FORAGER

INTERNATIONAL SHARES FUND

MONTHLY REPORT SEPTEMBER 2022

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 30 September 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	-5.91%	-0.93%	-13.98%	-33.55%	7.24%	5.03%	10.63%
MSCI AC World Net Index in $A	-3.67%	-0.14%	-8.22%	-11.45%	5.31%	8.40%	12.02%

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 macroeconomic concerns that punctuated the end of August continued throughout September, with equities down sharply for the month. The Forager International Shares Fund was lower by 5.9% in September against an index that was down 3.7%, despite a weak Australian dollar. That erased the gains for both the Fund and the market from earlier in the quarter.

Not many sectors have been spared this year as the S&P 500, a broad-based index of US stocks, has fallen 25% in the nine months to 30 September. Some sectors have been hit harder than others, though. The US housing market is one of them, with an S&P US Homebuilders Index down 36% over the same nine-month period and plenty of stocks exposed to the sector down much more than that, particularly at the smaller end of the market capitalisation spectrum.

It's not surprising that investors are spooked. The US 30-year fixed rate for mortgages has more than doubled, rising from 3.2% at the start of 2022 to 6.7% on 29 September.

Some central bankers like sticking their heads in the sand about the correlation, but as interest rates rise, house prices fall. At higher interest rates, borrowers will need to spend more of their disposable income on mortgage repayments, all else equal. The above rate change increases monthly mortgage repayments on the same size loan by almost 50%.

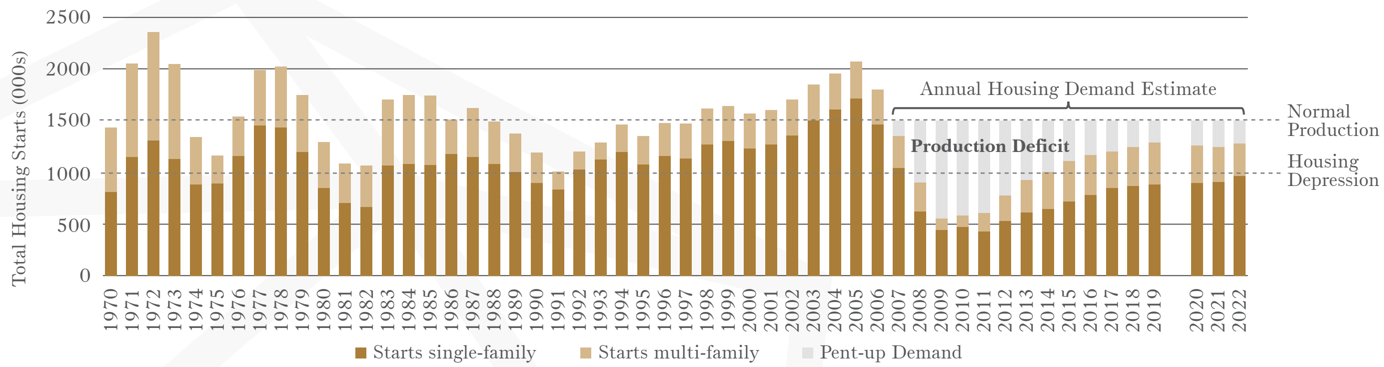
Most borrowers don't have the capacity to pay 50% more of their disposable income in mortgage payments, so they borrow less. When they borrow less, they pay less for houses. It's as simple as that. UBS analyst Jonathon Mott summed it up perfectly when analysing macroprudential lending restrictions here in Australia in 2018:

"House prices are not driven by the demand and supply of housing and population growth. Maybe on a 20-year time frame they are. House prices are determined by the demand and supply of credit availability. When you take your hand down at the auction is when you run out of money. And if the banks aren't lending you as much as they did 12 months ago, well your hand comes down a couple of hundred grand lower".

There is little doubt house prices will fall in the US. But investors are now pricing in another Global Financial Crisis, and they are being indiscriminate, leading to some compelling investing opportunities.

