MARCH 2023 QUARTERLY REPORT

Why Monetary Madness Needs to be Banished for Good

FORAGER

CHIEF INVESTMENT OFFICER LETTER

QUARTERLY LETTER MARCH 2023

FORAGER FUNDS 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.)
Forager Australian Shares Fund	-3.85%	-2.84%	6.26%	-16.66%	28.65%	0.79%	8.47%	8.78%
Forager International Shares Fund	1.57%	10.73%	13.46%	-2.41%	15.37%	7.92%	11.74%	11.46%

Past performance is not indicative of future performance and the value of your investments can rise or fall. Performance in FASF is calculated using Net Asset Value (NAV), not the market price.

*8 February 2013 for FISF and 30 October 2009 for FASF

WHY MONETARY MADNESS NEEDS TO BE BANISHED FOR GOOD

I have to admit to a touch of schadenfreude watching the demise of Silicon Valley Bank (SVB) on Twitter. All of those Silicon Valley free-marketeers screaming at the government to rescue them was a sight to behold.

They are right, though.

Moral hazard is a serious problem in the modern economy. Bailouts and rescues are becoming ubiquitous. Not only does that create a system of heads private investors win, tails the taxpayer loses, it derails creative destruction. Dumb ideas need to fail. Poorly deployed capital needs to be redeployed to businesses and managers that have good ideas.

That's how you get productivity growth in an economy. The fact that we don't let anyone go bust these days has been a significant contributor to productivity growth declining relentlessly for the past 20 years.

For all that, no bank depositor should ever lose their money in a developed-world economy. It is absurd to think every single small and medium-sized business should be analysing bank balance sheets to determine the creditworthiness of their deposits. If you deposit your money in a regulated, licenced, developed-world bank, you have every right to expect that your money will be there as and when you need it.

REGULATED AND CAPITALISED

Before we get onto the solutions, it is worth noting that plenty of investors are losing money despite the government bailout. SVB was listed on the stock exchange. Its $11bn of equity has been wiped out (the market capitalisation was $43bn at the peak). Unsecured lenders to the bank are in for a haircut too. There are far worse examples of moral hazard if you want to find them.

But it was an abject regulatory failure. Back in February, hedge fund manager Bill Martin (@RagingVentures on Twitter) highlighted SVB's insolvency risk using nothing other than the company's latest public financial statements. In 10 tweets, Martin showed how the bank had invested its rapidly growing deposits in long-term fixed-income securities that plummeted in value as interest rates rose. The bank was allowed to account for those investments at much higher values because they were supposedly "held to maturity". When the bank's tech clients started burning through their deposits, however, it was the market value that mattered. At market value, SVB was insolvent.

How can a regulated bank invest almost all its at-call deposits in assets with a duration greater than ten years? How can a regulator let them do that? The simplest, most basic liquidity rules should stop a regulated bank from taking such a stupid risk.

MONETARY MANIPULATION THE ROOT OF MANY PROBLEMS

My best guess is that this won't be a widespread issue in the banking sector. Not many bank treasurers are that stupid. For most banks, including the larger regional banks in the US, valuing their assets at current interest rates will not significantly impact their capital position.

It is emblematic, though, of the stupidity that can happen when interest rates are manipulated to zero. From commercial property to unlisted infrastructure assets to Australia's housing market, trying to rescue an economy through ultra-low rates has consequences that are now becoming obvious to everyone.

Monetary policy is a very blunt, often ineffective tool with wide-ranging unintended repercussions. Yet it has become the primary tool relied upon in times of crisis, despite fiscal policy (government spending) being a far more effective method of targeted stimulation.

Central Bank governors should not be on the homepage of tabloids like the Daily Mail, where Australia's Reserve Bank Governor frequently features as a pantomime villain. The role that positive real interest rates play in efficient capital allocation should be given more weight. And encouraging people to overextend themselves at artificially low rates can cause financial crises.

