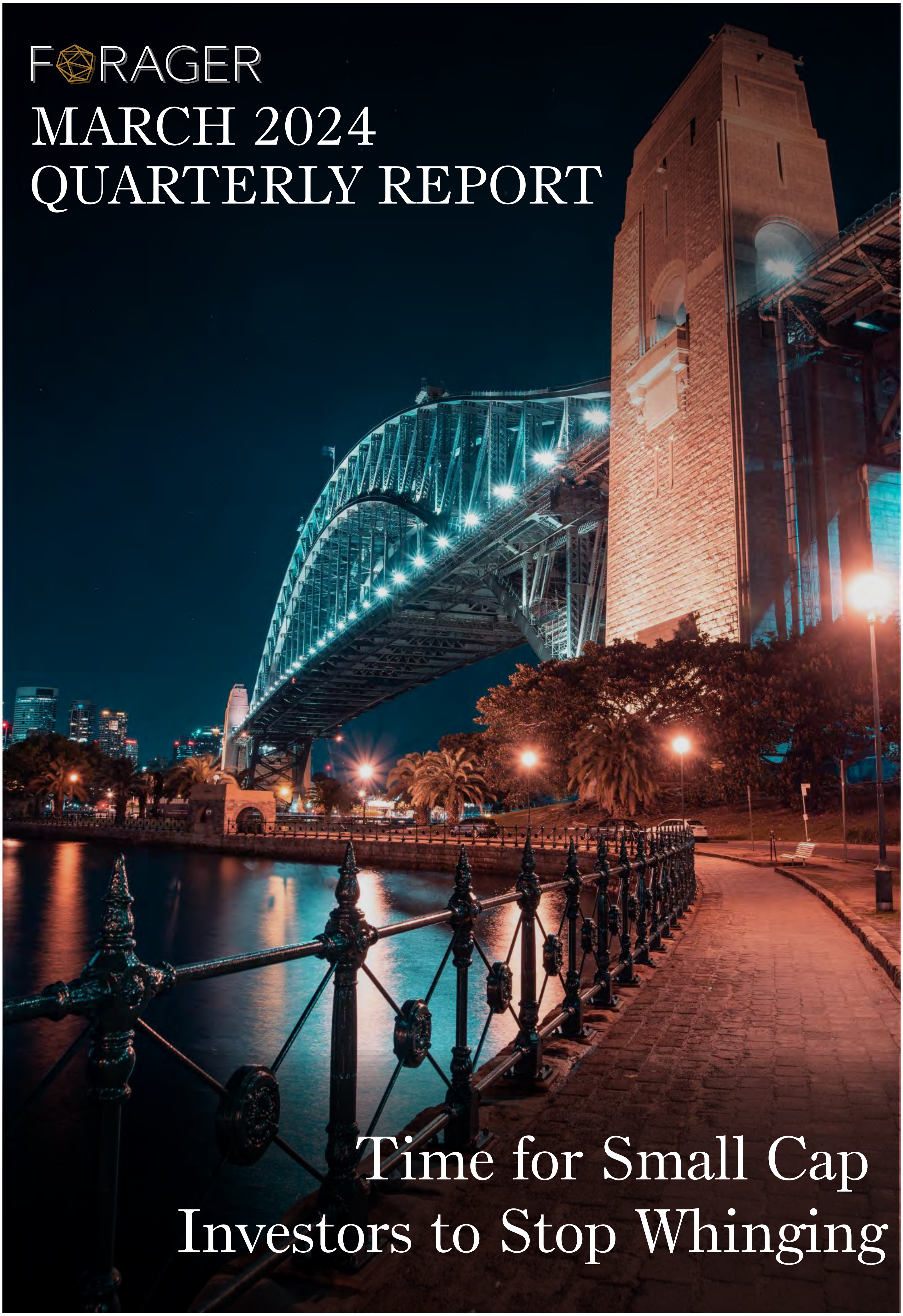
FORAGER

# MARCH 2024 QUARTERLY REPORT



# Time for Small Cap Investors to Stop Whinging

# 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.

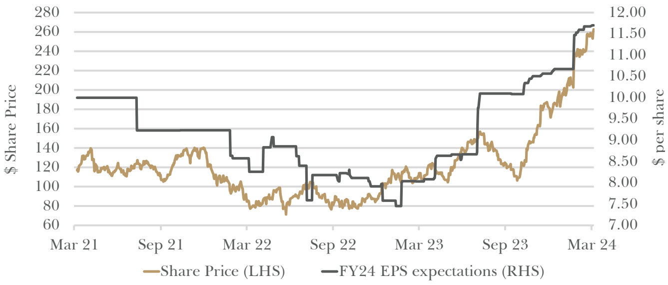
Take a couple of examples from our own portfolios.

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.

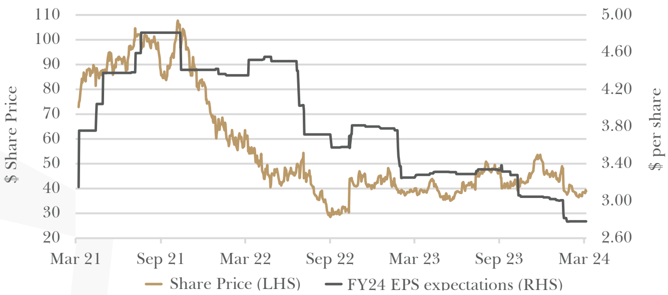
### INSTALLED BUILDING PRODUCTS SHARE PRICE VS EARNINGS PER SHARE EXPECTATIONS




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

# FORAGER

# INTERNATIONAL SHARES FUND

## MONTHLY REPORT MARCH 2024

**FORAGER INTERNATIONAL SHARES FUND 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.) |
|---|---|---|---|---|---|---|---|---|
| **International Shares Fund** | 3.90% | 11.83% | 20.92% | 28.18% | 1.74% | 13.52% | 11.14% | 12.87% |
| **MSCI AC World Net Index in $A** | 2.96% | 12.66% | 18.43% | 25.71% | 11.94% | 12.47% | 12.31% | 13.83% |

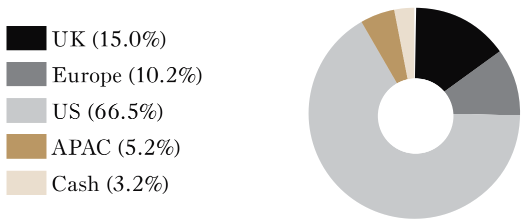
MSCI AC World Net Index in $A is an abbreviation of MSCI All Country World Investable Market Index (Net) in Australian dollars. Past performance is not indicative of future performance and the value of your investments can rise or fall.

*8 February 2013

