31 DECEMBER 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	6.54	7.25	8.55	15.59	13.22
S&P/ASX 200 – Total Return Index	7.26	8.40	12.42	9.24	6.81
Excess Return	-0.72	-1.15	-3.87	6.35	6.41
					*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

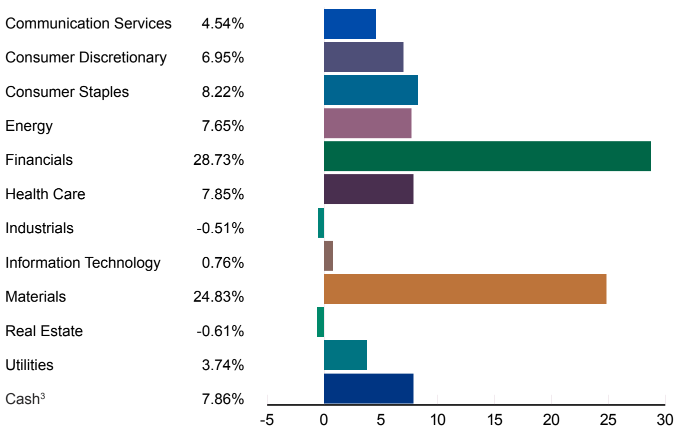
This Fund uses a detailed fundamental research process to invest in stocks that are well placed for the future (longs) and takes advantage of stocks we believe have cyclical and structural headwinds (shorts). The Long/Short investment style is designed to enhance returns and manage downside risks.

KEY DETAILS	
Number of Holdings	83
Portfolio Dividend Yield	4.01%
Fund Size (AUD)	$147M
Redemption Price	$1.2751

MARKET EXPOSURES	
Long	118.76
Short	-23.91
Net	94.85

TOP 10 POSITIONS	WEIGHT %
BHP Group Ltd.	14.25
Commonwealth Bank of Australia	6.21
National Australia Bank Ltd.	5.72
Wesfarmers Ltd.	4.91
Resmed Inc.	4.74
Telstra Group Ltd.	4.53
Rio Tinto Ltd.	4.46
ANZ Group Holdings Ltd.	4.37
CSL Ltd.	4.02
Woolworths Group Ltd.	3.93

SECTOR ALLOCATION



FUND DETAILS	
APIR Code	ETL8096AU
Distribution Frequency	Semi-Annually
Management Fee[1]	0.99% p.a.
Performance Fee[2]	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 rose this quarter on evidence of an economic soft landing being achieved, as inflation decelerated, while economic growth and employment remained solid. The MSCI World Net Total Return Index rose 11.0% (in USD)[1], and the S&P/ASX 200 Total Return Index increased 8.4%, versus the September 2023 quarter.

US Core Personal Consumption Expenditure (PCE) Inflation eased to 3.2% in November versus prior period (PCP), down from 3.7% in August. The US Federal Reserve (the Fed), who is targeting 2% inflation, held rates flat over the quarter and commented further increases are "not the base case anymore". The US 10-year Treasury yield eased 70bps from 4.6% as of 30 September 23 to 3.9% as of 31 December 23.

Economic conditions in Australia were similar over the quarter, although more mixed and normalising slower than the US. Monthly Consumer Price Inflation rose 4.9% in October versus PCP, compared to 5.6% in September, and the Reserve Bank of Australia's 2-3% target. The Chinese government announced new property stimulus measures that lifted the Iron Ore price 17.0% (in USD) over the quarter to a healthy US$140.55 per ton. Australia's unemployment rate was 3.9% in November[2], remaining well below pre-pandemic levels of around 5%.

Real Estate was the best equity sector in Australia over the quarter delivering 15.8% total return, with Health Care also performing well, delivering 13.1%, driven largely by lower rates but also with some stocks bouncing off oversold levels. Materials delivered 13.4%, mostly as the iron ore miners rose on higher commodity prices. Energy was weakest, falling 9.1%, as Brent oil dropped 19.2% (in USD) to US$77 per barrel as OPEC's December announcement disappointed. Financials rose 8.2%, largely driven by Banks who are benefiting from low loan losses.

