31 March 2022

Global Small Cap Fund

PARADICE INVESTMENT MANAGEMENT

Performance Net (%)	1 Month	3 Month	1 Year	3 Year p.a.	5 Year p.a.	Since Inception* p.a.
Global Small Cap Fund	-3.55	-8.99	-3.18	3.26	4.97	10.93
Benchmark**	-2.86	-8.61	-0.37	7.36	8.01	12.28
Excess Return	**-0.69**	**-0.38**	**-2.81**	**-4.10**	**-3.04**	**-1.35**

* Inception date - 18 January 2013

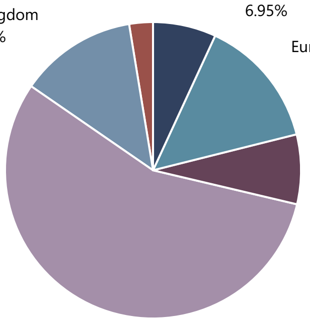
Investment Objective

The Fund aims to outperform the S&P Global ex Australia and New Zealand Between USD1 Billion and USD5 Billion Net Total Return Index in AUD over a three to five year period (after management costs and before tax).

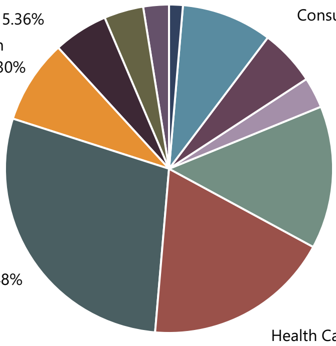
Portfolio Manager

Kevin Beck

Region Allocation



Sector Allocation



Key Details

Number of Holdings	59
Weighted Avg Mkt Cap (AUD M)	$4,868M
Active Share	98.66%
Fund Size (AUD)	$388M

Top 10 Positions	Weight %
Univar Solutions Inc.	2.98
Avanos Medical, Inc.	2.98
ChampionX Corporation	2.97
Euronext NV	2.93
Axis Capital Holdings Ltd.	2.92
KAR Auction Services, Inc.	2.88
LivaNova Plc	2.77
ITT, Inc.	2.70
Onex Corporation	2.59
NuVasive, Inc.	2.46

Fund Details

APIR Code	ETL0365AU
Fund Currency	AUD
Distribution Frequency	Semi-Annually
Management Fee[1]	1.25% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/-0.30%
Minimum Investment	$20,000

** S&P Global ex Australia and New Zealand Between USD1 Billion and USD5 Billion (AUD) NTR Index effective from 5 November 2018. Prior to this date the benchmark was S&P Global Between USD1 Billion and 5 Billion (AUD) NTR Index effective from 1 October 2015 to 4 November 2018 inclusive and S&P Global Between USD1 Billion and 5 Billion (AUD) TR Index prior to 1 October 2015.

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Market Review

Global small caps declined over eight percent in Q1 2022 (S&P Global Between USD1 Billion and USD5 Billion TR Index). The UK and Europe were each down double digits and all geographic regions declined in the quarter. The Energy sector was a standout, rising over 20%, offsetting double digit declines in the Health Care, Consumer Discretionary, and IT sectors.

Markets were quickly down to start the year as recent IPOs, high priced tech investments, and “meme” stocks declined due to rising interest rates in the US. The Renaissance IPO Index dropped nearly 25%, Cathie Wood’s ARK Innovation ETF was off nearly 30%, and “meme” stocks GameStop and AMC each declined over 40% before recovering late in the quarter. Outside of the US, China cracked down on payments, social media, and gaming firms, resulting in a brief “tech wreck” that sent shares of leading Chinese tech players Tencent and Alibaba down more than 30%, again before a modest quarter-end recovery. Simultaneously Russia invaded Ukraine, driving a sharp selloff in European and UK listed shares, wreaking havoc on global commodity markets, further disrupting global supply chains, accelerating already high global inflation, and creating a humanitarian crisis for the people of Ukraine and the surrounding region. The quarter ended with the US yield curve inverted implying a recession on the horizon (at least according to the bond market), an uncomfortable prospect particularly when combined with the current environment of rising inflation.

Performance

Our overweight positions in the UK and Europe were headwinds in the quarter. While stock selection, specifically in Emerging Markets, helped to offset our off-the-mark geographic positioning, the Fund trailed the benchmark for the quarter.

Significant contributors to performance included:

ChampionX Corporation (US) ChampionX rose with global energy prices which accelerated sharply in the quarter. With Russia facing significant sanctions, oil & gas production will need to increase elsewhere and ChampionX is well positioned to support both onshore and offshore drilling and production.

Sendas Distribuidora (Brazil) Brazilian cash & carry Sendas Distribuidora rose due to a recovering Brazilian economy, a recent acquisition that will accelerate store rollout plans, and a strengthening currency. We view the cash & carry business model as highly defensive due to its low-priced products and underpenetrated position in the Brazilian retail space. Within this attractive space Sendas holds a strong position in a near-duopoly market which we believe will allow the company to maintain margins via price increases even in an inflationary environment.

KAR Auction Services (US) KAR Auction Services surprised the market by divesting its physical auction and logistics assets to Carvana for a very attractive price. After the divestiture closes, KAR will be an asset lite digital auction provider with a clean balance sheet. Long-term we expect the digital auction market to consolidate and believe this consolidation will further benefit KAR.

Significant detractors from performance included:

ITT, Inc. (US) ITT sold off on a combination of issues plaguing many industrial businesses. Rising raw material and energy costs as well as declining automotive production due to supply chain issues clouded ITT’s near-term outlook and the stock gave back some of its prior quarter gains. In addition, GDP-driven industrial businesses are also exposed to the recession risk implied by the bond market, further dampening enthusiasm for ITT’s shares.

Skillsoft (US) Skillsoft traded lower in the quarter on limited news. The stock continues to trade in a similar manner to other recent IPOs and SPACs, despite the fact that Skillsoft generates both profit and cash flow. The company recently closed on its acquisition of Codecademy and will soon update the market with its first annual results as a publicly traded entity.

Lear Corporation (US) Auto supplier Lear was impacted by similar headwinds as ITT. Global semiconductor shortages are plaguing automobile production and the resulting volume declines negatively impact Lear’s prospects. In addition, while most raw material costs are passed through to OEM buyers, rising energy costs will be a headwind to Lear’s profitability.

Portfolio Changes

The substantial volatility in Q1 2022 allowed us to add a number of new names to the portfolio. These names included Sendas Distribuidora (a top contributor in the quarter), a US-based enterprise software provider, and a European listed corrugated box manufacturer. We exited our positions in Amano, Astronics, and Crawford & Company, among others, to fund these new additions. We also used the volatility to trim positions that outperformed and add to positions experiencing weakness, including a US-based industrial hose producer and a European frozen food manufacturer.

Outlook

The global market volatility in Q1 2022 provided opportunities for active stock pickers. We took advantage of this period to manage the portfolio, adding a number of high-quality businesses that were trading at attractive prices. In the first quarter, for the first time in years, the valuation of businesses appeared to matter to investors. Investors who previously ignored “valuation risk” saw losses of 30% or more in short order, as is typical when bubbles (begin) to burst. In this environment a fundamental approach to investing, combined with a disciplined approach to valuation, should provide active stock pickers with opportunities to generate alpha – we are excited by this prospect.