31 MARCH 2024

EQUITY ALPHA PLUS FUND

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET(%)	1 MONTH	3 MONTHS	1 YEAR	3 YEARS	4 YEARS	SI* P.A.
Equity Alpha Plus Fund	5.13	6.71	13.78	14.27	22.06	14.04
S&P/ASX 200 Total Return Index	3.27	5.33	14.45	9.62	16.00	7.61
Excess Return	1.86	1.38	-0.67	4.65	6.06	6.43

*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

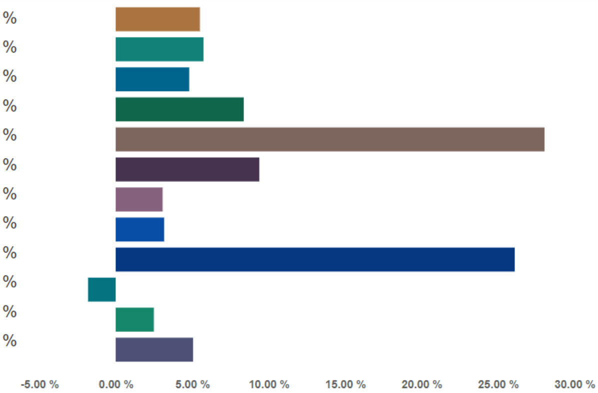
FUND OVERVIEW

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	117.91
Short	-22.98
Net	94.94

SECTOR ALLOCATION

Communication Services	5.51 %
Consumer Discretionary	5.75 %
Consumer Staples	4.81 %
Energy	8.38 %
Financials	28.05 %
Health Care	9.40 %
Industrials	3.07 %
Information Technology	3.17 %
Materials	26.10 %
Real Estate	-1.81 %
Utilities	2.50 %
Cash[3]	5.06 %



KEY DETAILS	
Number of Holdings	82
Portfolio Dividend Yield	3.49%
Fund Size (AUD)	$ 157M
Redemption Price	$1.3606

TOP 10 POSITIONS	WEIGHT %
BHP Group Ltd.	14.31
Resmed Inc	5.26
National Australia Bank Ltd.	5.07
Telstra Group Ltd.	4.91
Newmont Corporation Registered	4.85
CSL Ltd.	4.82
ANZ Group Holdings Ltd.	4.65
Commonwealth Bank of Australia	4.46
Brambles Ltd.	4.10
Block, Inc.	3.92

FUND DETAILS	
APIRCode	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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PARADICE
INVESTMENT MANAGEMENT

Performance in AUD unless otherwise noted.

MARKET REVIEW

Global equity markets rose this quarter on expanding economic growth, solid employment, decelerating inflation and an improving profit outlook for US artificial intelligence companies. The MSCI World Net Total Return Index rose 8.2% (in USD)[1], the US NASDAQ Total Return 9.3% (in USD), and the S&P/ASX 200 Total Return 5.3%, versus the December 2023 quarter.

The JP Morgan Global Composite Purchasing Managers Index (PMI) rose to 52.3 in March 2024, from 51.0 in December 2023, with Manufacturing moving back into expansionary territory. US unemployment was 3.8% in March, which is in the range of pre-pandemic levels. US Core Personal Consumption Expenditure (PCE) Inflation eased to 2.8% February vs pcp[2], down from 3.2% three months earlier. The US Federal Reserve , who is targeting 2% inflation, again held rates flat over the quarter, with the debate now focused on when they can fall, and futures pricing 2x 25bp cuts by December. However, expectations of cuts unwound somewhat as progress on inflation reduction disappointed some expectations.

Economic conditions in Australia were similar over the quarter. Monthly Consumer Price Inflation dropped to 3.4% in December 2023 vs pcp, vs the Reserve Bank of Australia's 2-3% target. The Australia Composite PMI moved back into expansionary territory, to 52.4 in March, from 46.9 in December. Australia's unemployment rate was 3.87% in December, which is below pre-pandemic levels of around 5%. The USA and Australia remain on track for a soft landing.

The Bloomberg Commodities Total Return Index rose 2.2%. Brent increased 13.6% as OPECR rolled cuts and Chinese demand surprised. Gold rose 8.1% on rate cut expectations and ongoing central bank demand. Iron ore fell 27.0% as Chinese stimulus measures disappointed and inventories rose.

