FORAGER

SEPTEMBER 2023 QUARTERLY REPORT

Reasons To Welcome The Death Of TINA

FORAGER

CHIEF INVESTMENT OFFICER LETTER

QUARTERLY LETTER SEPTEMBER 2023

FORAGER FUNDS PERFORMANCE SUMMARY (as at 30 September 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	-0.54%	5.18%	8.66%	15.46%	9.76%	2.71%	6.84%	9.10%
Forager International Shares Fund	-3.73%	0.12%	6.00%	20.26%	5.19%	7.06%	10.38%	11.50%

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.

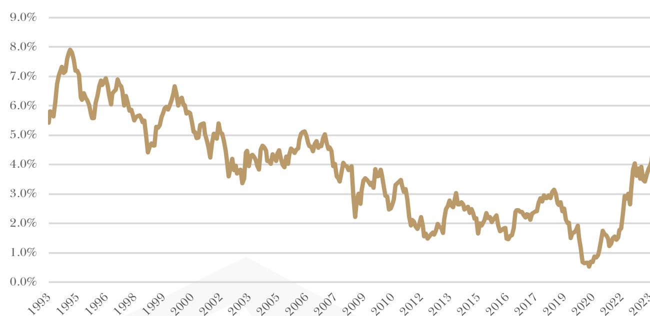
*8 February 2013 for FISF and 30 October 2009 for FASF

REASONS TO WELCOME THE DEATH OF TINA

Tina Turner wasn't the only Tina to die in 2023. The TINA that drove more than a decade of rising equity prices is dead, too.

With interest rates near zero, commercial property yields not much better and junk bonds offering returns of less than 5%, even conservative investors felt There Is No Alternative to equities. Whether that theory was ever right or not, it certainly isn't true anymore. Long-term interest rates have been rising since 2020 and rocketed still higher in the September quarter of 2023. Yields on US Government 10-year bonds hit 4.5% in late September, a level not seen since the mid-2000s.

10-YEAR US GOVERNMENT BOND YIELDS



Source: Bloomberg

There are now alternatives to equities, some as simple as putting money in a government-guaranteed bank account.

So does the death of TINA mean disaster for equity markets? You would certainly think so. As I write this in early October, the homepage of *The Australian Financial Review* is full of bearish headlines including "Echos of 1987" and "Why Fear Rules Markets."

I do not doubt that we are in for some tumultuous times. There is too much leverage in the system for a smooth adjustment process. But it's not all doom and gloom.

TINA was not helpful for many investors, us included. It distorted the capital allocation process, stunted the profitability of many businesses and, in my opinion, was a significant contributor to worryingly low productivity growth over the past decade.

Large swathes of global equity markets didn't participate in the TINA rally. You could argue the whole Australian index, heavily weighted to mining and finance businesses, meets this definition. We started our Forager Australian Shares Fund almost 14 years ago. Since then, the All Ordinaries Index has returned 7.6% per annum, including dividends. The FTSE 100 has returned 6.9% per annum over the same period. Even in the US, where the S&P 500 has returned a more TINAish 12.9% per annum, the rally has been driven by a smaller and smaller number of giant tech companies. The seven tech giants that are the largest companies in the S&P 500 have contributed 11% of this year's 13% total return (see page 1 of the Forager International Shares Fund report). The other 493 companies have, on average, delivered next to nothing.

This leaves many stocks trading at valuations that still make perfect sense in a world of higher interest rates. Our two UK stalwarts, **Tesco** and **Lloyds Bank**, should generate returns well north of 10% without any growth whatsoever (the current earnings are returned to shareholders via dividends and buybacks). Whether rates are 4%, 5%, or 6%, the valuations are attractive.

What's more, the earnings of many of these traditional businesses have been muted, not helped, by the age of free money.

THE CAPITAL CYCLE GRAVEYARD

Capital Returns: Investing Through the Capital Cycle is a collation of investment reports from Marathon Asset Management (edited by author, investor and historian Edward Chancellor) about the role capital plays in corporate profitability. High returns attract new capital. Lots of new capital drives down profitability. Low returns cause capital to flee and profitability recovers again. The book covers 60 successful Marathon investments between 2002 and 2014, all based on the capital cycle.

