30 JUNE 2023

AUSTRALIAN EQUITIES FUND

PARADICE INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTH	1 YEAR	3 YEAR	5 YEAR	SI* P.A.
Australian Equities Fund	1.29	-0.30	14.31	14.74	6.60	8.95
S&P/ASX 200 – Total Return Index	1.76	1.01	14.78	11.12	7.16	8.08
Excess Return	-0.47	-1.31	-0.47	3.62	-0.56	0.87
						*Since Inception date (SI) – 2 August 2017

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 a rolling three to five year period.

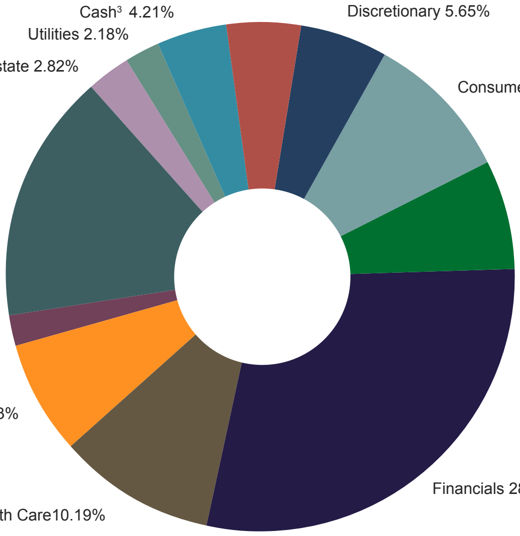
LEAD PORTFOLIO MANAGER

Troy Angus

FUND OVERVIEW

The highly experienced team use a detailed fundamental research process to find stocks that are growing faster with better outlooks over the next 3–5 years. The Fund is agnostic of investment style and employs a long term 'bottom up' approach to investment.

SECTOR ALLOCATION



KEY DETAILS	
Number of Holdings	40
Portfolio Dividend Yield	4.17%
Fund Size (AUD)	$87M

TOP 10 POSITIONS	WEIGHT %
BHP Group Ltd.	10.25
CSL Ltd.	7.63
Commonwealth Bank of Australia	6.12
National Australia Bank Ltd.	5.94
Woodside Energy Group Ltd.	4.62
ANZ Group Holdings Ltd.	4.50
Woolworths Group Ltd.	4.25
Telstra Group Ltd.	3.92
Coles Group Ltd.	3.74
Wesfarmers Ltd.	3.38

FUND DETAILS	
APIR Code	ETL8084AU
Distribution Frequency	Semi-Annually
Management Fee[1]	0.75% p.a.
Performance Fee[2]	15% p.a.
Buy Sell Spread	+/- 0.20%
Minimum Investment	$20,000
Stock Range	Typically 30 – 50
Cash Range	0 – 10%

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Performance in AUD unless otherwise noted.

MARKET REVIEW

Global equity markets advanced again this quarter on surprisingly robust ongoing economic growth. The MSCI World Net Total Return Index rose 6.83% (in USD)[1] versus the March 2023 quarter. The S&P/ASX 200 Total Return Index though improved just 1.0%. Australia underperformed global markets due to a greater exposure to Materials which underperformed, and smaller weighting to IT which outperformed.

Tech was the best performing sector, led by strong performance from WiseTech and a positive update from Xero. Materials were one of the weakest sectors of the S&P/ASX 200 Total Return Index, declining 2.5%, as China's post-COVID reopening has disappointingly not been meaningfully boosted by government stimulus. Insurance performed well (+10.7%) on ongoing premium rate rises. AREITS outperformed slightly (+3.4%) as they found some valuation support.

The global market overall remains in a tight trading range, bound by the prospect of a looming recession on one hand, whilst supported by resilient economic growth on the other hand. The US 2-to-10-year yield curve inversion is now out to 106bp, which is up another 50bp over the quarter, suggesting increased probability of a recession eventuating. However, the US Core Personal Consumption Expenditures (PCE) Inflation (which is the Fed's preferred measure) remained stubbornly high at 4.6% in May driven by ongoing Services demand. This is supported by robust employment and wage data, which lends weight to the risk that the Fed will continue to hike rates to tame inflation and slow growth. The US regional banking crisis appears contained for now, albeit we still see potential vulnerability in mark to markets.