The collapse of a US regional bank might be a relatively containable issue. It won't be the last disaster caused by the monetary madness of the past few years. If inflation risks start to recede and the economy starts to weaken, I hope these lessons aren't forgotten.

COULD AUSTRALIA'S BANKS FAIL?

There is no stupidity in protecting yourself against seemingly minuscule risks. Especially when protection is free. If you can spread your deposits around multiple Authorised Deposit-taking Institutions (ADIs) and avail yourself of the Australian government's explicit $250,000 deposit guarantee, why not?

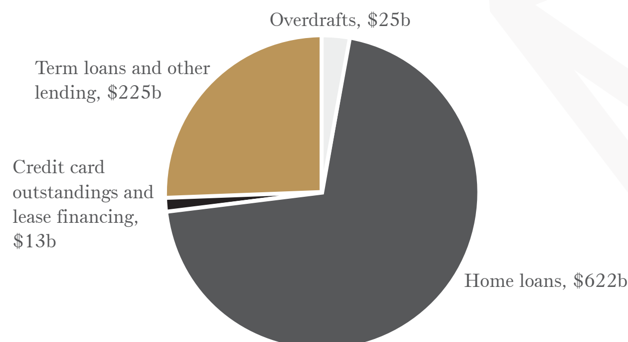
I would also be willing to bet a substantial amount of money that, were an Australian bank to fail, all depositors would be protected. For exactly the reasons outlined above, the government would quickly step in.

That doesn't mean we shouldn't be thinking about the risk. As equity market investors, the consequences for the wider economy and our portfolios would be significant.

So, could an Australian bank fail?

They share one thing in common with SVB - an unhealthy level of exposure to one sector. For Silicon Valley Bank, that was the tech sector. In Australia, it is lending against residential property. Over 70% of CBA's $885bn loan book is home loans.

CBA LOAN PORTFOLIO



Source: CBA 2022 Annual Report

The topic of whether Australia's house prices will ever fall far enough to threaten the viability of one or more of our banks is the subject of conversation at far too many Australian dinner parties. The simple fact is, it is a risk. A bank with a healthy spread of loan types is safer than one with all its eggs in one basket.

As for the specifics of the SVB demise, that is far less likely to happen here. Our capital adequacy rules do a very good job of penalising banks for taking on risk. While the technicalities are complicated, the concept is simple. The more risk a bank takes on, the more equity capital it must set aside as a buffer. That includes the credit risk of a loan (the higher the probability of default, the more capital must be set aside). But it also forces a bank to set aside more capital if it takes on market risk or interest rate risk.

That's why our banks don't offer competitive long-term, fixed-rate mortgages. If a bank funds a long-term loan with short-term deposits, the capital requirements make the loan uneconomical. The three- and four-year fixed-rate loans offered during Covid were matched with temporary fixed-rate funding from the RBA.

You could (and plenty of people do) argue whether home loans are as safe as our capital adequacy rules assume. But our regulatory regime is far more robust than the one that governs small banks in the United States.

EXTREME VALUE IN SMALL CAP LAND

I recently spent some time on the phone with **Macmahon** CEO Mick Finnegan. It has now been more than six years since Mick and I fought off an opportunistic bid for Macmahon by Spanish-owned construction giant CIMIC.

A quick glance at the company's financial statements and you would think we made the right decision. Mick and his team have grown Macmahon's operating profits every single year since the offer was rejected. Macmahon made $94m of operating profit in the 2022 financial year, almost triple the $34m it made in 2018. The company has guided to more than $100m for the 2023 financial year and recently announced several important contract extensions that mean it should grow further in 2024.

Look at the share price, though, and you could argue that we should have cut and run. On the day of our phone call, Macmahon shares were trading hands for $0.13 a share, roughly 10% below the $0.145 CIMIC was offering six years ago.