Between 2014 and 2022, capital cycle investing has been a graveyard.

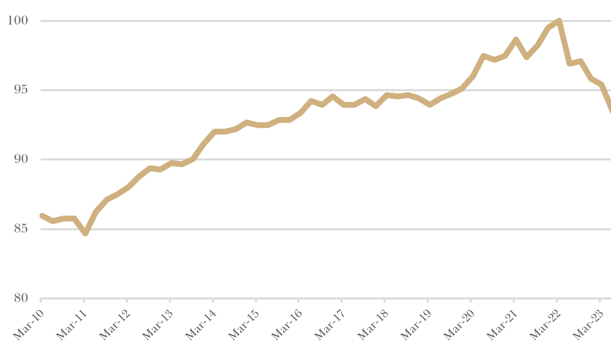
Abundant capital keeps zombie competitors alive and allows uneconomic new entrants to erode the profits of established, well-run businesses. The likes of ASX-listed crane owner **Boom Logistics** were horrible investments for Forager over long investment horizons.

I'm not sure whether it's enough to solve Boom's endless union problems, but the capital cycle is back. We won't be seeing any new neobanks or online grocery startups in the post TINA world. New cranes, LNG carriers and office towers won't be built unless the returns on existing assets are higher than 10%. Companies that own existing assets should finally be able to earn an adequate return.

As an aside, I'm tipping that the death of TINA has a positive impact on productivity growth in Western economies. Productivity is the main contributor to increasing standards of living and its absence over the past decade is a significant concern. According to the Australian Treasury, in the decade to 2020, Australia's productivity growth was the slowest in 60 years.

It's my contention that low interest rates were correlated with and one of the causes of low productivity. Efficient investment markets play a key role in the economy, allocating investment to the most prospective businesses and starving the worst of capital. In the TINA world, there was money available for everyone.

AUSTRALIAN LABOUR PRODUCTIVITY



GDP per hour worked, Index (March 2022 = 100), seasonally adjusted

Source: ABS

The return of more disciplined capital allocation forces discipline, efficiency and innovation. It might just alleviate the problem.

SOME STOCKS ARE WORKING

But it's the impact on the investment world I am far more interested in.

Our Forager International Shares Fund has an investment in **Gulf Marine Services** (LSE:GMS), an owner of lift boats used to service offshore oil, gas and renewable energy infrastructure. The company is tiny and has a lot of debt, so was a very small investment in the Fund. It is an instructive example, however, of how the death of TINA can be good for some businesses.

Gulf Marine's boats cost almost US$1bn to build. Today, averaging 14 years old, they have a depreciated book value of about US$600m. At the start of 2023, you could have bought the whole company, including its US$330m of debt, for less than US$400m (the market capitalisation was US$50m).

GULF MARINE SERVICES PLC SHARE PRICE

Source: Bloomberg

That's because it could not earn a decent return on those assets. A few years ago, a new entrant could borrow 80% of the cost of a new vessel and pay an interest rate of 3-4% on the financing. Today it costs you 20% more to build a vessel, thanks to inflation, there is little appetite for lending against the assets and what financing can be obtained costs closer to 10% per annum.

As a result, there is very little new competition and the day rates Gulf Marine can charge are increasing at 15-20% per annum. Profits and cash generation are suddenly looking healthy and the share price has increased more than 130% this calendar year.

Many stocks haven't "worked" as investments for more than a decade. They are cheap because they haven't been able to grow. They have become so cheap that today's buyer doesn't need them to grow. But there is every chance of a positive surprise in a post TINA world.

A BETTER INVESTMENT ENVIRONMENT

There are still plenty of asset valuations that don't make sense if higher interest rates are permanent. While commercial property owners have finally started to revalue their asset values down, there is a long way to go if 4-5% interest rates are here to stay (which is why listed property trusts trade at 30-40% discounts to their asset "value").

But a return to a more normal interest rate environment is not universally bad. There are plenty of listed stocks that are already priced for a higher interest rate environment. And some that will be beneficiaries.

Forager's funds have done relatively well this calendar year, with takeovers in both funds boosting returns and some asset-heavy stocks like Gulf Marine finally getting some attention. Nine months of a year mean nothing, of course, especially after the ups and downs of the past few years.

