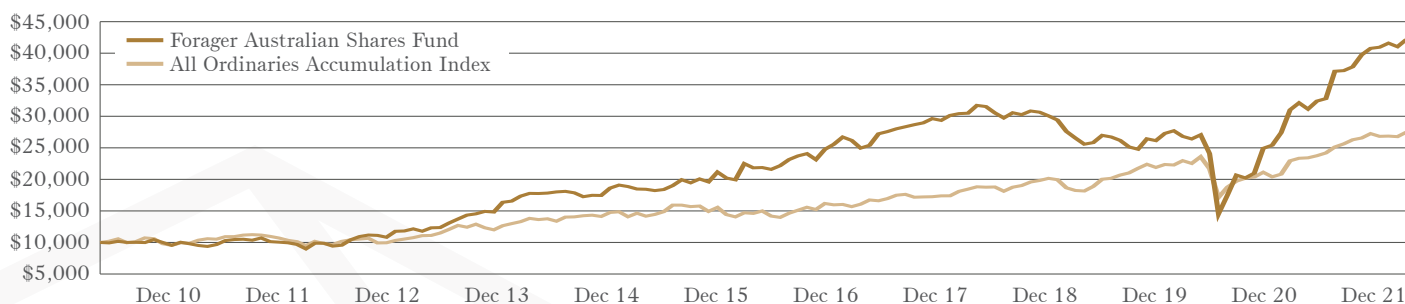
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.

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