FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT DECEMBER 2022

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 December 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)	-3.87%	9.36%	16.69%	-24.54%	6.42%	0.07%	9.96%	9.19%
All Ordinaries Accumulation Index	-3.30%	8.77%	9.65%	-2.96%	5.79%	7.22%	9.15%	7.73%

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

In December the Forager Australian Shares Fund net asset value declined 3.9%, against a fall of 3.3% for the All Ordinaries Accumulation Index. Since the June nadir, the market has bounced 9.7%, while the Fund has recovered 16.7%. While 2022 was still a horrible year for overall fund performance, the second-half recovery was thanks to takeovers and profit upgrades rather than any market-wide factors. Small caps continued to underperform.

As outlined in our CIO letter, there are reasons to expect better relative performance from the smaller end of the market in 2023. Either way, low valuations and good operational performance are a recipe for strong returns. There was some of both in December.

TAKEOVER TIME

The Fund's performance was buoyed by takeover activity over the past six months. In total six businesses were either acquired, have a high likelihood of being acquired, or have been dealing with takeover bids. The long-running saga of comparison site **iSelect** (ISU) ended in December with a takeover by its largest shareholder and competitor approved by shareholders, and its shares delisted from the ASX.

The battle for PDF software and e-signing company **Nitro** (NTO) heated up, with two private equity groups competing to acquire the business. The current highest bid of $2.15 per share is due to be put to shareholders in February, but more and higher bids are possible.

FORAGER AUSTRALIAN SHARES FUND TAKEOVER ACTION

COMPANY	LATEST BID	STATUS
iSelect	$0.30	Closed
MSL Solutions	$0.30	Shareholder vote early 2023
Nitro Software	$2.15	Shareholder vote February 2023
Readytech	$4.60	Bid withdrawn
Bigtincan	$0.80	Highly conditional bid
Apollo Tourism and Leisure	One THL share for every 3.21 ATL shares	Closed

Two other investments have found themselves in more complicated bidding situations. A bid for education, payroll and government software provider **Readytech** (RDY) was unpopular with the company's second-largest shareholder. In December, the approach was withdrawn. Readytech confirmed recent guidance of strong organic growth for the current financial year and management can get on with running this very prospective business.

Sales enablement software company **Bigtincan** (BTH) announced an approach from its largest shareholder, US hedge fund SQN, in December at $0.80 per share. While contemplating the conditional bid, Bigtincan proceeded with a capital raising of its own at $0.60 per share to fund acquisitions.

SQN's bid doesn't look particularly compelling—its leaked communication with the board seemed to suggest it is as interested in buying the company as selling it. And we think this business would be particularly attractive to a corporate acquirer in 12-18 months' time.

But raising money at $0.60 per share is a horrible look with or without an $0.80 bid on the table. We have made our dissatisfaction known and will be watching the acquisitions closely. They need to be good to justify such a bizarre sequence of events.

A GLOBAL TOURISM BUSINESS

The merger between **Tourism Holdings** (THL) and Apollo Tourism and Leisure completed in December and the combined entity is now trading on both the ASX and NZX. Having exchanged our Apollo shares for THL shares, THL is now the largest investment in the Fund.

The combined recreational vehicle business now stretches across the globe, with operations in Australia, New Zealand, the US, Canada, the UK and continental Europe. The group has NZ$1.1bn of assets on its balance sheet and now has a market capitalisation of NZ$745m. It dominates in the antipodes and has strong positions in North American markets.

THL can now take advantage of scale across the three components of the RV ecosystem: build/buy, rent and sell. Factories in Australia and NZ will produce RVs for rental operations while the combined entity has greater scale when buying from suppliers. The more streamlined network of rental depots allows for more efficient rentals and returns. And selling ex-rental RVs through owned dealerships improves sales margins. In total, the synergies from the transaction are estimated at between NZ$27 and NZ$31m, to be realised by the 2025 financial year.

Before COVID decimated tourism, THL had sensible aspirations for NZ$50m of net profit. Apollo's most recent guidance was for at least $20m of net profit, similar to undisrupted pre-COVID levels. And synergies, after tax, are due to contribute an extra NZ$20m. Upside exists through recent small acquisitions, higher yields and more synergies out of the North American operations.

