CHIEF INVESTMENT OFFICER LETTER

QUARTERLY LETTER MARCH 2024

FORAGER FUNDS PERFORMANCE SUMMARY (as at 31 March 2024. 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	1.59%	4.96%	10.21%	19.76%	4.13%	6.75%	7.56%	9.50%
Forager International Shares Fund	3.90%	11.83%	20.92%	28.18%	1.74%	13.52%	11.14%	12.87%

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

TIME FOR SMALL CAP INVESTORS TO STOP WHINGING

The 2024 year began the way 2023 ended. Globally, the MSCI World IMI Index (in AUD) rose 12.7% in the first quarter of the year while the ASX All Ordinaries Accumulation Index (including dividends) rose 5.5% over the same period. The composition of the rally changed meaningfully, though, with the Magnificent Seven becoming a magnificent five (**Apple** and **Tesla** both experienced share price declines over the quarter) and a significantly higher percentage of the market participating in the rally. More than half of the S&P 500 constituents traded at 52-week highs during the quarter.

Plenty of smaller companies have seen significant share price rises. There are reflections of the 2021 meme bubble in some Artificial Intelligence related stocks (I use the word “related” loosely). But, for the most part, I would argue there are often logical reasons for those that have risen to rise and those stocks that haven’t participated in the rally to be left behind. Companies that are delivering good results are seeing it reflected in share prices. Those that aren’t, aren’t.

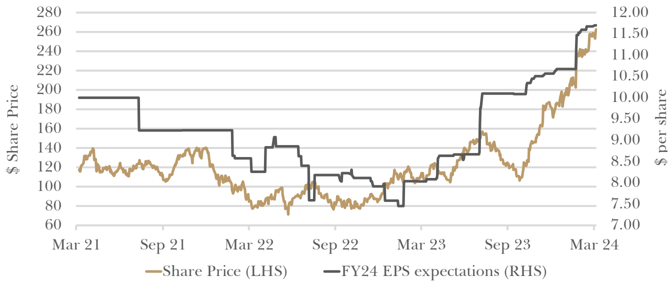
Take a couple of examples from our own portfolios.

Utilities software company **Gentrack** (listed on the ASX and NZX) has experienced a fivefold share-price increase in the past 18 months. Its market capitalisation — less than NZ$150 million not long ago — is approaching NZ$1 billion. That’s all thanks to a dramatic turnaround in profitability and growth prospects. Gentrack went from losing NZ$3 million before tax in 2022 to making NZ$15 million in 2023. We expect that to at least double again over the next three years.

Over in the US, insulation company **Installed Building Products** has seen its share price more than double since October 2023. Our original thesis was that, despite facing a difficult housing construction backdrop in the short-term, this company had great long-term prospects. The weak housing backdrop hasn’t proven an impediment at all. Rather than a 2024 year of no revenue growth, as implied in prior broker estimates, the company’s recent guidance suggests 8% growth in 2024.

They have historically given conservative guidance. In the chart below, you can see the impact that has had on expectations for 2024 profitability.

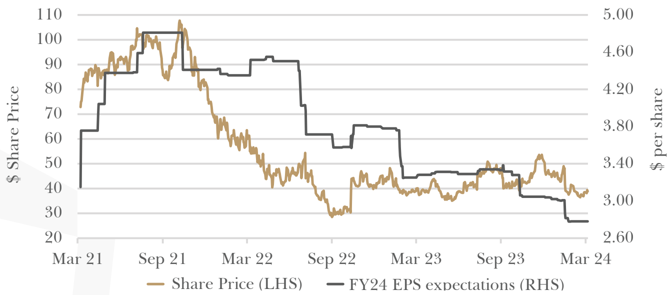
INSTALLED BUILDING PRODUCTS SHARE PRICE VS EARNINGS PER SHARE EXPECTATIONS



Source: Bloomberg

On the flip side, two years ago antipodean tourism operator **Experience Co** was expected (by the broker community) to make more than $0.02 in earnings per share this financial year. It will be lucky to break even. And US outdoor brand **Yeti** has seen expectations for its 2024 profits slashed by 40% and its share price hammered as a result.