With respect to corporate actions, Origin shareholders voted against the sale to Brookfield and EIG over the quarter. Liontown's takeover offer from Albemarle was withdrawn and they completed an equity raising. Santos confirmed a merger approach from Woodside. Orora completed an equity raising to fund the acquisition of Saverglass. Star Entertainment completed an equity raising and secured a new debt package.

PERFORMANCE

The Fund underperformed by 1.15% over the quarter. The Long book was the culprit, with the Short book performing well. Overweight positions in Santos and Woodside detracted from performance as the oil price fell. Woodside held an Investor Day which also highlighted higher capital expenditure and lower production from the legacy BHP assets. We reduced our position following this update. An overweight position in Treasury Wines also impacted performance after the company announced the acquisition of DAOU Vineyards. We were surprised by the acquisition and believe the company paid a full price, and as such we reduced our position. The Short book contributed to performance with a handful of successful shorts in Financials, Industrials, and Information Technology.

ENVIRONMENTAL, SOCIAL, GOVERNANCE ISSUES (ESG)

The major annual United Nations climate change conference COP28 concluded in Dubai in December, with a number of agreements made by member states while negotiations on a key sticking point (Article 6) failed. The conference also saw a 'Global Stocktake' undertaken, which was required under the 2015 Paris Agreement, in effect assessing countries' efforts to-date and determining gaps to meet the agreed goals.

Member states agreed to "[transition] away from fossil fuels in energy systems", the first explicit mention of fossil fuels more broadly rather than singling out coal, although some countries had sought stronger wording such as "phase out" or "phase down". Nevertheless, it is notable that oil and gas have now been brought into scope.

Countries reiterated their commitment to the stretch goal of the Paris Agreement – pursuing efforts to limit warming to 1.5°C. The text acknowledged the need for deep, rapid and sustained emissions reductions to meet such a goal, and called for member states to contribute to these efforts with consideration given to national circumstances.

Another notable development at the conference was a new declaration regarding nuclear energy. More than 20 countries committed to work together to advance an aspiration goal to triple nuclear energy capacity by 2050. While Australia did not sign, globally significant countries such as the US, Britain, France and Canada did. We anticipate policy support and greater acceptance of nuclear as a climate solution to become more widespread in the medium term.

Renewable energy and energy efficiency were the focus of a new pledge signed by around 130 countries, seeking to drive installed capacity and double the annual rate of energy efficiency improvements by 2030.

Disappointingly, we are no closer to a global carbon market with negotiations on Article 6 of the Paris Agreement postponed to next year's conference. This included a framework for carbon trading between countries and operationalising a UN supervisory body to administer a carbon trading mechanism for credits created by both the public and private sector.

Clarity on Article 6 had been hoped to help standardise and restore integrity to voluntary carbon markets, as well as provide a means through which countries could trade carbon in a manner which counts towards their nationally determined contributions. For now, national or regional level regulations and market initiatives will remain most influential in shaping carbon markets.

ENGAGEMENT

During the quarter we undertook a total of 19 engagements in which we explicitly discussed ESG matters, with 14 companies relevant to the strategy. Of these, 74% were held at either board or executive level, with the majority this quarter with the respective company Chairs. The engagements covered a range of issues and most meetings discussed multiple ESG matters. The most discussed topics were climate transition, workplace health and safety, and executive pay and some notable discussions have been outlined below.

With National Australia Bank (NAB) facing a climate-related shareholder resolution at its AGM in the quarter, we engaged NAB in the lead up to the meeting to inform our voting position. We focused on the bank's commitment to assess the transition plans of its heavier emitting institutional customers. Ultimately, we found that NAB could enhance transparency on how these plans will be assessed and as such we wrote to the Chair and informed him that we would be voting in support of the shareholder resolution and provided feedback on how related disclosures could be enhanced.

