

CHIEF INVESTMENT
OFFICER LETTER

ANNUAL LETTER JUNE 2023

FORAGER FUNDS PERFORMANCE SUMMARY (as at 30 June 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	0.34%	3.31%	0.38%	17.13%	16.46%	0.71%	7.98%	8.87%
Forager International Shares Fund	2.51%	5.88%	17.23%	19.01%	9.64%	7.71%	10.75%	11.79%

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

WELCOME TO NORMAL

Welcome to Normal is the title of a book by Australian author Nick Earls. It might also be an apt description of the 2023 year for Forager Funds. After two years of wild gyrations that saw both funds rise more than 70% in 2021 only to return much of the gains in 2022, returns in 2023 were good without being so good as to cause concern. The Forager Australian Shares Fund returned 17.1%, versus 14.8% for the All Ordinaries Accumulation Index. The Forager International Shares Fund returned 19.0%, versus 20.0% for its benchmark, the MSCI World IMI.

In the context of continued underperformance by smaller companies—which form the bulk of both Forager's portfolios—those returns are pleasing. The divergence has been particularly extreme in Australia, where the Small Ordinaries Index underperformed the All Ordinaries Index by 6.3% in 2023. That leaves it 5.0% p.a. behind its big brother over the past five years.

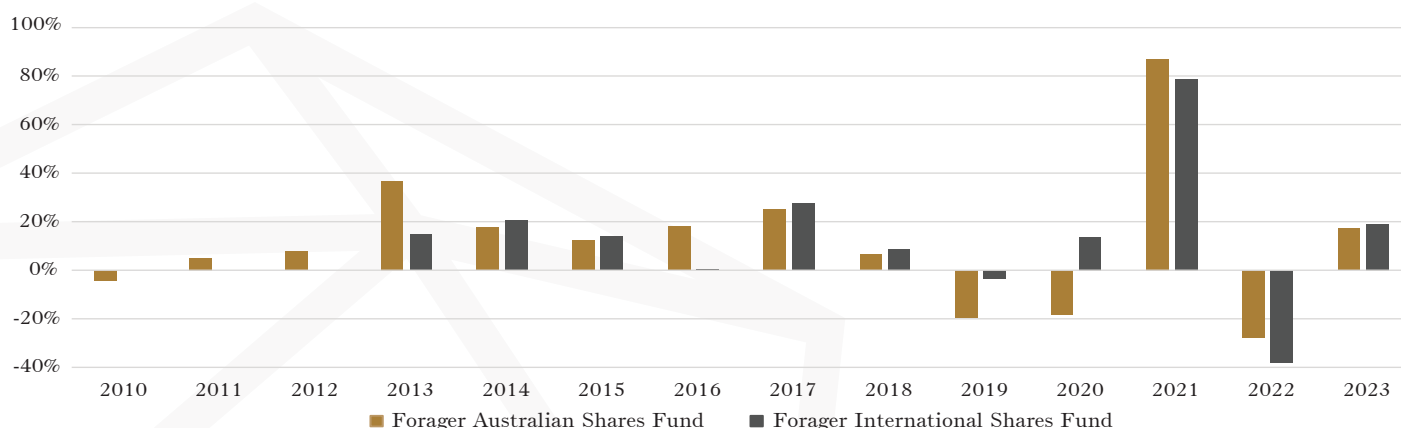
But it has been a global phenomenon, as investors fret about the looming recession that never arrives. According to broker UBS, at the end of May, the top 10 stocks in the S&P 500 had contributed

more than 100% of the calendar year-to-date gains for the index. Weighted by market capitalisation, share prices of the remaining 490 companies were down for the year.

That has led to an overall market that looks relatively expensive. Despite a rapid rise in long-term interest rates, the S&P 500 trades at 21 times expected earnings for 2023, versus a 10-year average of 19 times (and that average includes the 2021/22 bubble). But it's heavily skewed by the giants. Chipmaker **Nvidia**, up 190% this year on the back of a craze for all things artificial intelligence, is now the fourth largest company in the S&P 500. Nvidia sports a US\$1 trillion market capitalisation and trades for 40 times revenue and more than 100 times last year's earnings.

