30 JUNE 2024

EQUITY ALPHA PLUS FUND

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTHS	1 YEAR	3 YEARS	4 YEARS	SI* P.A.	SI
Equity Alpha Plus Fund	0.83	1.20	13.57	11.53	18.28	13.57	88.23
S&P/ASX 200 Total Return Index	1.01	-1.05	12.10	6.37	11.36	6.99	39.92
Excess Return	-0.18	2.25	1.47	5.16	6.92	6.58	48.31

*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

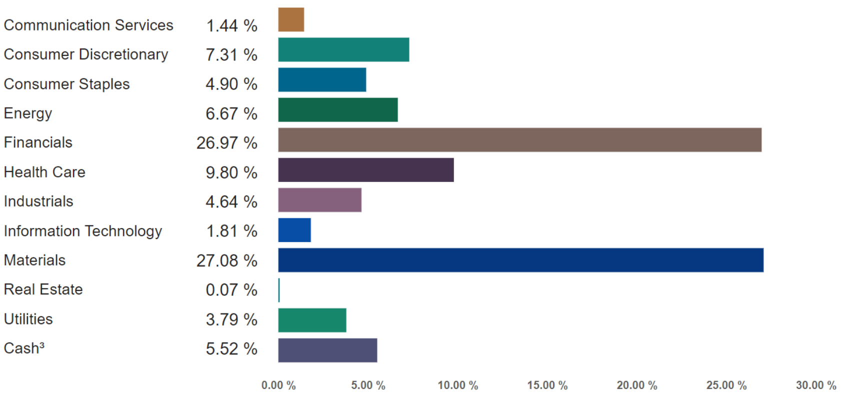
This Fund uses a detailed fundamental research process to invest in stocks that are well placed for the future (longs) and takes advantage of stocks we believe have cyclical and structural headwinds (shorts). The Long/Short investment style is designed to enhance returns and manage downside risks.

KEY DETAILS	
Number of Holdings	84
Portfolio Dividend Yield	3.13%
Fund Size (AUD)	$ 142M
Redemption Price	$1.3328

MARKET EXPOSURES	
Long	116.76
Short	-22.27
Net	94.48

TOP 10 POSITIONS	WEIGHT %
BHP Group Ltd.	10.65
Resmed Inc	5.33
Newmont Corporation Registered	4.97
CSL Ltd.	4.85
Commonwealth Bank of Australia	4.63
Macquarie Group, Ltd.	4.62
ANZ Group Holdings Ltd.	4.51
Brambles Ltd.	3.90
Origin Energy Ltd.	3.79
National Australia Bank Ltd.	3.70

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

Offshore equity markets rose this quarter on strong economic growth, solid employment, stable inflation and a growing profit outlook for US artificial intelligence companies. The MSCI World Net Total Return Index rose 2.9% (in USD)[1], and the US NASDAQ Total Return 8.5% (in USD), versus the March 2024 quarter. The S&P/ASX 200 Total Return Index fell 1.1%, weighed down by a greater exposure to underperforming Materials, and a smaller weighting to outperforming Technology.

The JP Morgan Global Composite Purchasing Managers Index (PMI) rose to 52.90 in June 2024, from 52.3 in March 2024, with both Manufacturing and Services remaining in expansionary territory. US Core Personal Consumption Expenditure (PCE) Inflation eased to 2.6% in May vs pcp[2], down from 2.8% three months earlier. The US Federal Reserve, which is targeting 2% inflation, again held rates flat over the quarter, and Chairman Powell said, “we've made quite a bit of progress in bringing inflation back down”. Futures are pricing two 25bp cuts by December, which is broadly unchanged over the quarter.

China's economic environment remained subdued. The S&P China Caixin Composite PMI was flat at an expansionary 52.8 in June versus 52.7 in March.