First, this downturn is not likely to be as severe. Vacancy rates of housing stock are at historically low levels, while vacancies were at an all-time high in 2007. The number of people reaching the typical first-time homebuyers age is higher than we've seen before, and increasing. But most importantly, there is a lack of housing supply in the US which contrasts with the oversupply that occurred in the leadup to the GFC.

MACRO OVERVIEW: PRODUCTION DEFICIT OF HOMES, BOTH FOR SALE AND FOR RENT



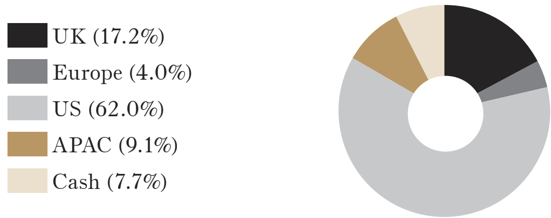
Source: Miller Value Partners: Is It 2008 All Over Again? Not in the US. 27 September, 2022.

In the nine years preceding the crisis, housing starts were well above normal levels. In the decade since, housing production has been well below historical trends. The chart above shows the meaningful production deficit that occurs as a result, where new home construction is insufficient to meet likely demand. So, while a downturn in housing is not out of the question, it is unlikely to be as deep or as long as what we saw in 2008.

Secondly, spending on renovation and remodelling tends to be less cyclical than on new home construction. While renovations, especially larger ones, will take a hit on higher interest rates, the housing stock requires a minimum level of spending on maintenance to avoid falling into disrepair. And many Americans have 30-year mortgages at low and fixed rates, creating an incentive to stay and spend on the existing home rather than move and take on a new higher-rate mortgage.

Finally, non-residential construction has been in the doldrums. The Biden Government's so-called Inflation Reduction Act has hundreds of billions of dollars set aside to fix the country's ailing infrastructure. Many commercial projects, stalled due to COVID, are just now commencing. That should provide an offsetting boost to many companies suffering from a residential slowdown.

STOCK EXPOSURE BY GEOGRAPHY



Given the negative sentiment, we have been scanning the sector for opportunities. Our focus is on businesses with sustainable competitive advantages that can compound through a potential downturn, particularly those with more resilient foundations.

One such opportunity is Hong Kong-listed **Techtronic** (HKSE:669), a previous Fund investment from 2020 that we exited after a strong share price rally. The owner of power tools brands including Milwaukee and Ryobi has gone from strength to strength since our valuation-driven 2020 exit, with profit increasing 79% between 2019 and 2021. Despite this, the valuation has fallen by almost 50% over the past 12 months as investors fret over the strength of the US consumer and housing sector, with the price to earnings multiple now at a 10 year low.

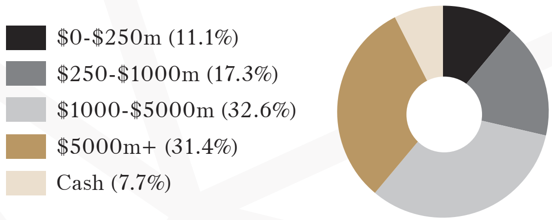
A year of far more modest growth is inevitable. But we expect the long-term trends of growing market share and margins to continue for a long time yet, and it trades at just 14 times the next twelve month's earnings. Techtronic has a track record of introducing innovative new products that often create new categories of demand and ensure its market share continues increasing. This comes from a strategy of continuously outspending competitors on research and development, resulting in higher performance products. It is a long way in front of the competition, and we expect it to stay there.

Techtronic is a large company with majority US sales and a suite of well-known brands, but it's listed in Hong Kong, placing it outside the universe of most US investors. We call this an orphan stock, and these businesses can often be mispriced.

It is now one of our ten largest investments, but we have retained the flexibility to increase our position size should the share price continue to fall or if the company exceeds our expectations. It was one of several new investments made over the quarter, but the only one we're ready to talk about yet.