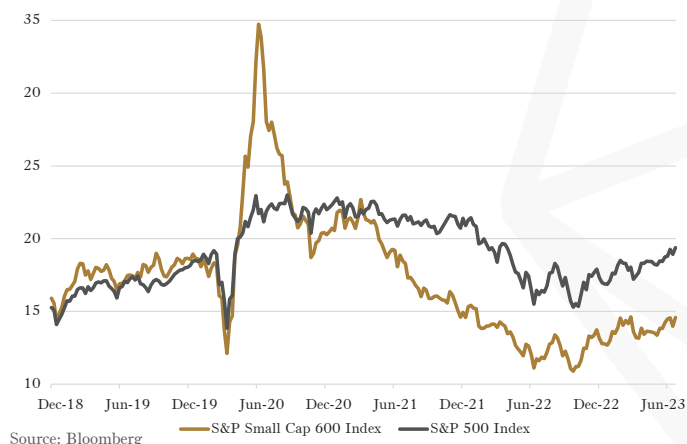
It has also led to vast swathes of the market that have been left behind at attractive valuations but which don't make any difference to the index due to their piddly weightings. By the end of June, the rally was dragging more stocks along for the ride and that continued into early July. There is a long way to go before the relative valuations make sense.

FUND PERFORMANCE BY FINANCIAL YEAR*



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PRICE TO EARNINGS RATIO OF THE S&P SMALL CAP INDEX AND THE S&P 500 INDEX

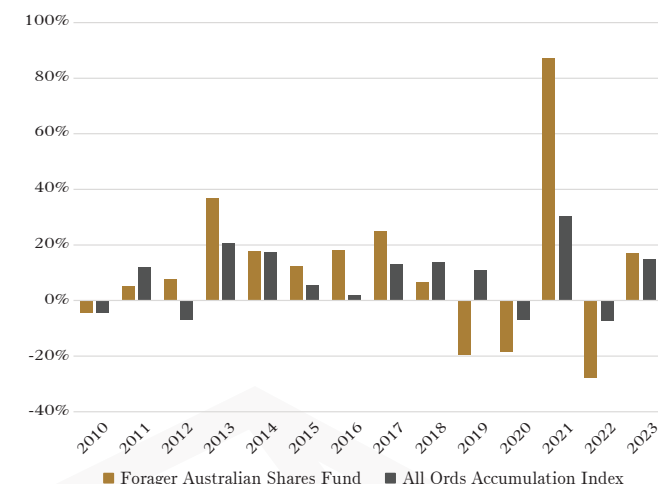


SIGNAL AND THE NOISE

As you can read in the respective Fund reports for the year, it was something of a return to normal for the way those returns were generated, too. Both funds had several investments taken over, a sign that the stocks Forager is investing in are indeed cheap. And a couple of big winners contributed significantly to the overall returns. Again, that's something long-term investors came to expect from Forager's relatively concentrated portfolios. Getting the right weightings in the right stocks is something we've been working hard on in both portfolios, so it's especially pleasing to see the best returns for the year coming from the top 2-3 investments.

At the other end of the spectrum, cutting losers has also been a pleasing feature of 2023. We haven't been perfect—ASX-listed **Whispir** is perhaps the best example of that—but recognising mistakes and overcoming the emotional biases that stop investors from selling their mistakes is a fundamental component of successful investing. Especially in the Forager International Shares Fund, there have been plenty of cuts and, so far at least, that has been to the benefit of 2023 returns.

AUSTRALIAN FUND RETURN BY FINANCIAL YEAR*



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Those two portfolio management improvements were a direct consequence of the 2019 financial year. In my opinion, that was our worst year as a fund manager, with a number of large investments suffering permanent impairments. At that year's roadshow, we spoke at length about portfolio weighting, recognising mistakes, portfolio liquidity and the necessity of some better quality businesses in the mix.

It has been hard to separate the signal from the noise. In the space of three years, we experienced a Covid-induced meltdown, a Covid-induced bubble and an inflation-driven bear market. Those periods have added their own lessons to the mix. We especially need to navigate the next bubble more conservatively.

And the characters in Nick Earl's book turned out to be anything but normal. Perhaps this market will be the same. But there is evidence over the past four years that those improvements are coming to fruition. By this time in 2024, that 2019 financial year will be well in the rear-view mirror. If we can add another good year to the mix, you too could be seeing the results in your five-year investment returns.

Kind regards,



Steven Johnson
Chief Investment Officer

FORAGER VIRTUAL ROADSHOW

We will be holding our annual virtual roadshow on **Tuesday 18th July at 12:00pm** (AEST). Please join CIO Steve Johnson, the Australian and International Fund teams as they discuss performance over the past 12 months, how Forager has navigated the current market conditions and the outlook for both Funds.

[Register here.](#)

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