YETI SHARE PRICE VS EARNINGS PER SHARE EXPECTATIONS



Source: Bloomberg

The message for investors and companies is clear.

There are plenty of smaller companies trading at appropriate or even optimistic share prices. If your company isn't one of them, it's time to stop whinging about small cap malaise and start focusing on what the business needs to do to be recognised. Deliver profits, cashflow and growth, and there are plenty of investors who want to own your shares.

Deliver broken promises and your share price will remain in the dumps.

You can quibble about the magnitude in both directions. We sold a meaningful percentage of our investment in both IBP and Gentrack due to valuation. We think the long-term story for both Experience Co and Yeti is delayed rather than destroyed (the investment in the latter was made after most of the downgrades). And there are exceptions where good progress is not reflected in share prices.

But, overall, the market mood for small caps has changed from outright pessimism to selective optimism. The opportunity for share price appreciation is significant for those companies that can give investors a good reason to invest. It is up to us to find the right stocks and companies to deliver results.

AUSTRALIAN SHARES FUND DELISTING

In June, unitholders in the Forager Australian Shares Fund will vote on a proposal to delist the Forager Australian Shares Fund from the ASX. If you are an investor in the Fund, all of the details can be found on our website or wherever you get your listed company announcements.

It's not a straightforward choice for investors. Our decision to list the Fund back in 2016 was based on the benefits of not having investor redemptions in dysfunctional markets. It's our view that we can better manage those risks today.

The 2019 financial year handed us some important lessons about the importance of portfolio liquidity that had nothing to do with redemptions. Liquidity — or trading volume in the underlying investments — allows us to exit investments that aren't working out and take advantage of market dysfunction when it arises. We learned back in 2019 that we need more of it to optimise portfolio performance. A side benefit is that we can also manage any redemptions that have come our way, especially given the diverse and loyal nature of Forager's investors.

While there are good arguments to consider on both sides, I have come to the conclusion that the downsides of an entrenched discount and lack of liquidity for the listed units outweigh the portfolio management benefits by some margin. I intend on voting my personal investments in favour of the delisting.

A SIMPLE FORAGER

Assuming the Australian Fund does get delisted, it will also be the last element of a two-year project to simplify the Forager business. By July 2024, we could be back to two simple open-ended funds with the same Responsible Entity and registry, both accepting daily applications and redemptions.

We are often critical of listed company managers for not focusing on their core strategy. I run a business with just 10 employees and I can inform you that it is easier said than done.

It is very easy to add new ideas, products and technologies to your business. They all come with logic and rationale that makes sense. It is much harder to take them away.

Consultants and strategy experts love to talk about "mission, vision and values". I've found it mostly a waste of time. Boxer Mike Tyson once said "everyone has a plan until they get punched in the face". In a business as dependent on financial markets as ours, you get punched in the face often enough to know there's no point planning too far ahead.

That only makes it all the more important to understand the principles on which we operate, though. I have a similar conversation with a lot of young people about their careers. Many seem stressed about not knowing exactly what they want to do and ask me how I knew I wanted to be a fund manager. The answer is, I didn't.

I knew I wanted to be challenged intellectually. I knew I wanted to do something I was interested in. I knew I wanted to work hard with people I liked and I knew I wanted to be financially independent. Within those parameters, I was open to wherever life took me. Each decision I had to make, I asked those four questions and made my choice. It could have led to an equally happy alternate life, but those principles led me here to founding Forager.

Rather than a destination, our business needs its own decision making principles. At Forager, we want to create wealth for our clients. We want to give Forager staff fulfilling careers. In recent years, we've learned that we want to keep it simple. By the end of this financial year, we hope to have taken some big steps forward on all three fronts.

As always, please get in touch if you have any questions or suggestions.

Kind regards,

Steve Johnson

Steven Johnson
Chief Investment Officer