Information Technology was the best performing equity sector in Australia over the quarter delivering 24.4% total return, driven by the prospect of lower rates and solid peer moves in the USA on surging artificial intelligence profitability. Real Estate rose 15.3% also on lower rate hopes, and as Goodman soared on data centre demand. Consumer Discretionary rose 12.9% on profit beats and better outlook commentary in February. Financials rose 12.0%, as Banks' profits beat on 'one-off' lower loan losses, and Block enjoyed earnings upgrades. Consumer Staples underperformed due to government enquiries into excessive profitability, and as sector leader Woolworths lost share. Materials fell 6.2% on weaker iron ore given it is a key revenue contributor.

The February season resulted in modest upgrades. Solid upgrades for Consumer Discretionary and one-offs for Banks, was offset by softer margin outlooks generally and higher interest costs. As a result, the market rise was more due to an expanding multiple, rather than earnings upgrades. The S&P/ASX200 Index is currently trading on 16.3x forward earnings, vs 15x long-term average.

Corporate activity returned in the quarter, with bids for Adbri, CSR and Altium. Seven Group is also attempting to take ownership of its minority interest in Boral.

PERFORMANCE

The Fund outperformed by 1.38% over the quarter. The Long book outperformed while the Short book performed in line with the market. The top five contributors were A2 Milk, ResMed, QBE Insurance, Block and Brambles. The Fund remains invested in all these positions.

Overweight positions in BHP and RIO detracted in the quarter as a tepid start to the construction season weighed on the iron ore price. We added to both positions in the quarter as iron ore approaches cost support and base metal prices have rallied. The Short book in aggregate performed in line with the market despite some volatile individual positions. The share market has rallied on expected rate cuts, and this is creating shorting opportunities in long duration and leveraged companies.

ENGAGEMENT

During the quarter we undertook a total of 33 engagements in which we explicitly discussed ESG matters, with 24 companies relevant to the strategy. Of these, 82% 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 meetings covered multiple ESG matters. The most discussed topics were climate transition, conduct and stakeholder relations, and human capital management.

We met with Endeavour Group (EDV) for a meeting focused on the responsible service of alcohol and gaming. In the context of responsible service of alcohol, we also sought to understand how the company is managing its operations in First Nations communities, especially given the legacy issues Dan Murphy's had faced in Darwin (pre-demerger). On gambling, we discussed harm minimisation efforts and responsible participation in the public policy debate with respect to electronic gaming reform. We encouraged enhanced disclosures around advocacy activities and industry associations.

In the period we also met with BHP Group's (BHP) Board Sustainability Subcommittee Chair. The meeting covered wide-ranging ESG topics, but with a particular focus on safety, climate change and addressing sexual harassment. The Board is keenly focused on improving safety performance given recent fatalities. We provided some feedback regarding the Climate Transition Action Plan which is currently under review. Finally, we were pleased to hear more details on BHP's leading response to addressing sexual harassment in the workplace, which included strong board oversight of the topic.

OUTLOOK AND POSITIONING

The equity market appears increasingly overbought and overcrowded post the recent rally, which has been sparked primarily by earnings re-rate and expectations around interest rate cuts. Consistently strong employment data and sticky services inflation are threatening to derail the market's expectations around the magnitude and cadence of rate cuts. Already, the bond market has reset expectations from seven rate cuts as at the beginning of January 2024, to now two rate cuts by the end of 2024. The likelihood that we may not see a rate cut this year at all has increased in recent weeks following strong US employment data.

Despite a higher for longer outlook for interest rates, the ASX200 ex resources is trading at 19.2x, on the back of significant re-rate across all sectors except for materials and energy. The following chart shows the change in earnings vs change in multiple since the Oct-23 peak in rates; all but Materials and Energy have re-rated despite modest EPS revisions.

[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] Previous comparable period.

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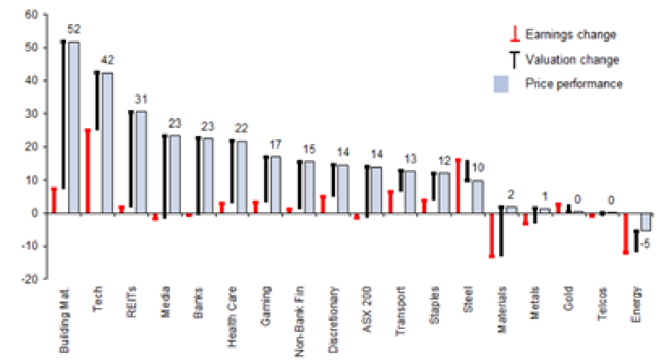
<u>Since the peak in rate expectations last year, the Forward P/E of the ASX 200 has expanded by 15% driven by large multiple expansion in Building Materials, REITs, Media, Banks, Healthcare and Tech.</u>

