FORAGER

JUNE 2022 FINANCIAL YEAR PERFORMANCE REPORT

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FORAGER

INTERNATIONAL SHARES FUND

JUNE 2022 FINANCIAL YEAR PERFORMANCE REPORT

FORAGER INTERNATIONAL 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.)	Since inception* (p.a.)
International Shares Fund	-5.98%	-13.18%	-29.30%	-38.09%	8.00%	5.79%	11.04%
MSCI AC World Net Index in $A	-4.68%	-8.08%	-15.88%	-8.86%	6.70%	9.06%	12.37%

MSCI AC World Net Index in $A is an abbreviation of MSCI All Country World Investable Market Index (Net) in Australian dollars.
Past performance is not indicative of future performance and the value of your investments can rise or fall.

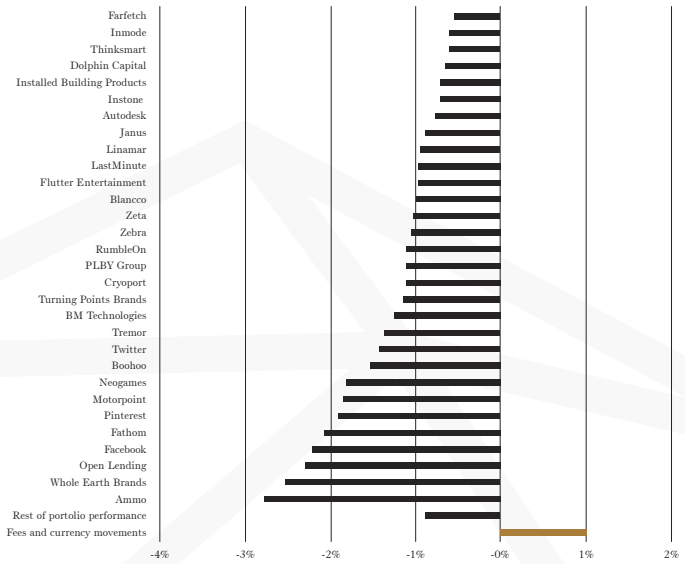
*8 February 2013

"Predicting rain doesn't count; building arks does."

You might question our right to open with a Warren Buffett quote after the year we've just had. Giving back more than half the outperformance of 2020/21 in an increasingly difficult market environment, the exact time when value investors are supposed to shine relatively. It's all for the purpose of self-flagellation.

Buffett used the so-called Noah rule to castigate his own performance after his insurance business was walloped by the September 11 terrorist attacks. He didn't lean on "unknown unknowns", "perfect storm" or the musician Shaggy's "It wasn't me" defence to describe the left-field event. He focused on how he should have been positioned in such a way that would have made Berkshire Hathaway more resilient to any such calamity.

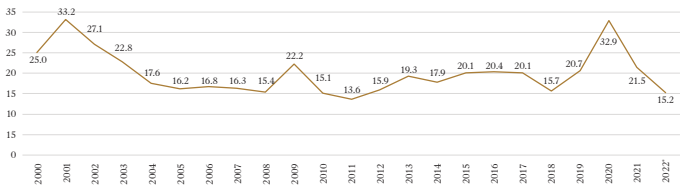
FISF PERFORMANCE CONTRIBUTION FOR THE YEAR ENDING 30 JUNE 2022



We know the feeling. Yes, smaller capitalisation stocks got hit particularly hard this past year, with the World Small Cap index down 23% over the past year. The index now trades at a price-to-earnings ratio not seen since the global financial crisis back in 2008. Technology and faster-growing businesses more generally were hit hard, with the Nasdaq down 30% these past six months alone. The number of Russell 3000 (non-financial) companies trading for less than cash has surpassed the month-end record set during the Global Financial Crisis. Finally, the compression of valuations for global markets—measured by the ratios of price to trailing earnings for global stocks—has been the greatest since the stagflation of 1975.

It has been a calamitous year, particularly at the smaller end of the market where we tend to invest.

