FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT FEBRUARY 2023

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 28 February 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*
International Shares Fund	1.88%	3.42%	5.10%	-10.92%	8.49%	7.32%	11.49%	11.39%
MSCI AC World Net Index in $A	1.59%	-0.32	5.31%	-1.07%	7.30%	8.76%	12.50%	12.49%

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

January's investor optimism dissipated quickly in February. Global equity markets gave up much of their January gains as investors digested a plethora of results and stubbornly persistent inflation data, with the latter suggesting interest rates still need to rise more than anticipated in 2023 and potentially opening the door to having no rate cuts in the 2H either.

For both the index and the Forager International Shares Fund, a weak Australian dollar offset all of the stock price falls. The Index was up 1.6% for the month, while the Fund's unit price increased 1.9%.

It is not easy running a business in the current environment. Inflation and supply chain issues are improving but still problematic, labour shortages are still rife and, just as those things start to improve, consumers are proving much more judicious.

Combine a difficult cost environment with dramatic shifts in consumer demand and you get significant changes in profitability from quarter to quarter. Results for the last quarter of 2022 are showing exactly that, with big winners and losers across the portfolio.

Starting on the negative side of the ledger, auto lending platform **Open Lending** (Nasdaq:LPRO) posted its worst result since we first invested in the company in mid-2020. Used car prices have fallen faster than Open Lending had previously assumed, reducing its estimated profits on old business and, thanks to more conservative assumptions, also reducing the profit it makes on each new loan written. The bigger issue, though, is that the number of loans Open Lending is writing has fallen materially with higher interest rates and subdued used-car demand.

While the business remains cash generative and nicely profitable, that external environment doesn't seem to be improving. Management suggested 2023 will be another tough year. The share price fell 23% on the day the results were released and 19% for the month.

Software company **eGain** (Nasdaq:EGAN) should be as profitable as Open Lending. Founder Ashutosh Roy is hell bent on growing the company quickly, though, and has increased its overheads by 75% in the past few years. Unfortunately, the rate of growth is slowing down, not speeding up. While that growth rate was still a healthy 16% for the December quarter, they lost a couple of clients recently and are suggesting the growth will be a lot slower in the second half of its financial year. Given it has $80m of net cash and continues to generate meaningful cashflow every year, its $247m market capitalisation is undemanding. Without a stronger focus on profitability, it is hard to see what will make that change.

Two other pieces of negative portfolio news were not results related. **Yeti** (NYSE:Yeti) announced that it will be recalling a line of its cooler bags thanks to a faulty magnet (which, in case you thought differently, can be dangerous if ingested). Recalling the faulty goods will cost $34m in wasted inventory and the company has made a provision for $95m of returns, although it remains to be seen how many customers care enough. Lost sales will crimp 2023 revenue growth by an estimated $80m (5% impact to growth). It's not great news but we don't expect any long-term issues and are supportive of prioritising the company's brand ahead of short-term profitability.

And **Techtronic** (HKSE:669) was the subject of a short report which sent the share price tumbling 19%. There is no doubt this company's products, including Milwaukee and Ryobi power tools, are dominating the competition. Whether it is as profitable as its accountants claim, though, was questioned by a short-seller who highlighted a number of instances of accounting principles that look aggressive at the least. We had cut the Fund's investment into January's share price strength and have cut it further while awaiting the company's response and its latest set of accounts.

While those that disappointed saw their share prices suffer, there was more good news than bad throughout the month.

European small caps **Blancco Technology** (LSE:BLTG) and **Norbit** (OB:NORBT) both produced highly encouraging results. Blancco's half-year numbers to December showed revenue 22% higher than the previous year, albeit aided by a weak pound and a small acquisition. Profit margins continue to expand gradually as the business scales and, thanks to its dominance of the data erasure software market, it should be able to keep scaling for a very long time.

