31 DECEMBER 2024

EQUITY ALPHA PLUS FUND

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	SI* P.A.
Equity Alpha Plus Fund	-2.92	0.10	20.12	11.82	14.82	14.45
S&P/ASX 200 Total Return Index	-3.15	-0.80	11.44	7.41	8.06	7.63
Excess Return	0.23	0.90	8.68	4.41	6.76	6.82

*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

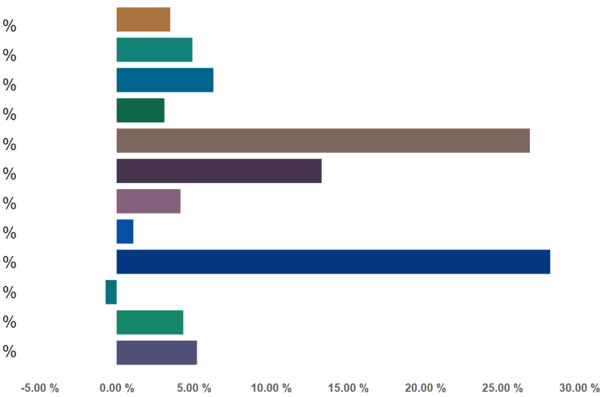
FUND OVERVIEW

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.

MARKET EXPOSURES	
Long	116.50
Short	-21.70
Net	94.79

SECTOR ALLOCATION

Communication Services	3.48 %
Consumer Discretionary	4.92 %
Consumer Staples	6.27 %
Energy	3.10 %
Financials	26.80 %
Health Care	13.29 %
Industrials	4.14 %
Information Technology	1.08 %
Materials	28.11 %
Real Estate	-0.72 %
Utilities	4.32 %
Cash³	5.21 %



KEY DETAILS	
Number of Holdings	85
Portfolio Dividend Yield	2.9%
Fund Size (AUD)	$ 158M
Redemption Price	$1.4789

TOP 10 POSITIONS	WEIGHT %
BHP Group Ltd.	7.92
Resmed Inc	5.50
Macquarie Group, Ltd.	5.39
Block, Inc.	5.11
QBE Insurance Group Ltd.	5.07
Alcoa Corporation	4.85
Brambles Ltd.	4.60
Origin Energy Ltd.	4.32
CSL Ltd.	3.99
Xero Ltd.	3.43

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

The MSCI World Total Return Index eased 1.0% (in USD) in December vs prior comparable period (pcp). The S&P 500 Total Return index advanced 2.4% (in USD) as President-elect Trump's policies are likely positive for US company earnings, and the NASDAQ Total Return rose 6.3% (in USD) on strong earnings from the 'Magnificent 7'. The MSCI Emerging Markets Total Return Index fell 8.0% (in USD), and MSCI China similarly, on concerns Trump's tariff policies will negatively impact their economic growth.

The S&P/ASX 200 Total Return Index weakened 0.8%. Banks performed best, rising 6.2%. Three major banks (ANZ, NAB and WBC) reported results that were fractionally better, with low loan losses again. This drove net 1.3% EPS upgrades for FY25 (from a 2.7% EPS decline yoy, to a smaller 1.4% fall). Pre-Provision Operating Profits were revised up a negligible 0.3%, meaning that expectations for lower loan losses next year drove most of the upgrades. Despite that, Bank valuation multiples expanded another 0.8x multiple points[1].

Trading updates from consumer-land were mixed. Woolworths, Endeavour, Dominos and Flight Centre cited a soft consumer, margin pressures, and competition challenges. Coles though showcased its Ocado facility and appears to be outperforming peers. Aristocrat released earnings and flagged growth opportunities for its new Phoenix Link game. Consumer Staples fell 5.4% in the quarter, while Consumer Discretionary advanced 2.1%.

Materials fell 11.9%, with quarterlies highlighting some weaker than expected production and cost headwinds. The Bloomberg Commodities index was stable at just 0.4% down (in USD). However, Iron Ore fell 9.1% (in USD), and other industrial commodities were generally weak also, on Chinese demand concerns. JKM LNG rose 8.5% on a colder start to the European winter, and Brent oil was slightly stronger rising 4.0% (both in USD).

Global economies continue to expand. The JP Morgan Global Composite Purchasing Managers Index (PMI) was a robust 52.6 in December. The US Federal Reserve cut rates 50bp after making progress on inflation and jobs growth slowed. Futures are currently pricing ~50bp more cuts by 2025 year end, but this decreased over the quarter as Trump threatens large tariffs, which are likely to be inflationary. The US 10-year Treasury yield rose 79bp to 4.58%, and the 2-10 year curve steepened 19bp. China added to their original September stimulus package through the quarter, but seems to be content for now to wait and see exactly what Trump announces post inauguration before further stimulating. The Chinese CAIXIN PMI was 51.4 in December, with both the Manufacturing and Services components in expansion territory, and having been so for two consecutive months.