For me personally, though, I feel far more comfortable with TINA in the ground.

Kind regards,

Steven Johnson

Chief Investment Officer

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FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT SEPTEMBER 2023

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 30 September 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.)
International Shares Fund	-3.73%	0.12%	6.00%	20.26%	5.19%	7.06%	10.38%	11.50%
MSCI AC World Net Index in $A	-3.88%	-0.37%	6.14%	19.70%	10.68%	8.55%	11.44%	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.

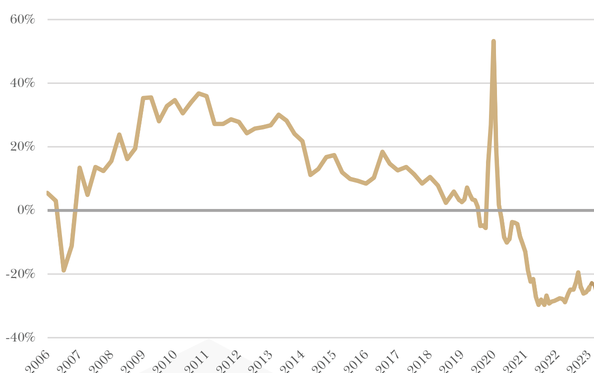
*8 February 2013

In the December 2022 Chief Investment Officer Letter we made the case for smaller companies in 2023. So far, in aggregate, they haven't delivered.

For the first nine months of 2023, small and mid-cap stocks continued their trend of underperformance relative to their larger counterparts. Market performance has become even more concentrated among a small number of mega-cap tech stocks.

The largest seven companies in the S&P 500 (**Apple**, **Microsoft**, **Amazon**, **Nvidia**, **Alphabet**, **Tesla** and **Meta**) delivered a disproportionate 11 percentage points of the index's total 13% return year to date. We are always sceptical about these types of statistics, the largest contributors are always a significant proportion of market gains. But these are simply the seven largest stocks—it is unprecedented that they are also the seven largest contributors to overall index performance.

S&P SMALL CAP INDEX VALUATION PREMIUM (DISCOUNT) VS S&P 500 INDEX

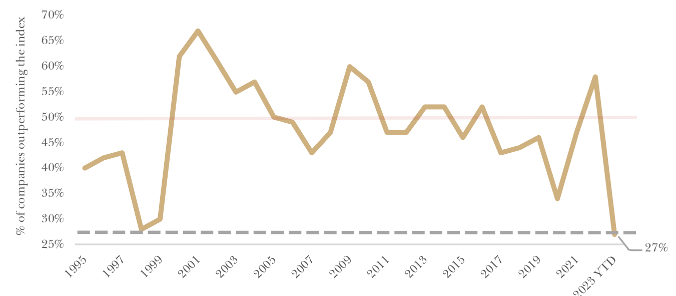


Source: Bloomberg

All of that leaves the S&P SmallCap 600 Index trading at one of the largest relative valuation discounts (26%) to the S&P 500 in some 15 years. For more than a decade prior to 2020, the index traded at an average 10% premium. Similarly, the Russell 2000 Index (consisting of small and large-cap companies in the United States) currently sits at a 35-year low relative to the Nasdaq 100—a level not seen since the Covid-19 crash or the 2000 recession.

This pain is even greater at a stock-specific level. Only 27% of stocks in the S&P 500 have outperformed the index so far in 2023, the lowest percentage going back 30 years. Historically this number has typically ranged between 45% and 55%, which is logical given half the stocks in an index tend to underperform whilst the remaining outperform. The average small-cap stock in the Russell 2000 is now more than 33% below its 52-week high.