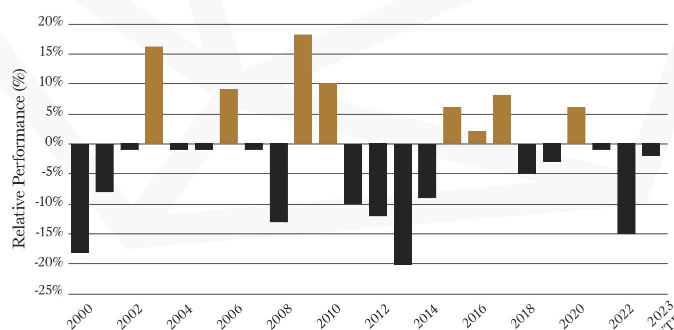
There have been a few cents in unfranked dividends along the way but the total return is close to zero. Thanks to the earnings growth, the value attributed to the whole company is now less than five times this year's profits.

Mick is scratching his head and frustrated. So am I, to a lesser extent. He has done almost everything we asked six years ago and has little to show for it (his long-term incentives are well out of the money).

It is probably not much consolation, but he's not alone. Several companies in which the Forager Australian Shares Fund is invested reported very encouraging results in February. By the end of March, their share prices were wallowing back near the lows of 2022.

That six-year period since CIMIC's bid for Macmahon coincided with a horrible period of underperformance for Australian small caps. After a glimmer of optimism in January, small companies have given up all of their 2023 outperformance and then some.

ASX SMALL ORDS INDEX CALENDAR YEAR RELATIVE PERFORMANCE TO ASX ALL ORDS INDEX (%)



Source: Bloomberg

There is not much Mick or Forager can do about the market value attributed to Macmahon's shares. But they can make the share price a lot less painful.

Mining services is a capital intensive industry. Macmahon's growth has required capital and limited the amount of dividends the company has paid. Last year it paid just 25% of profits to shareholders as dividends.

The growth phase is coming to an end and it is time for shareholders to see a larger share of those profits in our bank accounts. A 75% payout ratio would equate to a 15% yield on Macmahon's shares, something likely to get other investors' attention. Even if the attention stays low, 15% p.a. makes for an excellent investment.

Each company has a unique set of problems to address. Some of our investee companies are still recovering from Covid-related disruptions. Others face falling demand for their products as consumers navigate higher interest rates.

Our message to all of them is the same, however. Stay focused on maximising the value of the business over the long term. Deliver on the business's profit potential, invest incremental capital only where the prospective returns are high and, where appropriate, make those results tangible by returning cash to shareholders.

Execute on those three things and the share price becomes a sideshow.

Kind regards,

Steven Johnson
Chief Investment Officer

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 and authorised for release by The Trust Company (RE Services) Limited (ABN 45 003 278 831, AFSL No: 235150) as the responsible entity and the issuer of the Forager Australian Shares Fund (ARSN 139 641 491). Fundhost Limited (ABN 69 092 517 087, AFSL No: 233045) is the Responsible Entity and the issuer of the Forager International Shares Fund (ARSN No: 161 843 778). You should obtain and consider a copy of the product disclosure statement relating to the Forager International Shares Fund and the Forager Australian Shares Fund (and any ASX announcements) before acquiring the financial product. You may obtain a product disclosure statement (PDS) for both Funds at www.foragerfunds.com. The Forager International Shares Fund's PDS is also available from Fundhost Limited. Target Market Determination is available for the Forager International Shares Fund at https://fundhost.com.au/fund/forager-international-shares-fund/. 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, Fundhost 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. Information has been obtained from sources believed to be reliable, but we do not represent it is accurate or complete, and it should not be relied upon as such. **PERFORMANCE** Unless specified, the performance-related information has been sourced by Forager Funds Management. Past performance is not indicative of future performance. The Trust Company (RE Services), Fundhost and Forager Funds Management do not guarantee investment performance or distributions, and the value of your investment may rise or fall. Total returns and estimated valuations have been calculated using the mid-point of unit prices, before taxation, after ongoing fees, and assuming reinvestment of distributions. We encourage you to think of investing as a long-term pursuit. www.foragerfunds.com

FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT MARCH 2023

FORAGER INTERNATIONAL 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*
International Shares Fund	1.57%	10.73%	13.46%	-2.41%	15.37%	7.92%	11.74%	11.46%
MSCI AC World Net Index in $A	3.16%	8.29%	12.78%	3.51%	12.22%	9.51%	12.83%	12.72%

MSCI AC World Net Index in $A is an abbreviation of MSCI All Country World Investable Market Index (Net) in Australian dollars. Past performance is not indicative of future performance and the value of your investments can rise or fall. *8 February 2013

It has been another wild start to the year for financial markets. Silicon Valley Bank, the 16th largest bank in the US, failed due to two years of mismanagement. Credit Suisse, one of Europe's largest banks, was about to fail due to two decades of mismanagement, only to be rescued by competitor UBS in a near wipeout for shareholders.

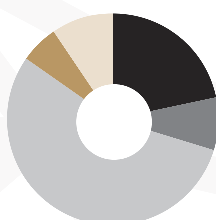
Through all that, the unit price of the Forager International Shares Fund rose 10.7% for the quarter, versus an 8.3% return for the MSCI ACWI IMI index in Australian dollars.

Our team has attended various conferences over the past two months, across the United States and Europe. Meetings included a number of existing portfolio holdings and many other companies that are on our watchlist. Some end markets are showing signs of weakness—consumer-exposed businesses being chief among them.

But we were surprised at the optimism across many other sectors. Industrials continue to do very well, driven by reduced Covid restrictions in China and onshoring efforts in North America and other Western nations. Other sectors such as semiconductors and commercial construction continue to exceed expectations of a few short months ago. The faster growing retailers on our watchlist, **JD Sports** (LSE:JD) among others, expressed no desire to pull back on store rollout plans. IT services businesses like **Computacenter** (LSE:CCC), **Softcat** (LSE:SCT) and **Insight Enterprises** (Nasdaq:NSIT), whose customers come from all corners of the economy, aren't experiencing a slowdown in most parts of their business. Aggregates and cement companies such as **Martin Marietta** (NYSE:MLM) are talking about an acceleration in their business due to US infrastructure spending while solar power distributors **Enphase** (NASDAQ: ENPH) and **Sunpower** (NASDAQ: SPWR) continue to see strong demand for their products.

STOCK EXPOSURE BY GEOGRAPHY

UK (21.6%)
Europe (8.1%)
US (55.0%)
APAC (5.6%)
Cash (9.7%)



Even those businesses that might rightfully be a bit gloomier, including UK bank **Lloyds** (LSE:LLOY), advertising-dependent television production and broadcasting company **ITV** (LSE:ITV) and housing developers like **Barratt Developments** (LSE:BDEV) were less pessimistic than we expected.

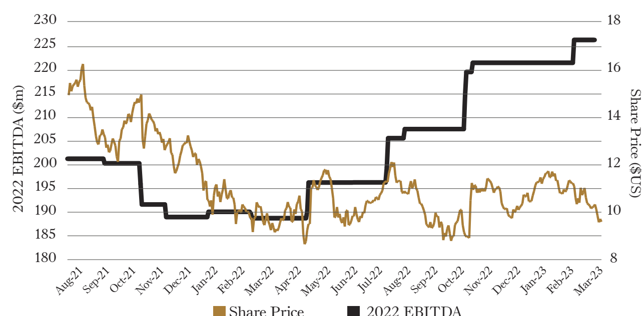
Such "temperature testing" always needs calibrating. Most CEOs are perennially optimistic. And this optimism might not portend well for inflation and interest rates. But there are plenty of businesses out there doing well and trading at very sensible prices.

DOMINANT SELF-STORAGE SUPPLIER

One of those is **Janus International** (NYSE:JBI). The Fund's initial investment in this self-storage construction and renovation company was predicated on its dominant market share delivering strong revenue and earnings growth.

Despite a challenging inflationary environment, where steel prices moved up significantly throughout 2021, it has delivered more than hoped for. Full year 2022 results came in approximately 20% higher than the company had forecasted at the start of 2022. It was 40% higher than our expectations from two years ago.