By the time international travel fully recovers and the scale benefits are fully realised in 2025, THL should earn upwards of NZ$90m of net profit. At the current market price, that would be an attractive nine times after-tax earnings. With more investors becoming aware of the business, it shouldn't stay that cheap for long.

GENTRACK TURNS THE CORNER

That wasn't the only world-beating New Zealand-based business to provide some positive news. **Gentrack** (GTK), a provider of software to utilities and airports, reported earnings for the 2022 financial year and saw its share price rocket more than 52% between late November and the end of the year.

Gentrack's airport segment has had to contend with the COVID-induced passenger slump over the last few years. But, as with Tourism Holdings, things are looking brighter. Traffic in key geographies is already at more than 85% of 2019 levels. And airports have started spending again with new customers and expansions of existing customers secured during 2022. The company forecasts its airports business to grow a solid 15% p.a. for the next five years at healthy margins. The airport software business is relatively small and unrelated to the utilities business. It should fetch a healthy price should the company decide to sell it and focus on the main game.

The main game is looking particularly prospective. Gentrack has suffered from the collapse of several of its UK utilities clients over the past few years. The last of those, Bulb, will wind down its contribution in the 2023 financial year. Gentrack, though, has been winning plenty of work elsewhere. The recurring component of those new wins will more than offset $13m of lost revenue from collapsed UK energy clients in 2023. In total, the company's utilities segment should grow modestly over the next two years, but growth outside of collapsed clients could top 20%. This sets the business up well to deliver on its "high teens" percentage growth rates in the longer term.

GENTRACK SHARE PRICE

Source: Bloomberg

While the utilities industry is notoriously slow to embrace change, a transition from legacy systems to cloud-based software is underway and accelerating. Our industry research indicates Gentrack's software is industry-leading, which explains the recent client wins and suggests it should win more than its fair share of work in future too.

This business has been around for a long time and was once an investor favourite. The past few years have been difficult, with large clients going bust and the significant investment required in its software offering. Recent results and the outlook suggest it is on the path to becoming a favourite again.

UPGRADES IN UNLIKELY PLACES

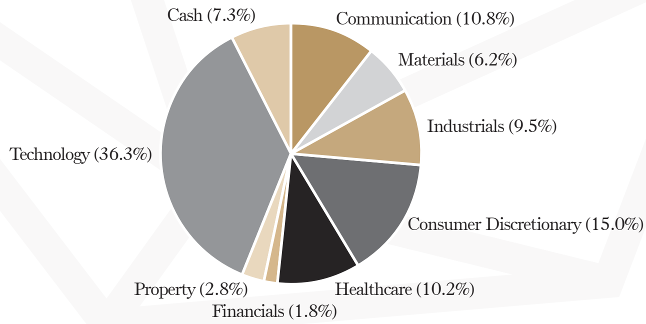
One of the rarer things to see is a profit upgrade from a mining services company. So it was to the market's great surprise that **Perenti** (PRN) produced two upgrades in the space of just five weeks. The first 14% profit upgrade was partly attributed to better contract performance and partly to a weaker Australian dollar. The second 8% upgrade stemmed from retrospective rate adjustments and new contract wins.

The company has painted a rosy long-term picture. By the 2025 financial year, management plans to increase profit margins to 10% and return on capital to 20%. While last year ended with margins of 7.2%, new 2023 guidance has that closer to 8.6% on higher revenue. The market's confidence in longer-term targets has increased and the stock has more than doubled from a low of $0.56 in July to $1.32. The business still trades on eight times next year's earnings.

This sharply contrasts with the Fund's long-term investment in **Macmahon** (MAH), which continues to trade at its July lows. The company gave a surprisingly wide range of profit guidance for this year. It needs to deliver closer to the top end to justify the amount of capital invested in recent years and, just prior to Christmas, announced a dispute with a client that might explain the difference.