MSCI WORLD INDEX PRICE EARNINGS RATIO



Source: Bloomberg

*Expected Price Earnings Ratio to 31 December 2022

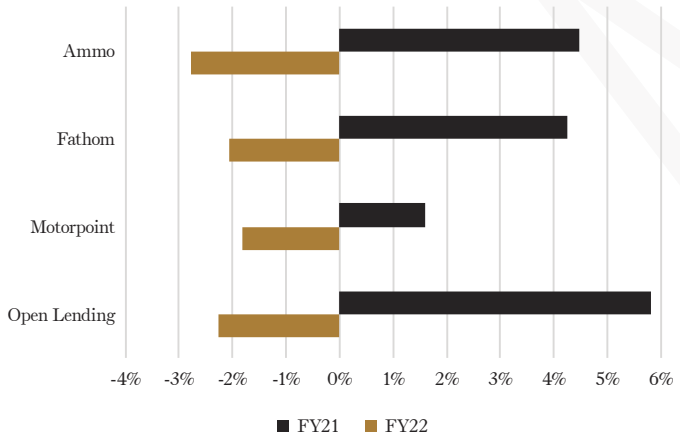
The whole point of having a wide and flexible mandate, though, is so that valuation discipline can be exercised in heady times.

The team spent a lot of time over the past 18 months discussing the outlook for rain. We talked about the similarities with the 1999/2000 tech bubble and the inflation/stagflation of the 1970s. And made some meaningful shifts in the right direction. You could call that half an ark—one that didn't float as well as it is meant to.

LONG-TERM WINNERS GIVING BACK THE GAINS

Let's start with a group of stocks where the original investment thesis is largely on track. Here, share prices have given back some, all of or more than the enormous gains from 2021. But the business is largely on track versus expectations at the time of purchase.

FISF CONTRIBUTION COMPARISON FOR FY21 VS FY22



Source: Forager

Ammunition manufacturer and user gun broker **Ammo** (NASDAQ:POWW) returned to earth after a massive run-up in price 12 months ago. Nearly half the investment was sold last year, but not quickly enough to avoid the 2.8% hit to portfolio returns, our worst performer of the year. This is despite the share price only being down 20% since our major purchases in 2021. The market holds concerns centred around profitability and cash flow. We share some of these concerns. But the online brokerage business is going strong and Ammo's new production facility in Wisconsin is set to open later this year, which will allow them to double production volumes on the ammunition side. The Fund maintains a 2.1% position—should everything go smoothly there is tremendous upside in the share price.

Fathom Holdings (NASDAQ:FTHM) is a small-cap company that is disrupting the online real estate industry in the United States. It was one of the Fund's top performers last year and we sold heavily more than 12 months ago. The company continues to do very well operationally, with sales growth over recent quarters exceeding 80%. However, given its exposure to the housing sector and its smaller size, the derating has been extreme, reducing returns by 2.1% in the process. The investment has been increased again during the past six months but it remains modest in line with the risk involved.

Used car retailer **Motorpoint** (LSE:MOTR) disappointed the market with a subdued profit outlook for 2023, despite continued rapid sales growth. It reduced Fund performance by 1.8%. Traditional competitors have used inventory tightness to earn record gross margin per sale for a second year running while volumes stagnate or fall. Motorpoint has played its cards very differently, proactively reducing gross margin to help grow volume by 46% over the year. We think these market share gains will have longevity after the margins normalise. The other issue has been some deep-pocketed new online-only competitors like Cazoo. With Cazoo's share price down 93% over the past year and making cuts everywhere, that threat is likely waning rather than growing. Motorpoint's response has been to maintain the elevated marketing spend of recent years, well above pre-COVID spending, and take the fight to the newcomers. We think that's the right call long-term despite the margin pressure it brings for now.

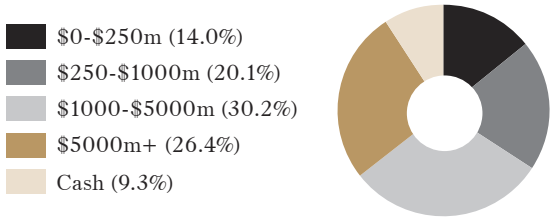
Fintech company **Open Lending** (NASDAQ: LPRO) has been delivering very solid operational performance despite facing numerous headwinds including a lack of used and new cars for sale and car manufacturer shutdowns. In this environment, smaller stocks exposed to discretionary spending are being punished. Despite continuing to grow earnings impressively, the stock has de-rated by over 50% since we bought it and now trades on a sub 10 times earnings multiple. It detracted 2.3% from returns this year.