S&P 500 % OF STOCKS OUTPERFORMING THE INDEX

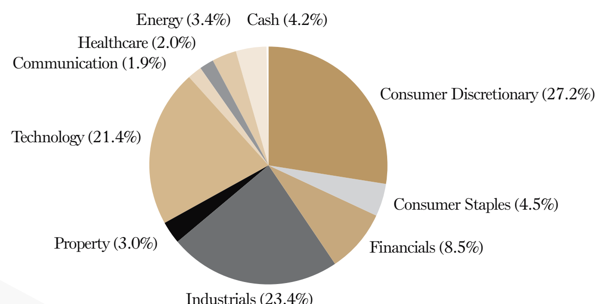


Source: FactSet, Jefferies

IDIOSYNCRATIC EXPERIENCE

While the wider smaller cap sector is in a world of pain, that hasn't really been the Fund's experience over the first nine months of 2023. Yes, we've owned some smaller dunces, including **Motorpoint** (LSE:MOTR) and **TaskUs** (Nasdaq:TASK) among others. And the Fund was invested in Meta at the start of the year and is still invested in Alphabet. But we've also had some significant small-cap winners, including **Norbit** (OB:NORBT), **Flughafen Wien** (WBAG:FLU) and **Gulf Marine Services** (LSE:GMS).

STOCK EXPOSURE BY SECTOR



Source: S&P Capital IQ

The Forager International Shares fund is up 0.1% for the three months to 30 September 2023, taking the year's return to 20.3%. The MSCI IMI Index has returned -0.4% and 19.7%, respectively, while the MSCI

World Small and Mid Cap (SMID) Index has returned -0.5% and 15%.

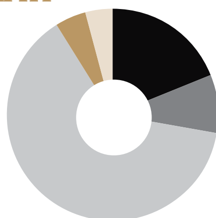
As highlighted in the CIO cover letter, a choppy market where some stocks are working and others are being pummeled is our preferred kind of environment. We've been trimming the above three winners, and others, putting the proceeds into more beaten-down ideas new and old, large and small. Here are two of the newer stocks in the portfolio.

Fortune Brands Innovations (NYSE:FBIN) is a recent spin-off that was listed on the New York Stock Exchange in December 2022. The business owns leading brands across plumbing, decking and home security systems. The previous company (Fortune Brands) also owned a cabinets business, which was lower margin and more volatile than the other three categories, which has been spun out separately. This has created what can be thought of as a "GoodCo" and "BadCo". The Fund owns the GoodCo part.

Fortune Brands Innovations offers premium, branded consumer products—including House of Rohl and Moen—that have demonstrated pricing power, strong profitability and lower cyclicality than most building products companies. These segments have grown sales at 10% per annum over the past decade, with 7% of that annual growth being organic and the remainder coming from bolt-on acquisitions. This sort of growth can continue for some time.

STOCK EXPOSURE BY GEOGRAPHY

- UK (18.8%)
- Europe (9.0%)
- US (63.4%)
- APAC (4.7%)
- Cash (4.2%)



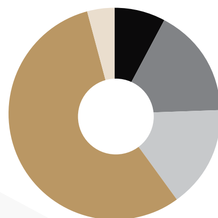
Source: S&P Capital IQ

We think the market is underestimating the quality of the remaining segments and putting too much emphasis on what is a tough current backdrop. While we do not doubt that it will be a difficult year for the housing industry, two-thirds of the business relies on repairs and remodeling, which should prove more resilient than new construction. US mortgageholders who took out 30-year loans at record low interest rates cannot afford to move in the current interest rate environment—in the US you can't take your mortgage with you—but they have a lot of spare cash to spend on the existing home.

Fortune Brands has a long history of generating plenty of cash and returning it to shareholders through a combination of dividends and share buybacks. Last year's combined dividend and share buyback represents an 8% yield on the current share price. The cash return won't be quite so high over the next few years, as the business continues to invest in organic growth and acquiring additional new brands. As long as the profits are reinvested at high returns on capital, either option is fine by us.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION

- $0-$250m (7.6%)
- $250-$1000m (16.8%)
- $1000-$5000m (15.6%)
- $5000m+ (55.9%)
- Cash (4.2%)

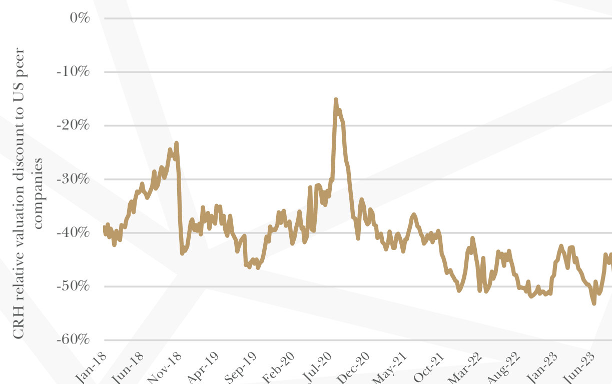


Source: S&P Capital IQ

Another recent addition to the portfolio is **CRH** (NYSE:CRH). CRH is a global leader in the building materials industry, with a portfolio that ranges from "heavyside" materials such as aggregates and cement through to "lightside" building products including architectural components and glazing systems. The company is the market leader across North America and Europe, with a footprint spanning 29 countries.