Australia's macro environment weakened. Monthly Consumer Price Inflation rose to 4.0% in May 2024 vs pcp, vs the Reserve Bank's 2-3% target, marking three straight months of increases. The RBA commented that the path for returning inflation to target is becoming “narrower”. The Australian Composite PMI weakened back to 50.7 in June, from 53.3 in March, but remained in expansionary territory.

Utilities were the best performing equity sector in Australia over the quarter delivering 13.3% total return, driven by higher electricity prices. Financials rose 4.0%, as Banks' profits beat on ‘one-off’ lower loan losses. Technology increased 2.9% driven by solid peer moves in the USA. Energy fell 6.8%, REITS 6.0%, and Materials 5.9% driven by earnings downgrades across those sectors.

BHP bid for Anglo American, but ultimately walked away after its complex offer was rejected. Macquarie Telecom, Next DC and Infratil raised an aggregate cA$2.5b to fund data centre build outs. Ansell raised A$475m to fund acquisition of Kimberly Clark PPE business. Guzman Y Gomez IPOed in June with a market capitalisation of A$2.6b but minimal earnings forecast. The S&P/ASX200 Index is currently trading on 17.1x forward price/earnings, vs 14.9x long-term average.

PERFORMANCE

The Fund outperformed by 2.25% over the quarter. Pleasingly both the long and short books contributed to returns. Key contributors to the long portfolio included Newmont, Spartan Resources and Origin Energy. Newmont rallied after a strong first quarter. The Company is attempting to sell several non-core mines and once complete will look to initiate capital management. The Company remains a key holding for the Fund. Spartan Resources discovered a very high-grade gold deposit nearby considerable existing infrastructure. The deposit appears to be growing and the management team is highly driven to maximise value. Recent corporate interest has also identified an opportunity. We have reduced our weighting following this. Origin performed well as an Investor Day highlighted the upside that exists through a volatile energy transition. The holding in fast-growing software business Octopus has continued to grow nicely. The company remains a key portfolio holding. Two stocks were key detractors in the quarter – Block and Cettire. Block underperformed on slower growth in their seller business and softening US economy that impacted many payments companies. We believe the company has a set of initiatives to reinvigorate growth in the seller business while their Cash App growth continues to power ahead. We believe the stock is attractively priced and remains a key position. We initiated a position in Cettire following a founder sell down and several media articles that sent the stock down over 40%. Subsequently, the business announced its fourth quarter result which showed a dramatic reduction in profitability. The global luxury market is weak, and this backdrop no doubt influenced the result. The stock now trades at 0.4x Ev/Sales with a considerable cash balance. We have maintained our position. The Short book fell over 8% in the quarter and contributed more to performance than the long book. Several positions aided this performance and pleasingly they were from a wide range of industries highlighting the breadth of research.

ENGAGEMENT

During the quarter we undertook a total of 24 engagements in which we explicitly discussed ESG matters, with 16 companies relevant to the strategy. Of these, 67% were held at either board or executive level, with the majority this quarter with the company CEO. The engagements covered a range of issues and most covered multiple ESG matters. While the climate transition and conduct and stakeholder relations continued to dominate, the past quarter saw an increase in governance-related engagements.

We met with Newmont Corporation (NEM) for a meeting focused on workplace safety and decarbonisation. After around five years fatality free, unfortunately the company has had four fatalities in the last 6 months so we sought to understand contributing factors and how learnings were being applied. Also on safety, we sought enhanced disclosure on how it is managing occupational disease and silicosis. We also sought an update on what the Newcrest acquisition meant for Newmont's decarbonisation plan and provided feedback on climate-related lobbying.

In the period we also met with Qantas Airways' (QAN) recently appointed board remuneration committee chair. We followed up on concerns previously raised regarding executive pay, including awards made to the former CEO. We viewed positively the chair's efforts to understand shareholder concerns and investigate various courses of action – such as getting legal advice – in respect of potentially reducing the quantum awarded. The board is also increasing weight to the customer component of the short term incentives (STI) and including a reputation measure in the long term incentives (LTI) as the company seeks to repair customer trust.