FALLING SHARE PRICE DESPITE RISING PROFITABILITY



Source: Bloomberg

As the largest player in the self-storage supplier industry, the company remains in a strong competitive position. They have almost two years visibility from a large order book and occupation levels for its clients (self-storage facility owners) remain healthy. Janus has reduced its leverage significantly since going public a few years ago and further reduced leverage targets just last year. It finished 2022 under those targets already. This puts the company in a strong position to further consolidate market share by acquiring smaller competitors over the coming years.

The business is cash generative and should continue growing organically through geographic and product range expansion.

Management also kicked-off 2023 by providing investors with a longer term guidance framework which includes 4-6% annual revenue growth and healthy operating profit margins in the high 20% range. Their conference call also indicated that it is their intention to continue providing guidance that is "realistic" (read conservative) and that they are confident they can beat.

For all this, the share price is down over 30% since Forager's first purchase.

Are we missing something?

The biggest risk is that customer demand collapses. Although the industry trends remain strong, a higher-for-longer interest rate environment could result in their customers pulling back on capital expenditure over coming years. In addition to this, undertaking large-scale acquisitions always comes with risk (although the company has a 20-year track record of growing this way).

Mostly, though, we think the company is misunderstood. It came to market via a SPAC and still has a private equity company as 35% shareholder. It could be perceived as a low-quality manufacturer of doors.

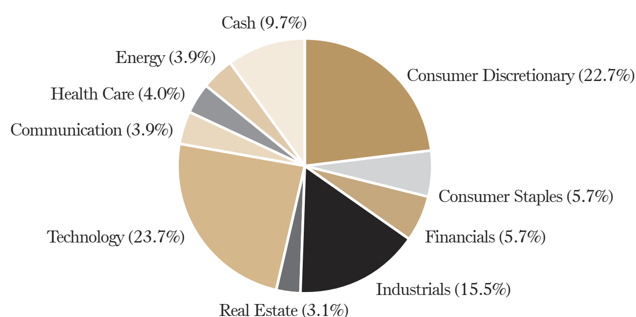
Our discussions with clients suggest the opposite. With most of the competition being tiny operators, Janus is almost the only choice for larger professional storage companies. It is involved in the design of storage centres years in advance and offers logistics, security and technology as part of its solution (replacing doors on existing, occupied storage facilities is a logistical nightmare). Janus's services are typically less than 10% of the cost of a storage facility—it is not in clients interests to skimp on the most important component of their business.

These qualities are already showing up in the numbers and, if it keeps growing and generating cash flow, that will show up in the share price eventually. Trading on just 11 times expected (likely conservative) 2023 earnings, something needs to give.

TAKING OFF

Shaking off the shackles of an underpriced bid, one we fought against, **Flughafen Wien** (WBAG:FLU) shareholders have refocused on what matters. That is, rising usage of Vienna Airport as the world recovers from the pandemic, increased profitability and dividends. In the second half of 2022, the group's revenue was down just 13% vs the same half in 2019 (the last results before the world shut down). Net profit is not down much more. The proposed dividend creates a 2% yield and we expect dividends to grow from here. The stock has risen 22% since the start of 2023 and now significantly exceeds what IFM was willing to pay. It's a good outcome for minorities.

STOCK EXPOSURE BY SECTOR

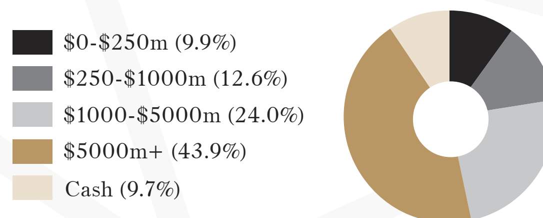


Source: S&P Capital IQ

The fourth quarter result from global gambling company **Flutter Entertainment** (LSE:FLTR) was another tick confirming our thesis. Revenue from the US business FanDuel more than doubled versus the same quarter in 2021. And that operation would have been profitable if not for a large marketing investment in two brand new sports-betting states. That investment will prove well-spent. Ohio and Maryland have a combined population of nearly 18 million people and, unsurprisingly, FanDuel is showing early signs of a dominant market share in both states. Massachusetts also opened for online sports betting this past month and there are more states to follow. FanDuel is expected to be profitable over 2023 and beyond.