We also met with the Woodside Energy (WDS) climate team to provide extensive feedback on climate-related strategy and disclosures as the

[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] Seasonally adjusted unemployment, Australian Bureau of Statistics

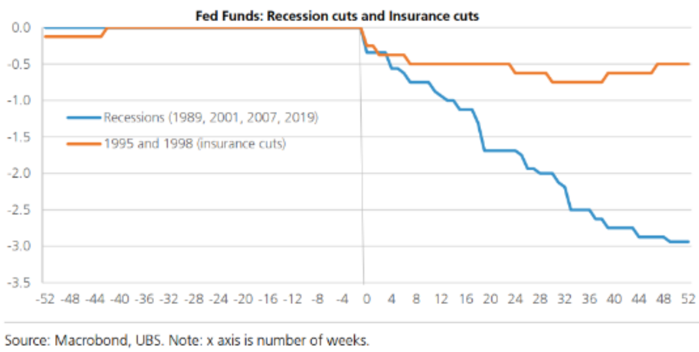
company prepares the forthcoming report, which will also be the subject of a 'Say on Climate' vote at the next AGM. We encouraged more detail on scenario analysis undertaken, more granularity on its pathway to net zero, and asset-specific disclosures. With respect to carbon capture and storage (CCS) or other new energy projects, we conveyed our expectations for more colour on project status and their emissions reduction potential. We also provided feedback on climate-related lobbying and the industry association review. Subsequent to the meeting we sent the team a number of best practice disclosure examples.

OUTLOOK AND POSITIONING

Recent inflation data have surprised to the downside, sparking the bond market to price in earlier and sharper rate cuts compared to three months ago. As noted above, the November US Core Personal Consumption Expenditure (PCE) Inflation eased to 3.2% versus PCP, down from 3.7% in August, with the US Federal Reserve (Fed) Committee commenting further increases are "not the base case anymore". The Committee's "dot plot" of individual members' expectations indicates 75bps of interest rate cuts in 2024 (from 50bps as of September 2023).

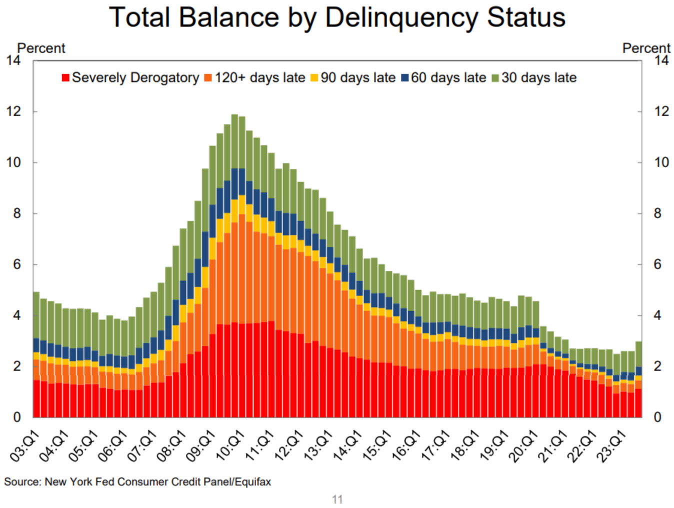
In contrast to the Fed Committee, interest rate futures now imply approximately 200bps of rate cuts by December 2024. The magnitude of easing now priced in appears overly aggressive and more akin to what has historically transpired in the lead to recession (275bps of easing in the 12 months following the final Fed hike) than non-recessionary "insurance cuts" (50bps of easing), according to the following UBS report (15 December 2023).

Magnitude of easing priced much closer to recession cuts than insurance cuts (weeks around the first Fed rate cut)



Source: Macrobond, UBS. Note: x axis is number of weeks.

