30 SEPTEMBER 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	-5.32	-6.00	-22.63	-2.79	-0.40	8.50
Benchmark[1]	-4.51	-0.37	-16.16	2.67	4.79	10.67
Excess Return	-0.81	-5.63	-6.47	-5.46	-5.19	-2.17

*Inception date – 18 January 2013

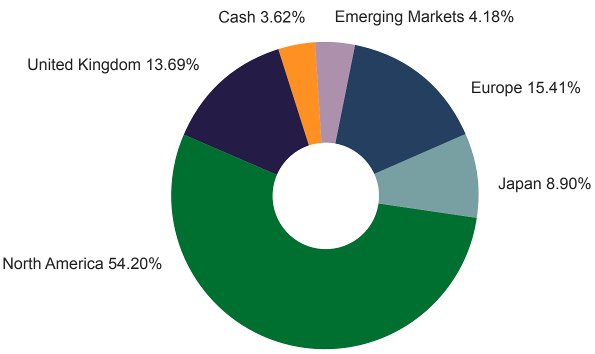
INVESTMENT OBJECTIVE

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).

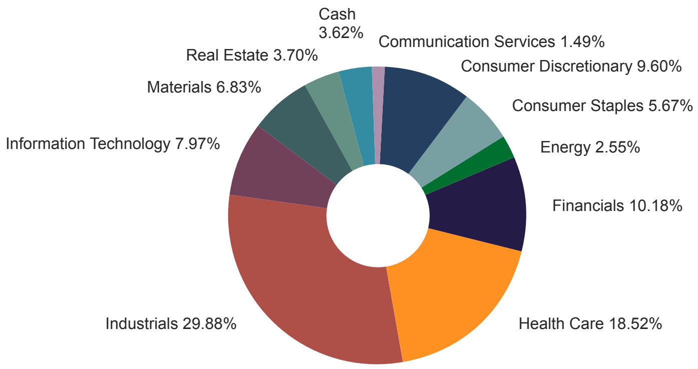
LEAD PORTFOLIO MANAGER

Kevin Beck & Paul Mason (Associate PM)

REGION ALLOCATION



SECTOR ALLOCATION



KEY DETAILS	
Number of Holdings	58
Weighted Avg Mkt Cap (AUD M)	$4,311M
Active Share	98.65%
Fund Size (AUD)	$153M

TOP 10 POSITIONS	WEIGHT %
ITT Inc.	3.67
Euronext NV	3.16
Univar Solutions Inc.	3.02
Lear Corporation	2.90
KAR Auction Services Inc.	2.84
Onex Corporation	2.74
Avanos Medical Inc.	2.71
ChampionX Corporation	2.55
Kansai Paint Co. Ltd.	2.47
NuVasive Inc.	2.46

FUND DETAILS	
APIR Code	ETL0365AU
Fund Currency	AUD
Distribution Frequency	Semi-Annually
Management Fee[2]	1.25% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/- 0.30%
Minimum Investment	$20,000

[1] 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.
[2] The management fee is effective 5 November 2018. Prior to this date the management fee was 1.40% p.a.

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Performance in AUD unless otherwise noted.

MARKET REVIEW

Although this was another rough quarter for global small mid caps, the benchmark (S&P Global between USD1 Billion and USD5 Billion Index) ended only slightly down (-0.37%) in AUD. Regionally, North America and Japan were areas of index outperformance. Conversely, with Europe suffering an energy crisis and the UK impacted by a policy crisis, these two regions sold off considerably.

Turning to the UK specifically, this market continues to be a challenge. New Prime Minister, Liz Truss, announced a fiscal plan, which will place significant strain on the balance sheet of the UK. Currency rates and equity markets responded appropriately with sharp selloffs, forcing the Bank of England to step in to stabilise bond markets. Senior members of the Paradice Global Small Mid Cap Team just spent a week in the UK visiting portfolio holdings and potential new investments. Overall, we would say that there is a lot of head scratching going on regarding valuations. Businesses are generally performing quite well, yet UK equity market valuations are the lowest in the developed world, in our opinion. Thus, the UK remains a key country of investment for the portfolio. Currencies too are presenting their own unique challenges for global investors. The Japanese Yen is trading like an emerging market currency as significant policy divergence to the US has sent the Yen drastically lower during 2022, prompting the Japanese Ministry of Finance to enact direct currency support for the first time since 1998.

