F◆RAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT MARCH 2023

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 March 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)	-3.85%	-2.84%	6.26%	-16.66%	28.65%	0.79%	8.47%	8.78%
All Ordinaries Accumulation Index	-0.17%	3.61%	12.70%	-1.06%	17.27%	8.80%	8.08%	7.87%

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 March the Forager Australian Shares Fund fell by 3.9% while the index was unchanged. It was an eventful month offshore: the collapse, and speedy rescue, of Silicon Valley Bank left investors concerned about the safety of US regional banks and the shotgun marriage of Credit Suisse to UBS added to contagion fears.

Future interest rate expectations, including in Australia, retreated sharply during the month such that no further RBA cash rate rises are currently priced by fixed income markets. Meanwhile smaller stocks, especially smaller non-resources companies, continued their share price underperformance in March.

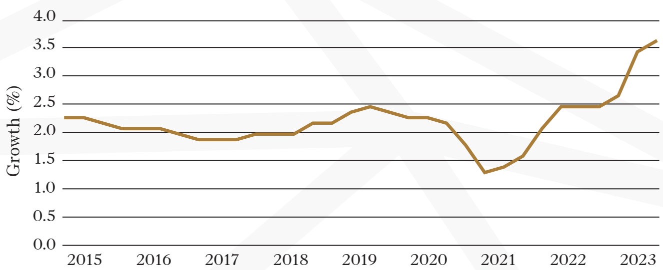
REPORTING SEASON

As February's reporting season drew to a close, the last of the smaller companies finished their roadshows in early March. In all, it was a sluggish reporting season.

For the first time since August 2020 more companies missed earnings expectations than beat them. And when companies that reported their half-year beat earnings estimates, full year estimates rose just 2%. Those reporting misses had their full year expectations cut by 7%.

Wage inflation continued to be a key issue. While in the prior year getting staff was difficult, the immediate concerns around getting staff onboarded have dissipated. Continuing, though, was economy-wide wage inflation pressures. Australian Bureau of Statistics data placed wage inflation in the private sector at 3.6% in the December quarter, already exceeding the 2.2% pre-Covid level. Many businesses have been experiencing wage inflation substantially above this level.

ANNUAL WAGE GROWTH - PRIVATE SECTOR



Source: Australian Bureau of Statistics, Wage Price Index, Australia December 2022

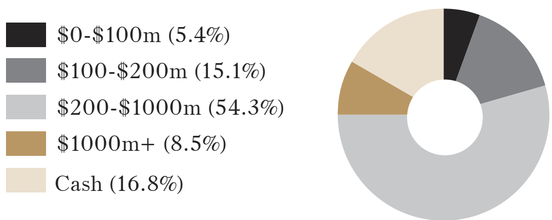
One moderation of cost inflation came from technology roles late in the 2022 calendar year. Cost cutting and higher redundancies across the technology sector saw Australian tech employees less able to negotiate double-digit wage rises they had been enjoying.

The ability to pass on wage inflation to customers was paramount. Healthcare businesses, such as **Integral Diagnostics** (IDX) could not hike prices to Medicare, its largest payer, as wages soared. Instead, the diagnostic imaging sector received only a 1.6% bump for the 2023 financial year. With inflation now more longstanding and widespread, indexation will rise to 3.6% for next financial year, providing margin relief for Integral and other healthcare providers.

For other businesses, like enterprise software provider **Readytech** (RDY), the inflationary backdrop allowed the company to pass on wage inflation more readily to customers on contract renewal. With modern, efficient and mission-critical software solutions, customers had few options but to accept the increases.

Much has been made of the weaker discretionary consumption environment, especially for large ticket purchases. In February we saw some of the first signs that increases in mortgage costs and cost of living pressures have been biting.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



In January household discretionary spending was lower than June last year. Retailers reporting in late-February gave an indication of how the calendar year had begun. One of the bellwethers for large ticket purchases, sofa retailer **Nick Scali** (NCK), described January as "better than expectations" but still saw orders fall 12%.

Inventory balances for some businesses, across discretionary retailers and more broadly, remain elevated. Supply chain issues, most severe in the prior June reporting period, have improved but not fully normalised.

Some smaller businesses like **Paragon Care** (PGC), the importer and distributor of medical devices, capital items and consumables, saw inventories remain at elevated levels to "manage the ongoing impact of supply chain issues".

Lastly, and unsurprisingly in a rising interest rate environment, businesses carrying high levels of debt started paying more interest for that debt. For now this has been largely limited to increases in base interest rates, with risk-based interest rate spreads staying consistent. Allied health provider **Healthia** (HLA), which last reported $81m of drawn debt, saw interest costs rise substantially. And with rates continuing to rise during the half to December and in the new year, there is no respite yet.

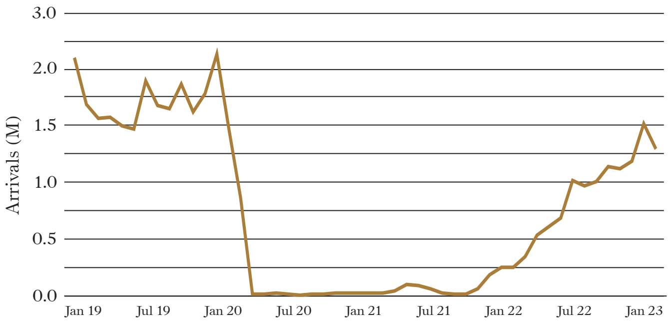
TRAVEL STOCKS FINALLY ARRIVING

One of the brighter spots from the reporting season were travel companies, especially those dealing with inbound international tourists. Aviation capacity into Australia is due to reach 85% of pre-Covid levels by June 2023, helped by China opening its borders to outbound travelers.