It has been a very positive start to the year for share markets across the world, with the MSCI World, S&P 500 and Nasdaq all up between 7 and 9% during the quarter, in their respective currencies. Mega-caps such as **Meta Platforms** (Nasdaq:META) and **Nvidia** (Nasdaq:NVDA) did much of the heavy lifting, aided by "quality" stocks more broadly. The MSCI USA Value Index underperformed its growth counterpart by 5% in the first three months of the year.

March was a busy month for our team, with several Fund investments reporting full-year results and providing 2024 outlooks. Two members of the investment team attended conferences in the US where they met with over 80 management teams, including a number of existing portfolio companies.

### STOCK EXPOSURE BY GEOGRAPHY




Source: S&P Capital IQ

Overall, corporate commentary was positive, with particular excitement about the various stimulus initiatives taking place. These include the Chips Act in the semiconductor industry and the Infrastructure Investment and Jobs Act, which is a boost to broader swathes of the US economy. These initiatives are only now starting to flow through to company earnings, but they are very helpful for companies such as **CRH** (NYSE:CRH), **Ferguson** (NYSE:FERG), **APi Group** (NYSE:APG) and **Clean Harbors** (NYSE:CLH), a list which includes some of our largest holdings and biggest recent winners.

Three new investments were added to the portfolio over the past few months. We're only ready to talk about one of them presently, a stock that has already made its way into the Fund's top five holdings.