We head into the Q3 earnings season in with a constructive mindset regarding the portfolio. Our greatest overweights are in the Industrials and Health Care sectors where current sentiment is quite negative, and valuations are at 35-50% discounts to historical averages. In contrast to current sentiment, we are optimistic that future earnings reports will show the resilience of health care and industrial companies' earnings power and a subsequent re-rating will occur. However, we can't ignore the elephant in the room - the impending recession and speculation on its potential depth and duration. For now, as mentioned in prior commentaries, the demand side of the real economy remains robust.

PERFORMANCE

The Fund returned -6.00% during the September quarter, versus our benchmark which returned -0.37% over the same period. Our stock selection in the Industrials, Consumer Staples and Health Care sectors in particular were areas of weakness. From a geographic perspective, our stock selection in the US and our overweight and stock selection in the UK were significant detractors in Q3.

Top performers for the quarter included:

Sendas Distribuidora (Brazil)

Positive performers included Sendas Distribuidora, a Brazilian grocery/cash and carry business that has demonstrated very strong inflation pass through. A relatively new addition to the portfolio, we believe there is significant opportunity for growth through Sendas's Brazilian store roll out program.

Kansai Paint (Japan)

Kansai Paint performed very well during the quarter. Kansai has successfully increased prices, more than offsetting raw material inflation and Yen weakness, reminding us how impressive pricing power can be in the paint and coatings industry. We are pleased to have opportunistically added to our Kansai position recently following a notable decline in the stock.

YDUQS Participacoes (Brazil)

Brazilian education provider YDUQS Participacoes rallied during the quarter. The reason for the rally was ambiguous, though it is likely investors grew slightly more positive on government funding in the education sector as left facing presidential candidate Lula gained traction in the polls. YDUQS has strong positions in less cyclical segments of the education sector, such as healthcare training, that we believe offer defensive characteristics during uncertain times.

Bottom performers for the quarter included:

Vintage Wine Estates (US)

Vintage Wine Estates is a wine producer that came to market in mid-2021 via a SPAC. The stock sold off sharply in Q3 following earnings reporting as Vintage downgraded next year's EBITDA assumptions by 25% and further, of more concern, the company had a material write down of inventory, citing accounting controls weaknesses. In our opinion, the write down was the correct business decision. However, as we have seen with many former SPACs, investors seem to exhibit a 'sell first and ask questions later' mentality when things go wrong.

KAR Auction Services (US)

Used car auction provider KAR Auction Services had a rough quarter, selling off 24%. As discussed in prior commentaries, KAR operates in the dealer-to-dealer auction space as well as provides floorplan finance for car dealerships. New cars continue to be in short supply due to semiconductor shortage-related production issues. The consequential, all time high used car demand/prices reduce the need for car dealers to sell inventory to other dealers via KAR's auction platforms. In our view, this is a short to medium term dislocation in the auto market which will begin to alleviate as and when new car volume comes back to market, and we remain confident in the holding. KAR's business model and balance sheet has improved since our first investment in the stock as KAR sold a portion of their business to Carvana for $2.2bn. KAR is well managed, has strong market share and we believe the stock will perform well as used car prices correct back to long term averages.

Skillsoft (US)

As we've noted previously, Skillsoft was a SPAC which came to market in mid-2021. Late in 2021, Skillsoft made a strategic investment in the Technology and Development education sector by acquiring a business called Codecademy. We were not impressed with price paid and subsequent dilution to shareholders. Skillsoft also divested a zero growth yet highly profitable business in June of 2022. The combination of these two decisions has triggered earnings revisions downward by 40%. We continue to maintain dialogue with the management team of Skillsoft regarding how best to create value for shareholders from here.

PORTFOLIO CHANGES

During the quarter, the Fund initiated investment in a home health care services company operating in a fast-growing sector of the health care services market that enables patient treatment in the comfort of one's own home. In-home treatment is preferred by many and is more cost effective from a payor perspective. The Fund exited one holding, a Taiwanese semiconductor business, as it reached our price target.

OUTLOOK

Our outlook remains largely unchanged. By our assessment, the global small cap market is demonstrably cheaper than large cap. Further to this, there are significant parts of the "real" economy such as aerospace, automotive and healthcare which have not recovered to pre pandemic levels, and we see these areas having strong pent up demand opportunities as and when the economy recovers. We have been early in our allocation to the Industrials sector, and this high beta allocation has dragged on returns in such a nasty downdraft. Our philosophy and process guide us to invest alongside and through dislocation. It goes without saying that the investment team is disappointed with Q3 returns; and we are currently reminded of Winston Churchill's famous quote "if you are going through hell, keep going".