

FORAGER

AUSTRALIAN SHARES FUND

JUNE 2022 FINANCIAL YEAR PERFORMANCE REPORT

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 June 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)	-12.30%	-26.50%	-35.33%	-27.91%	3.26%	-1.19%	9.68%	8.24%
All Ordinaries Accumulation Index	-9.36%	-12.91%	-11.50%	-7.44%	3.81%	7.15%	9.35%	7.27%

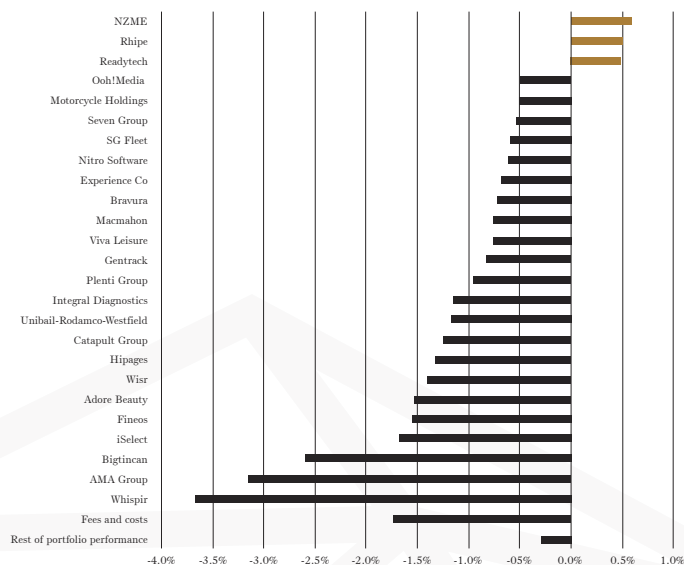
The value of your investments can rise or fall. Performance is calculated using Net Asset Value (NAV), not the market price. Past performance is not indicative of future performance.

*30 October 2009

Forager Australian Shares Fund delivered a poor result for the year to June 2022, after a strong prior year. The Fund fell 28% while the All Ordinaries Accumulation Index slipped just 7%. Larger stocks and resources companies fared better than smaller industrial businesses.

The stock price declines across the portfolio were broad-based, despite a mix of different types of businesses operating in different sectors. The three largest positive contributors, mostly sold earlier in the year, accounted for 1.6% of portfolio return. The worst three contributors totalled a contribution of 9.4%.

FASF PERFORMANCE CONTRIBUTION FOR THE YEAR ENDING 30 JUNE 2022

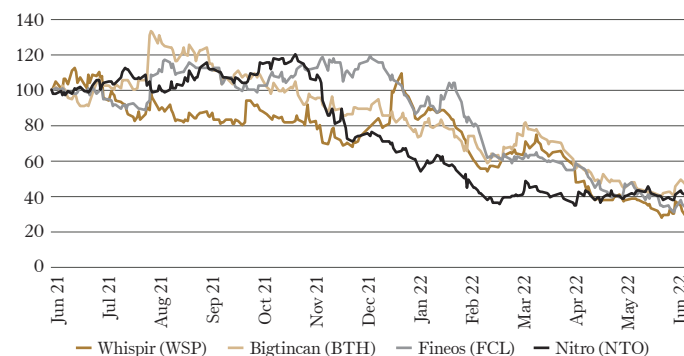


A (TOO) EARLY ENTRY INTO SOFTWARE

By far the largest group of stocks detracting from performance was high-growth, loss-making businesses. The Fund's total

exposure to these stocks was only 7% in June 2021 and 10% in December 2021. In June 2022, it was closer to 17%, despite costing the Fund 9.3% of portfolio performance for the 2022 financial year. The Fund exposure has been increased dramatically in the past six months as more opportunities look to have emerged. That looks like a mistake, for now.

SHARE PRICES (NORMALISED TO 30 JUNE 2021)



Source: Bloomberg

Four of the largest high-growth loss-making enterprise software detractors were **Whispir (WSP)**, **Bigtincan (BTH)**, **Fineos (FCL)** and **Nitro (NTO)**. Initial purchases for these businesses were made when share prices had already declined between about 30% and 50% from prior highs. They fell a further 30-70% between our first purchases and the end of the financial year. We clearly got the entry price to these investments wrong.

Whether we got the actual investment wrong, time will tell.