This is a business with a long history of growth, partly due to a business characteristic that, to us at least, was first highlighted by investor Peter Lynch more than 30 years ago. Quarried materials don't travel cheaply, they're too heavy. This gives rise to local monopolies and oligopolies with significant pricing power. CRH has grown revenues by 11% annually since 1990. And of the $11 billion of free cash flow generated over the past five years, $8 billion has been returned to shareholders via dividends and buybacks.

CRH VALUATION DISCOUNT TO US PEERS



Source: Bloomberg. US peer companies include MLM, SUM, VMC.

In September, CRH moved its primary listing to the United States. More than two-thirds of the company's profits come from the US. It has been, and will likely remain, the fastest-growing part of CRH's global operations. Several secular trends support that. The Infrastructure Investment and Jobs Act (IIJA) is injecting $1.2 trillion into America's crumbling infrastructure, to which 75% of CRH's US operations are exposed.

There's also been a surge in manufacturing reshoring in the US due to supply chain disruptions and concerns about technological independence. And the company also benefits from population shifts toward the Southeast and Southwest. Two of CRH's top states—Texas and Florida—are seeing the greatest influx.

US investors are likely to appreciate these attributes and close the discount that CRH has historically traded at versus North American peers. This investment is from the same playbook as our successful investments in Ferguson (NYSE:FERG) and Flutter (LSE:FLTR).

TOP 5 HOLDINGS (as % of NAV)

Blancco Technology Group Plc	**(AIM:BLTG)**	5.2%
Ferguson Plc	**(NYSE:FERG)**	4.2%
Linamar Corp	**(TSX:LNR)**	3.9%
Flutter Entertainment Plc	**(LSE:FLTR)**	3.5%
Insight Enterprises Inc	**(NASDAQ:NSIT)**	3.4%
Cash		4.2%

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%	2.04%	1.21%	2.51%	**19.01%**
2024	3.03%	0.94%	-3.73%										**0.12%**

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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	30 September 2023
Buy Price	$1.5592
Redemption Price	$1.5530
Mid Price	$1.5561
Portfolio Value	$193.4 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.

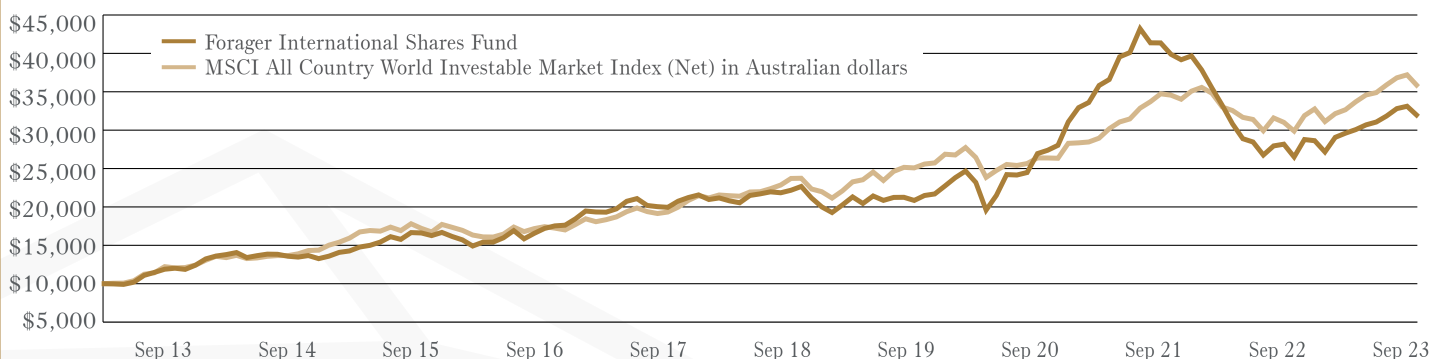
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.

