

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT AUGUST 2022



FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 August 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)	1.67%	0.11%	-13.70%	-23.62%	6.00%	1.19%	10.17%	9.25%
All Ordinaries Accumulation Index	1.28%	-2.38%	0.28%	-3.86%	6.17%	8.55%	9.53%	7.79%

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

Rapidly increasing interest rates have most of corporate Australia on high alert. High inflation, higher interest rates and, more recently, falling house prices must eventually curtail consumer spending.

It's not surprising that companies reporting their results for the year to 30 June have been cautious and reluctant to provide guidance. But the numbers suggest there is no sign of a consumer strike just yet.

Fund investment **Motorcycle Holdings** (MTO) is exposed to the most discretionary part of consumer spending. While some purchasers use their bike for work, the most profitable business for this motorcycle and accessories retailer is selling Ducatis and Harley-Davidsons—typically optional purchases. So it is not surprising the company said it is “preparing for market volatility and more subdued trading conditions as consumer demand moderates due to cost of living pressures”.

Asked on the analyst call whether he was seeing “subdued” trading conditions in July and August, though, Managing Director David Ahmet responded, “July was a bit soft, but August has come roaring back”.

That sums up the message out of this latest reporting season. While there is a justifiably high level of concern, record low unemployment, increasing wages and high levels of savings from the past few years are allowing Australian consumers to keep spending.

We are not expecting that to continue but the amount of pessimism baked into share prices back in June provided shareholders with a lot of room for profits to fall. Some stocks have already risen meaningfully from the bottom, making for a more balanced trade-off today. The Motorcycle Holdings share price, for example, is up more than 30% from its June lows. The roughly six times profit multiple it trades at today (and 8% fully-franked dividend yield) is a more balanced reflection of the risks ahead, but should still prove attractive for long-term investors.

The same is true in the advertising sector, where share prices were absolutely walloped in anticipation of a slowdown in economic activity. The recent earnings season hasn't shown much evidence of a slowdown and industry data suggests August and September will be strong. Despite rising 51% from its June lows, **Seven West Media** (SWM) is trading at around four times last year's profits, a level you would normally associate with a Russian telecommunications company.

Out-of-home advertiser **oOh!media** (OML) is another good example. This business continues to bounce back strongly from the pandemic. Its share price, though, has fallen back to the pre-vaccine days of 2020. These two attractively-priced stocks represent 6% of the portfolio and, in our view, should offer excellent long-term returns for investors willing to navigate the inevitable cyclicity.

The big portfolio news for the month was takeover offers for **iSelect** (ISU) and **Nitro** (NTO). The iSelect deal has been a long time coming,

with major shareholder (and owner of competitor Compare the Market) IHA group finally lobbing a firm bid in early August. The price—\$0.30 per share—leaves a lot of upside for IHA. The likely cost benefits from merging these two businesses are immense. But the operational performance of iSelect doesn't leave shareholders with a lot of bargaining power. Absent any intervention from the ACCC, which already greenlighted IHA increasing its stake in iSelect, the deal likely gets another green light from shareholders (including us).

The battle should be tougher at Nitro. The PDF productivity and e-Signing provider raised capital at \$3.43 a share in late 2021 to fund a European acquisition, saw its share price trade down to almost \$1 and has now received a takeover offer from private equity funds at \$1.58 a share. The board quickly rejected the offer as opportunistic and significantly less than the fair value for the business. We tend to agree with them but Potentia, the firm leading the bidding consortium, has amassed an almost 20% stake in the company from shareholders keen to jump ship. While that makes it harder for other bidders to emerge, it also shows Potentia's enthusiasm for the business. Whether they offer enough to convince the board and remaining shareholders or hang around as highly engaged shareholders, their interest shows the value on offer in the sector.

There are other good software businesses out there that offer a similar opportunity for potential purchasers. In the Forager Australian Shares Fund, these include **Whispir** (WSP), **Bigtincan** (BTH), and **RPMGlobal** (RUL). All three should see dramatic improvements in profitability over the next three years thanks to further growth and relatively fixed costs. The past year's share price performance suggests fellow stock market investors aren't prepared to wait. For those like us and Potentia, that is where the opportunity lies.

TOP 5 HOLDINGS (as % of NAV)

RPMGlobal Holdings Limited	(ASX:RUL)	6.2%
Bigtincan Holdings Limited	(ASX:BTH)	4.9%
Nitro Software Limited	(ASX:NTO)	4.9%
Tourism Holdings Limited	(NZE:THL)	4.7%
Integral Diagnostics Limited	(ASX:IDX)	4.3%
Cash		5.8%

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%
2023	12.28%	1.67%											14.15%

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 August 2022
NAV	\$1.45
Market Price	\$1.33
Portfolio Value	152.0 million

ABOUT FORAGER

With approximately \$338 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

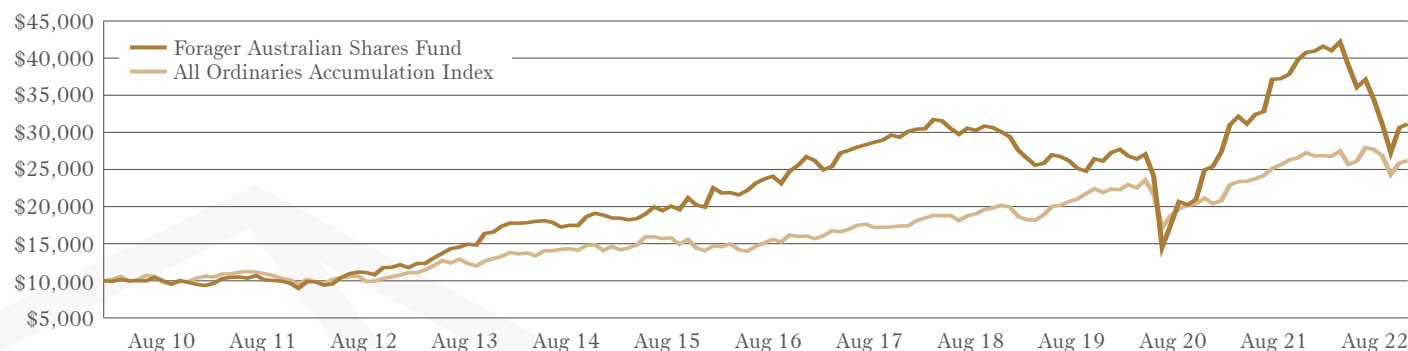
Following a strong ten-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

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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