OUTLOOK AND POSITIONING

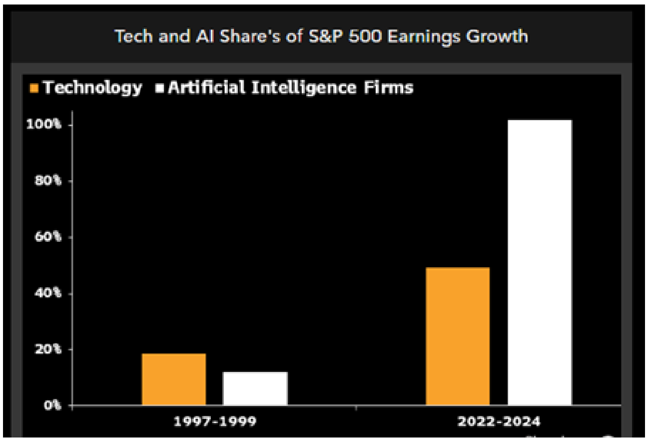
Recent US data indicated that the Fed may be close to taming inflation and in a position to start reducing rates in the next few months. The May 2024 reading of the US core PCE was at 2.6% (or 0.1% increase month on month), the softest increase since November 2023, with goods in deflation and services inflation relatively benign at 0.2%. Housing and healthcare inflation remain elevated, albeit this is more reflective of supply constraints.

Slowing macroeconomic activity is further reflected in the contractionary reading for the June 2024 US ISM Services PMI and the Citi US Eco surprises indicator dipping to 2yr lows. The uncertainty of the upcoming US election is also causing a lull in certain segments of the economy, in

[1] Australian sector returns refer to the S&P/ASX 200 Total Return Index unless stated otherwise.
[2] Previous comparable period.

particular energy investments and heavy construction projects. As such, the market's current projection for 2 rate cuts before year end appears plausible.

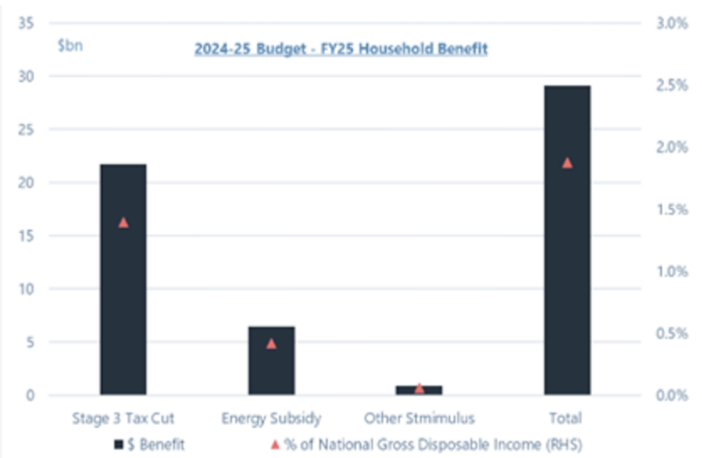
An exception to the broad slowdown is tech and in particular Artificial Intelligence (AI), with the respective subsectors contributing c50% and c100% of the expected S&P500 EPS growth (according to Bloomberg Intelligence on 25 June 2024). It is not clear to us that at this juncture the monetisation or productivity improvements from "AI" justifies the hype and very extensive re-rating of AI-exposed stocks, particularly those listed in Australia.