The share price of auto parts, agricultural and industrial equipment manufacturer **Linamar** (TSX:LNR) fell nearly 15% the day it released fourth-quarter earnings. The results looked fine to us. The outlook has come under some pressure and capital expenditure over 2023 is expected to be towards the high end of historical norms. This is a natural outcome of retooling after three highly interrupted years. Free cash flow for 2023 is still expected to be "strongly positive". Linamar is undoubtedly cyclical, but it's also a structural grower and trades at roughly eight times expected earnings.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



New Zealand listed fashion retailer **Hallenstein Glasson Holdings** (NZSE:HLG) released its first half results in March. Sales were up 31% against a heavily Omicron-impacted comparable period last year. That represents almost 40% growth from the last normal period ending in February 2020. Margins were pressured by the USD exchange rate, increased freight costs and general cost inflation. Sales for the first seven weeks of the current period are coming along nicely, up 13.9% on last year, but management are understandably cautious given the macroeconomic environment.

TOP 5 HOLDINGS (as % of NAV)

Flutter Entertainment Plc	**(LSE:FLTR)**	4.9%
Blancco Technology Group Plc	**(LON:BLTG)**	4.0%
Linamar Corp	**(TSE:LNR)**	3.7%
Ferguson Plc	**(NYSE:FERG)**	3.6%
Tesco Plc	**(LSE:TSCO)**	3.6%
Cash		9.7%

FUND OBJECTIVE

The Fund is an international equities fund, targeting undervalued securities on the world's stock markets. The Fund's investment objective is to outperform the MSCI All Country World Investable Market Index (Net) in Australian Dollars (MSCI AC World Net Index in $A) over a rolling 5-year period. The Fund's goal is to produce superior long-term returns from a portfolio of 20–40 businesses, irrespective of short-term share price movementsˆ.

FUND PERFORMANCE BY MONTH AND FINANCIAL YEAR

FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total Return
2013								-0.26%	-0.62%	2.88%	8.74%	3.47%	**14.73%**
2014	3.61%	1.11%	-1.26%	4.59%	6.58%	2.82%	1.40%	1.92%	-4.64%	1.85%	1.46%	-0.16%	**20.54%**
2015	-1.81%	-0.82%	1.47%	-2.93%	2.43%	3.63%	1.33%	3.59%	1.47%	2.84%	4.54%	-2.17%	**14.06%**
2016	5.61%	-0.29%	-2.07%	2.55%	-3.19%	-2.74%	-5.08%	3.36%	0.09%	3.64%	5.84%	-6.36%	**0.44%**
2017	4.55%	3.84%	1.91%	0.52%	4.65%	5.55%	-0.63%	-0.13%	2.25%	4.97%	1.69%	-4.25%	**27.42%**
2018	-0.76%	-0.43%	3.99%	2.31%	1.62%	-2.76%	0.97%	-1.78%	-1.22%	4.64%	0.97%	1.21%	**8.81%**
2019	-0.55%	1.50%	2.22%	-6.62%	-5.49%	-3.66%	5.11%	5.19%	-4.03%	4.79%	-2.68%	1.85%	**-3.31%**
2020	0.07%	-1.92%	3.09%	0.95%	4.83%	4.73%	3.62%	-6.03%	-15.53%	9.78%	12.60%	-0.22%	**13.74%**
2021	1.36%	10.05%	1.63%	2.36%	10.85%	5.98%	2.07%	6.56%	2.20%	8.05%	1.41%	7.75%	**78.88%**
2022	-4.25%	-0.03%	-3.57%	-1.79%	1.27%	-4.61%	-6.24%	-6.32%	-7.29%	-6.24%	-1.50%	-5.98%	**-38.09%**
2023	4.46%	0.80%	-5.91%	8.57%	-0.52%	-5.13%	7.00%	1.88%	1.57%				**12.40%**

Past performance is not indicative of future performance and the value of your investments can rise or fall.

