Report:

Monthly
Commentary

March 2025

Paradice Australian Equities Fund

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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 portfolio outperformed by 30bp over the quarter.

Contributors/Detractors

Key contributors include:

- **Newmont (NEM) – Overweight -** Newmont advanced on a higher gold price.
- **QBE Insurance (QBE) – Overweight -** QBE rose on strong earnings and an improved outlook due to better North American profitability.
- **Goodman (GMG) - Underweight -** Goodman dropped following a $4b capital raising and uncertainty around economics of data centre builds.
- **a2 Milk (A2M) – Overweight -** a2 Milk jumped on a strong earnings result as it continued to take market share in China.
- **WiseTech (WTC) – Underweight -** WiseTech fell on governance issues including board exodus and an earnings downgrade.

Key detractors include:

- **Block (XYZ) – Overweight -** Block fell after earnings missed expectations on weaker consumer spending trends and a lower margin. The impact Trump's tariffs may have on consumer spending also weighed on sentiment.
- **Alcoa (AAI) – Overweight -** Alcoa dropped after Trump announced tariffs on Canada, and on expectation of slower economic activity in the US leading to reduced aluminium demand.
- **Treasury Wine (TWE) – Overweight -** Treasury weakened after earnings missed on softening US wine demand. The impact Trump's tariffs may have on consumer spending also weighed on sentiment.
- **Evolution Mining (EVN) – Underweight -** Evolution leapt on the higher gold price.
- **Commonwealth Bank (CBA) – Underweight -** CBA outperformed modestly as its Net Interest Margin (NIM) held up better than peers.

Portfolio Changes

Purchases

- **Telstra (TLS) -** Telstra was purchased on steady earnings and potential for capital management.
- **Coles (COL) -** Coles was purchased on solid supermarket sales and execution.
- **Vicinity (VCX) -** Vicinity was increased as retail rents remain resilient and pending completion of redevelopments provide a tangible pathway to growth.

- **Newmont (NEM) -** Newmont was increased on a more positive outlook for the gold price.
- **Sigma Healthcare (SIG) -** Sigma was bought post a strong trading update showing evidence of margin expansion.

Sales

- **Macquarie Group (MQG) -** Macquarie was reduced on deteriorating earnings outlook, as policy uncertainty likely weigh on investment decisions and realisations.
- **Block (XYZ) -** The Block overweight was reduced post the earnings miss, deteriorating consumer outlook and reducing portfolio beta.
- **Aristocrat (ALL) -** Aristocrat was reduced following growth concerns due to deteriorating consumer outlook.
- **Alcoa (AAI) -** Alcoa was reduced on concerns Trump's tariffs will impact its earnings potential directly through the tariffs on its Canadian output, and indirectly through weaker aluminium demand.
- **Brambles (BXB) -** Brambles was trimmed post recent outperformance.

Environmental, Social, Governance Issues (ESG) – Engagement

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 Worsley (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.

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 is increasingly positioned defensively, 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.

The portfolio is overweight Materials, principally due to an overweight in Gold companies including Newmont. Gold is favoured as a store of value against both inflation and crisis, and a beneficiary of central bank buying.

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 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 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.

The portfolio is modestly overweight Healthcare via ResMed and Ansell. 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 portfolio 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).

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.