### NEW STOCK: FISERV

During the quarter, the Fund invested in **Fiserv** (NYSE:FI). Fiserv is a global payments company offering an array of transaction processing solutions to various clients, from big global banks to your local coffee shop. It owns the third-largest debit network in the world, trailing only **Visa** (NYSE:V) and **Mastercard** (NYSE:MA). It also owns and operates Clover, a digital Point of Sale (POS) and payments system for small and medium businesses.

Clover is a key part of the thesis, having grown from nothing to more than US$270 billion of annualised Gross Payment Volume in a few years. Clover has been taking share from other merchant processors over recent quarters, including **Square** (ASX:SQ2) and **Global Payments** (NYSE:GPN), with Clover customers benefiting from a wide selection of value added services. Clover products don't just facilitate payments but also allow merchants to track inventory, manage employees, process online sales and manage customer loyalty programs. In 2023, Clover accounted for 10% of group revenues and the division is expected to grow 30% annually over the coming years.

E-commerce growth has been an important source of growth in digital payments, with global transaction volumes rising significantly over recent years and likely to continue growing more than 10% annually over the remainder of this decade. In addition, outsourcing amongst banks and credit unions has also contributed to the payments processing sector's growth. The majority of Fiserv's revenue comes from long-term, recurring contracts that generate predictable and strong free cash flow.

Despite impressive earnings growth over the past few years, the company is trading near a 10-year low price-to-earnings ratio. For most of the past decade, Fiserv has traded at a 20-40% premium to the broader S&P 500 index. However, along with industry giants like Visa and Mastercard, Fiserv faced challenges during Covid, which persisted into 2022 and 2023 due to concerns regarding consumer spending, the US banking crisis and, more recently, competitive threats.

### FISERV INC SHARE PRICE PREMIUM (DISCOUNT) TO S&P 500

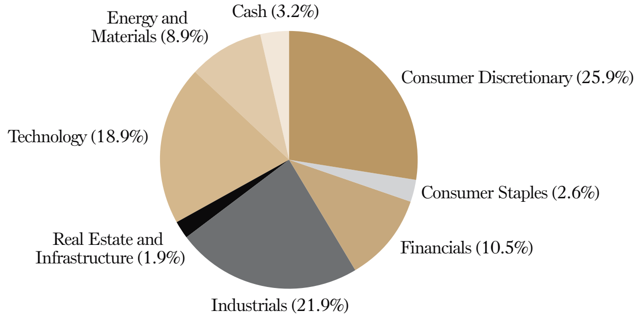

Source: Bloomberg

Even though the company has consistently surpassed market expectations, its valuation has struggled to catch up relative to its peers. Investors currently seem overly focused on threats, overlooking strong execution and valuation fundamentals. For a business with a footprint of over six million merchant locations, serving ten thousand financial institutional clients and overseeing 1.4 billion accounts, there seems to be a current disconnect between price and value. The company's earnings per share should grow faster than 10% annually, and perhaps faster than 15% over the coming years.

## REPORTING SEASON WINNERS AND LOSERS

Two of the Fund's big contributors this quarter include **CRH** (NYSE:CRH) and **Installed Building Products** (NYSE:IBP). Both of these companies are beneficiaries of the aforementioned stimulus initiatives in the US. CRH provided 2024 earnings growth guidance above the market's prior expectation, thanks in no small part to strong pricing in its core aggregates business combined with accelerating demand due to infrastructure investment initiatives. The company also moved its primary listing from the UK to the US at the end of last year, which seems to be causing a re-rating closer to that of its more expensive US peers. Installed Building Products is experiencing tailwinds from the Insulation Tax Credit where homeowners who invest in energy saving insulation materials can realise substantial savings when it comes to home renovation expenses. New home construction also benefits from this.

