31 MARCH 2023

EQUITY ALPHA PLUS FUND

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTH	1 YEAR	3 YEAR	SI* P.A.
Equity Alpha Plus Fund	-0.30	1.81	6.65	24.96	14.12
S&P/ASX 200 – Total Return Index	-0.16	3.46	0.10	16.52	5.85
Excess Return	-0.14	-1.65	6.55	8.44	8.27
					*Since Inception date (SI) – 12 July 2019

Past performance of the Fund is not a reliable indicator of future performance. The value of an investment in the Fund may rise or fall. Returns are not guaranteed by any person. Fund returns are calculated before tax, after ongoing management costs and any accrued performance fees, and assumes the reinvestment of distributions. Returns greater than 1 year are annualised.

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

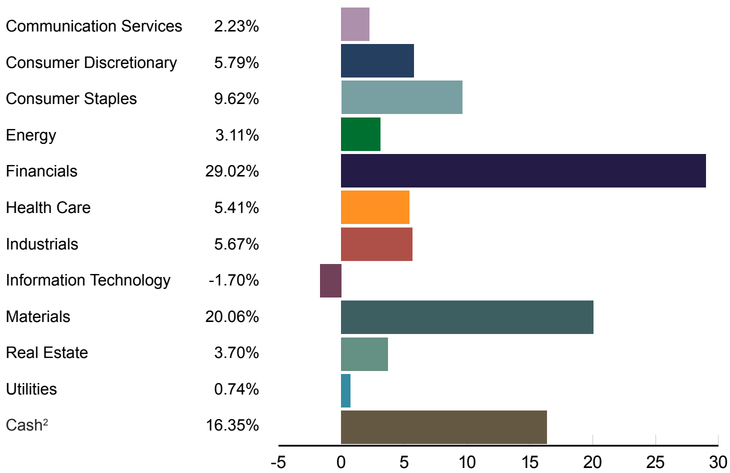
Tom Richardson

FUND OVERVIEW

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

MARKET EXPOSURES	
Long	112.53
Short	-18.56
Net	93.98

SECTOR ALLOCATION



KEY DETAILS	
Number of Holdings	79
Portfolio Dividend Yield	4.58%
Fund Size (AUD)	$127M
Redemption Price	$1.2754

TOP 10 POSITIONS	WEIGHT %
BHP Group Ltd	13.91
National Australia Bank Limited	7.15
Commonwealth Bank of Australia	6.78
Wesfarmers Limited	5.75
ANZ Group Holdings Limited	5.00
Woodside Energy Group Ltd	4.06
Coles Group Ltd.	3.60
CSL Limited	3.49
Woolworths Group Ltd	3.15
Brambles Limited	3.02

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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Performance in AUD unless otherwise noted.

MARKET REVIEW

Global equity markets rebounded in the quarter on reduced inflationary pressures and lower interest rates, and a belief that the collapse of Silicon Valley Bank (SVB) and Credit Suisse are idiosyncratic. The MSCI World Net Total Return Index rose 7.73% (in USD)[1] versus the December 2022 quarter. The S&P/ASX 200 Total Return Index improved 3.5%. Australia underperformed global markets due to weak Bank sector performance, which makes up -19% of the index versus 3% in the S&P 500 Index[2]. Growth sectors outperformed Value in Australia and globally. The Technology laden NASDAQ Composite Total Return Index rose 17.0% (in USD).

Australian Banks mark-to-market the value of bonds they hold for liquidity, which makes an SVB event here less likely. However increased credit spreads because of these events will impact on our Bank funding costs, which will be particularly impactful given the need to refinance ~$200b COVID Term Funding Facilities shortly. Further, CBA in their February outlook warned that increasing housing lending competition has removed the possibility of any further future Net Interest Margin (NIM) upside, which contrasted with expectations. The S&P/ASX200 Bank sector fell 4.76%.

US Core Inflation reduced to 5.5% in February from a peak of 6.6% in September 2022, and has remained in the range from 5.5% to 6.6% for 12 mths, giving comfort that inflation is being tamed.

However, the prospect of a 'recession' is now a key concern. The US 2-to-10-year yield curve inversion is now back to 56bp, which is well down from its 108bp peak in early March. A reduction in the magnitude of the inversion historically has a successful track record of indicating a recession is imminent. Bloomberg contributing economists' US 2023 Real GDP growth expectations fell to just 1.0% from 1.3% previously, and they are now forecasting a 65% probability of a recession.