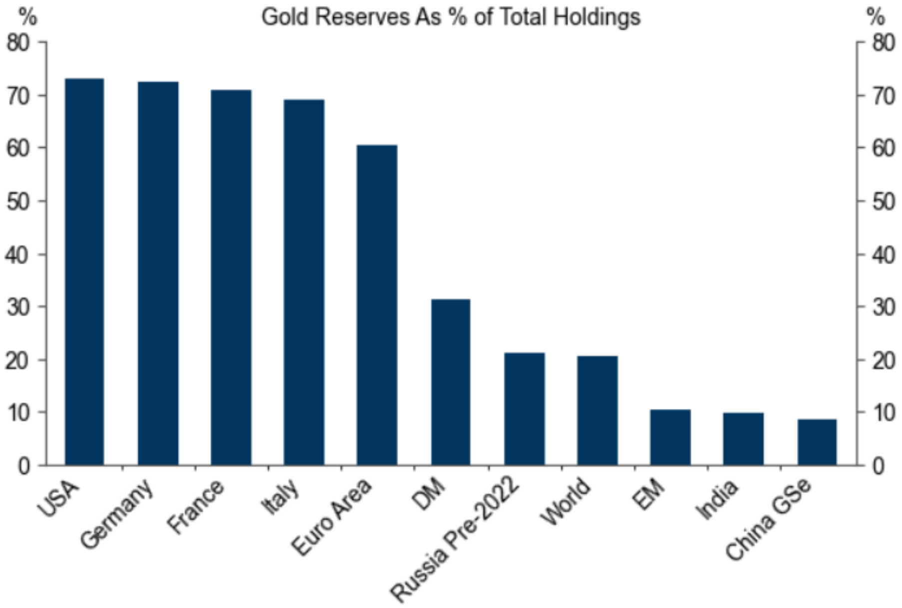
Overall, consumer and corporate uncertainty ramped up towards the end of February in relation to tariff and DOGE-induced uncertainty. Corporates were generally supportive of tariff related logic but not the method or communication. It would take years to re-shore in USA and this would require certainty 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.

Please reach out to distribution@paradice.com for further insights from the field trip.

#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



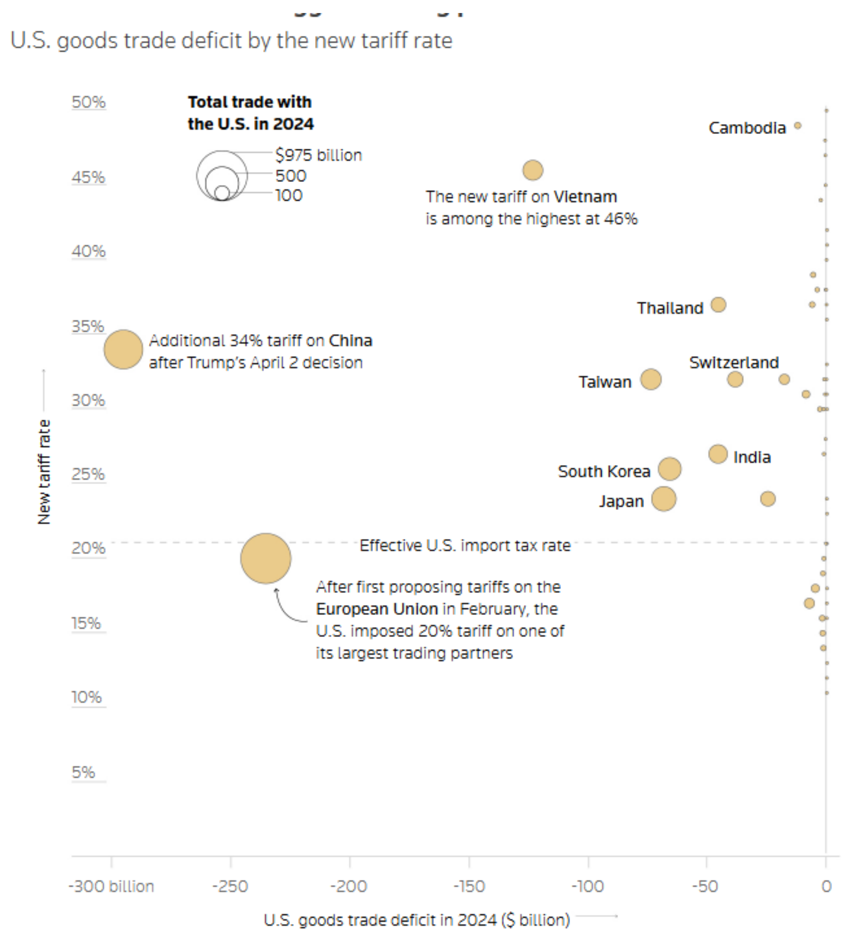
Source: IFS, Goldman Sachs Global Investment Research, March 2025

#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.

