30 JUNE 2022

EQUITY ALPHA PLUS FUND

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTH	1 YEAR	2 YEAR	SINCE INCEPTION* P.A.
Equity Alpha Plus Fund	-7.39	-9.03	2.77	20.41	11.84
S&P/ASX 200 – Total Return Index	-8.77	-11.90	-6.47	9.33	2.86
Excess Return	1.38	2.87	9.24	11.08	8.98

*Inception date – 12 July 2019

INVESTMENT OBJECTIVE

The Fund aims to outperform the S&P/ASX 200 Total Return Index (after fees and before taxes) over the long term.

LEAD PORTFOLIO MANAGER

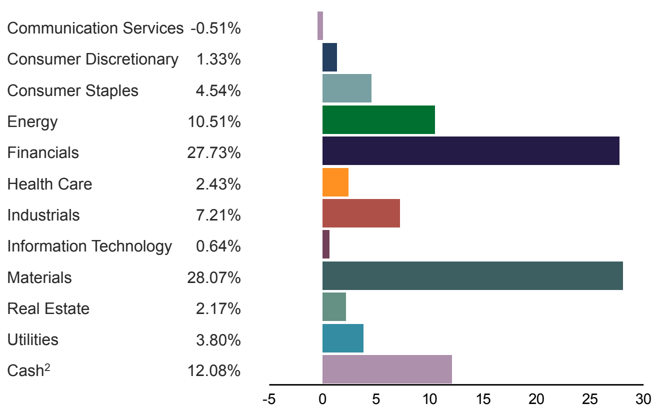
Tom Richardson

FUND OVERVIEW

With a focus on capital preservation, this fund uses a detailed fundamental research process to invest in stocks that are well placed for future growth (longs) and takes advantage of stocks we believe have structural headwinds (shorts). The Long/Short investment style is designed to enhance returns and manage downside risks.

MARKET EXPOSURES	
Long	107.26
Short	-15.09
Net	92.16

SECTOR ALLOCATION



KEY DETAILS	
Number of Holdings	70
Portfolio Dividend Yield	5.35%
Fund Size (AUD)	$99M
Redemption Price	$1.2226

TOP 10 POSITIONS	WEIGHT %
BHP Group Ltd.	14.26
National Australia Bank Ltd.	8.17
Woodside Energy Group Ltd.	6.22
Commonwealth Bank of Australia	5.50
CSL Ltd.	4.88
Macquarie Group Ltd.	4.69
Santos Ltd.	4.29
Woolworths Group Ltd.	3.22
QBE Insurance Group Ltd.	3.14
Qantas Airways Ltd.	2.95

FUND DETAILS	
APIR Code	ETL8096AU
Distribution Frequency	Semi-Annually
Management Fee[1]	0.99% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/- 0.30%
Minimum Investment	$20,000
Stock Range	Long 20–60, Short 0–50
Cash Range	0–20%

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MARKET REVIEW

Global equity markets fell over the quarter on higher inflation surprises, central banks raising interest rates, and a deteriorating economic growth outlook with an increasing possibility of recession. The MSCI World Net Total Return Index fell 16.2% (in USD)[1] versus the March 2022 quarter. The S&P/ASX 200 Total Return Index (Fund Benchmark) fell 11.9%. The smaller decline in Australian equities was largely due to less exposure to Technology stocks, which suffered heavy falls overseas.

Headline inflation accelerated to 8.6% in the USA in May 2022 year on year (yoy), and 5.1% in Australia in the March quarter yoy, due to ongoing impacts from the Ukraine invasion and COVID overstimulation. The US Federal Reserve, after its inaugural rate rise for this cycle of 25bp in March 2022, lifted 50bp in May, and another 75bp in June, to 175bp. Chairman Jerome Powell said the Fed is 'strongly committed' on inflation and noted recession is a 'possibility'. The bond market futures in the USA are implying a further 150bp of tightening for the remainder of the year to 3.3%, although this has come back by ~30bp recently. The Reserve Bank of Australia lifted rates inaugurally by 25bp in May and 50bp in June to 85bp. The futures here imply a further 230bp of tightening this year to 3.1%, although this has come back by ~70bp.

Bloomberg contributing economists' US 2022 Real GDP growth expectations peaked at 4.3% back in September 2021 and has fallen to 2.5%, and Australian Real GDP forecasts peaked at 4.5% in March 2022 now at 4.0%. The US 10-year yield rose 67bps and the US yield curve steepened 6bps. The Australian 10-year and 2-year both rose 82bps, so the steepness of the curve was maintained.

The Bloomberg Commodity Total Return Index rose 2.3% for the quarter. Thermal coal leapt 49.0% (in USD) as Europe removed restrictions on coal fired electricity generation. Spodumene rose 60.1% (in USD)on continued strong demand, particularly from Chinese auto manufacturing. Brent oil rose 6.4% (in USD) as the world, except China and India, shunned Russian oil exports. Iron Ore fell 21.6% (in USD) on slower demand from weaker Chinese economic growth.

Energy was one of only two sectors of the S&P/ASX 200 Total Return Index in the green this quarter, rising just 1.5% on the back of the stronger oil price. Utilities rose 1.7% on perceived stability in a deteriorating economic environment. Healthcare and Staples outperformed the average for the same reason. Technology was the weakest sector, falling 27.2%, relatively more negatively impacted by higher rates due to their long duration cash flows. Materials and Banks underperformed on lower commodity prices and a weaker economic growth outlook.