THESIS OFF TRACK

In contrast to the above, we can't claim the below were just good ideas caught up in a difficult market. The next seven stocks haven't produced the results to justify our original thesis. Overall, we made good money on a few of them. But they all lost us money this past year. While they remain on watchlists and might be attractive again at heavily discounted prices, most have been sold for now.

Whole Earth (NASDAQ:FREE) makes products with very stable demand (artificial and natural sweeteners). Unshackled from a heavily indebted major shareholder a few years ago, the thesis was that running costs and marketing spend could be optimised in a way not possible beforehand. It's a playbook we've seen many times before. Instead, we've seen profitability eroded, largely due to a large acquisition that has underperformed and burdened the company with significant debt. Whole Earth crimped Fund returns by 2.5%. We sold the bulk of our position over the course of 2022 and will likely be out of the stock soon.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



iLottery software company **Neogames** (NASDAQ:NGMS) is a business that we expect will continue to grow and prosper. But picking up new state contracts has been slower than expected. And the deal to acquire former parent company Aspire, with its suite of B2B iGaming solutions, muddied the waters and dilutes the exposure to iLotteries. We'd been selling down for more than 12 months but should have moved more aggressively. The Fund made money out of the investment due to sales at much higher prices, but in 2022 it cost 1.8% of performance.

Same for **PLBY Group** (NASDAQ:PLBY), one of our best performers in 2021. While we had sold heavily before the worst of the downturn and made very good money overall, the remainder detracted 1.1% from Fund returns this year before the investment was entirely liquidated. It was yet another stock where a recent high-priced acquisition added to its woes and slightly detracted from our initial thesis. We continue to see value in the brand name and the longer term story here and we may revisit the investment in the future.

We bought online retailer **boohoo** (AIM:BOO) in 2020 after the stock had fallen in response to perceived growing pains. Over the first half of 2021/22, the stock fell sharply. By the pre-Christmas trading update, we recognised that the market had been right and we were wrong. Some of the issues, such as high return rates, were more structural than cyclical. Before losses were cut, boohoo detracted 1.5% from Fund returns. It could have been worse—the stock has more than halved again since the last sale.

BM Technologies (NASDAQ:BMTX) is a quirky small-cap that operationally delivered to expectations and now trades on nine times earnings. However, the company is about to lose one of its main sources of revenue, parting ways with its old banking partner at the end of 2022. The company acquired a small bank as a replacement but the situation is getting complicated and the range of outcomes has widened substantially. The stock reduced overall returns by 1.3%.

Twitter (NYSE:TWTR) is another busted thesis. While the business has immense potential, it has a long track record of falling short. Elon Musk tried to bail us out with a cash bid at $54.20, and we reduced exposure on-market after the announcement. But he's spent the past few months trash-talking Twitter, presumably to help him either recut or walk away from the deal. That explains why the stock trades at a whopping 31% discount to the bid price. Our Twitter investment reduced returns by 1.4% this year.

Pinterest (NYSE:PINS) was a similar story although, in contrast to Twitter, we only caught the downswing and not the upswing that preceded it. It was a clear beneficiary of the covid lockdowns. A year ago, financials hinted that underlying growth might overwhelm COVID unwind. The stock fell dramatically when it became clear that this would not be the case and clipped returns by 1.9%. We don't own Pinterest today but may again at some point. Despite the recent disappointment, the company holds a lot of potential.

