

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT APRIL 2022

www.foragerfunds.com

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 April 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)	-7.29%	-11.77%	-17.27%	-7.36%	9.53%	3.96%	11.90%	10.39%
All Ordinaries Accumulation Index	-0.81%	7.87%	3.14%	10.22%	10.24%	9.47%	10.02%	8.49%

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

After a brief period of respite in March, the market trends of 2022 resumed in April. The threat of higher inflation and rising interest rates pummelled small-cap stocks, especially those with higher growth prospects. The Forager Australian Shares fund fell 7.3% by month's end and is now down 17.3% over the last six months.

We have been carefully monitoring operating results and, where the operating performance continues to justify our valuations, gradually increasing portfolio investments in the most heavily punished holdings. While the share prices would suggest otherwise, the operational updates shared during April were good.

The Fund's three most significant enterprise software investments, **Whispir** (WSP), **Nitro** (NTO) and **Bigtincan** (BTH) all released quarterly cashflow statements over the month. Trends in revenue growth for all three remain at least in line with expectations, ranging from 24% at Whispir (using the recurring component of its revenue only) to more than 40% at Nitro.

Perhaps more importantly, strong progress has been shown on the cost side of the equation. Nitro reduced its estimate of current year losses and expects to be generating cashflow in the 2024 financial year. Bigtincan was already cash-generative in the March quarter and should improve from there.

Investors clearly don't believe these companies will generate the profits we expect them to, but we see no reason to change our theses. The current period losses are very modest in contrast with the long-term revenue annuities being built. How valuable those annuities ultimately become is still to be proven, but as we get more evidence and if share prices continue falling, you should expect higher portfolio weightings. While the prospect of rising rates might affect investors' valuations of these software businesses, the impact on their operations is minimal.

The same can't be said for those in the lending business, where rising rates can affect customers' ability to repay their loans as well as the cost of funding used to make the loans in the first place. Fear of growing problems in this sector has sent share prices plummeting. The Fund has small investments in both **Wisr** (WZR) and **Plenti** (PLT), whose respective share prices have fallen 42% and 35% this calendar year alone.

Operational progress for both has exceeded expectations. This industry, as explained in the [January Monthly Report](#), is a scale business.

The expectation is for a small number of healthily profitable players to emerge over time and Wisr and Plenti look like two of them. March quarter reports showed Plenti's loan book is already north of \$1 billion and Wisr isn't far away. They will both hit \$2 billion over the next few years without dramatically increasing the rate of progress and that should enable them to be nicely profitable.

Investor concern is not about the rate of growth, though. It is that the profitability will be decimated by a dramatic increase in the percentage of loans that aren't repaid.

Healthy scepticism is warranted. We have assumed much higher default rates than the artificially low levels of the past few years. And these are rapidly growing, young businesses—they need to prove themselves through the economic cycle. Hence the relatively low portfolio weights.

But the fear is overdone. Both these businesses are specifically targeting safer borrowers with a proven capacity to repay their loans. The March quarterly reports still showed default rates well below our long-run expectations. The whole market will need to deal with higher interest rates and both companies have already indicated they are increasing pricing for the end customers. In any case, savings rates in Australia remain high and jobs plentiful.

Economic conditions are absolutely going to deteriorate. But, while the portfolio weightings need to remain modest, we expect both businesses to successfully navigate and prove that their current share prices are far too low.

TOP 5 HOLDINGS (as % of NAV)

RPMGlobal Holdings Limited	(ASX:RUL)	6.7%
Integral Diagnostics Limited	(ASX:IDX)	5.1%
Tourism Holdings Ltd	(NZE:THL)	4.5%
Nitro Software Limited	(ASX:NTO)	4.4%
Unibail-Rodamco-Westfield	(ASX:URW)	4.0%
Cash		1.0%

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%	-7.29%			-9.08%

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	30 April 2022
NAV	\$1.69
Market Price	\$1.59
Portfolio Value	\$176.7 million

ABOUT FORAGER

With approximately \$370 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.

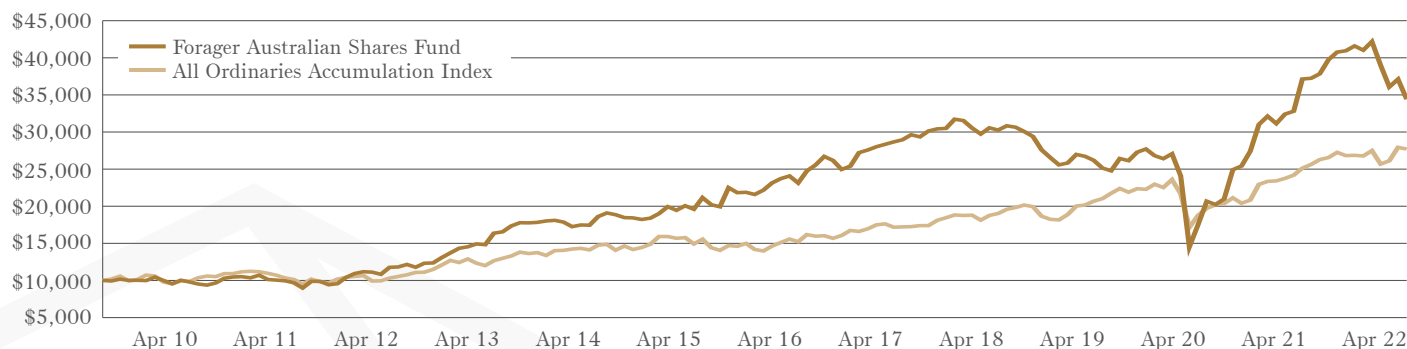
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.

WARNING The information given by Forager Funds Management is general information only and is not intended to be advice. You should therefore consider whether the information is appropriate to your needs before acting on it, seeking advice from a financial adviser or stockbroker as necessary. This report may contain some forward-looking statements which reflect the expectations of Forager Funds Management about the future prospects of companies held within the portfolios of the funds. While Forager Funds Management considers its expectations to be based on reasonable grounds, there is no guarantee that those expectations will be met. **DISCLAIMER** Forager Funds Management Pty Ltd operates under AFSL No: 459312. This report has been prepared by Forager Funds Management Pty Ltd. The Trust Company (RE Services) Limited (ABN 45 003 278 831, AFSL No: 235150) is the responsible entity and the issuer of the Forager Australian Shares Fund (ARSN 139 641 491). You should obtain and consider a copy of the product disclosure statement relating to the Forager Australian Shares Fund and any ASX announcements before acquiring the financial product. You may obtain a product disclosure statement at www.foragerfunds.com. The Target Market Determination for Forager Australian Shares Fund will be available at www.foragerfunds.com when required by law. To the extent permitted by law, The Trust Company (RE Services) Limited and Forager Funds Management Pty Limited, its employees, consultants, advisers, officers and authorised representatives are not liable for any loss or damage arising as a result of reliance placed on the contents of this document. Although the All Ordinaries Accumulation Index benchmark largely represents the available listed investment universe for the Fund, the concentrated nature of the Portfolio and the Fund's ability to invest in securities that are not included in this index means the Fund's results may not be correlated with this index. This investment objective is not a forecast and returns are not guaranteed.