Change in Earnings (NTM) vs Share price for ASX Sectors since the Oct-23 peak in rates

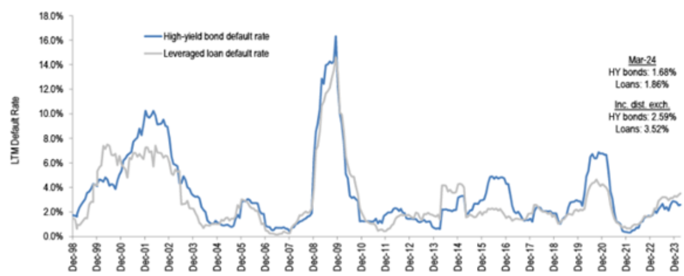


Source: FactSet, Goldman Sachs Global Investment Research

In Australia, the latest inflation print (December 2023 CPI: 3.4%) is trending slightly above RBA's 2-3% target. However the fiscal policy has been stimulatory with nominal public demand accounting for ~1.5ppt of Australia's GDP growth. Tax cuts from mid-2024 have the equivalent impact of rate cuts and are likely to further inflame inflation. In addition the economy has been supported by high levels of immigration and wealth from baby boomers this cycle which were absent in previous cycles. Accordingly the bond market has pared back expectations from three rate cuts for 2024 to just over 1 rate cut as of Apr 8, 2024.

There are increasing signs of frothiness in our view, particularly as credit markets point to normalizing levels of stress (from covid lows), indicated by rising leveraged loan default rates and credit spreads. The market appears oblivious towards deteriorating fundamentals in certain segments of the market, particularly SMEs with weaker balance sheets. Corporates' ability to raise prices again is limited should inflation reaccelerate in our view, given consumers savings buffers have largely been exhausted. Whilst a soft landing is our base case, we believe the market leadership to date has been fairly narrow.

<u>High-yield bond and loan par-weighted default rates increases in March, with the load default rate hitting a 3-year high</u>

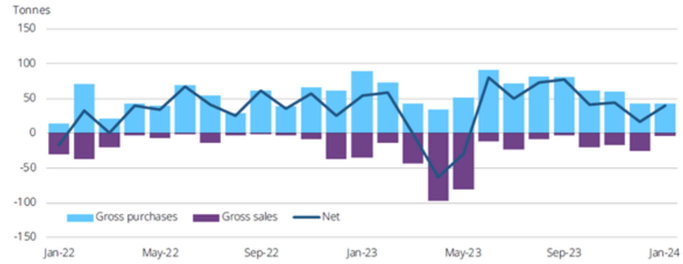


Source: J.P. Morgan; PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHSMarkit

Long duration growth or highly leveraged stocks are most vulnerable in our view, having benefited disproportionately from an expected reduction in interest rates to date. From here, we see a rotation into cyclical short duration stocks poised to benefit from improving PMIs and reflating commodity prices being highly plausible.

As such the portfolio's Materials positioning has continued to increase, with the Fund overweight in gold through Newmont and Northern Star. Central banks have continued to increase their gold reserves, with the largest buying from China and Eastern European countries. Gold is favoured as a store of value against both high inflation and crisis, and typically outperforms when the interest rate cycle is peaking. We continue to be overweight BHP and RIO given strong cost curve support at prevailing iron ore prices and increased fixed asset investment in China. We also think the market is underappreciating their exposure to copper and aluminium respectively, which are benefiting from accelerating manufacturing activity and favourable supply / demand dynamics.

Central banks have now bought gold for eight consecutive months*



*Data to 31 January 2024 where available.
Source: IMF IFS, respective central banks, World Gold Council

The Fund continued reducing Financials positioning and is currently underweight. 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.

The Fund is overweight Energy. Beach and Origin are our preferred exposures within the space, given their critical roles in the supply of domestic gas which appears to be increasingly challenged given ongoing project approval delays.

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.

Within the Consumer sectors, the Fund is neutral Staples and underweight Discretionary. Within discretionary retail, the Fund is overweight travel leaders Webjet and Qantas, both with industry leading market shares trading at attractive valuations. We considerably reduced our Wesfarmers position following a strong first half result.

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.