

## 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	-1.15	0.37	12.99	11.09	20.19	13.86
S&P/ASX 200 Total Return Index	-3.39	-2.80	2.84	5.62	13.24	6.76
Excess Return	2.24	3.17	10.15	5.47	6.95	7.10
*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	116.90
Short	-19.21
Net	97.69

## SECTOR ALLOCATION

Communication Services	7.44 %	
Consumer Discretionary	5.80 %	
Consumer Staples	7.59 %	
Energy	1.78 %	
Financials	23.37 %	
Health Care	14.71 %	
Industrials	3.72 %	
Information Technology	1.58 %	
Materials	27.38 %	
Real Estate	-0.06 %	
Utilities	4.39 %	
Cash <sup>3</sup>	2.31 %	

## KEY DETAILS

Number of Holdings	85
Portfolio Dividend Yield	2.88%
Fund Size (AUD)	\$ 171M
Redemption Price	\$1.4843

## TOP 10 POSITIONS

	WEIGHT %
BHP Group Ltd.	8.26
Resmed Inc	6.40
Greatland Gold plc	4.64
QBE Insurance Group Ltd.	4.63
Origin Energy Ltd.	4.39
Telstra Group Ltd.	4.10
Macquarie Group, Ltd.	4.07
Newmont Corporation	4.05
Alcoa Corporation	3.95
Insurance Australia Group Ltd.	3.82

## FUND DETAILS

APIR Code	ETL8096AU
Distribution Frequency	Semi-Annually
Management Fee <sup>1</sup>	0.99% p.a.
Performance Fee <sup>2</sup>	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 S&P 500 Total Return Index and Nasdaq Total Return Index fell 4.3% and 10.3% (in USD) respectively on 1) global growth uncertainty as the Trump administration began implementing significant tariffs on key trading partners, and 2) the emergence of DeepSeek triggered growing concerns around US hyperscalers' substantial data centre build outs.

The S&P/ASX 200 Total Return Index weakened 2.8%. Information Technology dropped 17.5% as WiseTech fell on governance issues. Healthcare eased 9.1% as CSL's February result missed expectations. REITS weakened 6.8% as Goodman fell post a \$4b capital raise and growing concerns around capex intensity of data centre builds. Financials fell by 2.6% and NAB fell on a higher-than-expected loan loss charge at 14bp vs peers at around 5bp in its quarterly. There were good results elsewhere from other Financials in February, including QBE and Computershare. Utilities, Staples, and Telecoms outperformed the market due to relatively more stable results in February. Materials rose 0.7%, aided by strong performance from gold companies. James Hardie dropped 23.2% on the back of the Azek acquisition. Industrials performed best, rising 2.6%, due to good results in February from the likes of BlueScope Steel, SGH, and Brambles.

The Bloomberg Commodities index rose 8.9% (in USD). Gold leapt 19.0% as a safety trade against economic uncertainty and on central bank demand, and Copper followed, rising 11.1% (both in USD). Iron Ore, Brent Oil and the Lithium spectrum were relatively stable.

Uncertainty around President Trump's tariff policy began to emerge in weakening confidence and consumer spending data, as well as a higher Personal Consumption Expenditure (PCE) price index. The US Federal Reserve maintained rates and in March emphasised a more cautious approach as it awaits further clarity surrounding announced tariffs. The futures were pricing ~90bp of cuts by 2025 year-end as at 31 March, which increased over the quarter from 60bp.

In Australia, the monthly Consumer Price Inflation (Trimmed to exclude the volatiles of travel and 'government subsidised' electricity) was 2.7% in February, which is flat versus December, and gave the RBA comfort to ease the cash rate 25bp in February. The futures as at 31 March assumed another 50bp of cuts in by year-end, which is broadly similar to December.