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FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT SEPTEMBER 2023

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 September 2023. Net of all fees and expenses)

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Australian Shares Fund (ASX:FOR)	-0.54%	5.18%	8.66%	15.46%	9.76%	2.71%	6.84%	9.10%
All Ordinaries Accumulation Index	-2.82%	-0.66%	0.34%	13.09%	10.77%	6.81%	7.63%	7.60%

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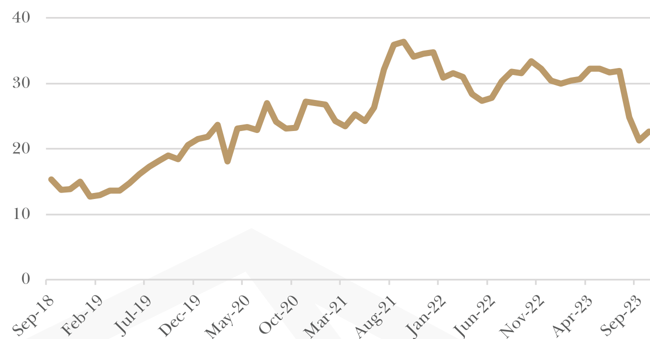
The Forager Australian Shares Fund (FOR) fell 0.5% during September, in a month where the All Ordinaries Accumulation Index fell 2.8% and the Small Ordinaries Index fell 4.0%. September continued the good performance from the prior few months, with the Fund up 5.2% for the quarter, while the All Ordinaries fell 0.7%.

Investors have been skittish so far this financial year. Concerns about consumer confidence continue. The latest consumer confidence data from ANZ-Roy Morgan remains 30% below long-term levels. And higher interest rate expectations, required to tame still-high inflation, have meant the yield on 10-year Australian government bonds rose above 4.6%, having started the financial year at 4%. This has not made for a good backdrop for stocks, especially smaller ones.

In the past three months, investments in **Qantas** (QAN) and **Seven Group** (SVW) were fully exited on valuation grounds (Qantas is already back to more attractive levels) and the first $1 of **Pointsbet**'s expected $1.40 in capital returns has already been paid (see the July monthly report). That has left a nice cash balance with which to take advantage of recent volatility and add new investments to the portfolio.

RESMED SHARE PRICE IN AUSTRALIAN DOLLARS



Source: Bloomberg

The first of these is sleep apnea device maker **Resmed** (RMD). Resmed's ASX share price has fallen 31% in the past three months. Most of its revenue is in the US dollars and its main listing is in the US, where the share price fall has been an even more severe 34% (the weak Australian dollar has cushioned the blow here).

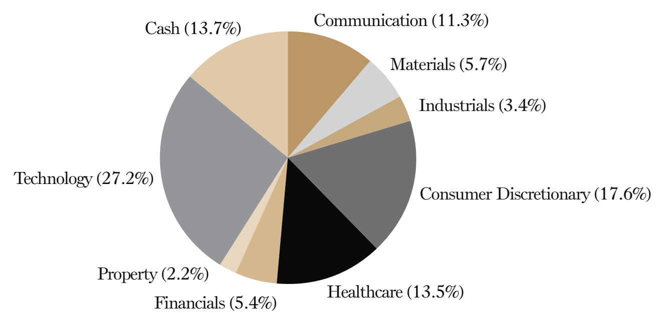
Resmed's results for the June quarter weren't great. While revenue growth has been excellent—its main competitor Philips is out of the market—but Resmed's cost base has been growing just as quickly.

The company has an enormously long runway ahead of it and plenty of capacity for margins to improve. Sleep apnea affects a growing percentage of the world's ageing, fattening population and the proportion of those seeking treatment is still much lower than it should be.

Resmed's sleep apnea machines are the best solution on the market and its dominant market share allows it to collect more patient data and spend more money on research and development than anyone else, which has made it one of the best-performing listed companies in the world since its IPO in 1995.

While the stock price was weak after Resmed's results in early August, it tanked on the result of **Novo Nordisk**'s (CPH: NOVO-B) Wegovy trial a few days later.

