FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT DECEMBER 2022

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 December 2022. 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.)	Since inception* (p.a.)
International Shares Fund	-5.13%	2.47%	1.52%	-28.23%	4.48%	5.31%	10.62%
MSCI AC World Net Index in $A	-5.04%	4.14%	3.99%	-12.52%	5.15%	8.00%	12.15%

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

The 2022 calendar year was a shocker for financial markets, and worse for the Forager International Shares Fund. The Fund's net asset value fell 28% for the year, only the second negative year in its 10-year history and the largest loss by some margin. That was with some help from a depreciating Australian dollar.

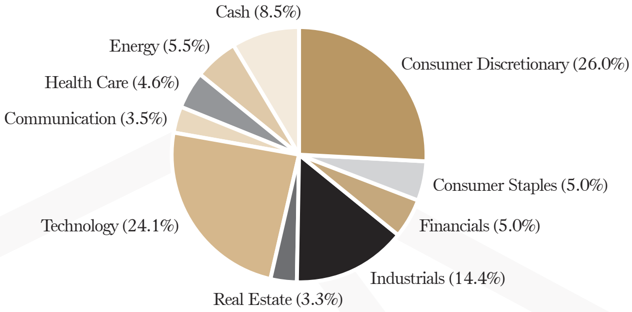
As explained in recent monthly and quarterly reports, we have been concentrating the portfolio on those businesses performing well and reducing the overall number of investments. Recent months have also seen the addition of two new investments to the portfolio, both of which are introduced below.

YETI—NOT SO ABOMINABLE

Yeti Holdings (NYSE:YETI) is a smaller cap business that had a tough 2022. But fortunately we didn't own it until November when it became a new addition to the portfolio.

US-listed outdoor lifestyle brand Yeti specialises in designing and distributing premium coolers and insulated drinkware, with opportunities to expand into other adjacent product categories. Yeti products were originally designed for rugged outdoorsmen and have a reputation for being "nearly indestructible". Brand recognition has expanded to reach the masses in the United States (Yeti's major market) and key international markets like Australia and Canada.

STOCK EXPOSURE BY SECTOR



Source: S&P Capital IQ

Consumers rave about the utility and quality of products and they've become a status symbol, in the US especially. It's not unheard of for people to own four or five products from Yeti's drinkware category. Yeti distributes its products direct-to-consumer, through its branded website, 12 retail stores and via wholesale partners. Your local MacPac or BCF store likely stocks its products.

Yeti's share price is down 50% this year as investors are (rightly) concerned about consumer discretionary spending and a potential COVID unwind. But there is a secular story here that should overwhelm it. The company's third-quarter results showed that demand for Yeti products remains strong, easing investor concerns that COVID pulled forward demand excessively. Less than 10% of its sales are currently generated from consumers outside the US. Other premium brands like **Lululemon** (NASDAQ:LULU) and **Nike** (NYSE:NKE) generate 30-60% of revenue from international consumers. This provides a long runway of growth for Yeti ahead.

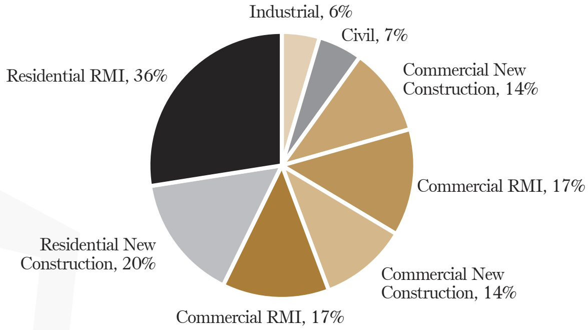
The stock is currently trading at less than 15 times 2023's expected earnings, a very reasonable price for a high-quality business that has compounded revenues at 40% per year over the past eight years. We expect growth to continue, though at a lower rate, for some time.

TOO MUCH WORRY ABOUT FERGUSON

While small cap stocks remain a focus, we've also made an investment in a much larger business recently. **Ferguson** (NYSE:FERG) is a distributor of products to trade customers in the US. **Reece** (ASX:REH) is probably the closest Australian equivalent. But such analogy doesn't capture the scope of products and breadth of customers served by Ferguson, in the building, plumbing, heating, ventilation and air-conditioning (HVAC), non-residential construction and water infrastructure businesses, among others.

Middleman businesses are most entrenched when they allow a large number of suppliers (Ferguson has more than 30 thousand) to offer an immense range of individual stock keeping units (more than a million) to an even more diffuse group of customers (also more than 1 million). They're most profitable when the customer is focused not just on price competitiveness but other factors. In this case speed, availability and delivery (nearly 80% of product is delivered straight to construction sites rather than collected in store) are all crucial to making customers' lives easier and more efficient.