## PERFORMANCE

The Fund outperformed by 317bp over the quarter. The Long book outperformed the market, falling only slightly in the quarter, whilst the Short book fell nearly 10%. Key contributors to the Fund were Greatland Gold, A2 Milk and Newmont, whilst our position in Block was a large detractor to returns. We have maintained our holdings in Greatland Gold and Newmont. Greatland Gold achieved first production from their newly acquired Telfer mine and subsequently announced an increase in resources. The company is very well positioned to extract value from the considerable asset base. A2 Milk delivered a very good result in February. The company is emerging from numerous years of difficult markets relating to China infant formula market. Management have executed flawlessly and continue to take market share and deliver on product breadth. We reduced our holding post the sizeable rally but it remains a key holding in the Fund. Block delivered on 2024 expectations, however their guidance for the first quarter in 2025 disappointed. This was compounded by emerging weakness in US economic conditions as the quarter moved on. We disappointingly reduced our holding on macroeconomic concerns, however it remains a key holding in the Fund. The Short book provided some protection for the Fund with key contributors largely in the Technology, Real Estate and cyclical sectors.

## OUTLOOK AND POSITIONING

Rolling uncertainty around Trump's tariff intentions and implementations have given way to a significant pause in corporate investment decisions and a weakening consumer backdrop. The case for stagflation in US is building as much higher than anticipated tariffs attempt to unwind decades of globalisation and efficient trade. US tariffs are set to rise to 10-25% on average, with specific levies as high as 54% against China. This marks the largest tariff increase since World War II, reversing decades of declining rates since 1932. Historically, global tariff rates have averaged around 2-3%. If implemented, these tariffs represent a significant structural shift in modern trade policy, disrupting global supply chains and reducing US (and possibly global) GDP. Although some may be negotiated away, the probability of a significant reduction appears low given Trump's rhetoric. Retaliatory tariffs are likely, further flaming a global trade war. For example, China has promptly announced a 34% tariff on all US imports and restrictions on exports of rare earths.

The purported tax raised from tariffs are estimated to be up to US \$600-900b pa, which could in theory fund tax cuts. However, this is likely to be significantly offset by retaliatory tariffs and demand weakness. Economists from JP Morgan forecast the cost to US consumers at ~US\$600b or ~2 percent of US GDP. Higher inflation may also make it more difficult for the FED to cut rates despite slower growth. The market's current 20.0x December 2025 Price/Earnings ratio, therefore looks expensive, making the market performance outlook skewed to the downside (as at US close 3 April).

The Australian direct impact from Trump's tariffs may be relatively modest, given the 10% rate and beef being a focus. The indirect impact via the ~85% of our export goods that go into Asian countries, which are facing a higher tariff is a tougher issue. Australia is also in an enviable position with capacity for government fiscal and RBA monetary stimulus if necessary. The portfolio has increased its defensive exposure, with a reduction in global and US exposed companies, and an increase in domestic, defensive names that are more insulated from tariff regimes. The falling USD (typically an embodiment of safe-haven) suggests increased worries about the credibility of US economic policies and possibly the long-term stability of the dollar as a global reserve currency. We also have a number of cyclical exposures with valuation upside should economic conditions stabilise.

The Fund is overweight Materials, principally due to an overweight in Gold companies including Greatland Gold and Newmont. Gold is favoured as a store of value against both inflation and crisis, and a beneficiary of central bank buying. We remain overweight Alcoa as Aluminium markets have moved into the cost curve.

Financials are underweight, via 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 as they benefit from an ongoing insurance hardening pricing cycle.

The Fund 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 are supported by a sustained equipment replacement cycle.

Within the Consumer sectors, the portfolio is overweight Staples through Coles, Sigma, A2 Milk and Treasury Wine. In our view, Coles is executing admirably with a focus on consumer value, Sigma continues to take share and deliver on margin expansion. A2 Milk is executing commendably in a tough Chinese market and Treasury Wines is attractively priced on its Penfolds growth, albeit the US portfolio is deteriorating.

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The Fund is modestly overweight Healthcare via ResMed, Ansell and Nanosonics. ResMed continues to deliver strong earnings with no signs of a GLP1 induced slowdown, and Ansell is delivering on improved growth, and margins post a Covid-induced destocking cycle. Ansell is impacted by the recently announced tariff regime given most of its manufacturing is in South east Asia (avg tariff at c30%), however the lack of US competitors provide it with ample price pass through capacity.

