

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT OCTOBER 2022



FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 October 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)	7.58%	2.23%	-9.00%	-24.71%	4.17%	0.58%	10.27%	9.17%
All Ordinaries Accumulation Index	5.68%	0.18%	-6.46%	-3.52%	5.17%	7.44%	8.86%	7.59%

The value of your investments can rise or fall. Performance is calculated using Net Asset Value (NAV), not the market price. *30 October 2009
Past performance is not indicative of future performance.

October was a busy month for the Forager Australian Shares Fund. Takeover and merger action led to a 7.6% increase in the Fund's net asset value for the month versus a 5.7% rise for the All Ordinaries Accumulation Index.

Both **Apollo Tourism and Leisure** (ATL) and **Tourism Holdings** (NZX:THL) saw significant share price appreciation as investors cottoned on to the benefits of these two companies merging (see the [September Quarterly Report](#)). Both companies released individual upgrades to their estimates of stand-alone profitability in the 2023 financial year as international travellers return to Australia and New Zealand. And Apollo released a merger-related document estimating the cost synergies from the combination should be more than originally estimated.

There is plenty of work to be done to realise those benefits and most of that can't start until the merger is completed in late November. But our newly updated estimates suggest the combined entity could make \$100m of profit in the 2025 financial year.

Despite the recent rally, that would still look attractive relative to the current combined market capitalisation of about \$800m. We have taken some profits purely for risk mitigation (the combined portfolio weighting is now 8.7%), but this remains one of the Fund's most important investments.

Nitro Software (NTO) isn't our largest investment, but it is nonetheless important. It has been a couple of months since Nitro's board rejected private equity firm Potentia's \$1.58 per share bid for the company. We were beginning to wonder whether that was the end of it when the fireworks started. The first cracker was a 27 October article in *The Australian* suggesting Nitro was well progressed with alternate potential bidders. The following day, Potentia let off its own rocket, upping its offer to \$1.80, declaring that offer final (sort of) and guaranteeing that it won't support anyone else's bid.

That was intentionally designed to scupper any competing offers but clearly didn't work. Nitro did indeed have an interested bidder in the works and it turns out they aren't dissuaded by Potentia's aggressive threats. KKR-backed Alludo has entered the ring, offering \$2.00 per share and only requiring 50.1% of shares on issue to accept in order to proceed with its deal. There's nothing like competition to determine the true value of an asset. Now all shareholders need to do is sit back and see who wants it most.

We won't be surprised to see more Australian tech companies go the way of Nitro and fellow ASX-listed software company **Elmo Software** (ELO).

Elmo, which isn't owned by the Fund, agreed on a deal from a private equity fund to double the undisturbed share price during October. No doubt we will see them returned to the stock exchange at three times the price once optimism returns.

The best thing the companies themselves can do is find financial religion before private equity imposes it on them. On that front, two of our investments are showing progress. Another is proving hard to convert.

Bigtincan (BTH) seems to have gotten the message loud and clear. Its last quarterly report shows a nice balance of high growth and simultaneous cost containment. The share price traded 40% higher after the update.

Fineos (FCL) similarly showed a nice combination of fast-growing revenues and relatively modest cost growth. This provider of cloud software for life insurers has many years of growth ahead of it but is already in a good position with €38m cash on the balance sheet, no financial debt and quickly approaching break even next financial year.

On the other hand, **Whispir** (WSP) has become the villain of our group of quarterly reporters. The communications automation company is suffering from a bout of indigestion after a massive 2022 financial year where revenue grew 48%. Its quarterly report for the three months to September showed annualised "recurring" revenue fell 5% from the last quarter. Declining revenue and sticky costs made for significant cash outflow, in turn triggering concerns about the strength of its balance sheet. While it's never wise to extrapolate any single quarter, Whispir management needs to find financial discipline in the very near future.

TOP 5 HOLDINGS (as % of NAV)

RPMGlobal Holdings Limited	(ASX:RUL)	7.7%
Tourism Holdings Limited	(NZE:THL)	5.7%
Bigtincan Holdings Limited	(ASX:BTH)	5.4%
Readytech Holdings	(ASX:RDY)	5.1%
Integral Diagnostics Limited	(ASX:IDX)	5.0%
Cash		8.2%

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%	-12.30%	-27.91%
2023	12.28%	1.67%	-6.53%	7.58%									14.79%

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 October 2022
NAV	\$1.45
Market Price	\$1.25
Portfolio Value	\$151.4 million

ABOUT FORAGER

With approximately \$340 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.

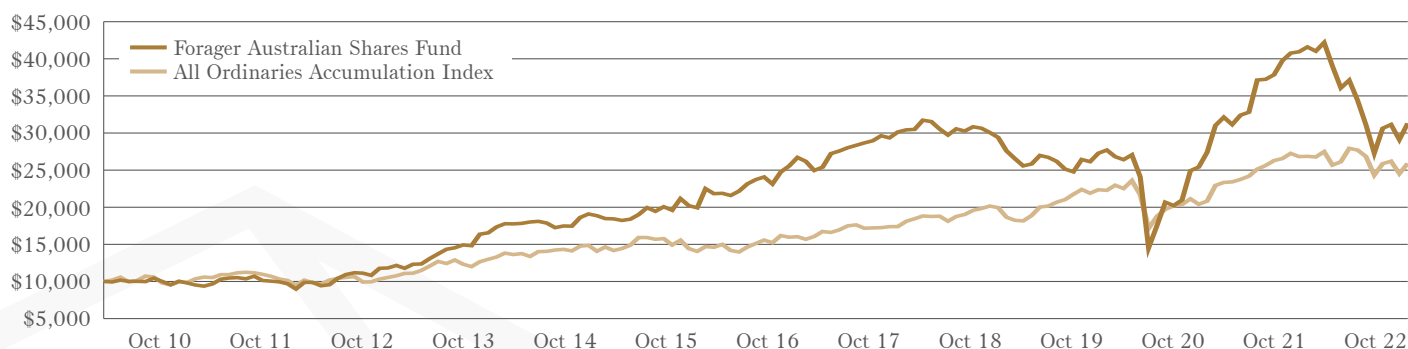
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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