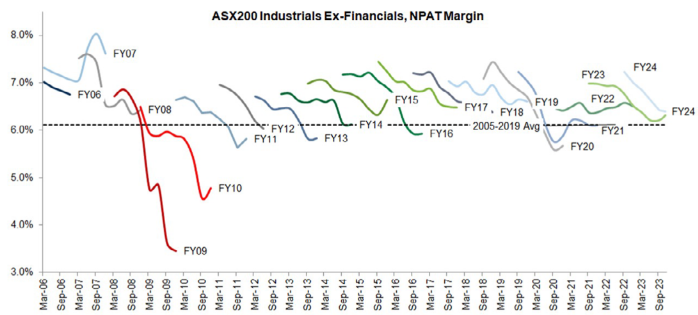
The sharp level of rate cuts implied by the bond market jars with the economic data which reflect a resilient employment market and relatively benign levels of credit spread widening and delinquencies. The following chart shows total US consumer delinquency levels as of September 2023, including mortgage, credit card, student, and auto loans – which remain largely below pre-covid levels.



In Australia, the RBA's challenge looks greater than the Fed's given the latest inflation print (September 2023 CPI: 5.4%) is running well above RBA's 2-3% target. Recession risks stemming from a China slowdown have receded however as China is having some success stabilising their economy. China construction company order intakes, which typically lead commodity demand by 4-5 quarters, has accelerated to +13% in Q3, 2023.

RBA's 2-3% target. Recession risks stemming from a China slowdown have receded however as China is having some success stabilising their economy. China construction company order intakes, which typically lead commodity demand by 4-5 quarters, has accelerated to +13% in Q3, 2023.

Consistent with our view, the margin outlook for FY24 has been pared back across S&P/ASX 200 Industrials ex Financials[3] but remain above FY23 levels as recession fears have eased. However, the ASX200 has re-rated sharply over the last quarter and now trades at 16.3x 12month forward P/E, the highest multiple since 2015, potentially limiting the upside in 2024.



Source: Shaw and Partners

The Fund has reduced Financials positioning but remains modestly overweight. It is underweight Banks due to a heightened competitive environment and minimal topline growth. The Fund is overweight Block, which outlined significant steps to achieve improved profitability during the quarter. It continues to be overweight insurers QBE and Medibank.

Within Materials the Fund is overweight BHP and RIO given the strength of the iron ore price and consistent stimulus from China. Bluescope Steel is a key holding as US steel pricing continues to strengthen. The Fund remains underweight battery material producers as many commodity markets in

[3] *The S&P/ASX 200 Industrials is designed to measure the constituents of the S&P/ASX 200, excluding those that belong to the GICS® Energy sector and Metals & Mining industry. This index is distinctly different from the GICS Industrials sector.*

this space remain oversupplied. The Fund has a small overweight to gold miners.

Energy positioning has been brought back to modestly overweight with reductions in both Santos and Woodside. Demand for oil is weakening at the margin, and US production continues to surprise to the upside. Meanwhile, storage levels for gas are at a multi-year high, albeit geopolitical conflict is creating volatility periodically. The market also remains unconvinced that OPEC can continue to curb supply heading into 2024. The Fund exited Origin leading into the scheme vote and has since reinstated an overweight position given attractive valuation.

Within the Consumer sectors, the Fund is overweight defensive Staples and only marginally overweight Discretionary. Within discretionary retail, the Fund is overweight category leaders Wesfarmers and JB Hifi, whose value focused offering should outperform in a slower economic growth environment.

Within Industrials the Fund is selectively exposed to stocks with growing earnings and attractive valuation. These include Brambles where concerns around deflation are overdone in our view as the company should continue to grow earnings, and Seven Group where earnings and margin outlook are supported by sustained infrastructure and mining equipment replacement cycle.

The Fund is underweight Real Estate and Healthcare. Within healthcare, the portfolio favours Resmed which has been oversold on the back of GLP-1 drug fears in our view.