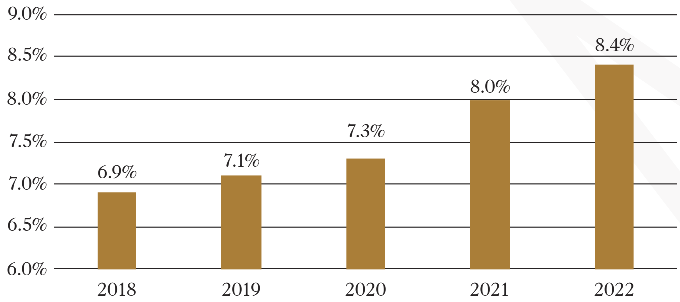
FERGUSON 2021 REVENUE SPLIT



Source: Company Data, Barclays Research

It is the US market leader in four important segments, including residential repair, maintenance and improvement (RMI) and waterworks (water and sewerage infrastructure). It's the number two or three player in a few more categories, such as residential trade (just behind **Home Depot** (NYSE:HD)) and HVAC. Each of these segments has 2-4 large players that collectively control a surprisingly small chunk of the overall pie, with what Americans call mom-and-pop shops still dominant. That's slowly shifting. Ferguson has been a beneficiary via organic market share gains and highly accretive acquisitions.

ESTIMATE OF FERGUSON'S BLENDED MARKET SHARE



Source: Company Data, Barclays Research

Ferguson is clearly a good business that generates high return on equity. But why is the stock undervalued, trading at around 14 times forecast earnings? Anything with a link to the US housing market has come under scrutiny over 2022. We have a retort, of course. While 56% of sales is residential housing-related, only 20% of total sales is linked to newbuild with the remainder focused on repair, remodelling and improvement (which historically holds up better in downturns). The rest of the business is non-residential, which moves in different cycles.

Another likely explanation for why Ferguson has traded at a discount to peers is that the stock is something of a geographic orphan. Its roots are in the UK and Europe, but it's divested all of its businesses there over the past decade. Listed in both the UK and US, until recently the UK was its main exchange. That's changing and the stock is in the process of clearing various hurdles for inclusion in important US indices including, ultimately, the S&P 500. Many US investors, passive and active, have until recently been unable to invest. That won't be the case much longer. In the meantime, we own a high quality business acquired at a sensible price.

THE CASE FOR CONTRARIAN IN 2023

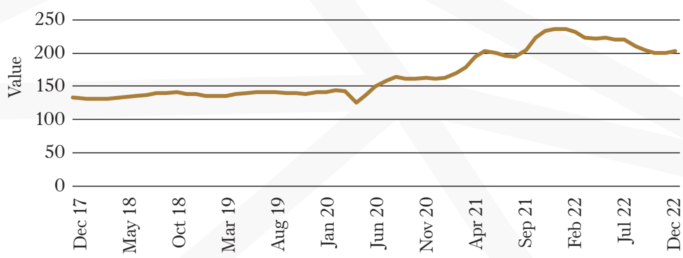
While many investors are seeking the safety of "quality" companies, it is clear to us the potential rewards for investing in small and cyclical companies is currently excellent. Our CIO letter outlined the potential for small cap outperformance as a result.

The Forager International Shares Fund owns numerous smaller businesses navigating difficult external demand environments. We're leaning into the wind and waiting for the turn.

Open Lending (NASDAQ:LPRO) is one such investment. This company helps facilitate loans between its lender partners (largely credit unions, which continue to take share in the auto financing industry) and so-called "near-prime" consumers that are purchasing vehicles. The company matches the lenders with insurance providers during a transaction and Open Lending itself takes no direct balance sheet risk. This is a very high margin business with great free cash flow generation and a strong balance sheet. The company announced a $75m buyback in November, which represents almost 10% of its current market capitalisation.

But its share price is down 70% over the past year, driven by investor concerns surrounding the potential for used car prices to fall from unprecedented recent highs, a tougher consumer backdrop and rising interest rates.

MANHEIM USED VEHICLE VALUE INDEX



Source: Bloomberg

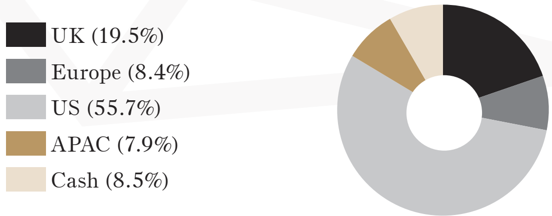
Approximately two-thirds of the customers that source their loans via Open Lending have FICO credit scores of 600 and above, a category that has so far held up well when it comes to auto loan defaults and tends to be more resilient through tougher economic environments. That loan book quality makes it quite different from other subprime focused lenders, where FICO scores are typically less than 550.