Another longer-held investment exposed to the US housing market is **Installed Building Products** (NYSE:IBP). This investment has been discussed numerous times, including in the May monthly report. While a booming housing market is great for this company's sales trajectory, there is plenty of opportunity to continue to increase market share by accelerating acquisitions at favourable prices should the opportunity arise.

PORTFOLIO DISTRIBUTION ACCORDING TO MARKET CAPITALISATION



Elon Musk's attempt to backtrack from his deal to buy social media company **Twitter** (NYSE:TWTR) appears to be failing. A steady stream of documents released by the Delaware Court of Chancery - where Twitter is trying to force Musk to pay the $54.20 per share he promised to pay shareholders - suggest Musk is likely to end up on the losing end. The share price was 17% higher for the quarter despite a fairly horrible results announcement and most social media companies suffering.

On 3 October, post the end of the quarter, Twitter filed a short letter to the Securities and Exchange Commission confirming receipt of a proposal from Musk's lawyer to close the transaction at the "originally agreed price", sending the share price up another 22%.

In order to allow Musk the time to execute on his newly refreshed promise to abide by his original signed promise, Chancellor Kathaleen McCormick has granted him a short stay to the case to 28 October. It's a very short rope, and we expect she'll look to hang him with it should he try to back out again.

We put the chances of Twitter shareholders receiving their rightful $54.20 per share by around month end at about 95%. If not, Twitter and Musk will be back in court in November, with Musk's bargaining position - poor to begin with - significantly worsened.

TOP 5 HOLDINGS (as % of NAV)		
Flutter Entertainment Plc	**(LSE:FLTR)**	5.3%
Blancco Technology Group Plc	**(AIM:BLTG)**	4.0%
Zeta Global Holdings Corp-A	**(NYSE:ZETA)**	3.8%
Autodesk Inc	**(NASDAQ:ADSK)**	3.7%
Meta Platforms Inc	**(NASDAQ:META)**	3.7%
Cash		7.7%

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%										**-0.93%**

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	30 September 2022
Buy Price	$1.2965
Redemption Price	$1.2914
Mid Price	$1.2939
Portfolio Value	$174.5 million

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

ABOUT FORAGER

With approximately $320 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.

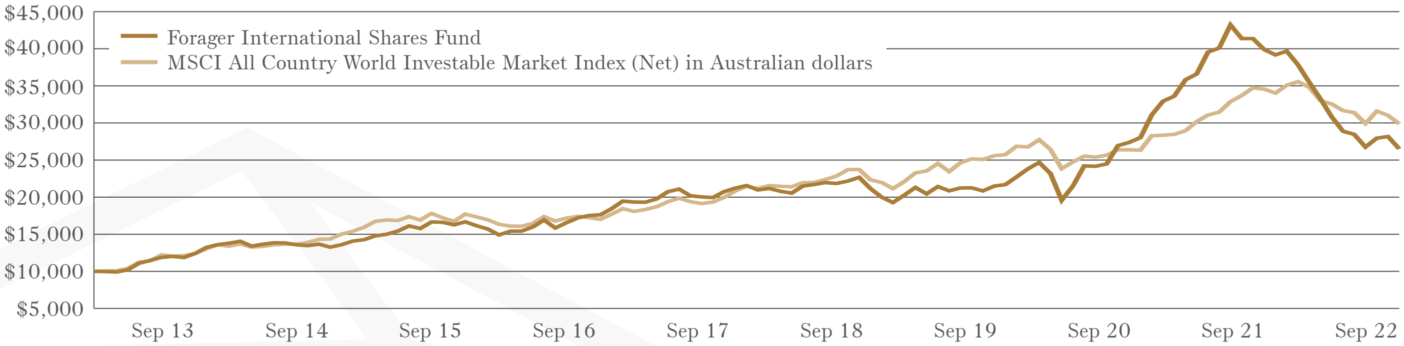
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.