

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT MAY 2022



FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 May 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)	-9.60%	-13.79%	-24.19%	-16.47%	7.35%	1.64%	10.83%	9.43%
All Ordinaries Accumulation Index	-3.13%	2.72%	0.25%	4.73%	8.48%	9.34%	10.46%	8.16%

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

What was a tech-led sell-off broadened to a wider small-cap rout in May. The net asset value of the Forager Australian Shares Fund fell by 9.6% for the month and just six of 38 stocks in the portfolio saw share price rises.

Investors are rightly concerned about rampant inflation, rising interest rates, and the potential for a recession in the not-too-distant future. For many businesses, especially smaller ones, these concerns have led to large share price reactions.

Advertising-dependent businesses were sent into a spin as US social media company **Snap** (NYSE:SNAP) admitted that it has no chance of reaching the bottom end of revenue guidance provided just six weeks prior.

Meanwhile, in Australia, **Seven West Media** (ASX:SWM) upgraded its profitability guidance on the 4th of May. The owner of Channel 7 and The West Australian now expects to generate earnings before interest, tax, depreciation and amortisation (EBITDA) of between \$335m and \$340m. That will translate to approximately \$180m of profit after tax for shareholders.

But investors are cautious of a quick about-face in advertising spending, and its share price fell 25% for the month. Seven West now has a market capitalisation of just \$763m, or roughly four times its likely profit for the year. After several years of asset sales and cash generation, its balance sheet is now robust and this business should be more resilient than the market price currently suggests.

While Seven West has seen plenty of cycles throughout its long history, the next recession Australia suffers will be a first for **Plenti** (ASX:PLT). During May the fintech lender announced its results for the year ended 31 March.

New loan volumes rose 134% and Plenti finished the year with a loan book of \$1.3bn. The company is now focused on reaching a \$5bn loan book by 2025. Bad debts stayed low and the business was profitable in the second half of the financial year. And, while borrowing costs are rising for Plenti, they are being passed through to its customers with a lag.

The portfolio weighting here is small and we would have preferred both Plenti and **Wisr** (ASX:WZR) to have a few more years to reach scale before a recession hits. If it comes sooner rather than later, the test their lending algorithms will be put through will give us a solid guide to the long-term profit potential.

Other companies with an odd year-end include **Gentrack** (ASX:GTK) and **Catapult** (ASX:CAT).

Gentrack, a software provider to utilities and airports, grew revenue by 12% for the half to March and is well on track to grow above its prior expectations over the next few years. Having weathered the worst of the difficult UK energy market, Gentrack is now winning new work with better quality products. Investors have not given the new management team credit for some early wins, which make the longer-term prize more achievable.

Sports technology supplier Catapult delivered its annual results during the month. The company's video products, an underperforming segment for a few years, had some success in the southern hemisphere summer but grew only 7%. And cash costs were up substantially with total cash outflow totalling US\$18m.

But its world-leading wearables business continues to power on, increasing contracted revenue by 32%. Going into the big North American customers' key buying period this half, Catapult will be armed with some new and interesting integrated products to showcase. With the projected growth in its valuable low-churn contracted revenue sitting at 20 to 25%, the company's transition to profitability should accelerate over the next two years.

As explained in our distribution policy update in late 2021, the Fund now pays semi-annual ordinary distributions. In July, this ordinary distribution will be \$0.04. An additional annual special distribution, where warranted, will also be paid in July. Realised gains in the first half of this financial year, mostly thanks to the substantial gain on Mainstream, should result in a special distribution this year in the vicinity of \$0.05 to \$0.08 per unit.

TOP 5 HOLDINGS (as % of NAV)

RPMGlobal Holdings Limited	(ASX:RUL)	7.5%
Integral Diagnostics Limited	(ASX:IDX)	5.1%
Nitro Software Limited	(ASX:NTO)	5.0%
Tourism Holdings Ltd	(NZE:THL)	4.6%
Readytech Holdings	(ASX:RDY)	3.9%
Cash		4.2%

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.

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%	-9.60%		-17.80%

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 31 May 2022

NAV \$1.53

Market Price \$1.37

Portfolio Value \$158.5 million

ABOUT FORAGER

With approximately \$350 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.

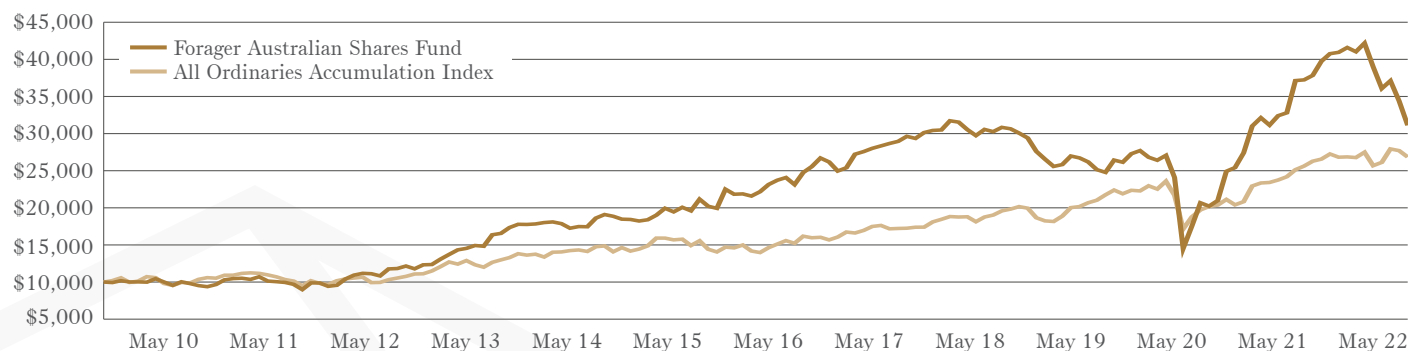
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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. www.foragerfunds.com