

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT NOVEMBER 2022



FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 November 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)	5.75%	6.34%	6.45%	-19.30%	7.29%	1.67%	10.39%	9.58%
All Ordinaries Accumulation Index	6.44%	5.28%	2.78%	3.03%	6.30%	8.38%	9.52%	8.06%

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.

Equity prices appreciated meaningfully in November, with the ASX All Ordinaries index finishing the month with a gain of 6.4% including dividends. There is growing evidence that inflation is at or close to a peak here in Australia and around the world. The prices of many key inflation components, including used cars, food and oil prices are already falling and we believe this should contribute to dramatically lower headline inflation rates this time next year.

Rightly or wrongly, that has translated to a significant reduction in longer-term interest rates as expectations around future rate rises have fallen. Back in mid-October, financial markets expected the RBA to raise base interest rates to around 4%. Now, at the end of November, the expectation is 3.6%, just a few more notches higher than the current rate. Hence the share market rally.

Despite smaller stocks continuing to underperform their larger brethren, it was also a good month for the Forager Australian Shares Fund, with the net asset value increasing 5.7%. That was largely due to further takeover action, with private equity funds bidding for more of the Fund's investments, including one of our largest.

On the first day of the month, **Readytech** (RDY) announced it had received a non-binding offer from Pacific Equity Partners (PEP) to acquire the company for \$4.50 per share (the stock had been trading around \$3 a share for the few months prior). The initial announcement suggested that Readytech's largest shareholder, private equity firm Pemba, was seeking to work with the bidder on taking the company private via a scheme of arrangement.

Readytech's second largest shareholder, **Microequities** (MAM), was out quickly with a public statement that it has "zero interest" in selling its shares at the offer price. Microequities backed up its statement with further on-market purchases, taking its combined stake to 15% of Readytech. If Pemba can't vote its 32% stake due to an association with the bidder, a scheme of arrangement (which requires 75% of shareholders to vote in favour) is effectively dead without Microequities support.

On the last day of the month, Readytech announced receipt of an updated proposal from PEP, a clear attempt to circumnavigate Microequities' resistance. It said that there are no longer any plans to work with Pemba, but that all shareholders would have the option of taking scrip in the bidding entity rather than cash. Giving all shareholders the same options as Pemba gives Pemba the right to vote on a deal.

We're in agreement with Microequities about the quality of this business. Their view, that it is a mini **Technology One** (TNE) and should trade at similar multiples, has some merit but probably requires a few more years of growth and profitability to prove. There is nothing for us to do until we see something firm and serious to consider, but our ownership of 2.1% of Readytech's shares could become important in this particular takeover battle.

At the simpler end of the spectrum, golfing and club management software company **MSL Solutions** (MSL) has agreed an attractive deal for shareholders. Pemba will take the company private for \$0.295 per share (yes, coincidentally, that's the same Pemba). Long term investors will remember MSL as one of our important activism candidates a few years ago. The share price had fallen from \$0.20 at its 2017 IPO to \$0.10 in 2019, a year in which it reported a loss of some \$18m and burned approximately \$6m of cash.

We introduced Tony Toohey to the board in late 2019. Tony replaced the management team and he and new CEO Pat Howard set about resurrecting the company. The 2022 financial year showed a net profit, \$4.1m of positive operating cashflow and good growth prospects for the coming year.

They've done a wonderful job and the \$0.295 price shareholders will receive if the deal goes through is a reflection of what has been achieved.

An equally successful turnaround is well underway at **Gentrack** (GTK). This Kiwi company, which has a September year end, followed a couple of recent upgrades with a good result for the 2022 financial year. Revenue for 2022 grew almost 20% on the previous year and is forecast to hit \$150m in 2024. That's despite losing a number of UK utilities clients to bankruptcy and ownership changes.

Its airports software business is recovering alongside global tourism and its utilities software seems to be winning plenty of new clients as the industry shifts its operations to the cloud. While the share price has jumped more than 50% over the past few months, it is still cheap if management deliver on their targets. We think they can do better.

TOP 5 HOLDINGS (as % of NAV)

RPMGlobal Holdings Limited	(ASX:RUL)	6.7%
Readytech Holdings	(ASX:RDY)	5.9%
Tourism Holdings Limited	(NZE:THL)	5.5%
Integral Diagnostics Limited	(ASX:IDX)	5.0%
Bigtincan Holdings Limited	(ASX:BTH)	4.9%
Cash		6.0%

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%	5.75%								21.38%

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 November 2022

NAV \$1.54

Market Price \$1.32

Portfolio Value \$159.7 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.

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