Source: Bloomberg Intelligence Data

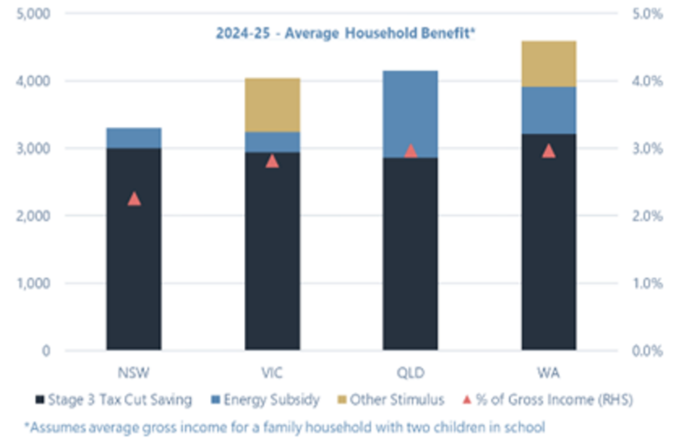
In contrast, strong data around consumption and inflation in Australia has left the door ajar for a possible RBA rate hike in August. We continue to believe the RBA is underestimating the impact of strong migration, fiscal stimulus and lagged effect of EBA agreements. Fiscal policy has been firmly stimulatory with nominal public demand accounting for ~1.5ppt of Australia's GDP growth. Tax cuts from mid-2024 also have the equivalent impact of rate cuts and are likely to further inflame inflation. In aggregate, the budget alone has the potential to increase the average household income by 3% (chart below from 15 May 2024).

Including State stimulus, sources estimate households will receive $28nb of stimulus in FY25 (1.9% of income)



Source: Australian Governments, Jarden estimates

Research estimates the average household is likely to see a benefit closer to 3% of income in FY25



Source: Australian Governments, Jarden estimates

Further the lagged impact of EBA agreements is likely to sustain higher wage inflation for some time to come (chart below from 27 June 2024).

Source: DEWR, Fair Work Commission, Macrobond, ANZ Research

The outlook for China remains tepid with weakness across construction, FAI and machinery with EV related demand softer than expected. Steel production is also weak with exports the only offset. The Chinese Government's 3rd Plenum meeting will be keenly watched for any new stimulus.

Against this backdrop, the fund is overweight Materials, in particular gold (through Newmont, Spartan and Northern Star) and base metals (through Alumina and S32). We favour alumina, aluminium and copper in particular on strong demand from transportation and construction, as well as tightening supply dynamics. Gold is favoured as a store of value against both high inflation and crisis, and typically outperforms when the interest rate cycle is peaking.

The Fund continues to be underweight Financials. Banks have re-rated to 35yr high multiples yet the banks are demonstrating minimal topline growth amidst a heightened competitive environment. The Fund continues to be overweight Block, which has again raised profitability guidance. It continues to be overweight insurers QBE and IAG, both benefiting from higher earnt insurance premiums and moderating claims inflation, and strong capital positions.

Energy positioning is modestly underweight. Beach and Origin are our picks in Energy and Utilities,, given their critical roles in the supply of domestic gas which appears to be increasingly challenged given ongoing project approval delays.

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The Fund is selectively positioned in Industrial 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 generate free cashflow, and Seven Group where earnings and margin outlook are supported by sustained infrastructure and mining equipment replacement cycle.

The Fund is modestly underweight Information Technology with key positions in Xero and Catapult Group. Xero is successfully executing on profitable growth whilst expanding product capability in a focused manner. Catapult continues to transition from cash burner to cash earner. Very low churn highlights the customer value proposition with global runway of growth ahead.

Within the Consumer sectors, the Fund is overweight A2M and Treasury Wines as well as travel exposures Webjet and Qantas. The China new births backdrop is stabilizing and A2M is capitalizing on the disruptions from State Administration for Market Regulation (SAMR) registrations and exodus of multinationals to gain market share. Treasury Wines is attractively valued for the expected growth of its Penfolds brand, as it gears up for return of the China market.

The Fund is underweight Real Estate and Healthcare where earnings outlook remains challenged. Within Healthcare, the portfolio favours Resmed, which has been oversold on the back of GLP-1 drug fears yet continues to deliver strong earnings growth particularly in a benign competitive environment, in our view.