Following chart -> The full list of proposed US tariffs

Tariffs hit some of the biggest trading partners for the US

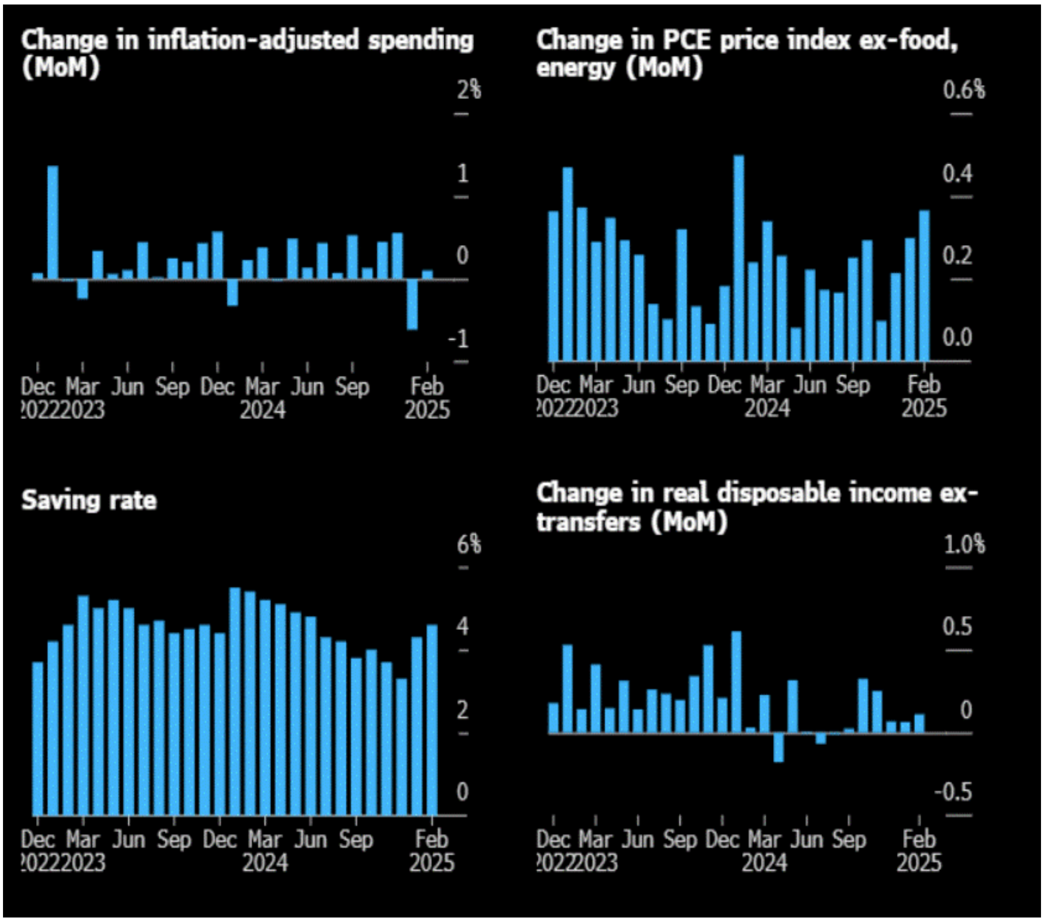


Sources: The White House; U.S. Census bureau; Fitch Ratings

As at 3 April 2025

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

For further details on fund positioning please refer to the Paradice Australian Equities Quarterly [Fact Sheet](#).

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