Norbit's long-term future is not quite as predictable but our esteem for

TOP 5 HOLDINGS (as % of NAV)

Flutter Entertainment Plc	**(LSE:FLTR)**	5.1%
Linamar Corp	**(TSE: LNR)**	4.1%
Blancco Technology Group Plc	**(LON:BLTG)**	4.1%
Ferguson Plc	**(NYSE:FERG)**	3.9%
Janus International Group Inc	**(NYSE:JBI)**	3.4%
Cash		10.0%

the management team of this Norwegian manufacturing conglomerate grows with every result. The share price has doubled since our first investment in 2019, largely thanks to growth in earnings. Its revenue, profits and dividends were all substantially higher in 2022 and the next few years look equally bright.

APi Group (NYSE:APG) reported its fourth quarter result which beat most investors' expectations. Net debt, elevated by the Chubb acquisition earlier in 2022, was reduced nicely thanks to strong cash flow generation. Management offered a pleasing 2023 outlook for sales growth and margin expansion despite a challenging economic outlook.

Turning Point Brands (NYSE:TPB) and **Cryport** (Nasdaq:CRYX) both saw decent share price bounces on results that might best be described as better than feared.

As did **Meta** (Nasdaq:META), where investor fear had reached a crescendo following its third quarter results in October. The company's short-form video format, Reels, is continuing to gain traction with users and shouldn't be a drag on revenue for much longer. Investors were relieved to see another round of cost cuts, the second since the third quarter results, and the announcement of a $40bn share buyback. The share price has now nearly doubled from its November lows and we've sold around half of our shares since the result.

Perhaps the best result for the month, though, came from a company where expectations were already high. Having halved between February and July last year, marketing platform **Zeta Global's** (NYSE:ZETA) share price had recovered most of the decline by the time its results were released this month. Yet its share price rose a further 13% in February. The company finished its 2022 financial year with a bang, posting annual revenue growth of 30% in the last three months of the year, increasing its profit margins and converting almost all of that profit to cashflow. It was a great result but the share price, once again, demands plenty of future growth. We're confident about the growth but are less enthusiastic about the current valuation and have managed the investment's weighting accordingly.

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^.

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	28 February 2023
Buy Price	$1.4482
Redemption Price	$1.4424
Mid Price	$1.4453
Portfolio Value	$191.3 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 invesing, 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.

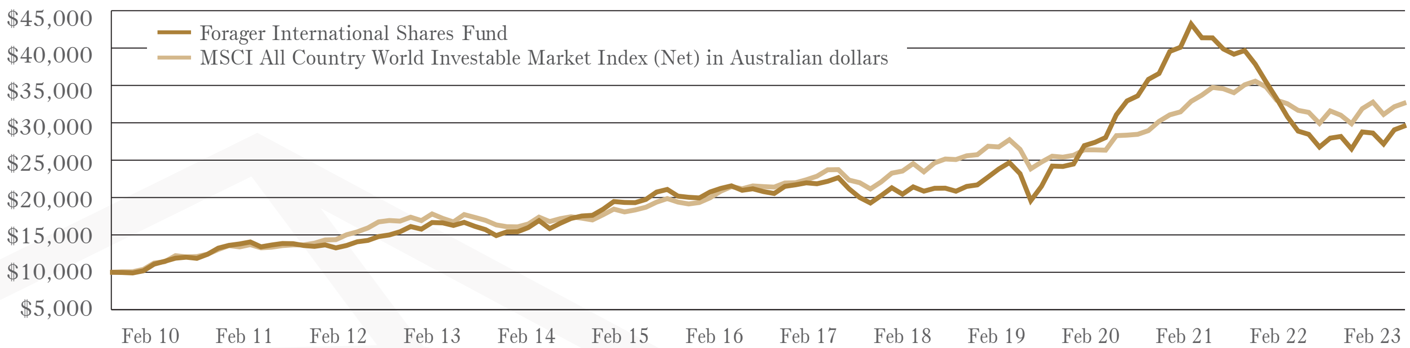
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.