Australia faces similar predicaments with core inflation for the March 2023 quarter at 6.6%, however notable differences between Australia and US include: (1) Australian households face a faster transmission mechanism from higher interest rates through to mortgages owing to the majority of mortgages being variable (~80% as of June 2023) and yet the proportion of distressed loans remains low by historical standards; (2) Australia is experiencing higher net immigration flow as a proportion of population growth which may lend support to demand in the short term. In addition, the unit labour cost (RBA's preferred wage indicator) continues to accelerate at 7.9% year on year, and risks higher wage and inflation expectations being entrenched. However, prospects for our biggest trading partner, China has weakened. Iron Ore fell 12.2% (in USD) and Coking Coal 13.4% (in USD).

There was no major corporate activity during the quarter. BHP completed its acquisition of OZ Minerals. Allkem signed an agreement to acquire Livent. Liontown Resources rejected a proposal from Albemarle.

PERFORMANCE

The portfolio underperformed by -1.31% over the quarter.

Contributors/Detractors

Positives

Domain (DHG) Overweight

Domain outperformed on expectations of the housing listings inflecting as house prices start rebounding.

Brambles (BXB) Overweight

Brambles outperformed on solid revenue and margin expectations due to strong pricing power.

QBE Insurance (QBE) Overweight

QBE outperformed on the ongoing hardening global insurance pricing cycle.

South32 (S32) Underweight

South32 underperformed on a weakening commodity price complex as demand deteriorated.

IAG (IAG) Overweight

IAG outperformed on accelerating personal insurance premiums and moderating inflation trends.

Negatives

CSL Limited (CSL) Changed from Underweight to Overweight

CSL fell on a disappointing update that revealed a weaker outlook for FY24 earnings growth.

Northern Star Resources (NST) Overweight

Northern Star underperformed on a weaker gold price.

Qantas (QAN)

Qantas underperformed on recessionary concerns and a higher capex bill emerging.

Treasury (TWE)

Treasury Wine underperformed as expectations for China to remove tariffs waned.

BHP (BHP) Changed from Overweight to Underweight

BHP's share price proved more resilient than expected as iron ore demand deteriorated.

PORTFOLIO CHANGES

Purchases

CSL (CSL)

CSL was moved to Overweight on expectations of improved profitability within the plasma business.

Wesfarmers (WES)

Wesfarmers was added on attractive relative valuation post a pullback, and reasonable revenue and margin expectations.

Northern Star Resources (NST)

Added on upgrades to spot gold, and gold price relative upside on slowing economic conditions.

Computershare (CPU)

Computershare was added on expectations the core business is close to troughing and higher for longer interest rates are supportive of margin income.

Xero (XRO)

Xero was added on a positive update showing resilient subscriber growth and increased profit and cashflow generation.

Sales

BHP Group (BHP)

BHP was reduced following share price outperformance, as the stock moved ahead of its commodity price indices, and due to a deteriorating commodity outlook reducing valuation support.

Qantas (QAN)

Qantas was trimmed following outperformance and reduced valuation support.

Origin Energy (ORG)

Origin was trimmed to reduce cash proxy to redeploy into other opportunities.

A2 Milk (A2M)

A2 Milk was sold following research concluding weakness in Chinese consumers, and a greater product transition risk as competitors with earlier registration take share, creating earnings risk.

Macquarie (MQG)

Macquarie was reduced on expectations of lower M&A activity and asset realisations in a higher interest rate environment.

ENVIRONMENTAL, SOCIAL, GOVERNANCE ISSUES (ESG)

The Australian Government's announcement of a Critical Minerals Strategy last month is the latest in a slew of global policy developments related to critical minerals as countries look to

[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.

ensure they have the resources needed for both the energy transition and sovereign capability. Critical minerals include lithium, cobalt, nickel,

copper, manganese and rare earth elements, inputs needed for decarbonisation technologies such as Electric Vehicle (EV), wind turbines and solar power infrastructure as well as other essential products.

Significant demand growth is forecast for critical minerals as countries move to meet emissions reduction goals, and governments have been increasingly wary of both ensuring supply and building capabilities to refine these materials. Currently, China overwhelming dominates global supply chains when it comes to many critical minerals. Even where other countries have large endowments of raw minerals, they may face challenges as the processing and refining of critical minerals can be expensive, technically complex and energy intensive.

Australia has joined the European Union and United States, among others, in policy responses ultimately aimed at diversifying global supply chains. The Critical Minerals Strategy provides a framework for Australia to grow the sector out to 2030 and came with a funding commitment of an additional $500 million for critical minerals projects (through the Northern Australia Infrastructure Facility). This is on top of a $2 billion Critical Minerals Facility previously announced. While the strategy itself lacks certain detail and funding commitments close to the scale of investment required, it evidences the direction of travel with respect to policy support for the sector.