The Fund is overweight Telstra and has increased its weight in Real Estate through Vicinity and Stockland. Telstra is demonstrating resilient earnings, and an improved balance sheet provides capacity for buyback. Vicinity and Stockland are providing a good balance of dividend yield and growth, which are less dependent on RBA rate cuts (albeit helpful).

## ENGAGEMENTS

During the quarter we undertook a total of 28 engagements in which we discussed ESG matters, with 18 companies relevant to the strategy. As reporting season occurred during the quarter, most meetings were held with either the CEO or CFO, with some also held with the Chair. The engagements covered a range of issues and most covered multiple ESG matters. In addition to climate change, human capital management and governance issues were notable topics of interest for the team.

We held multiple engagements with Santos (STO) as well as visited the recently commissioned Moomba carbon capture and storage (CCS) project in South Australia. With its second Climate Transition Action Plan being put to vote at the upcoming AGM, a key focus was Santos' climate response. The commissioning of Moomba CCS is a big milestone, a first step in proving up the company's plan to develop a carbon storage management business. We also engaged on reducing operational emissions and enhancing aspects of its climate disclosures.

We also met with South32 (S32), continuing our ongoing engagement on its prospects of securing long term green energy supply essential for the viability of its Hillside and Mozal assets in Africa and for which the company is seeking to work with the South African and Mozambique governments. Beyond decarbonisation, we also discussed environmental approvals at WWorsley (WA), managing civil unrest and strikes in Mozambique, and navigating an aging workforce in some parts of the business which has implications as experienced workers retire. Finally, we covered some of the environmental challenges in restarting GEMCO operations as there are large volumes of wastewater to appropriately manage.

## Noteworthy industry / macro developments

### #1 Field trips to Europe and US

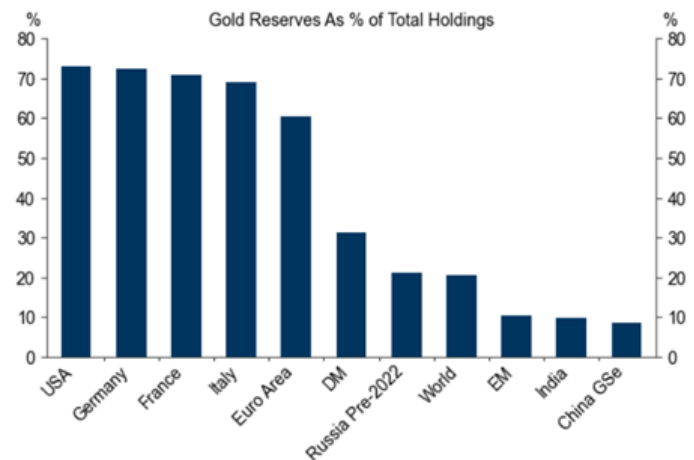
The team visited Europe and US taking a pulse on US corporate activity, as well as specific meetings around the MQG investor trip, and ASX-listed financials and data centres.

Overall, consumer and corporate uncertainty ramped up towards the end of February in relation to tariff and DOGE-induced uncertainty. Corporates were generally supportive of tariff related logic but not the method or communication. It would take years to re-shore in USA and this would require certainty from multiple administrations (subsequent to Trump). The outlook for Europe appeared incrementally more positive post successive rate cuts and the German infrastructure stimulus. Energy transition in Europe appear too advanced to be impacted by announced policy changes to date.

### #2 Central bank's structural shift in reserve management

Central banks have been diversifying away from US treasuries and increasing buying of gold for the last 3-5 years, potentially undermining its value and safe-haven status. Whilst it is challenging to estimate future behaviour, Emerging Markets central banks could still support Gold for the next 3-6 years to reach similar exposures as Developed Markets, as highlighted by the following chart from Goldman Sachs (dated 26 Mar 2025).