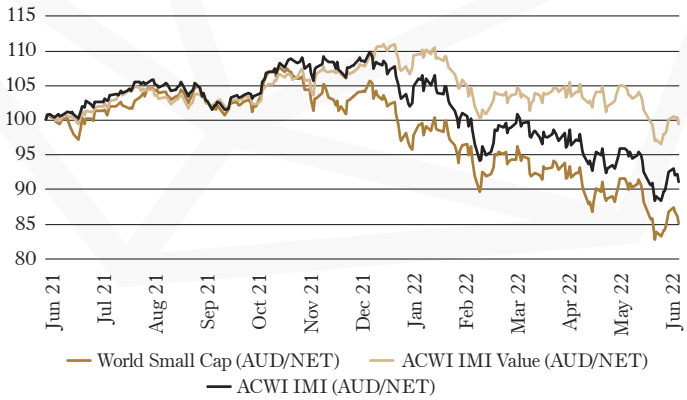
DEFENSIVES UNHELPFUL

Our growth bubble concerns led us to focus fresher purchases on established businesses trading at low multiples of earnings. Some large, some small. We'll know in a few years which worked and which didn't. But none helped out this year the way we'd hoped.

Meta Platforms (NASDAQ:META), née Facebook, is the biggest misstep here. In part, we invested in the stock because we were predicting rain and trying to build arks. Instead, the stock almost halved over the second half of the financial year, with much of the damage done on a single day in February. It cost the Fund 2.2% of performance. There are legitimate market concerns, such as Chinese competitor TikTok and whether the company will blow its prodigious cash flows in an all-in bet on the metaverse. We don't have definitive answers but management has stressed its focus on profitability and tapered back investments on some of its other bets already—a positive sign.

If you told us a few years ago that this still-growing business would be trading at less than 13x times expected earnings, we'd have struggled believing you. Even if a few things continue going wrong the stock is very attractively priced.

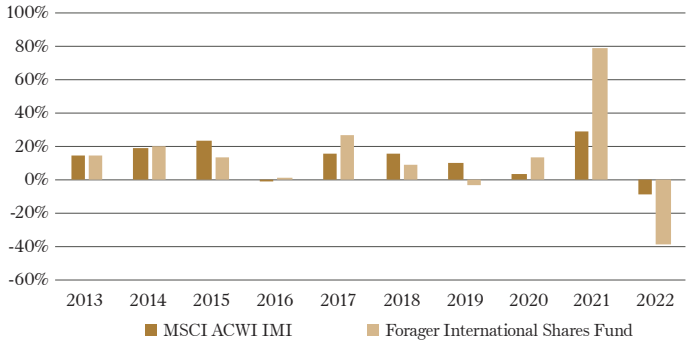
MSCI WORLD IMI VS MSCI SMALLS VS MSCI VALUE IMI



Source: MSCI. Index to 100 at 30 June 2021.

We bought into **RumbleON** (NASDAQ:RMBL), an online powersports distributor via a capital raise as it completed a merger with RideNow, the largest bricks & mortar distributor in the United States. The deal offered a number of synergies and was well received by the market. Due to this, the stock held up well until the fourth quarter of the year, where it joined the pity party due to the heavy selloff in consumer discretionary businesses. The stock clipped Fund returns by 1.1% over the year and now trades at about five times 2022 expected earnings.

FISF RELATIVE PERFOMANCE BY FINANCIAL YEAR*



Source: Forager, MSCI. *Including distributions.

Turning Point Brands (NASDAQ:TPB), the manufacturer of Zig-Zag rolling paper and Stoker chewing tobacco, continues to grow well. However, it has also de-rated significantly like most other smaller stocks in the US, lowering Fund returns by 1.1%. We feel the business is underpriced given the growth prospects of its core businesses. While a much bigger and broader business, the bid for Swedish Match by Philip Morris hints at the potential for corporate action in the sector.

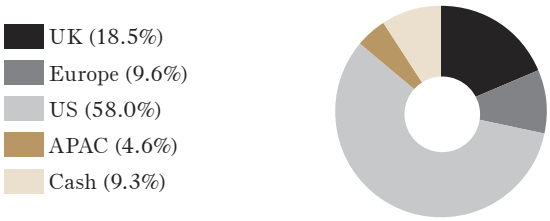
Any business with exposure to advertising has seen its share price hammered, irrespective of results or cheap starting valuation.