## STOCK EXPOSURE BY SECTOR




Source: S&P Capital IQ

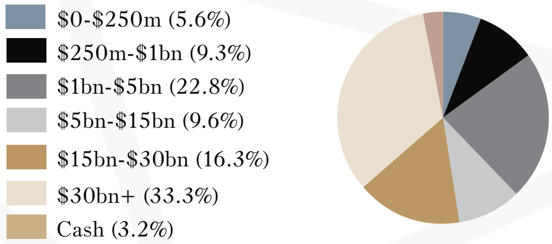
Diversified manufacturer **Linamar** (TSX:LNR) is a cyclical but growing business performing in line with our investment thesis. Over 2023, the business grew revenue 22% and earnings per share 40%. The outlook for 2024 is for "double digit" (meaning more than 10%) revenue and earnings growth from both of its segments - Mobility and Industrial. Mobility, which makes parts for use in new cars and is the largest part of the business, is also set to expand its profit margin, meaning earnings should grow significantly more than 10%. It's a pretty good setup for a stock that, despite a recent pop in share price, trades at less than nine times 2023 net profit.

**Crocs** (Nasdaq:CROX) was the portfolio's best performer over the quarter, with the share price up more than 50% as market scepticism subsided alongside management reaffirming a positive 2024 earnings outlook. With the share price punished in recent years due to exposure to consumer discretionary spending, we bought the stock at a deeply discounted free cash flow yield well above 10%. We have seen this across other beaten up shares as well - companies that are navigating this more challenging environment successfully are, eventually, attracting investor attention. On the other hand, companies such as **Yeti Holdings** (NYSE:YETI) delivered guidance slightly below expectations and got punished. It has been our largest detractor this year. The company is set to grow decently this year and beyond, and shareholders are likely to be rewarded if the business can execute on its plans.

We were set to write up online gambling company **Flutter** (LSE:FLTR) as one of our reporting season winners. It's still up 13% this quarter but it fell 8% in the last week of March. The fall coincided with the president of the National Collegiate Athletic Association calling for the banning of so-called prop bets—wagers not related to the final score of a contest—on college sports in order to protect young athletes from both abuse and temptation.

Illinois, one of the few states to provide the data, suggests college betting overall is less than 10% of total revenue, with prop betting only part of that. So we think the direct impact of any ban will be small. But it is a reminder that this industry is not all tailwinds.

## PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION




Source: S&P Capital IQ

While sports betting is still growing rapidly in established states and new states like North Carolina (population 10.4 million) are legalising at a healthy clip, regulatory and tax burdens will surely grow. New Jersey and Illinois legislatures will both soon consider tax increases, for example.

Meanwhile, Flutter's outlook calls for 30-38% revenue growth in the all-important US market over 2024, backed up by revenue growth of 56% achieved over the first 11 weeks of the year. Profitability will grow much faster from a small base as the business reaches scale. Shareholders will soon vote on moving the primary listing to the US, which we think is an important catalyst for the stock.

| **TOP 5 HOLDINGS** (as % of NAV) | | |
|---|---|---|
| **CRH PLC** | **(NYSE:CRH)** | 3.9% |
| **Linamar Corporation** | **(TSE:LNR)** | 3.9% |
| **APi Group Corp** | **(NYSE:APG)** | 3.8% |
| **Fiserv Inc** | **(NYSE:FI)** | 3.7% |
| **Motorpoint Group PLC** | **(LON:MOTR)** | 3.6% |
| **Cash** | | 3.2% |

## 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 movements^.

## 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% | -3.41% | 3.59% | 8.07% | 2.13% | 5.38% | 3.90% | | | | **21.06%** |

Past performance is not indicative of future performance and the value of your investments can rise or fall. This fund is appropriate for investors with "High" risk and return profiles. A suitable investor for this fund is prepared to accept high risk in the pursuit of capital growth with a medium to long investment timeframe.

## FACTS

| | |
|---|---|
| **Fund inception** | 8 February 2013 |
| **Minimum investment** | $20,000 |
| **Monthly investment** | Min. $1000/mth |
| **Distribution** | Annual, 30 June |
| **Applications/Redemption** | Daily |

## UNIT PRICE SUMMARY

| | |
|---|---|
| **As at** | 31 March 2024 |
| **Buy Price** | $1.8855 |
| **Redemption Price** | $1.8779 |
| **Mid Price** | $1.8817 |
| **Portfolio Value** | $226.1 million |

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

## ABOUT FORAGER

With approximately $390 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.