Most of the Fund's tech investments are enterprise software companies. These have some great qualities when compared to your run-of-the-mill businesses. Revenue is very predictable. Their products are used for key tasks in the client's organisation. Pricing power is high, as customers often have few

alternatives or face difficulty switching to a competitor. Existing clients often demand more services over time. Add new clients to the mix and you have a recipe for strong revenue growth.

Few doubt that argument. The question for investors is whether the current loss-making status will ever change. We are confident it will, and sooner than most investors currently think. There is nothing like a low share price to get founders focussed on cost-cutting and, particularly if the economic environment deteriorates, the reliability of their future revenues will be a huge asset.

There is plenty of proof still required, but all four of these businesses have the potential to be multi-decade investments.

Other investments in high-growth loss-making companies included **Catapult** (CAT) and **Life360** (360).

Catapult is a leader in sports wearable technology and video solutions. Both are key to optimising players' performance on famed professional sports teams like Manchester United, the Milwaukee Bucks, or St Kilda. The company rarely loses clients, with revenue churn at only 3.4% last financial year. Run-rate contracted revenue rose by 23%, despite growth lagging in the company's new video product. As the functionality of the company's video products is integrated with the data streaming from players' wearable devices, Catapult will be able to present a unique integrated solution to teams. Having somewhat curtailed investment plans, the company looks to be nearing cash flows break-even in the year to March 2024.

The sole positive high-growth loss-making contributor was **Life360** (360). The Fund bought this family tracking app company in late 2020 when it was cast aside by investors as the usage of its app declined in a world under lockdown. After the business delivered on growing run-rate revenue expectations, valuations increased dramatically. The Fund sold the last of its investment in Life360 at four times the initial purchase price early last financial year.

A LOWER MARKET PRICE FOR MARKETPLACES

Haircare and beauty product online retailer **Adore Beauty** (ABY) faced a double whammy of shoppers flocking back to stores after nearly two years of lockdowns and investors flocking away from all things e-commerce. The former was perfectly foreseeable. The latter had more to it than just slowing revenue growth. A dramatic increase in the cost of acquiring new customers hammered expected margins. That dented our confidence in the investment thesis and we sold the Fund's shares, not before incurring a 1.5% hit to portfolio returns.

Our experience with tradie finding marketplace **Hipages** (HPG) was somewhat similar. Surging building activity meant tradies, who pay for the company's services through a subscription, have been inundated with work and needed fewer new work leads.

The situation is unlikely to last. And when tradies are back to seeking customers, Hipages will be one of the few places they turn. The business is following a well-worn path by increasing its relevance to tradies and consumers, allowing revenue per tradie to rise by 18% in the quarter to March 2022 from the prior year. Over the next few years it should continue to expand. The business generates free cash flow, is well run by its founder, and counts **News Corp** (NWS) as a strategic shareholder with 29% of the capital.

Online marketplace for health insurance, energy, and telco services, **iSelect** (ISU), continued a run of poor performance. Net profit dropped 76% in the first half of the financial year as pressures in both health insurance and energy segments drove less customers to fewer discounted offers. A large and poorly priced acquisition did not help the business.

The combination of these three investments cost the Fund 3.8%.

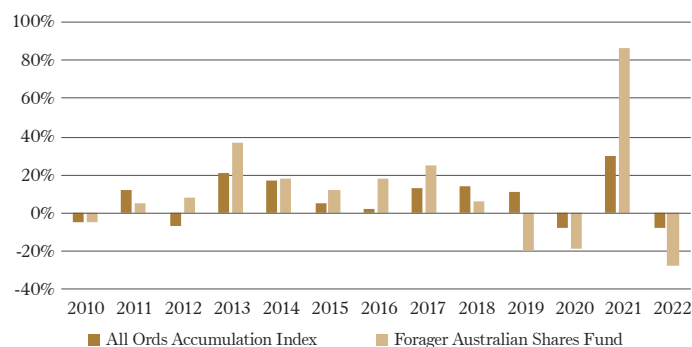
NOT LENDING A HAND

Investments in fast-growing personal and auto lending businesses **Plenti** (PLT) and **Wisr** (WZR) cost the Fund 2.4% last year. During the 2022 financial year, the share prices of these businesses fell by 52% and 72% respectively.