FACTS

Fund inception	8 February 2013
Minimum investment	$20,000
Monthly investment	Min. $200/mth
Distribution	Annual, 30 June
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

As at	31 March 2023
Buy Price	$1.4709
Redemption Price	$1.4650
Mid Price	$1.4680
Portfolio Value	$194.1 million

The Fund is forward-priced; you will receive the price struck subsequent to the receipt of your application/redemption.

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.

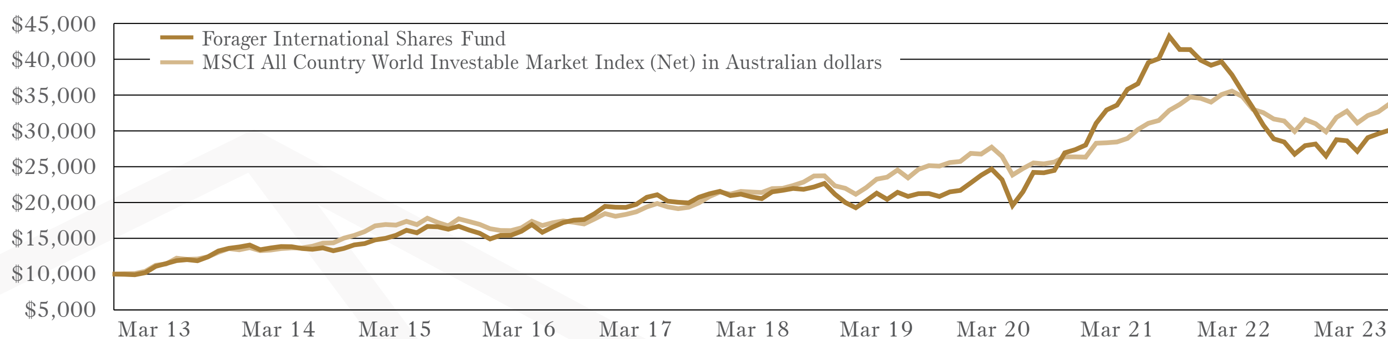
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

Key investment staff are strongly aligned with investors through co-investment and / or equity in the Forager business.

FUND CHARACTERISTICS

- Concentrated portfolio of global equities
- A combination of large liquid resilient businesses with smaller value based opportunities
- Flexible mandate allows for a wide range of markets
- Investment team with deep pockets of expertise
- Strong focus on managing portfolio risks
- Weekly applications and redemptions

COMPARISON OF $10,000 INVESTMENT OVER TIME



Source (MSCI AC World Net Index in $A): S&P Capital IQ. The above figures assume that all distributions have been reinvested. 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. Fundhost Limited (ABN 69 092 517 087, AFSL No: 233045) is the responsible entity and the issuer of the Forager International Shares Fund (ARSN No: 161 843 778). You should obtain and consider a copy of the product disclosure statement relating to the Forager International Shares Fund before acquiring or continue to hold the financial product. You may obtain a product disclosure statement from Fundhost Limited or download a copy at www.foragerfunds.com. The International Shares Fund Target Market Determination can be found at https://fundhost.com.au/fund/forager-international-shares-fund/ To the extent permitted by law, Fundhost 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. ˆThis investment objective is not a forecast and returns are not guaranteed. Although the MSCI AC World Net Index in $A benchmark represents the available investment universe for the Fund, the Portfolio will represent a very small proportion of those available investments and the Fund's results may vary from the benchmark. **www.foragerfunds.com**

FORAGER

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.