### EM Central Banks Remain Significantly Underweight Gold Relative to DMs



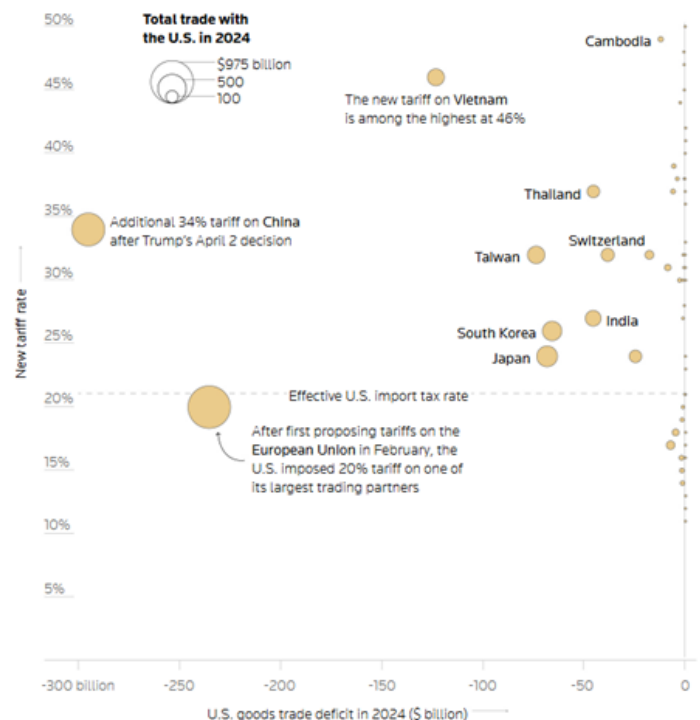
Source: IFS, Goldman Sachs Global Investment Research, March 2025

### #3 Proposed tariffs and early US indicators

President Trump introduced a new baseline 10% US tariff on goods from all economies and higher than anticipated tariffs for some of US' largest trading partners. The newly announced 34% tariff against China comes on top of previously announced 20% tariff, bringing the total tariff rate to 54%. Mexico and Canada continue to face a general 25% tariff, albeit the tariff rate is lower for specific Canadian energy products (10%) and there are exemptions under the original USMCA agreement.

### Tariffs hit some of the biggest trading partners for the US

U.S. goods trade deficit by the new tariff rate



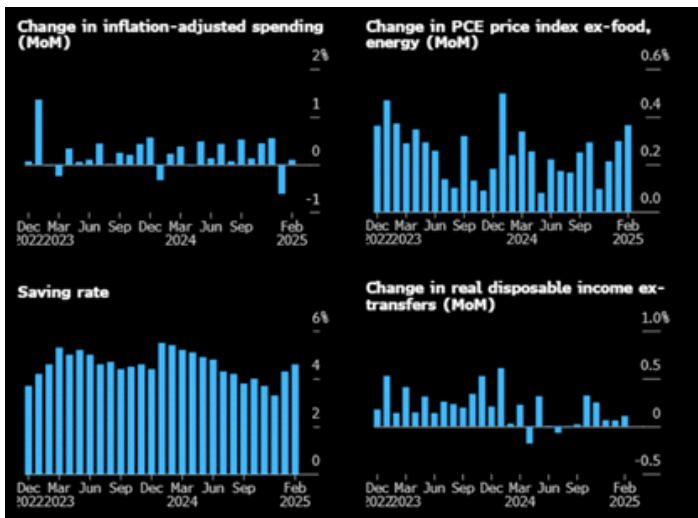
Source: The White House; U.S. Census bureau; Fitch Ratings  
As at 3 April 2025

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Recent data from US already suggest increasing concerns about US household financial stress and sticky inflation. Consumer spending was weaker than expected in February, while the key inflation metric (PCE) picked up, giving way to increased likelihood of stagflation.

## US Consumer Spending Sluggish Amid Brewing Inflation – Household saving rate climbs and disposable income growth soft



Source: Bureau of Economic Analysis  
As at 1 March 2025

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