FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT FEBRUARY 2023

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 28 February 2023. 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)	-4.62%	-2.85%	3.31%	-10.84%	10.11%	1.04%	9.41%	9.16%
All Ordinaries Accumulation Index	-2.48%	0.36%	5.67%	5.97%	8.50%	8.05%	8.65%	7.93%

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

January's stock market optimism failed to stand up to the reality of February reporting season. The ASX All Ordinaries Accumulation Index fell 2.5% for the month and the Forager Australian Shares Fund unit price fell 4.6%.

There was some good news. Recreational vehicle maker, renter and seller **Tourism Holdings** (THL) upgraded its profit expectations for the 2023 financial year once again. The business is set to earn like-for-like net profits of $75m this financial year, much better than prior expectations for Tourism Holdings and Apollo Tourism, which it recently merged with.

Skydive and reef experiences business **Experience Co** (EXP) is also a beneficiary from a recovery in overseas tourist arrivals. It reported positive earnings before interest, tax, depreciation and amortisation (EBITDA) of $5m for the six months to December, relative to a loss of roughly the same amount the year before. The half saw the highest level of profit since the onset of Covid forced the business to dramatically scale back operations. We expect substantially more EBITDA in the second half of the year and further growth beyond, with the earnings capacity of the business more than three times higher than the first half run-rate.

And profitability for **Viva Leisure** (VVA) is improving month by month too. This low-cost gym operator is back generating cash profits of roughly $900k per month and ploughing that back into new gyms and acquisitions. The incremental returns on capital are excellent and demand remains robust as we all try to work off that excess COVID weight.

Qantas (QAN) reported a well-flagged but very good result. **Seven Group** (SVW), a conglomerate that owns WesTrac, Coates and most of **Boral** (BLD), announced strong results and suggested the rest of the year will be equally strong. And out-of-home advertiser **oOh!media** (OML) is almost back to 2019 levels of revenue and profitability.

There's a common theme here: those businesses that suffered during Covid and cut their expenses to the bone are now reaping the benefits in a more robust demand environment.

Many other businesses are at the opposite end of that cycle. Revenue growth has stagnated at best, while their cost base continues to grow.

Motorcycle Holdings (MTO), an importer, wholesaler and distributor of motorcycles and accessories, experienced a rapid slowdown in demand and reported a like-for-like profit fall of 30%. Gross profit stayed steady but labour costs rose. Fortunately, a recent acquisition, Mojo, is performing well. The exclusive distributor of the CF Moto range in Australia is benefitting from regulatory changes and a buoyant agriculture sector.

TOP 5 HOLDINGS (as % of NAV)

Tourism Holdings Limited	**(ASX:THL)**	8.0%
RPMGlobal Holdings Limited	**(ASX:RUL)**	5.9%
Gentrack Group Limited	**(ASX:GTK)**	5.9%
Bigtincan Holdings Limited	**(ASX:BTH)**	5.6%
Readytech Holdings	**(ASX:RDY)**	5.2%
Cash		11.4%

Medical imaging company **Integral Diagnostics** (IDX) reported a poor half-year result, caught up in between softer pandemic-induced volumes and high inflationary pressures. Early signs in the second half of financial year 2023 point to a strong recovery in volumes while inflationary pressures seem to have peaked. We expect the next eighteen months to show evidence of recovering margins and a return to historical levels of patient growth.

Other portfolio holdings posted results investors did not get too excited about.

Mining software business **RPMGlobal** (RUL) added $3.4m of sticky and recurring subscription revenue and now has over $100m of recurring revenue contracted to be received over the next few years. Despite seeing some unfavourable foreign exchange movements and having difficulty in recruiting staff for its advisory and software consulting divisions, the company confirmed its annual guidance of $14.2m of earnings before interest, taxation, depreciation and amortisation.

That guidance implies 68% growth in the second half of the financial year relative to the half just reported. And with plenty of cash in the bank, management is showing its confidence with a continued share buyback.

The first half result at education, payroll and government software provider **Readytech** (RDY) was poorly received by investors with like-for-like revenue growth of 13% compared to cost growth of 15%. The company also spent more on developing its software products.

But the higher costs helped Readytech secure $9m of extra revenue from new contracts with large enterprise clients such as Auckland Council and UNSW Global. Revenue from those clients should see higher levels of growth in the second half of the year and the business kept both its guidance for the current financial year and the longer term outlook for $160m of revenue by the 2026 financial year.

Investors are right to be sceptical of companies promising jam tomorrow. We see no evidence for doubting Readytech yet, but will be watching the full-year result closely.

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.

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

UNIT PRICE SUMMARY	
As at	28 February 2023
NAV	$1.46
Market Price	$1.37
Portfolio Value	$149.6 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.

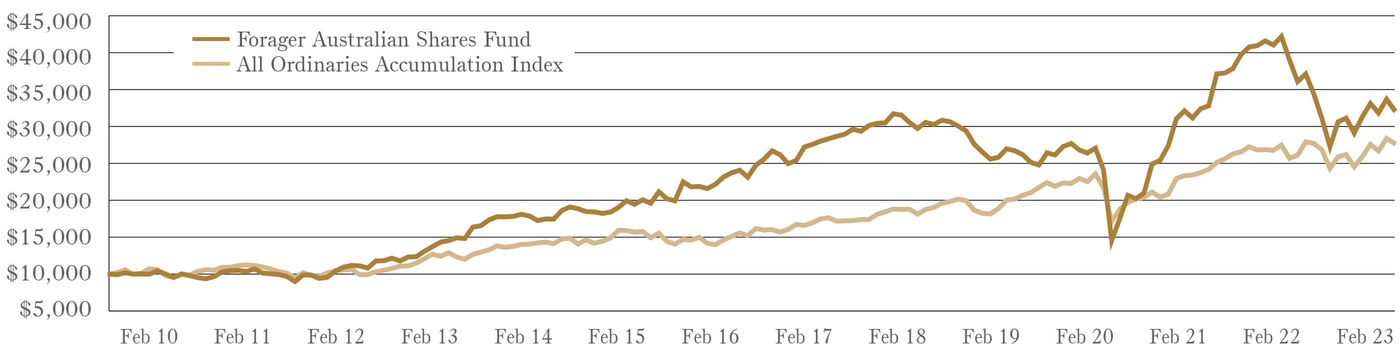
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.