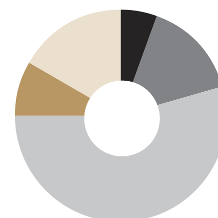
The ability to pass on wage inflation to customers was paramount. Healthcare businesses, such as **Integral Diagnostics** (IDX) could not hike prices to Medicare, its largest payer, as wages soared. Instead, the diagnostic imaging sector received only a 1.6% bump for the 2023 financial year. With inflation 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

$0-$100m (5.4%)
$100-$200m (15.1%)
$200-$1000m (54.3%)
$1000m+ (8.5%)
Cash (16.8%)



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.

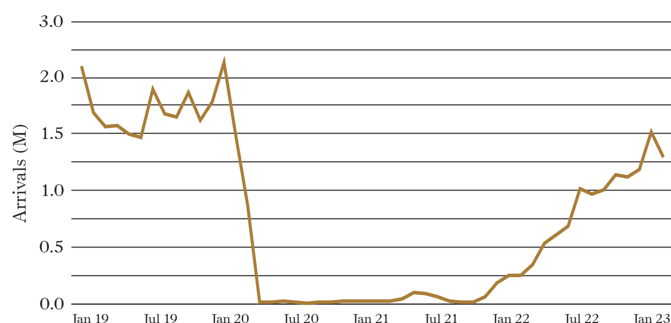
TRAVEL STOCKS FINALLY ARRIVING

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

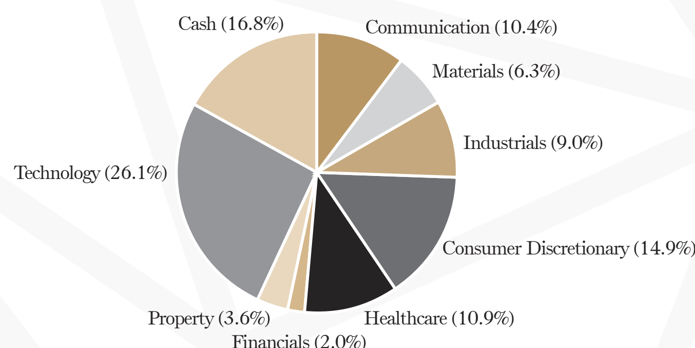
Smaller industrial companies have dramatically underperformed compared to larger listed companies recently. Since the start of the 2022 calendar year, an index of the top 100 listed companies returned 4% inclusive of dividends. Small industrial company share prices have fallen 21% on average.

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)

Holding	Ticker	% 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%**

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 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.

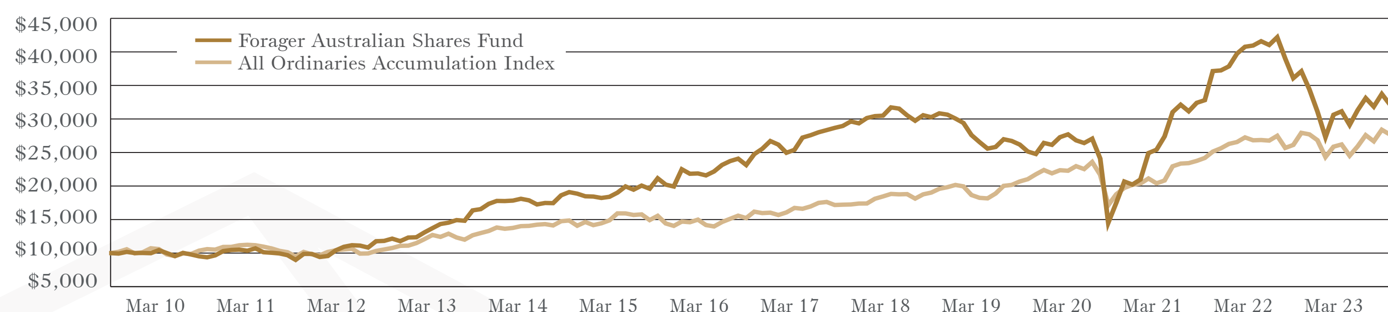
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.

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**

Forager Funds Management
Level 11, 10 Carrington Street, Sydney NSW 2000
+61 (0) 2 8320 0555

foragerfunds.com