Although Open Lending was much smaller during the 2008/9 financial crisis, when overall auto loan defaults ended up at extremely high levels, the business remained profitable throughout that period.

We feel the company is a structural grower facing cyclical headwinds, while being priced like it will never grow. As production volumes of new cars normalise and used-car prices settle down, some of the headwinds Open Lending has been facing should abate. Obviously, high interest rates will continue to pressure end customers for some time. But the long term story here remains attractive relative to the company's current valuation.

It's not just small caps where sentiment is extreme. In our October report, you could probably sense our frustration with the Fund's **Meta** (NASDAQ:META) investment. We weren't alone. In the days after its third quarter result (and our report), selling of the shares became indiscriminate.

STOCK EXPOSURE BY GEOGRAPHY



Our original investment was a mistake. We don't have an edge analysing this global giant, and it failed to provide the thing we need most from large cap investments—resilience. Add Mark Zuckerberg doubling down on his speculative metaverse bets, our inclination was to move on.

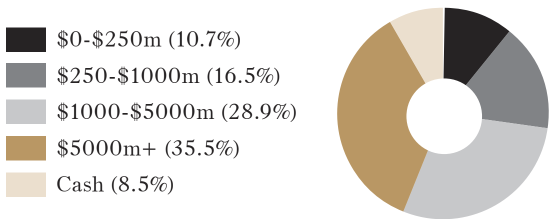
One thing we do have an edge in is going against the herd. And one thing we know how to recognise is investor capitulation and indiscriminate selling. The signs here were obvious.

The company's market capitalisation fell more than $100bn in just a few days. It was trading at just nine times earnings, and that's after the expenses from Zuck's big bets. The narrative—he's going to waste all of the company's profits—is impossible to refute. No Fund manager wants to admit they own it. But nine times earnings for the owner of Facebook and Instagram?

After some late night soul searching, the whole Forager International team turned up to the office having reached the same conclusion: this is not the time to be selling. Instead we added—at $92 a share.

We weren't contrarian enough at the market highs of 2021. We won't be making the same mistake amidst the pessimism of 2023.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



TOP 5 HOLDINGS (as % of NAV)

Flutter Entertainment Plc	**(LSE:FLTR)**	4.9%
Blancco Technology Group Plc	**(LON:BLTG)**	4.2%
Linamar Corp	**(TSE:LNR)**	3.9%
Meta Platforms Inc	**(NASDAQ:META)**	3.5%
Janus International Group Inc	**(NYSE:JBI)**	3.4%
Cash		8.5%

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%							**1.52%**

Past performance is not indicative of future performance and the value of your investments can rise or fall.

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	31 December 2022
Buy Price	$1.3285
Redemption Price	$1.3231
Mid Price	$1.3258
Portfolio Value	$175.7 million

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

ABOUT FORAGER

With approximately $330 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.

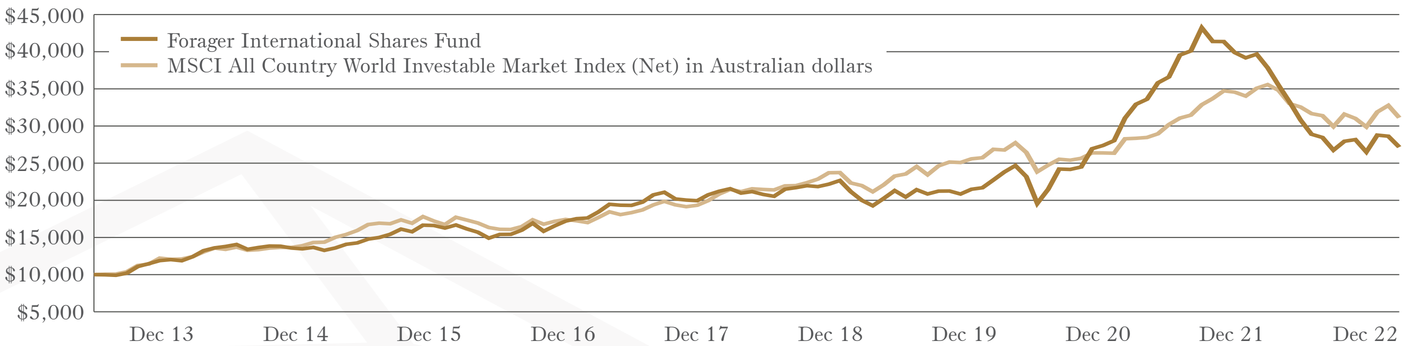
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.