On corporate activity, BHP sold their Petroleum unit to Woodside in exchange for shares. Crown Resorts delisted following the Blackstone takeover. Atlas Arteria and Ramsay Health Care received takeover offers. AGL Energy withdrew from their proposed demerger of their retail and coal-focussed generation businesses due to the company not being able to secure the necessary support. The May 2022 Banks' earnings' season saw those companies step back from cost out guidance.

PERFORMANCE

The Fund outperformed by 287bp over the quarter. The short book contributed the majority of the outperformance by falling 28.1% in the quarter compared to the Fund Benchmark fall of 11.9%. The long book marginally outperformed the Fund Benchmark with overweights in Energy and underweights in IT being the largest contributors.

ENVIRONMENTAL, SOCIAL, GOVERNANCE ISSUES (ESG)

The quarter's mini-AGM season was notable for the presence of non-binding, advisory resolutions put to meetings which ask for endorsement of the company's climate change report, dubbed 'Say on Climate' votes. While new to Australia, there have already been a number of Say on Climate votes overseas started thanks to a campaign in recent years to encourage Boards to voluntarily give shareholders a means through which they can endorse a company's climate response (or not).

BHP Group (BHP) was the first Australian company to hold such a vote last November, but this mini season saw three more votes put to the Rio Tinto (RIO), Santos (STO) and Woodside Energy (WDS) AGMs. Similarly to BHP, Rio Tinto received ~85% support for the climate report, while shareholders were less supportive of Santos and Woodside's climate plans (63% and 51% respectively). In our view these early results indicate the Say on Climate mechanism has strong potential to facilitate constructive shareholder feedback regarding corporate climate responses. All companies engaged a range of stakeholders on the plans, and we expect this to continue.

We also note the shift this could create with respect to climate-related shareholder-requisitioned resolutions, which may be less likely to receive less support in the future. Prior to the emergence of Say on Climate, support for resolutions on climate matters requisitioned by activist shareholders had been steadily growing. In the most recent mini-season, Woodside and Santos also received shareholder resolutions on Paris-aligned capital allocation and decommissioning. Support for these resolutions (c. 11-16%) was much lower than some of the results for other climate-related shareholder votes across the ASX which reached highs of nearly 50% support. It appears companies' broader shareholder base may be favouring the Say on Climate vote as the primary channel to provide a signal to the company.

We anticipate that to regain higher numbers of support, shareholder-requisitioned resolutions will need to become both more targeted and differentiated from the Say on Climate vote, which essentially asks shareholders "do you think our plan and targets are comprehensive, Paris-aligned, and achievable?". In our view, shareholder resolutions on specific areas such as climate lobbying will be seen as more supportable than emissions reduction target or capital allocation-related resolutions. Matters, which we believe, many investors now feel is best addressed through the Say on Climate vote.

While it may be too early for clear patterns to emerge, with more companies committed to a Say on Climate votes later in the year, this is an area we will be monitoring. In the medium term, we expect these types of votes to be a focus at the AGM's of larger or mid cap companies with elevated climate risk, rather than becoming the norm.

ENGAGEMENT

During the quarter, we undertook a total of 22 engagements in which we explicitly discussed ESG matters with 13 companies relevant to the strategy. Of these, 60% were held at either board or executive level, with much of the remainder with internal subject matter experts. The engagements covered a range of issues and most meetings discussed multiple ESG matters. In this period, the most discussed topics were climate transition, human rights and modern slavery, and executive pay.

Given the Say on Climate votes, discussed above, put to the AGMs of Woodside Energy (WDS) and Santos Ltd (STO), we held multiple engagement with both companies regarding their respective climate change reports. Not only did this help to inform our voting positions, it enabled us to convey our expectations around enhancements we believe each should make to their climate plans and disclosures. Additionally, we provided detailed letters to both Chairs to explain our voting position and summarise our expectations in a more formal manner.

We also had two notable engagements as part of our modern slavery engagement program with Qantas Airways (QAN) and Treasury Wine Estates (TWE). In both instances we encouraged certain enhancements to disclosures, in particular, pursuing opportunities to provide greater detail to shareholders with minimal effort by sharing more data points already collected internally. With respect to Qantas, advancements on planned activities to better address modern slavery risks

[1] For the purposes of comparison commentary is quoted in Australian dollar terms and Australian sector returns refers to the S&P/ASX 200 Total Return Index unless stated otherwise.

was hampered by ongoing COVID-related disruptions last year. We were pleased to hear some initiatives have re-commenced this quarter and we expect progress will be evident in the next Modern Slavery Statement.

OUTLOOK

Inflation remains a concern for central banks and they are moving quickly to normalise interest rates. They do not want to kill the cycle and will likely pause at some point to reassess. The global growth outlook continues to deteriorate, and while a recession appears unavoidable, we do not believe it is imminent. We expect growth to decelerate but not crater. As such the Fund remains overweight the cyclical sectors of Energy and Materials. The key delta in the short term will be China stimulus compared to slowing developed market demand. We are also more selective in commodity exposures where supply challenges or structural demand exists. Traditionally defensive sectors such as Healthcare and Telco remain expensive, and the Fund has minimal exposure. We continue to evaluate IT and growth companies but have found minimal opportunities to date.