The economic outlook for Australia remains solid, but did weaken over the quarter due to global pressures. The RBA paused rate hikes in April. The Australian 2-to-10-year yield curve remains positive at 34bp, but is down 31bp over the quarter. Bloomberg contributing economists' Australian 2023 Real GDP growth expectations sit at 1.7%, which is largely flat; but they are now forecasting a 40% probability of a recession, which is up from 30% last quarter.

The Bloomberg Commodity Total Return Index (in USD) declined 5.4%. Gold rose 8.0% (in USD) on financial market risks following SVB and Credit Suisse's demise. Iron Ore advanced 9.0% (in USD), and Copper 6.5% (in USD), on China's reopening. Spodumene fell 23.3% (in USD) on deteriorating end market demand and excess inventory. Brent eased 7.1% (in USD) on weaker demand fears.

Consumer Discretionary was the strongest sector of the S&P/ASX 200 Total Return Index rising 11.4% on solid February earnings updates and expectations lower rates will help consumers. Materials advanced 7.7% on higher commodity prices. REITS (+0.1%) underperformed on concerns around gearing levels in the sector globally. Energy (-1.0%) underperformed on weaker Brent prices.

Brookfield formally bid for Origin Energy, Abermarle made an offer for Liontown Resources and Newmont Gold for Newcrest Mining.

ESG

Since taking government in 2022 the Labor Party has sought to deliver on the climate agenda it took to the Federal Election, the cornerstone of which has been a commitment to reform the safeguard mechanism. The Government published its initial proposed changes to the Coalition-era policy in January before consulting with business and other stakeholders. As the Coalition ruled out supporting the required legislation through Parliament, it became apparent that Labor would instead need the Greens support which initially cast some doubt on whether a deal could be struck given the Greens stance on new fossil fuel projects. This was despite the proposed changes being broadly supported by business and investors.

After weeks of negotiations, in late March it was announced that Labor had ensured the Greens support in return for a number of concessions to the plan. While exact detail remains to be published, it is clear that the deal will now require higher hurdles that current and new heavy emitting facilities covered under the mechanism must pass. The deal also has ensured greater funding to support harder-to-abate sectors such as steel to decarbonise, while limiting public funds being directed to coal and gas projects.

We have commenced a number of discussions with companies which operate safeguard facilities and will need to comply with the mandated emissions reductions out to 2030, whether these are achieved through operational efficiencies or in part by carbon offsets. While we wait for the publication of the more detailed Amendment Rules, we are testing companies' early understanding of potential costs to their business to upgrade infrastructure, invest in new decarbonisation initiatives or secure carbon credits. For any company which will need to initially rely on credits to comply, we are seeking to understand how it is managing this cost which we see as likely to increase over time.

ENGAGEMENT

During the quarter, we undertook a total of 27 engagements in which we explicitly discussed ESG matters with 18 companies relevant to the strategy. Of these, 81% were held at either board or executive level. The engagements covered a range of issues and most meetings discussed multiple ESG matters. In this period, the most commonly discussed topics were climate transition, conduct and stakeholder relations, and human capital management.

In the period we had a dedicated meeting on cyber resilience with the Commonwealth Bank of Australia (CBA). We sought to better understand internal capabilities, the extent of outsourcing and how due diligence is undertaken, as well as the testing and response planning in place. We encouraged sufficient attention be given to communications strategies in the event of an incident as part of the broader response planning. Overall, we were reassured by the controls in place, especially around working from home protocols, and the demonstration of robust Board oversight.

We also went on a site visit to the IGO Ltd (IGO) nickel operation at Nova in Western Australia and also met with company executives. Areas of focus in meetings were the site rehabilitation program, workplace culture (including safety and sexual harassment), cultural heritage management and relations with Traditional Owners.

OUTLOOK AND POSITIONING

Inflation is past the peak and disinflation is in action in our view. Rates markets have moved to price in a US recession on the back of tighter credit conditions. Equity markets, to date, have ignored this signal and have proven resilient. We believe the Australian economy remains in better shape than offshore peers with far less risks on the horizon. With this backdrop, we have increased our weighting to gold, select defensives and domestically exposed cyclicals.

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.
2. As at 31 March 2023