Tremor (AIM:TRMR) offers software platforms enabling advertisers to reach audiences, with a particular niche in connected television. It's growing rapidly and is cheap versus earnings. It reduced Fund results by 1.4%. It's a small position and we're waiting for more evidence before adding or cutting and running.

Zeta Global (NYSE:ZETA) provides businesses with consumer intelligence and marketing automation software. It bucked the selloff trend for the first three quarters of the year, before collapsing in the last quarter despite a good result and increased expectations for this year. The long-term story still looks attractive. Overall, it clipped 1.0% from returns.

In addition to cheap defensive stocks that unfortunately got cheaper, we did buy one new growth stock fairly recently. Too impatiently, mind you, clipping 1.1% from Fund returns this year. But the thesis is still on track. **Cryoport** (NASDAQ:CYRX) transports biological products around the world at super chilled temperatures, where margin for error is miniscule. It has a wide and growing moat and is an essential partner to the rapidly growing life sciences industry. But we kept adding as the stock fell dramatically. It seems to have found a floor, with the share price rising more than 50% from its May low by 30 June. Cryoport is one of the Fund's top five investments.

STOCK EXPOSURE BY GEOGRAPHY



THINGS THAT WORKED

In a mirror reverse to last year's result, no one stock provided a positive 1.0% contribution to overall return. The handful of positive contributors included energy drinks company **Celsius Holdings** (NASDAQ:CELH), a business we've traded in and out of deftly. It was the biggest positive contributor in 2020/21 and one of the biggest the year prior. It also jumped the low bar of top performers in 2021/22, no mean feat in a year where the share prices of most small companies were hammered. Other positive contributions came from Norwegian manufacturer **Norbit** (OB:NORBT) and Vienna Airport owner **Flughafen Wien** (WBAG:FLU).

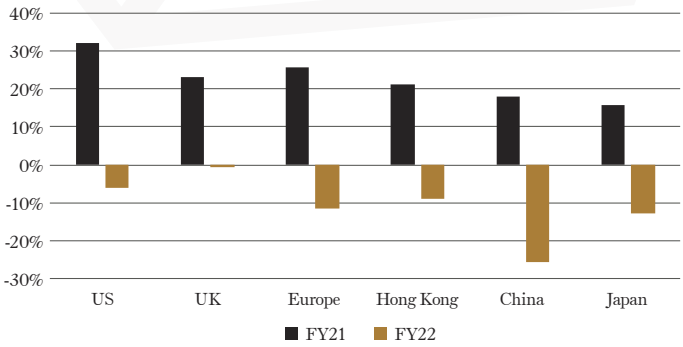
Early in the financial year we acquired a small basket of commodity-related names, mainly as a hedge against inflation. The overall position was small but the basket added 0.5% to Fund returns, helped particularly by the tripling in share price of US coal miner **Alpha Metallurgical Resources** (NYSE:AMR).

WHEN FINANCIAL RESULTS MATTER

As noted in the CIO letter to this performance report, wild swings in momentum and over-reactions in both directions seem to be a recurrent feature of modern financial markets. We clearly need to do a better job of navigating those waves—likely making less on the upside and drawing down less on the downside. Ultimately, though, we remain focused on buying businesses at attractive prices and participating in that value realisation over time.

While there have been missteps, the strike rate has been more than satisfactory over the history of the Fund, particularly the three years this investment team has been together. Today, there are more companies trading at attractive valuations than we have seen for a long time. That should portend well for the future.

MAJOR MARKET RETURNS COMPARISON FOR FY21 AND FY22



Source: MSCI

TOP 5 HOLDINGS (as % of NAV)		
Blancco Technology Group Plc	**(AIM:BLTG)**	4.4%
Lastminute.com NV	**(SWX:LMN)**	4.4%
Flutter Entertainment Plc	**(LSE:FLTR)**	4.2%
Cryoport Inc	**(NASDAQ:CYRX)**	4.1%
Linamar Corp	**(TSE:LNR)**	4.0%
Cash		9.3%

FUND OBJECTIVE

The Fund is an international equities fund, targeting undervalued securities on the world's stock markets. The Fund's investment objective is to outperform the MSCI All Country World Investable Market Index (Net) in Australian Dollars (MSCI AC World Net Index in $A) over a rolling 5-year period. The Fund's goal is to produce superior long-term returns from a portfolio of 20–40 businesses, irrespective of short-term share price movements^.