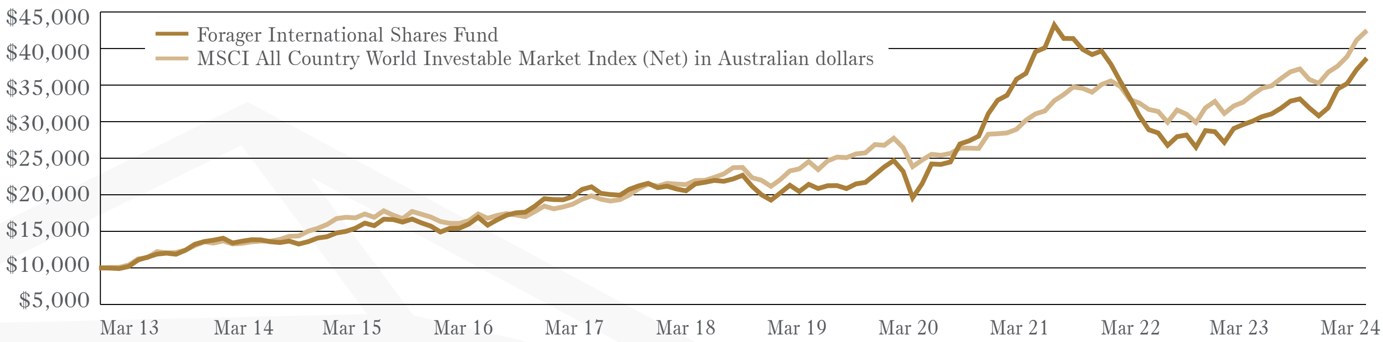
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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
- Daily 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.

# AUSTRALIAN SHARES FUND

MONTHLY REPORT MARCH 2024

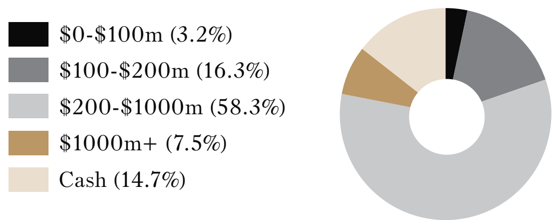
| **FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY** (as at 31 March 2024. Net of all fees and expenses) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 month return | 3 month return | 6 month return | 1 year return | 3 year return (p.a.) | 5 year return (p.a.) | 10 year return (p.a.) | Since inception* (p.a.) |
| **Australian Shares Fund (ASX:FOR)** | 1.59% | 4.96% | 10.21% | 19.76% | 4.13% | 6.75% | 7.56% | 9.50% |
| **All Ordinaries Accumulation Index** | 3.13% | 5.45% | 14.59% | 14.98% | 9.52% | 9.52% | 8.50% | 8.35% |

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 All Ordinaries Accumulation Index rose 3.1% in March, taking the gain for the financial year so far to 13.8%. Consistent with global markets, gains have been widespread in recent months, with small cap stocks in general performing better and some of them experiencing stellar share price appreciation.

For the Forager Australian Shares Fund, the net asset value increased 1.6% for the month and 15.9% for the financial year to date. We, too, have seen stellar share price appreciation for a number of stocks and have been reducing holdings in those trading closer to fair value.

## PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION




Source: S&P Capital IQ

Share price appreciation for smaller companies has been patchy, with a significant number of stocks not participating in the rally and plenty experiencing significant share price declines when results have not met investor expectations. For now, that leaves plenty of opportunity to reinvest capital into new and existing investments.

On the latter front, we have meaningfully increased the Fund's investment in **Paragon Care** (PGC) during March. Cobbled together through acquisitions over the past decade, Paragon is one of Australia's largest healthcare suppliers. Most acquisitions didn't live up to expectations and the share price was languishing at a level that suggested the whole was worth substantially less than the shareholder capital spent putting it together.