International partnerships will also be a key part of the equation and Australia has already inked deals with allies. In May the Australia-US Climate, Critical Minerals and Clean Energy Transformation Compact was signed. Alongside agreements such as this, we are delving deeper into the possibilities for Australian companies and projects that will be able to access the benefits of the groundbreaking US Inflation Reduction Act. Earlier in the year, Australia also advanced an investment partnership with India to develop critical minerals supply chains between the two countries.

In Australia's case, a country with abundant mineral resources, there are significant opportunities across the mining sector to become a reliable alternative supplier of many critical minerals. Australian companies may also have unrealised opportunities in value-adding processes such as refining raw materials into usable products, rather than just extraction. As policy support deepens, we see upside for the increasing number of ASX-listed miners with exposure to these resources.

ENGAGEMENT

During the quarter, we undertook a total of 24 engagements in which we explicitly discussed ESG matters, with 17 companies relevant to the strategy. Of these, 42% were held at either board or executive level, with the majority this quarter with sustainability or other relevant internal teams. The engagements covered a range of issues and most meetings discussed multiple ESG matters. The most commonly discussed topics were climate transition, conduct and stakeholder relations (including Traditional Owners), and environmental management.

In the period we held a meeting with Telstra Corporation and the heads of several business functions dedicated to climate change and cyber resilience. We sought to better understand how climate analysis had been undertaken and offered feedback for forthcoming reporting. The company's use of carbon offsets was also a focus; pleasingly Telstra is working towards a portfolio dominated by removal and co-benefit credits. With respect to cyber resilience, Telstra was able to give us comfort that it has a leading approach, driven by a highly capable team. A current focus of the cyber and data teams is assessing ways to use generative Artificial Intelligence safely.

We also had a modern slavery focused meeting with relevant Coles Group team members. We learned more about how the company coordinates its response across multiple business functions, as well as how the company is supporting capacity in Australia for social audits through its contracts with two audit firms. This approach also means it can share social audit costs with some of its smaller agricultural-based suppliers.

OUTLOOK AND POSITIONING

The portfolio is positioned slightly defensively on expectations of slowing economic growth, whilst balancing the strong employment conditions and consumption data which continue to prevail. Given stubbornly high services and wage inflation, the risk to interest rate trajectory from here remains to the upside. Stock selection is of paramount importance given the uncertain macro outlook.

Of particular relevance to Australia, China's post COVID reopening stimulus remains elusive, and questions are now emerging about their ability to fund additional programs given high aggregate debt levels. Inflation here also has not yet fallen and the RBA also likely needs to continue with more rate rises. Australia is also facing increasing internal inflationary pressures. From 1 July, energy and utility costs are increasing above current inflation, the Fair Work Commission has increased Award wage rates above inflation, and the Federal Government's 2023 fiscal budget is also stimulatory.

The portfolio is overweight Financials overall, but underweight Banks where we see continued Net Interest Margin (NIM) compression and slow credit growth met with manageable loan loss expansion. The portfolio is overweight Insurance, which is benefiting from ongoing increasing pricing, outpacing claims inflation and better investment yields; and holds positions in QBE, IAG, and Medibank. The portfolio is also overweight Block on the view that the US consumer continues to defy downbeat expectations.

Materials positioning is underweight as global growth slows and demand wanes, especially from China. The portfolio is now underweight BHP and iron ore. Positions are held in commodities, including nickel and rare earths, where supply/demand fundamentals are attractive medium-term. The portfolio is modestly overweight gold stocks as we see gold providing relative upside on slowing economic conditions.

Energy is modestly overweight as government and regulatory headwinds, and a weak oil demand outlook drives subdued price assumptions; but that is balanced with still reasonable cash flow forecasts and valuation support for the sector.

Within Consumer, the portfolio is overweight defensive Staples, which will be food inflation beneficiaries and COVID costs drop out. The portfolio is overweight Telstra on mobile pricing power driving solid earnings growth. The portfolio also owns Wesfarmers, which was added on attractive relative valuation post a pullback, and reasonable revenue and margin expectations.

Within Industrials the portfolio is exposed to stocks with pricing power to take advantage of the inflationary environment. The portfolio is positioned in air travel where we see pent up demand and a rational competitive environment continuing. The portfolio is also overweight tech stocks where pricing power is strong and management is pivoting away from a pure growth focus to heighted focus on profitability and cashflow. Select real estate stocks were added due to attractive valuations despite the overall commercial real estate industry remaining challenged. The portfolio also owns James Hardie on the view that the US housing downturn is relatively shallow and margins are better than expected.