Higher interest rates have led to concerns about the ability of borrowers to repay loans and the higher cost of funding used to make the loans in the first place. As economic conditions deteriorate, bad debts will rise, even from the safer borrowers that both of these lenders target. But we think that both can navigate a downturn. Rates to end customers are already rising to cover the increased cost of borrowing.

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 quarterly 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. The combined weighting of these businesses in the portfolio remains at under 3% and we are still expecting attractive long term returns, particularly if they can prove themselves in a downturn.

FASF RELATIVE PERFORMANCE BY FINANCIAL YEAR



Source: Forager, S&P Capital IQ

DISAPPOINTING REOPENING

Many businesses struggled during Australia's COVID lockdowns early last financial year. As these began to ease there were hopes of smoother operations until case numbers exploded in the first few months of calendar 2022.

For many businesses initially hit by forced closures, the arrival of COVID caused unprecedented employee absences and customer disruptions. The combination of investments hard hit by these factors contributed a negative 5.5% to portfolio performance.

One of the worst was panel beating group **AMA** (AMA). Lockdowns led to fewer car accidents early in the financial year, leaving AMA with labour expenses and rent while receiving limited revenue. A stretched balance sheet necessitated a \$150m capital raise in September.

As the third wave of COVID took hold in the community in early 2022, panel beaters were unavailable for work and customers were unable to meet scheduled car drop-off times, creating large inefficiencies in the business. In the quarter to March 2022, the company burned through \$23m of cash, mostly in a dire January. AMA's primary customers, the large insurers, mostly remain contracted at fixed repair prices. And in an environment of increasing wages and skyrocketing parts prices, profit margins will remain subdued for the foreseeable future. We had been reducing the investment through 2022 and sold the last of the Fund's investment in June 2022.

Another investment hijacked by the continuous starts and stops associated with COVID was **Integral Diagnostics** (IDX). As the largest listed diagnostic imaging provider in Australia, Integral's patient volumes have suffered through lockdowns and Government-mandated postponements of elective surgeries. Wage costs rose as raging absenteeism resulted in increased use of expensive short-term staffing arrangements. This will impact near-term profits, but we remain optimistic that the business will improve margins as disruptions abate.

It was a similar story for allied health provider **Healthia** (HLA). The owner of physiotherapy, podiatry, and optometrist practices felt the pain through patient cancellations and abnormally high staff absenteeism. With some of these disruptions now clearer, management expects to commence the 2023 financial year with \$40m in underlying earnings before interest, tax, depreciation, and amortisation. A large acquisition of 63 Back In Motion physio practices was complemented by \$20m worth of attractive smaller acquisitions. The return of organic growth and continued acquisitions will drive profits higher this financial year.

Gyms group **Viva** (VVA) also clarified that the domestic disruptions earlier this calendar year are behind it. With lockdowns biting, revenue shrunk to less than \$1m for September 2021. By May 2022 the business was back to \$10m of monthly revenue, one month ahead of schedule, and profit margins are expected to exceed 20% in June 2022. The next six months should provide the cleanest financial results Viva has produced in years. They should also show a business growing quickly by opening new locations, acquiring others, and seeing that revenue flow through to profits.

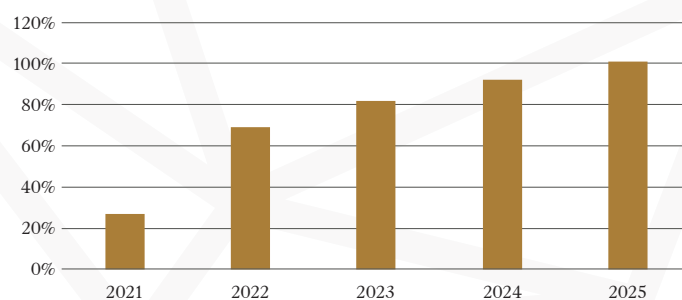
Disappointing reopenings were not restricted to Australia. Our investment in European and US shopping mall owner **Unibail-Rodamco-Westfield** (URW) has so far failed to prove its value notwithstanding the fact that its key backer, billionaire Xavier Niel, keeps amassing shares in the company. Niel now controls 27% of Unibail and was instrumental in the company forgoing a dilutive capital raising in the depths of COVID. Adding to the pandemic woes, recent volatility in funding markets and fears of a recession have cast doubts on its ability to fix its balance sheet through asset disposals. We remain confident in the value of its high-end shopping centres.