FUND PERFORMANCE BY MONTH AND FINANCIAL YEAR

FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total Return
2013								-0.26%	-0.62%	2.88%	8.74%	3.47%	**14.73%**
2014	3.61%	1.11%	-1.26%	4.59%	6.58%	2.82%	1.40%	1.92%	-4.64%	1.85%	1.46%	-0.16%	**20.54%**
2015	-1.81%	-0.82%	1.47%	-2.93%	2.43%	3.63%	1.33%	3.59%	1.47%	2.84%	4.54%	-2.17%	**14.06%**
2016	5.61%	-0.29%	-2.07%	2.55%	-3.19%	-2.74%	-5.08%	3.36%	0.09%	3.64%	5.84%	-6.36%	**0.44%**
2017	4.55%	3.84%	1.91%	0.52%	4.65%	5.55%	-0.63%	-0.13%	2.25%	4.97%	1.69%	-4.25%	**27.42%**
2018	-0.76%	-0.43%	3.99%	2.31%	1.62%	-2.76%	0.97%	-1.78%	-1.22%	4.64%	0.97%	1.21%	**8.81%**
2019	-0.55%	1.50%	2.22%	-6.62%	-5.49%	-3.66%	5.11%	5.19%	-4.03%	4.79%	-2.68%	1.85%	**-3.31%**
2020	0.07%	-1.92%	3.09%	0.95%	4.83%	4.73%	3.62%	-6.03%	-15.53%	9.78%	12.60%	-0.22%	**13.74%**
2021	1.36%	10.05%	1.63%	2.36%	10.85%	5.98%	2.07%	6.56%	2.20%	8.05%	1.41%	7.75%	**78.88%**
2022	-4.25%	-0.03%	-3.57%	-1.79%	1.27%	-4.61%	-6.24%	-6.32%	-7.29%	-6.24%	-1.50%	-5.98%	**-38.09%**

Past performance is not indicative of future performance and the value of your investments can rise or fall.

FACTS

Fund inception	8 February 2013
Minimum investment	$20,000
Monthly investment	Min. $200/mth
Distribution	Annual, 30 June
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

As at	30 June 2022
Buy Price	$1.3086
Redemption Price	$1.3034
Mid Price	$1.3060
Portfolio Value	$181.8 million

The Fund is forward-priced; you will receive the price struck subsequent to the receipt of your application/redemption.

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.

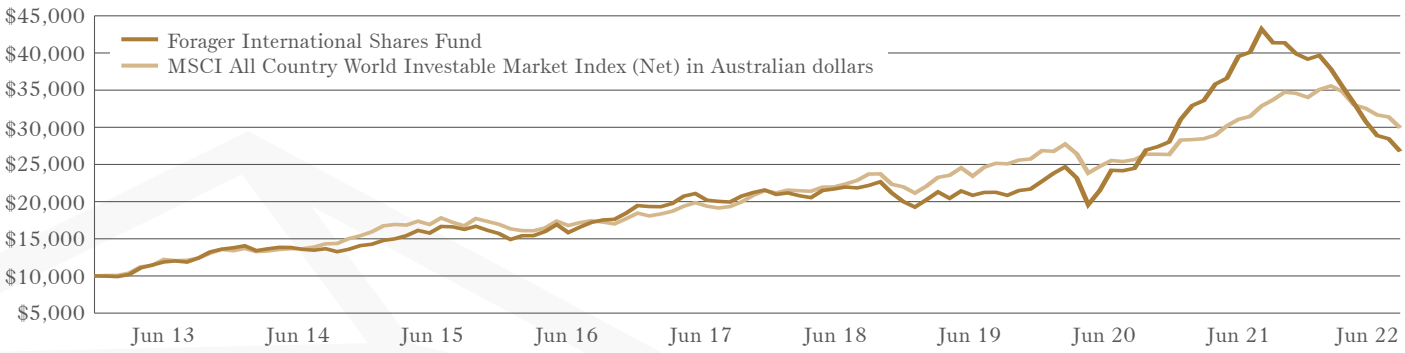
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

Key investment staff are strongly aligned with investors through co-investment and / or equity in the Forager business.