Recreational vehicle maker, renter and seller **Tourism Holdings** (THL) has had a busy six months. The company finalised a merger with competitor Apollo Tourism after a drawn-out regulatory approval process, listed in Australia and saw improved international arrivals and investor attention drive the share price more than 40% higher.

Its half-year results also did not disappoint. The company upgraded its profit expectations for the 2023 financial year once again, now set to earn like-for-like net profits of $75m this financial year, much better than prior expectations for Tourism Holdings and Apollo Tourism individually.

TOTAL OVERSEAS PASSENGER ARRIVALS



Source: Source: Australian Bureau of Statistics, Overseas Arrivals and Departures, Australia January 2023

Skydive and reef experiences business **Experience Co** (EXP) is also a beneficiary of the 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.

MICRO CAP MALAISE

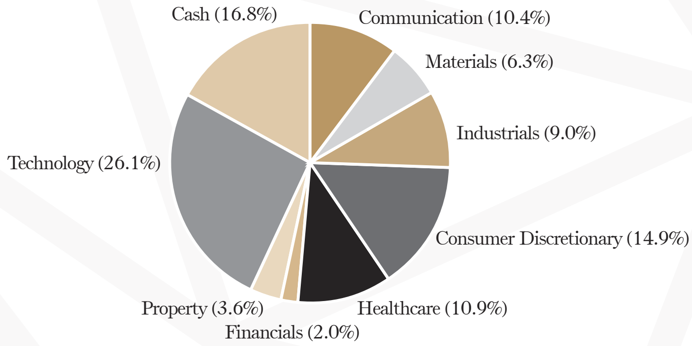
Smaller industrial companies have dramatically underperformed compared to larger listed companies recently. Since the start of the 2022 calendar year, an index of the top 100 listed companies returned 4% inclusive of dividends. Small industrial company share prices have fallen 21% on average.

After some signs of recovery in January, there was no reprieve from small-cap underperformance during the February reporting season. Many smaller industrial businesses reporting good results have seen share prices slump or stay flat.

Healthia is rapidly recovering from Covid disruptions, successfully passing on wage inflation to patients and making sensible acquisitions at attractive multiples. Organic revenue grew above expectations at 5.4% in the half-year.

After reporting earnings before interest, tax, depreciation and amortisation (EBITDA) of $18.1m, Healthia reconfirmed full year guidance for more than $40m of EBITDA excluding contributions by acquired businesses. With continued acquisitions next year Healthia should be trading on a price/earnings ratio of just eight times.

STOCK EXPOSURE BY SECTOR



Source: S&P Capital IQ

Another smaller industrial business suffering despite good results is low-cost gym operator **Viva Leisure** (VVA).

The business reported the first half of undisturbed trading since Covid began. Revenue guidance for the 2023 financial year is 53% ahead of the prior year as gym junkies return to their workouts and new locations begin contributing. EBITDA margins improved to 20.7% for the half year and improved further to 21.6% in the second quarter of the financial year.

Viva is generating roughly $900k of free cash flow per month and ploughing that back into new gyms and acquisitions at returns on incremental equity that would make a private equiteer blush. The business also trades at eight times next year's earnings.

Lastly, the long saga for control of PDF and e-signing business **Nitro** (NTO) has finally concluded. After outmaneuvering a rival private equity buyer, Potentia Capital's somewhat convoluted bid was accepted by Nitro's board, and subsequently its shareholders. Once Potentia's ownership crept over 75%, Nitro's shareholders were entitled to a further $0.03 per share, increasing the total consideration received to $2.20.

TOP 5 HOLDINGS (as % of NAV)

Tourism Holdings Limited	**(NZE:THL)**	6.9%
RPMGlobal Holdings Limited	**(ASX:RUL)**	6.6%
Readytech Holdings	**(ASX:RDY)**	5.4%
Integral Diagnostics Limited	**(ASX:IDX)**	5.2%
Gentrack Group Limited	**(ASX:GTK)**	5.2%
Cash		16.8%

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%	-6.53%	7.58%	5.75%	-3.87%	5.95%	-4.62%	-3.85%				**13.38%**

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FACTS

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

UNIT PRICE SUMMARY

As at	31 March 2023
NAV	$1.41
Market Price	$1.25
Portfolio Value	$143.1 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.

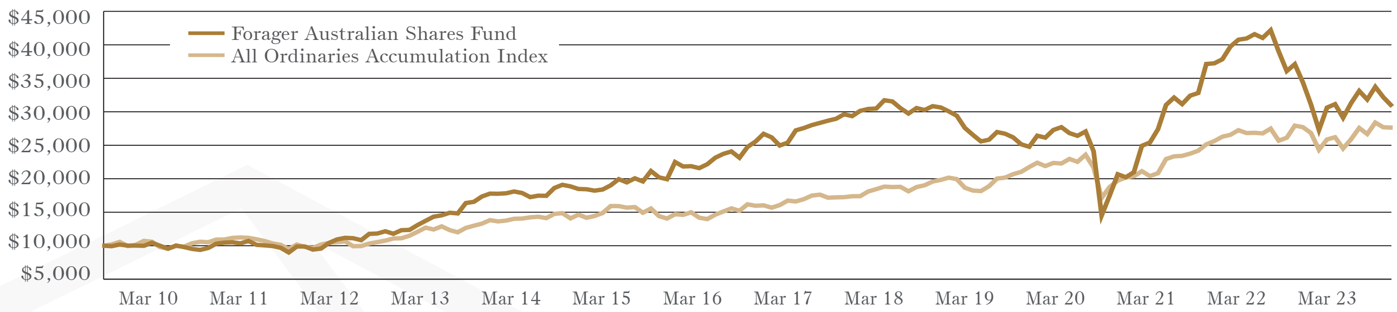
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.