TRAVEL IS BACK, BUT THERE IS A LONG WAY TO GO

Australians are finally travelling abroad and welcoming tourists into Australia for the first time since March 2020. The recovery

is underway but a long way from complete. Recent estimates from the International Air Transport Association suggest international traveller numbers will rise above 2019 levels in 2025. Airports are full and European summer bookings show the last thing consumers want to cut is travel. Incongruously, none of that has helped the stock prices. Together, smaller travel-related businesses cost the portfolio 1.4%.

INTERNATIONAL PASSENGER NUMBERS WORLDWIDE (% OF 2019 LEVEL)



Source: International Air Travel Association (IATA)

Tourism Holdings (NZX:THL) and **Apollo** (ATL), both international recreational vehicle operators, have come through the pandemic in amazing nick. Neither needed to raise capital and while rental from international visitors declined, domestic renter demand spiked. Also spiking was the demand for used recreational vehicles, allowing both companies to reduce fleet sizes and improve balance sheets. Both have now turned to increasing the fleet sizes as travellers return.

In December 2021 the companies announced an intention to merge, looking to realise plenty of synergies in the process. With consumer watchdog concerns in Australia and New Zealand, the process has been dragging on, but the businesses have proposed sensible ways to move forward. In the absence of a merger, on the strength of domestic travellers and returning international travellers, both Tourism Holdings and Apollo will be healthily profitable again. Together, they would be an even more attractive investment.

Experience Co (EXP), the operator of skydiving and Great Barrier Reef adventures, faced even more severe challenges. International tourism was responsible for a large part of the business. The balance sheet was looking somewhat stretched late last year as lockdowns bit. Labour is a creeping issue.

But the company has been steered well by the management team. An acquisition of premium walking and treetop activities refocused the business onto domestic clientele. After a capital raise to fund the acquisitions, the business has been left with \$12.5m of cash to weather the winter and to be deployed on further acquisitions as conditions improve.

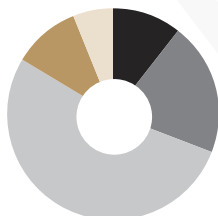
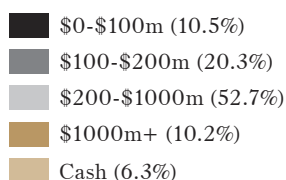
SMALL POSITIVES

The Fund's investments in businesses dependent on advertising netted a positive contribution of 0.7%. Our stake in long-held New Zealand media business **NZME** (NZM) was sold earlier in the financial year after an amazing recovery from the COVID-induced depths.

The Fund remains an investor in public relations agency and advertising technology business **Enero** (EGG), outdoor

advertising leader **Ooh!Media** (OML) and free-to-air TV station **Seven West** (SWM). Enero continues to reap the rewards from its US advertising technology business and, while Ooh!Media and Seven West will feel the brunt if corporate advertising budgets get slashed, their current valuation multiples imply armageddon.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



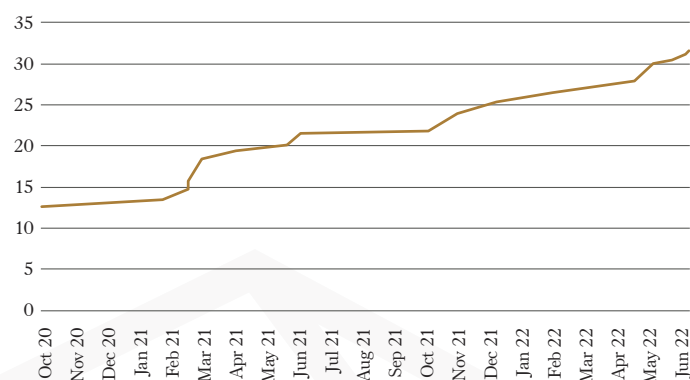
Our investments in larger, more liquid companies have acted as ballast to the year's volatility. In this category we can count our positions in **Carsales** (CAR), **Downer** (DOW), and **Seven Group** (SVW). In total these contributed positively to performance for the year.

SOFTWARE WINNERS SHOW THE WAY

Despite a difficult year for software companies, some of the Fund's more established software businesses eked out small gains or contributed only small losses. They are the templates for where we expect our less mature tech companies to end up.