Australian economic growth is less robust, and the inflation outlook not yet under control. The Australian Composite PMI was 50.2 in December, suggesting the economy is only borderline expanding. The monthly Consumer Price Inflation (excluding the volatiles of travel and 'government subsidised' electricity) did ease to 3.3% in November vs pcp, compared to 3.5% in October, but this will unlikely be enough to give the RBA much comfort, especially given stimulatory government fiscal policy. The futures have pushed out the first 25bp rate cut to March 2025. The Australian 10-year Treasury yield rose 39bp, and 2-10 year curve steepened 17bp.

PERFORMANCE

The Fund outperformed by 0.90% over the quarter. The outperformance was driven by the long book with key contributions from Block, QBE Insurance and Catapult Group. Block delivered another consistent quarterly report which highlighted product improvement and early momentum in their "seller" business. This has been a key area of underperformance for the Company, losing share to peers in the US. We expect this momentum to be maintained through 2025 and still see considerable upside in the stock. We trimmed a small amount, but the stock remains a key active weight in the Fund. QBE sold off following its half year report in August on the back of small earnings downgrades and a slightly softer top line. We added to the position and were rewarded as the company delivered a good third quarter update. Combined with rising investment yields the stock rallied up to $20. Similarly to Block, we trimmed the position, but it remains a key active position in the Fund. Catapult Group delivered another strong result in November. The Company has for several years been transitioning away from hardware to a purely software business. They are now free cash flow positive and have maintained very attractive revenue growth. The market has begun to reward the Company with a considerable re-rate over the last 12 months. As the business broadens their offering with customers, we expect revenue growth rates to be maintained. If successful, there remains a further re-rating to comparable software peers. The Short book performed broadly in line with the market for the quarter and marginally detracted from Fund returns.

ENGAGEMENT

During the quarter we undertook a total of 35 engagements in which we discussed ESG matters, with 24 companies relevant to the strategy. While most were held with either the Chair or CEO, this quarter we also engaged directly with companies' sustainability teams for a topic deep dive on many occasions. The engagements covered a range of issues and most covered multiple ESG matters. Climate change continued to be a strong focus, as was ethical business conduct and managing stakeholder relations. With many companies holding their annual general meetings (AGMs) in the period, we also held a number of engagements on executive remuneration.

We held multiple engagements with ANZ Banking Group (ANZ) in relation to conduct issues and other matters such as climate change in advance of the AGM, commencing with a post-results meeting with the CEO. In two pre-AGM meetings with management, we discussed the bank's approach to assessing its customers' climate transition plans and how it was determined the FY24 remuneration outcomes were appropriate in light of APRA's capital overlay and ongoing investigations relating to risk culture. We also subsequently wrote to the Chair to reiterate our concerns regarding the capital overlay and ongoing investigations.

We also met with Aristocrat Leisure (ALL), continuing our ongoing engagement on responsible gaming with the company given the release of its latest sustainability report. While we were pleased to see Aristocrat establish a responsible gaming strategy and offer accountability through several targets, we sought to understand how these were set to better determine how ambitious these are. We will continue to engage the company to implement identified harm reduction initiatives as soon as practicable.

OUTLOOK AND POSITIONING

The US market's bullish exuberance in late 2024 is likely to be tested during 2025, in our view, as the market confronts the reality of Trump's higher tariffs regime, immigration policies, and debt-fuelled fiscal spending. Following recent solid employment and inflation figures, the Fed has also scaled back their forecast for rate cuts, now pricing just 2 rate cuts for 2025. Jay Powell recently observed "the economy is not sending any signals that we need to be in a hurry to lower rates." The economic backdrop for the time being is resilient, albeit there is an increased risk of stagflation.

On the other hand, China is sharpening its resolve to adopt a more proactive fiscal policy and a moderately looser monetary policy, a departure from providing stability historically. It will need to step up stimulus considerably, given it faces increasing pressure from tariffs and a slowing Rest of World economy. Specifically, the Politburo promised to "forcefully lift consumption" and stimulate domestic demand in a bid to drive GDP growth, likely circa 5% again in 2025.