STOCK EXPOSURE BY SECTOR



Source: S&P Capital IQ

Wegovy belongs to a class of drugs, commonly referred to as GLP-1 agonists, that have been used for a while in diabetes management but they are now being recognised as effective drugs for weight loss and the concomitant benefits of it, such as reduced incidence of cardiovascular disease, moderation in Type 2 diabetes progression, and, potentially, a reduction in the severity of sleep apnea. The drugs work and have the potential for widespread societal benefits.

Mr. Market was very quick to react frantically, as he always does, sending many shares in the healthcare sector, particularly those that treat diseases correlated with obesity, like diabetes and sleep apnea, down somewhere between 20 and 50%.

However, the implied impact on Resmed is significantly overdone.

While GLP1 drugs will (hopefully) be effective in reducing the incidence

of cardiovascular events and achieving weight loss for some individuals at high risk, they are not a silver bullet that "cures obesity" or gets rid of your sleep apnea. Add to that an abundance of unknowns: what does the treatment protocol look like, who pays for it (quite pricey at US$15,000 a year in the US), what are the side effects and what happens when you get off the drug?

We will be watching closely but expect sleep apnea will still be a bigger problem in 20 years' time than it is today. Hopefully, GLP1s are a safe part of the suite of treatments, but Resmed's dominant role in the ecosystem is likely to still be in place.

We have made an initial investment at the most compelling valuation Resmed has traded at since 2016 (21 times earnings). The market's panic looks like an excellent opportunity.

Alongside Resmed, the Fund has recently made investments in two smaller high-quality businesses.

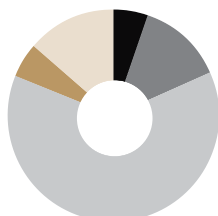
EQT BORING BUT BEAUTIFUL

Boring but beautiful is an apt way to describe **EQT Holdings** (EQT). The business provides trustee and wealth services for individuals, managed fund investors and superannuation fund members with assets worth over $160bn. Formerly known as Equity Trustees, it traces its origins back to 1888.

Trust is the company's key product. And, in a financial world where trust is in short supply, EQT's services will be an even more important part of the financial landscape over the next decade.

Across Trustee and Wealth Services, the business oversees more than $16bn worth of estates, charitable trusts, native title trusts, and personal injury trusts among others. A bank of more than 52,000 wills ensures new clients for decades to come. Some revenue streams are perpetual in nature. Last year's acquisition of Australian Executor Trustees from **Insignia Financial** (IFL) cemented EQT's already significant presence in philanthropy and personal injury.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



Source: S&P Capital IQ

The rest of the business provides fund governance and trustee services for managed investment trusts and superannuation funds. Alongside **Perpetual**'s (PPT) Corporate Trustee business, EQT is the go-to for all things trustee in funds management, serving 363 funds from 134 fund managers

Both divisions are exposed to the movement in listed asset values. If equity markets trend down, lower revenues will lead to reduced profits. However, in our view, being exposed to equity markets will benefit the business for most years and over the long term.

The business is high quality and highly recurring in nature. Over the next year that should become more apparent to investors as significant synergies from a recent acquisition start to contribute, losses from a foray into the UK are eliminated and organic growth drives margin improvement. At a price-to-earnings ratio of about 14 times next year, with continued steady growth, we've put our trust in Equity Trustees.

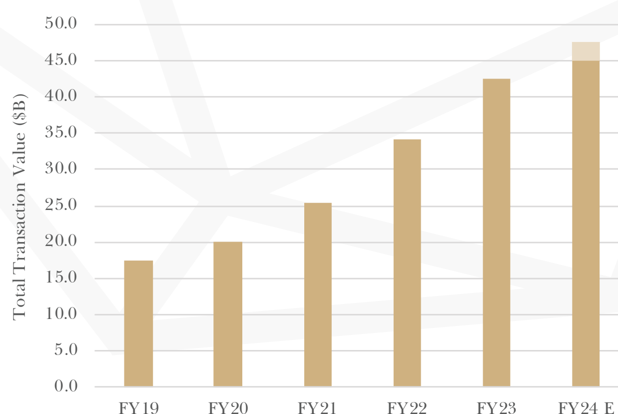
BIG BANK LOSSES ARE TYRO'S TO GAIN

Another high-quality business that has made its way into the portfolio is payment terminal provider **Tyro** (TYR). Tyro processed 5.4% of total in-person card spend across Australia in financial year 2023. That is up from 1.5% in 2015. Among health, hospitality and retail businesses, Tyro's industry-specific offerings now process one in five dollars spent in person.

