FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT MARCH 2022 www.foragerfunds.com

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 March 2022. 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)	2.86%	-12.02%	-9.36%	13.14%	11.57%	5.79%	12.99%	11.13%
All Ordinaries Accumulation Index	6.91%	1.62%	4.14%	15.48%	11.47%	9.82%	10.23%	8.62%

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 Forager Australian Shares Fund rose by 2.9% last month, trailing the 6.9% return of the All Ordinaries Accumulation Index. As was the case last month, the performance of the index was driven by resource companies, which rose by 10%.

After reporting earnings in February, few companies disclosed any meaningful news this month. There was no let-up in the flood of macroeconomic news though. The ramifications of the war in Ukraine continue to be felt. Inflation is rising in many parts of the economy. And interest rates are set to soar.

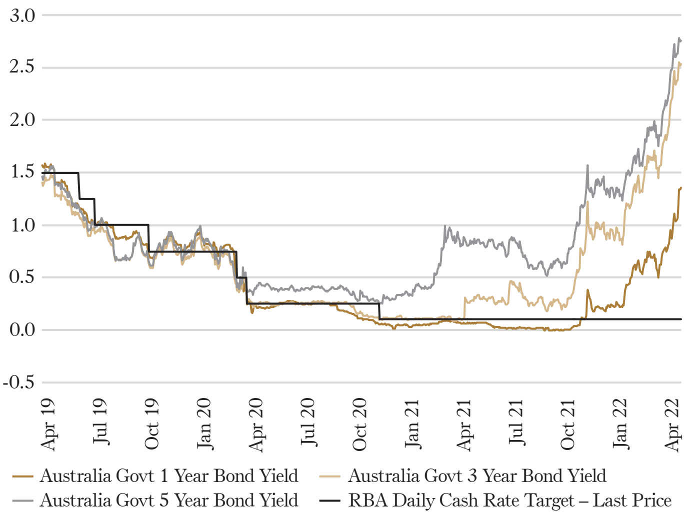
The macroeconomic situation has changed faster than many expected, and there are some serious threats to the spending power of Australian consumers. At the end of December the oil price was $75 per barrel. It is now $100 per barrel, leading average petrol prices to be well over $2 per litre and up more than 30% during the quarter. The availability and cost of labour alongside the increase in other commodity prices have also played a part in rising inflation, increasing the cost of living for Australians.

This being an election year, the government had some money to spend to relieve consumer pain. In the budget delivered last month the government halved the fuel excise for six months, increased the low-and-middle-income tax offset this year and handed out cash. This totalled $8.6 billion or about 0.6% of household disposable income. That tax offset is set to end this financial year though, despite the government initially thinking about another extension. This will sap about the same amount from consumer pockets starting in July.

BUT THE OTHER SHOE IS STILL TO DROP

Interest rate expectations have risen sharply over the last quarter such that by mid-2023, Australia could be seeing cash rates of 3% from the current historical low of near zero. This would see the standard variable rates of the cheapest major banks move to nearly 6% from 3% today. On the average $800,000 new mortgage in NSW, that would be an extra $16,000 of after-tax dollars to be funded from consumer pockets for the length of the loan. The banks have already adjusted the interest rate on fixed-rate mortgages for new borrowers, with Westpac hiking nine times in the last six months.

AUSTRALIAN INTEREST RATES



Source: Bloomberg

Add to that the consumer hunger for long-overdue holidays, and many companies exposed to consumption on large-ticket items and domestic goods could suffer. Lower house prices, dragged down by higher interest rates, are unlikely to make consumers feel good about spending up. Already, household spending estimates show furnishings and household equipment spending is down 5% on the prior year in January, but remains 9% higher than pre-pandemic levels. The next big purchase is much more likely to be an overseas holiday than a new sofa.