FUND CHARACTERISTICS

- Concentrated portfolio of global equities
- A combination of large liquid resilient businesses
- With smaller value based opportunities
- Flexible mandate allows for a wide range of markets
- Investment team with deep pockets of expertise
- Strong focus on managing portfolio risks
- Weekly applications and redemptions

COMPARISON OF $10,000 INVESTMENT OVER TIME



Source (MSCI AC World Net Index in $A): S&P Capital IQ. The above figures assume that all distributions have been reinvested. Past performance is not indicative of future performance.

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%

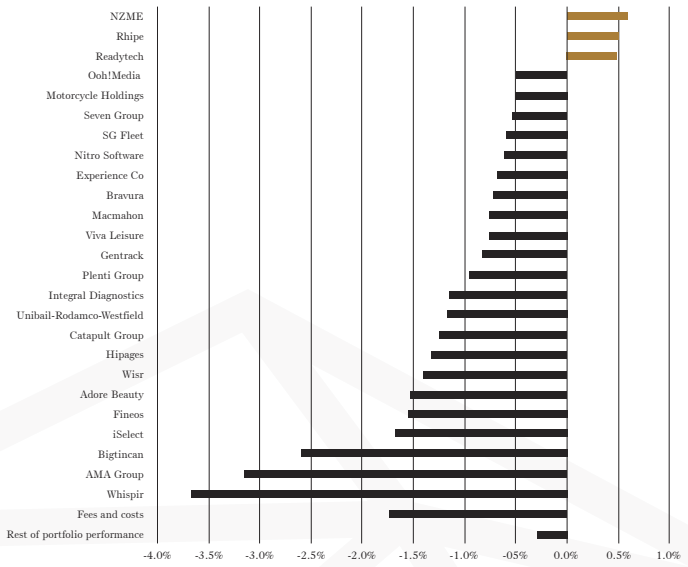
The value of your investments can rise or fall. Performance is calculated using Net Asset Value (NAV), not the market price.
Past performance is not indicative of future performance.

*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%.

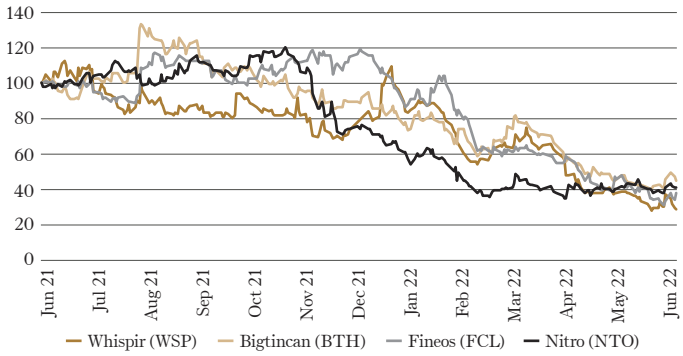
FASF PERFORMANCE CONTRIBUTION FOR THE YEAR ENDING 30 JUNE 2022



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%.

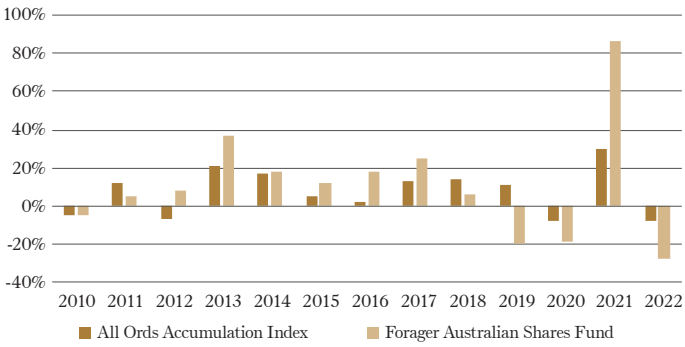
NOT LENDING A HAND

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.