Tyro's gain has come mostly at the expense of the big banks. They still account for more than 70% of the terminals in operation, despite losing more than 85,000 terminals in the three years to 2022. In the same time, Tyro won roughly 40,000 of those terminals. Other competitors, which have strengthened over recent years, were also net winners.

So what is Tyro doing right? A better product, with industry-specific features and more point-of-sale software integrations. And better service, with a 24/7 focus on small businesses the banks are failing to match. Tyro's clip of the merchant's transaction value is highly variable, but the rack rate of 1.4% is competitive with the new entrants trying to win merchants away from the big banks.

TYRO GROSS TRANSACTION VOLUME



Source: Tyro Full Year Ressults FY23

Much like EQT, Tyro's revenue is recurring, with transaction value churn at a little over 9%. Growth in Tyro's core merchants was 14% last year, with the last 5 years compounding at 18% per annum. And cost control, which prior management teams have struggled with, is now very much front of mind for the new management team. Current guidance suggests more than 70% of incremental gross profit falling through to management's preferred measure of earnings. We count more of the expenses, but think they are setting expectations deliberately low.

After a 2019 IPO at $2.75 per share, Tyro's share price traded at over $4 in late 2021. Only two years later the share price languishes at just over $1.30. It is not an easy business to value, having only just crossed the threshold to profitability in the past 12 months (Tyro has been around for more than 20 years). But, after share-based compensation and adjusting for excess cash, the business trades on a price-to-earnings ratio of about 21 times next year's earnings. With continued merchant growth, the business should grow rapidly in the years to come.

All three new portfolio additions should grow nicely over the coming decade. They are excellent substitutes for some of the larger businesses that have recently been sold and sit nicely alongside our cash holdings, which still represented 14% of the portfolio at the end of September.

TOP 5 HOLDINGS (as % of NAV)		
RPM Global Holdings	**(ASX:RUL)**	7.4%
Readytech Holdings Ltd	**(ASX:RDY)**	6.6%
Tourism Holdings Ltd	**(NZE:THL)**	6.0%
Healthia Ltd	**(ASX:HLA)**	5.0%
Gentrack Group Limited	**(ASX:GTK)**	4.4%
Cash		13.7%

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%	2.61%	0.34%	0.34%	**17.13%**
2024	4.18%	1.51%	-0.54%										**5.75%**

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	30 September 2023
NAV	$1.50
Market Price	$1.24
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.

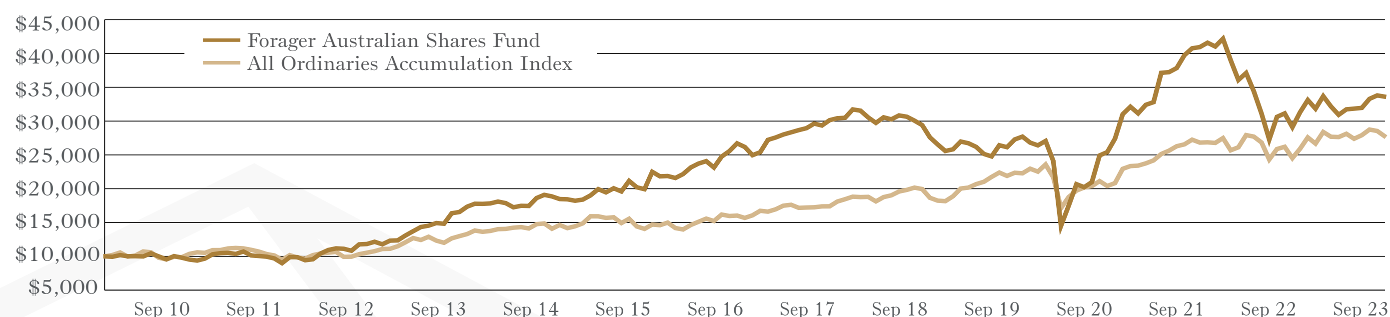
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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. Past performance is not indicative of future performance.

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