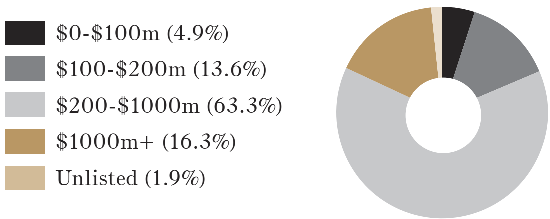
Less than 5% of the Fund is invested in consumer-oriented businesses most affected by these pressures, with a further 3% invested in fintech lenders. In these companies we see stock-specific factors overcoming macro risks.

More of the Fund is invested in higher-growth technology stocks. And while they had taken a battering over the quarter, the month of March offered some reprieve for the likes of **Whispir** (WSP) and **Nitro** (NTO). The opportunity in smaller Australian technology stocks, relative to other parts of the market and relative to their large-cap brethren, remains.

Small-cap tech stocks are down twice as much as large-cap tech stocks since the zenith in the middle of last year, and trade at a fraction of the valuation for similar levels of growth. A basket of the largest and best-known Australian tech stocks is down 25% from the peak in 2021. The basket of less well-known, smaller tech stocks has more than halved.

With little to no profits for these groups, we can compare them on an enterprise value to revenue multiple. On that metric, the large-cap basket trades at 19 times revenue. The small-caps trade at just 3.4 times. Both groups are due to grow revenue 20% to 25%. Both have high-quality, sticky revenue. And both are due to see revenue outgrow costs. So despite the tech malaise we have been seeing over the last nine months, large-cap tech business valuations have not really come down to earth. The valuations of smaller tech companies have come down with a hard thump.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



There are multiple possible explanations for this divergence: more recognition by investors, index inclusion, and higher liquidity being just three. Whatever the reasons, small-cap tech stocks present opportunities not seen in either large-cap tech stocks or many other parts of the Australian stock market.

TOP 5 HOLDINGS (as % of NAV)

RPMGlobal Holdings Limited	**(ASX:RUL)**	6.6%
Integral Diagnostics Limited	**(ASX:IDX)**	4.7%
Nitro Software Limited	**(ASX:NTO)**	4.5%
Whispir Limited	**(ASX:WSP)**	4.4%
Bigtincan Holdings Limited	**(ASX:BTH)**	4.2%
Cash		1.9%

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^. 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%	-7.55%	-7.48%	2.86%				**-1.93%**

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FACTS

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

UNIT PRICE SUMMARY

As at	31 March 2022
NAV (cum distribution)	$1.83
Market Price	$1.72
Portfolio Value	$191.9 million

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.

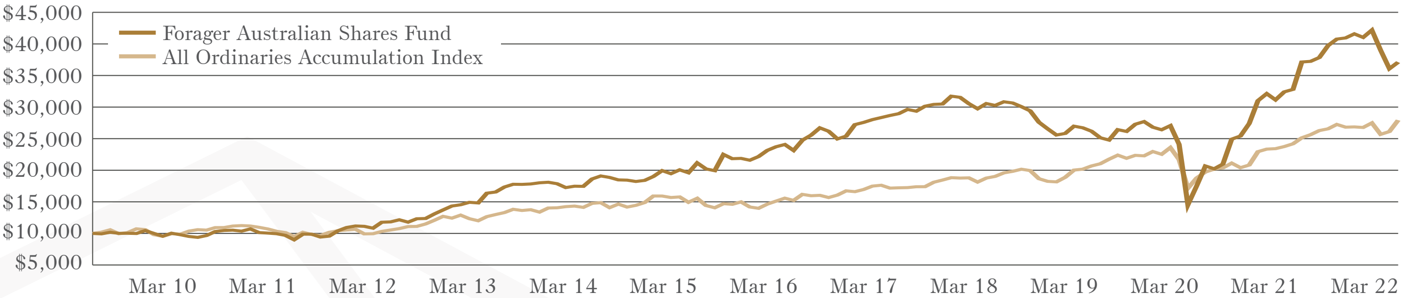
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.