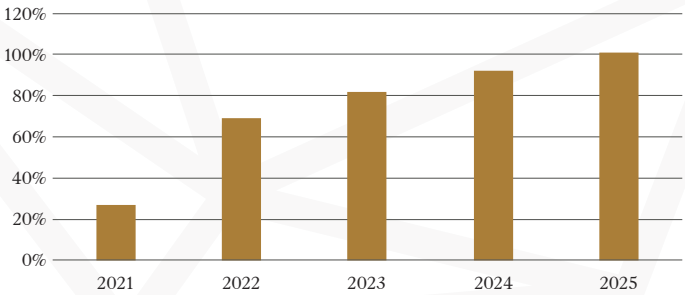
Gyms group **Viva** (VVA) also clarified that the domestic disruptions earlier this calendar year are behind it. With lockdowns biting, revenue shrunk to less than $1m for September 2021. By May 2022 the business was back to $10m of monthly revenue, one month ahead of schedule, and profit margins are 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.

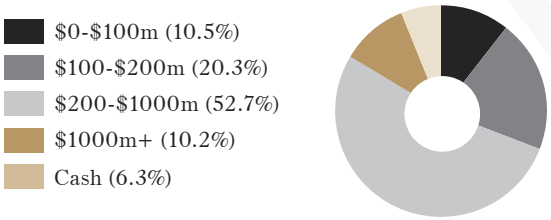
SMALL POSITIVES

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



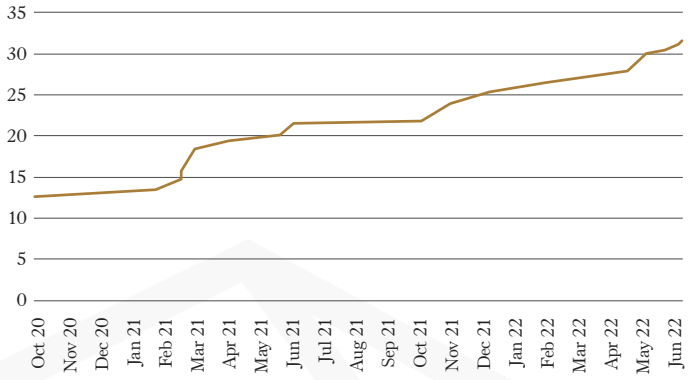
Our investments in larger, more liquid companies have acted as ballast to the year's volatility. In this category we can count our positions in **Carsales** (CAR), **Downer** (DOW), and **Seven Group** (SVW). In total these contributed positively to performance for the year.

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.

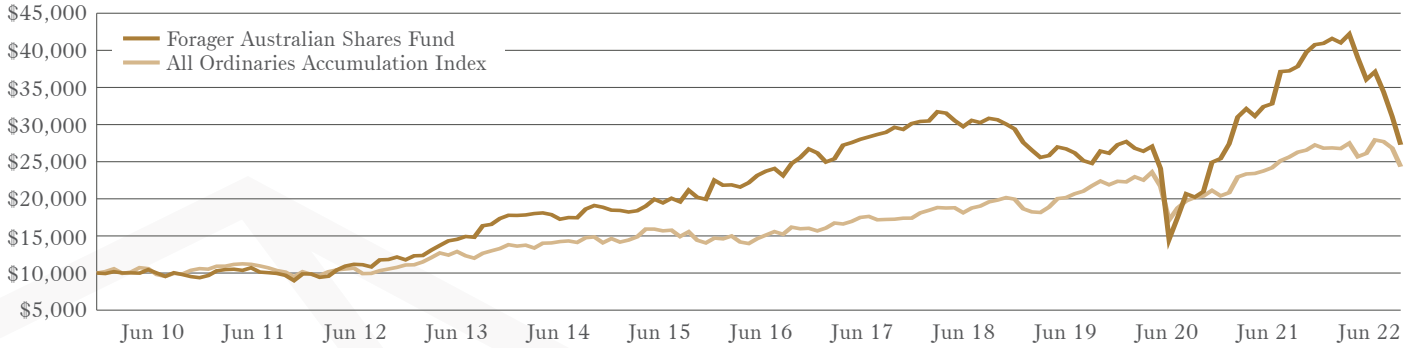
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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