30 JUNE 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	-6.69	-9.64	-18.31	-0.80	1.99	9.45
Benchmark**	-5.07	-7.58	-13.97	3.57	5.58	11.01
Excess Return	-1.62	-2.06	-4.34	-4.37	-3.59	-1.56

*Inception date – 18 January 2013

INVESTMENT OBJECTIVE

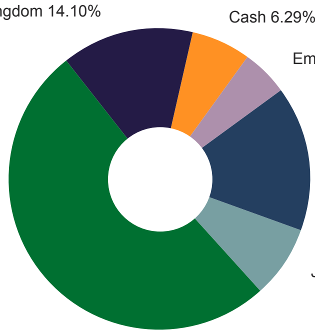
The Fund aims to outperform the S&P Global ex Australia and New Zealand Between USD1 Billion and USD5 Billion Net Total Return Index in AUD over a three to five year period (after management costs and before tax).

LEAD PORTFOLIO MANAGER

Kevin Beck & Paul Mason (Associate PM)

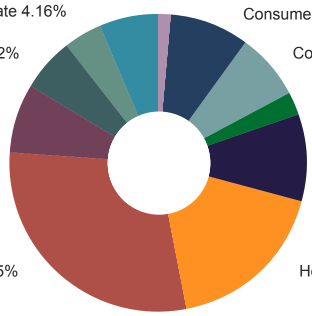
KEY DETAILS	
Number of Holdings	58
Weighted Avg Mkt Cap (AUD M)	$4,452M
Active Share	98.72%
Fund Size (AUD)	$339M

REGION ALLOCATION



TOP 10 POSITIONS	WEIGHT %
Euronext NV	3.28
ITT, Inc.	3.07
KAR Auction Services, Inc.	3.05
Avanos Medical, Inc.	2.76
Univar Solutions Inc.	2.68
NuVasive, Inc.	2.58
ChampionX Corporation	2.51
ConvaTec Group Plc	2.50
Lear Corporation	2.48
Loomis AB	2.47

SECTOR ALLOCATION



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 were down almost 8% (AUD) for the June quarter (S&P Global BMI). Regionally, there was no place to hide, Emerging Markets were down less than developed, however, EM currencies were decidedly weak relative to the USD, eroding equity gains. From a sector perspective, IT and Communication Services continued to suffer multiple compression in a rate rising environment, sending shares lower. Consumer Discretionary was also under pressure as investors grew concerned over the effect of inflation and rising interest rates on consumer spending.

Most developed markets entered 'bear market' territory (as defined by a 20% decline from peak) during the quarter. Inflation has been labelled as the catch all reason for the equity market rout, however, this oversimplifies the situation. Multiple years of stimulus from the Fed led to a pro risk-taking investment environment with little to no concern for downside protection, this expanded multiples to nosebleed levels which are currently unwinding in the public markets. This is partly the cause for the equity market declines and is something we have been commenting on for some time now. The other part of the declines, which was more challenging to forecast, is the inflation that has been caused by three main broad factors: semiconductor shortages, China lockdowns, and the Russian invasion of Ukraine and subsequent spike in oil and agricultural prices. Each of these three factors have ramped inflation to levels not seen since the 1980s and have brought the risk of a recession to the forefront of investors' attention.

In terms of the portfolio, our prevailing view was that avoiding extremely high valuation technology names and investing in high free cash flow businesses would play out favorably over time. The downside to this strategy was that the highest free cash flow (and lowest valuations) led us to having a material overweight to Industrials. Our overweight to Industrials has been a drag on performance as the market has very quickly priced in an impending recession, sending higher beta names lower. We firmly believe this part of our portfolio is incredibly undervalued.

PERFORMANCE

The Fund returned -9.64% during the June quarter, versus its benchmark which returned -7.58% over the same period.

Our overweight in the US, particularly to Industrials, impacted performance negatively during the quarter. Stock picking in the UK was a net positive for the fund, though not sufficient to offset sector allocations.

Significant contributors to performance included:

Fibra Prologis (Mexico)

Fibra Prologis' defensive attributes shone through in the quarter. The REIT owns logistics and other light industrial assets that have high utilization and majority dollarized rents, with many multinational tenants. Tailwinds include rising e-commerce penetration and US nearshoring activity. The company has also been active with asset acquisitions, driving additional value.

CDK Global Inc (US)

CDK provides a broad suite of software solutions to the automotive retail industry, primarily car dealerships in the US. We began purchasing CDK last in 2021 as the business was undervalued with a very sticky customer based delivering high predictability of revenue and cashflow. Early in the quarter CDK received a takeout offer from Brookfield Asset Management at roughly a 30% premium to our cost basis.

Renewi (UK)

Renewi is a waste management company listed in the UK with most of its operations in the Netherlands and Benelux regions. Renewi has a focus on recycling and sustainable waste management practices. During the quarter, Renewi released financial results showing revenue growth of 10% and flagged a potential dividend increase for 2023. We believe Renewi remains materially undervalued compared to listed sustainable waste management comps and appears ripe for a takeout in an industry which continues to see consolidation.

Significant detractors from performance included:

Abercrombie & Fitch (USA)

Abercrombie & Fitch sold off sharply following quarterly results. Revenue was solid, however freight costs and working capital were both much higher than expected. EPS forecasts have been downgraded by circa 30% from prior expectations. The market is now capitalizing a 5% EBIT margin relative to prior views of 7%. The company held an Investor Day during the quarter which laid out financial targets for the 2025 financial year, their targets relative to the current price represent a valuation of roughly <4x PE.

YDUQS (Brazil)

Brazilian for-profit education company YDUQS derated sharply as difficult macro conditions pressured consumer discretionary businesses. The company will likely see a weaker post-pandemic rebound in its relatively high fixed cost on-campus division as a result. This is only partly mitigated by the fact that the company now derives the majority of earnings from distance learning and premium medical education units that are expected to be more resilient.

Skillsoft (US)

Skillsoft is an enterprise learning business that came to market in 2021 via a SPAC (special purpose acquisition company). Skillsoft offers workplace learning in fields such as Compliance, HR, Technology and IT via a learner led platform called Percipio. We view this business as highly recurring and Skillsoft has a very nice market position tailored to the enterprise. The management team at Skillsoft have a history of generating shareholder value, however some of the capital allocations at Skillsoft in the last six months have been contrary to our expectations. We have had some very robust discussions with management and firmly believe that there is a path to shareholder value creation from these depressed share price levels.

PORTFOLIO CHANGES

The Fund added a new name the result of a recent merger. We believe the combination of these two assets should have strong synergies and advanced applications into the Automotive and Industrial markets.

During the quarter the strategy exited three positions - one following the aforementioned buyout as well as an Indonesian cement producer suffering from supply overcapacity in the industry and a very significant carbon emitter, and an Indonesian mall operator that had performed well and met our estimate of fair value.

The strategy also selectively added to names which we felt had been unfairly sold off during market volatility.

OUTLOOK

The narrative of markets has pivoted from 're-opening plays' and 'pent up demand' to cost management and inflationary fears. It appears that the Fed, after years of over stimulating, will likely over tighten, leading to an economic slowdown/recession. The question of whether there will be a recession is largely a moot point, what is more important for our philosophy and process is what is currently priced into equities. Looking at our portfolio, we would argue there are some examples of the baby being thrown out with the bathwater. Our estimates of fair value versus current prices are as wide as we have seen in recent memory. We believe both the small cap asset class and our investment style will benefit significantly as the world normalizes.