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)								
	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)	-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%

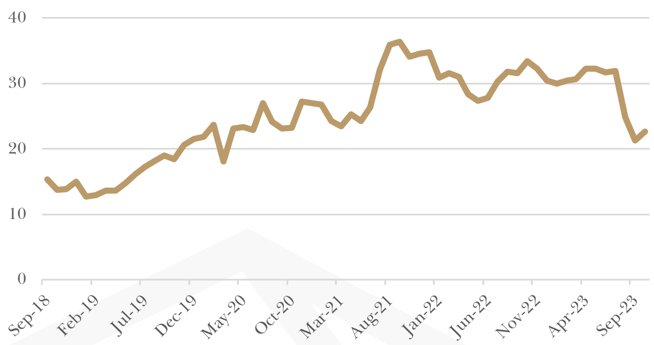
The value of your investments can rise or fall. Performance is calculated using Net Asset Value (NAV), not the market price. Past performance is not indicative of future performance. *30 October 2009

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).

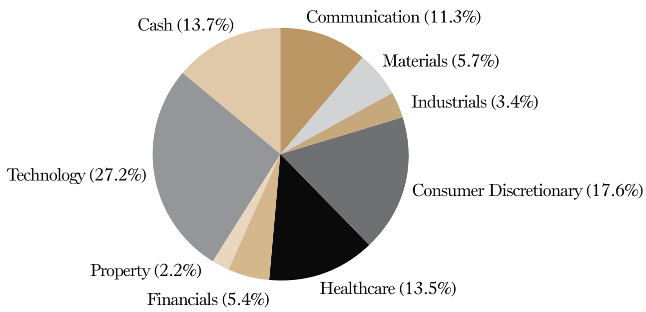
Resmed's results for the June quarter weren't great. While revenue growth has been excellent—its main competitor Philips is out of the market—but Resmed's cost base has been growing just as quickly.

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.

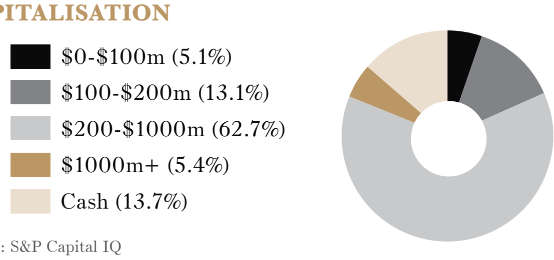
EQT BORING BUT BEAUTIFUL

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.

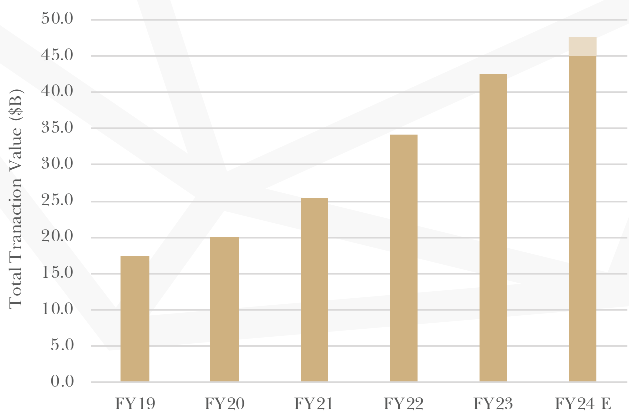
BIG BANK LOSSES ARE TYRO'S TO GAIN

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%**

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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.

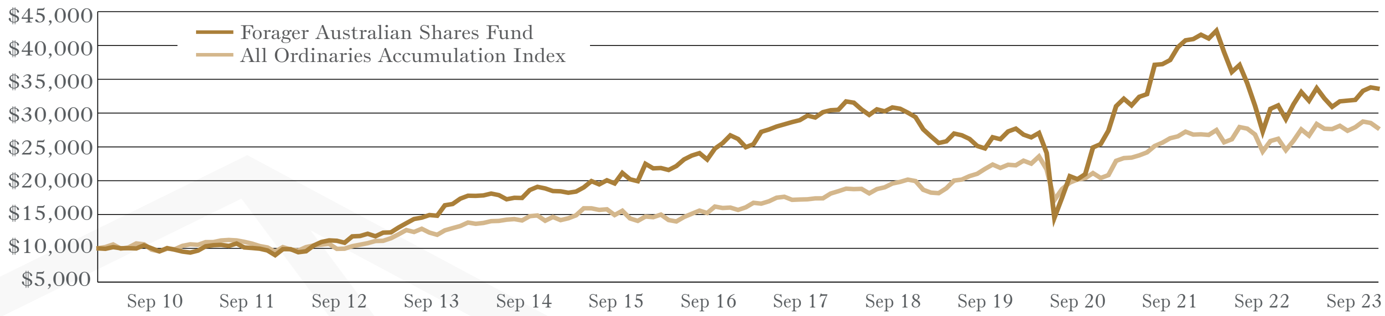
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.
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