While that's more like the mining services we know, the gap with Perenti looks unjustified. Macmahon is making good progress on recruiting staff for secured projects, won a 7-year $1.1bn contract with a major lithium producer and continues working on an extension to its largest project. Macmahon now trades at just four times next year's expected earnings but there is little investor tolerance for a slip-up.

STOCK EXPOSURE BY SECTOR



Source: S&P Capital IQ

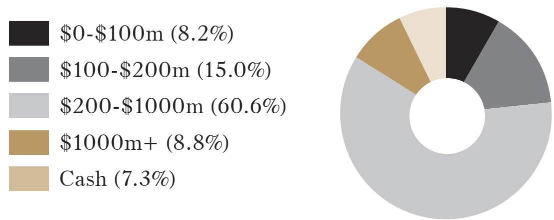
DISTRIBUTION AND REINVESTMENT

Forager Australian Shares Fund units now trade ex the entitlement to the interim distribution. The cash will be paid on 17 January and investors are encouraged to ensure your bank account details are up to date.

In conjunction with the Responsible Entity, we made the difficult decision to suspend the Distribution Reinvestment Plan due to FOR units trading at a large discount to the net asset value in recent months. We know many investors want to compound their wealth by reinvesting distributions and would prefer to make that as simple as possible. However, issuing new units at a large discount to NAV is anathema to our philosophy.

A decision will be made about the July distribution in June 2023. For those who want to reinvest their interim distribution themselves, you can always buy units on market and achieve exactly the same outcome. Units are, in our opinion, available at a particularly attractive price.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



TOP 5 HOLDINGS (as % of NAV)

Tourism Holdings Ltd	(NZE:THL)	7.7%
RPMGlobal Holdings Limited	(ASX:RUL)	7.0%
Bigtincan Holdings Limited	(ASX:BTH)	5.7%
Readytech Holdings	(ASX:RDY)	5.3%
Gentrack Group Limited	(ASX:GTK)	5.0%
Cash		7.3%

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%**
2023	12.28%	1.67%	-6.53%	7.58%	5.75%	-3.87%							**16.69%**

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FACTS

Fund inception	30 October 2009
ASX Code	FOR
Distribution	Annual, 30 June

UNIT PRICE SUMMARY

As at	31 December 2022
NAV (ex price)	$1.45
Distribution	$0.03
Market Price	$1.36
Portfolio Value	$152.5 million

ABOUT FORAGER

With approximately $330 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.

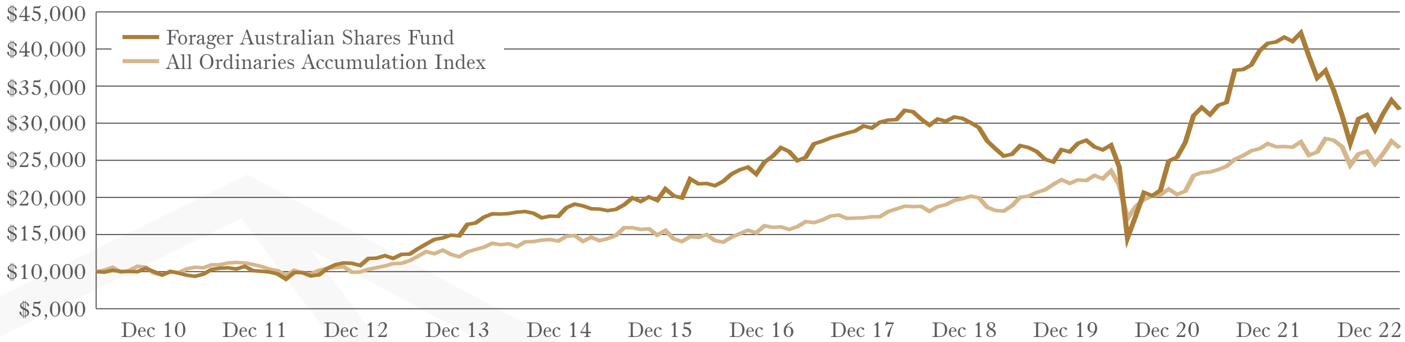
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.