The inevitable fix-it job was already underway. In early 2022, John Walstab merged his business, Quantum Health, with Paragon and ended up owning 19% of the combined company. Since the merger Paragon has been a small investment in the Fund. By the end of 2023, frustrated with its performance, Walstab had taken over management of the whole business. His efforts over the past six months were showing signs of progress in Paragon's half-year result.

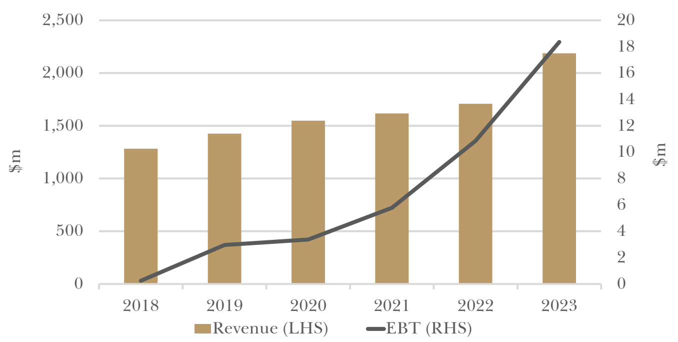
That was completely overshadowed by an announcement that Paragon would be merging with another distribution company, CH2. This is a deal that we like. A lot.

CH2 is a privately owned company that has become one of Australia's largest distributors of medicine and medical consumables. You might be familiar with the big players in this market: **Sigma Healthcare** (SIG), **Wesfarmers's** (WES) API and Symbion, owned by New Zealand's **EBOS** (EBO). They deliver everything from drugs to bandages and vitamin pills to the country's pharmacies and hospitals every day.

These companies, including CH2, have been around a long time — replicating their distribution networks is almost impossible. CH2 was owned by Spotless in the early 2000s and part of a private equity/API joint venture until 2015, when it was sold to prior management.

That's when everything changed for the company. API's ownership of CH2 meant CH2 was unable to compete with API in retail pharmacy distribution — a market several times larger than the hospital market. Freed from those shackles, CH2 was granted a license to distribute drugs to pharmacies from 2017. From a standing start, it has picked up 7% of Australia's $18 billion pharmacy wholesaling market and, in total, is expected to generate almost $3 billion in revenue this financial year.

## CH2 REVENUE AND EARNINGS BEFORE TAX



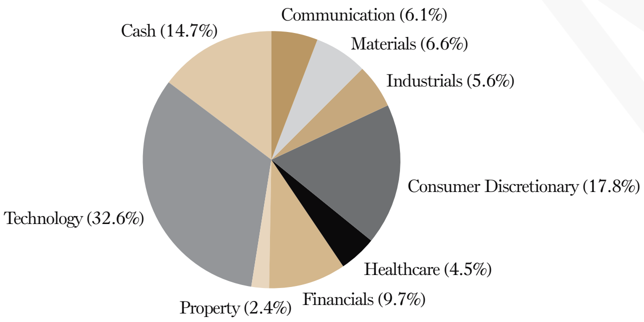

Source: Bloomberg

This is a low-margin business with relatively fixed overhead costs. As it has grown, CH2 has become increasingly profitable. It made $12.8 million of net profit in the 2023 financial year and is on track to make $16.8 million this year. We are confident that trajectory can continue.

Its three giant competitors all own or are aligned with retail brands. Sigma owns Amcal and intends to merge with Chemist Warehouse. API owns Priceline and Symbion owns TerryWhite Chemmart. CH2 is the only independent distributor and wants to stay that way, leaving it ideally placed to service a significant number of "non-aligned" pharmacies. Management estimates those non-aligned pharmacies represent some 44% of Australia's total retail pharmacy sales.

That share probably falls over time — Chemist Warehouse looks like a genuine category killer. But we think CH2 can keep growing its share of a growing market for many years to come.

## STOCK EXPOSURE BY SECTOR




Source: S&P Capital IQ

Profitability in its hospital distribution business should be helped by its acquisition of Sigma's hospital business in mid 2023, leaving CH2 as one of only two players in that market. And, perhaps most importantly, the opportunities within Paragon's existing business look significant.