1. All references to Bank performance relative to the month of November, when they reported.

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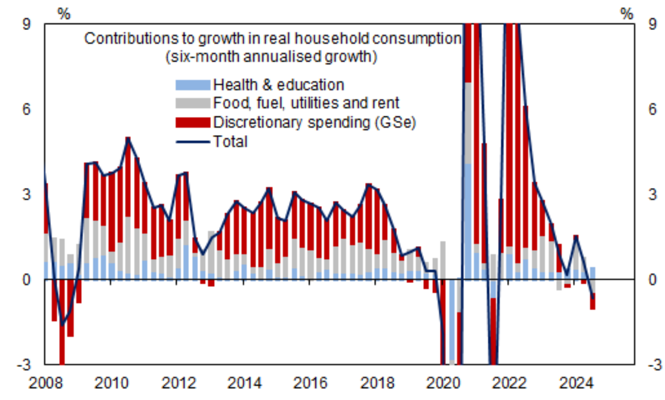
In Australia, GDP growth was weak at 0.4% in the September 2024 quarter, with public demand the only contributor to growth. Real household consumption growth is now declining despite 1 July tax cuts (which have largely been saved), however with unemployment now at 3.9%[2] at November 2024, this will likely inhibit the RBA's capacity to bring forward rate cuts.

Following chart dated 4 Dec 2024

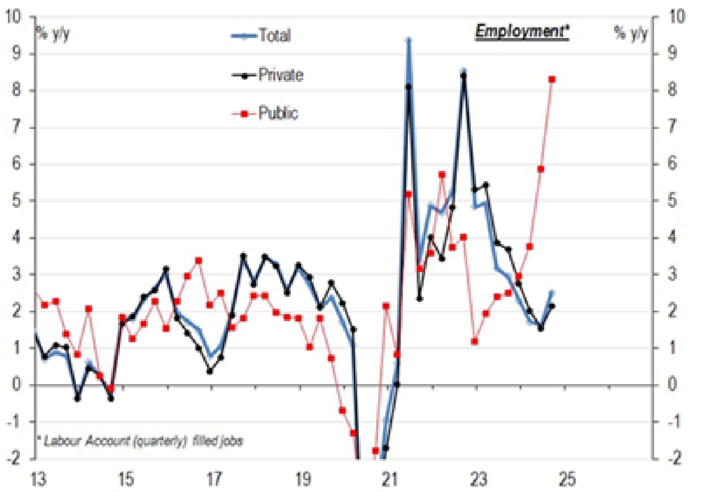
Consumption growth remains subdued in Australia



Source: ABS, Goldman Sachs Global Investment Research

Following chart dated 14 December 2024

AU Employment Data – Public sector employment boomed by a new record high pace of 8.3% y/y:



Source: ABS, Macrobond, UBS

The portfolio is overweight Materials. The portfolio is also overweight Aluminium via Alcoa, Rio Tinto, South32 and Metro Mining as we see favourable supply / demand dynamics. The portfolio is overweight Gold through Newmont, Greatland Gold and Spartan Resources. Gold is favoured as a store of value against both inflation and crisis, and typically outperforms when the interest rate cycle is peaking.

We are underweight Financials via the Banks. Banks have re-rated to 35-year valuation highs yet have minimal growth outside one-off lower loan losses. The portfolio is overweight insurers QBE and IAG, which are benefiting from an ongoing insurance hardening (pricing) cycle. The portfolio continues to hold Block on expectations topline growth will accelerate, and Macquarie on expectations of an earnings trajectory improvement.

The portfolio is positioned in selective Industrial stocks with growing earnings and attractive valuation. These include Brambles as it continues to grow earnings and generate free cashflow, and SGH where earnings and margin outlook are supported by a sustained infrastructure and mining equipment replacement cycle.

Within the Consumer sectors, the portfolio is overweight A2 Milk, Treasury Wine and Qantas. A2 Milk is capitalizing on market disruptions from necessary Chinese registrations by peers and an exodus of multinationals from the Chinese market. Treasury Wine is attractively valued for the expected growth of its Penfolds brand, as it returns to the Chinese market. Qantas continues to enjoy robust domestic demand and pricing power.

The portfolio is modestly overweight Healthcare as valuation increasingly appears attractive as earnings revisions have stabilized. The portfolio is overweight Resmed which was oversold on the back of GLP-1 drug fears, yet continues to deliver strong earnings growth particularly in a benign competitive environment. The portfolio is also overweight Ansell, which is showing earnings growth post a severe Covid-induced destocking cycle.

The portfolio is underweight Real Estate where earnings growth remains challenged amidst a higher for longer interest rate backdrop.

The Short book has a broad range of industries represented including REITs, Consumer Discretionary, Industrials and Technology. We currently have very few Materials shorts as the sector has underperformed over the past 12 months and many stocks look cheap or fair value.

2. Seasonally adjusted rate.