RPMGlobal (RUL) continued to deliver on our expectations. The company added very sticky recurring revenue of \$11m in the year to June 2022, will be profitable this financial year and increasingly so next year. We don't see the sales momentum slowing down. Despite this, RPM's share price was down 7% in the financial year. It remains the Fund's largest investment.

RPMGLOBAL ANNUAL RECURRING REVENUE FROM SOFTWARE SUBSCRIPTIONS



Source: RPMGlobal

Readytech (RDY) is already very profitable, generating operating profit margins of more than 30%. It has continued to acquire sensible recurring-revenue businesses to plug into its product suite. The most recent of these, a software solution for local councils, was acquired in June 2022 in a deal worth up to \$55m. At the same time Readytech announced that it was on track to

organically grow revenue at a "mid-teens" growth rate this year and at a similar rate all the way out to the 2026 financial year. The share price rose 29% during the financial year.

Billing software provider **Gentrack** (GTK) was in all sorts of trouble when new management took over in late 2020. Concerns centred around Gentrack's exposure to the suffering UK consumer electricity providers, its historical technology underspend and its exposure to shut down airports.

But over the last year Gentrack has allayed most of these issues. Its utility software business is growing again, despite calamitous problems in the UK electricity market. Increased technology spend is having an impact, judging by recent client wins. Furthermore, the airports business, while not yet growing, is looking at a rosier backdrop over the next few years. The business looks to be well on the way to achieving lofty 2024 profitability targets.

The sale of cloud licensing and services business **Rhipe** (RHP) early in the financial year to international competitor **Crayon** (OB:CRAYN), at a 20% premium to the trading price at the time, contributed a positive 0.5% to performance.

A PORTFOLIO FOR THE DECADES

There is no hiding from the fact that it has been a horrible year for the Fund's performance. We were too early to invest in fallen tech companies and were walloped by a general selloff in small cap stocks that was compounded by a wave of forced and tax-driven selling in June.

We have invested aggressively into that turmoil, though, and today own a portfolio more pregnant with high-quality businesses than ever before. It should make for an enjoyable period ahead of us.

TOP 5 HOLDINGS (as % of NAV)

RPMGlobal Holdings Limited	(ASX:RUL)	8.3%
Integral Diagnostics Limited	(ASX:IDX)	5.1%
Readytech Holdings	(ASX:RDY)	5.0%
Nitro Software Limited	(ASX:NTO)	4.8%
Bigtincan Holdings Limited	(ASX:BTH)	4.6%
Cash		6.3%

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%	-12.30%	-27.91%

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 June 2022
NAV	\$1.34
Market Price	\$1.20
Portfolio Value	\$138.4 million

ABOUT FORAGER

With approximately \$320 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.

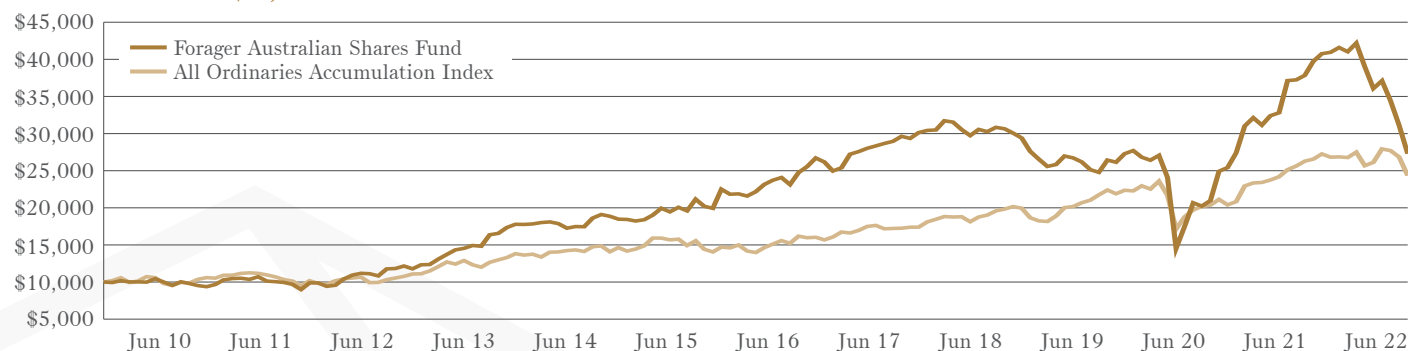
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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