If the deal is approved by Paragon shareholders, CH2's two shareholders will end up owning 57% of the combined entity. David Collins, CH2's managing director, will take over management of the company and he and his co-owner will both take seats on the board. Walstab will keep his board seat and two independent directors will be appointed.

The ParagonCare Board, including Walstab, is supportive of the deal. Unless something significant changes, we are too, making it highly likely to proceed. At the stroke of a pen, Paragon will be transformed from a sub-scale distribution business with a patchy record of capital allocation to a profitable owner-manager company taking market share in a growing industry. And there should be significant synergies between the two companies.

Healthcare distribution is not an easy sector in which to operate. Sigma's return on capital has been sub-par for a long time and API hasn't been much better, even under the stewardship of Wesfarmers. There are risks associated with being a minority shareholder in a company controlled by management, including the inability to replace them if necessary. It might take several years for the benefits to become obvious and, given the insider ownership, the stock will remain illiquid for a long time to come.

On balance, though, this is a significant change for the better for Paragon shareholders. Collins is not taking a cent in cash as part of the transaction and will have his life's work tied up in Paragon, making him heavily incentivised to make a lot of wealth for all shareholders. We think we have finally found the right jockey for a horse that has been particularly difficult to ride, and have added meaningfully to the investment over the past month.

| **TOP 5 HOLDINGS** (as % of NAV) | | |
|---|---|---|
| **RPM Global Holdings** | **(ASX:RUL)** | 9.7% |
| **Readytech Holdings Ltd** | **(ASX:RDY)** | 6.2% |
| **Tourism Holdings Ltd** | **(NZX:THL)** | 5.3% |
| **Catapult Group Ltd** | **(ASX:CAT)** | 4.4% |
| **Hipages Group Ltd** | **(ASX:HPG)** | 3.6% |
| **Cash** | | 14.7% |

## 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% | -6.45% | 4.76% | 7.14% | -1.07% | 4.43% | 1.59% | | | | **15.92%** |

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** | Semi-Annual, 31 December and 30 June |

## UNIT PRICE SUMMARY

| | |
|---|---|
| **As at** | 31 March 2024 |
| **NAV** | $1.62 |
| **Market Price** | $1.45 |
| **Portfolio Value** | $161.7 million |

## ABOUT FORAGER

With approximately $390 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.

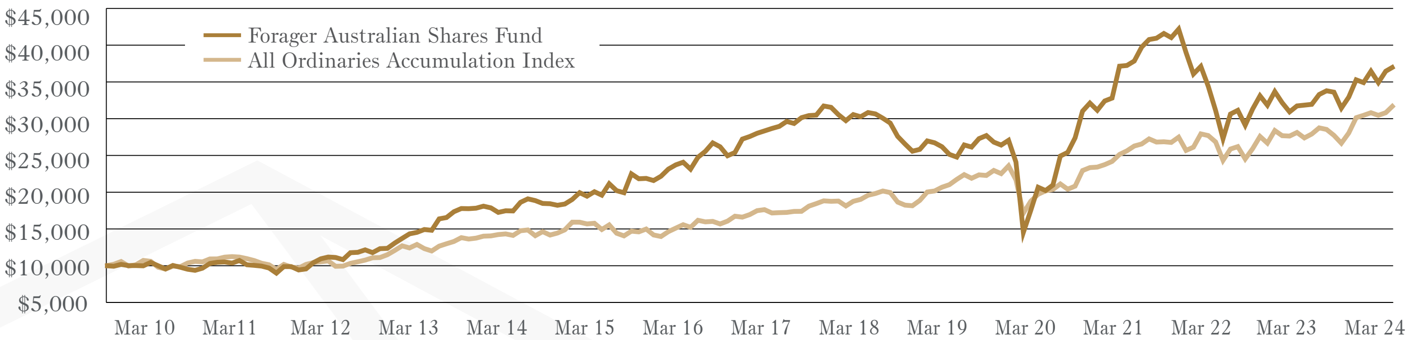
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.

FORAGER

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