30 SEPTEMBER 2024

AUSTRALIAN EQUITIES FUND

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	7 YEARS	SI* P.A.
Australian Equities Fund	4.23	9.85	24.01	10.51	9.66	10.49	10.42
S&P/ASX 200 Total Return Index	2.97	7.79	21.77	8.45	8.38	9.74	9.47
Excess Return	1.26	2.06	2.24	2.06	1.28	0.75	0.95

*Since Inception date (SI) – 2 August 2017

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 a rolling three to five year period.

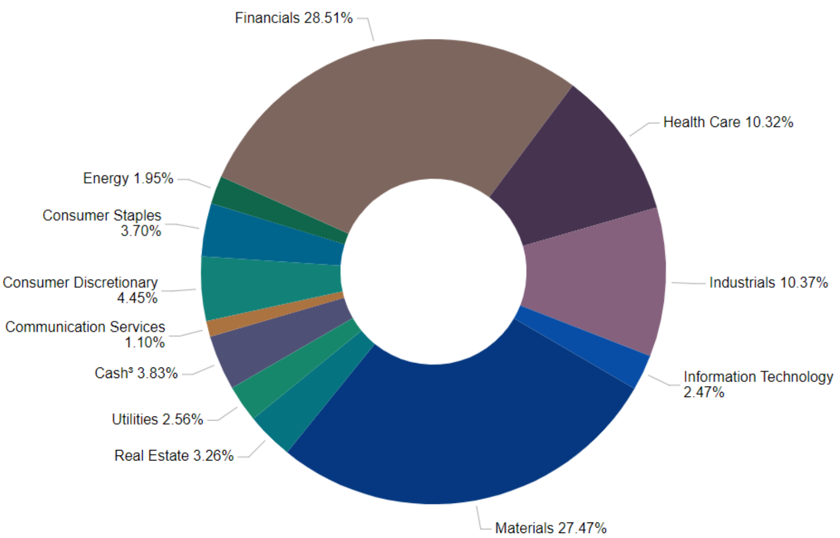
LEAD PORTFOLIO MANAGER

Troy Angus & Julia Weng

FUND OVERVIEW

The highly experienced team use a detailed fundamental research process to find stocks that are growing faster with better outlooks over the next 3–5 years. The Fund is agnostic of investment style and employs a long term ‘bottom up’ approach to investment.

SECTOR ALLOCATION



KEY DETAILS	
Number of Holdings	44
Portfolio Dividend Yield	2.89%
Fund Size (AUD)	$ 114M

TOP 10 POSITIONS	WEIGHT %
BHP Group Ltd	9.42
Macquarie Group, Ltd.	5.33
Newmont Corporation Registered	5.08
Resmed Inc	4.77
CSL Ltd.	4.62
Brambles Ltd.	4.56
QBE Insurance Group Ltd.	4.54
Block, Inc.	4.13
National Australia Bank Ltd.	4.13
ANZ Group Holdings Ltd.	3.86

FUND DETAILS	
APIR Code	ETL8084AU
Distribution Frequency	Semi-Annually
Management Fee[1]	0.75% p.a.
Performance Fee[2]	15% p.a.
Buy / Sell Spread	+/- 0.20%
Minimum Investment	$20,000
Stock Range	Typically 30–50
Cash Range	0–10%

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Performance in AUD unless otherwise noted.

MARKET REVIEW

The MSCI World Total Return Index rose 6.6% (in USD) and the US S&P 500 Total Return Index 5.9% (in USD) in the September quarter versus prior comparable period (pcp). The S&P was boosted by the Federal Reserve cutting its benchmark interest rate 50bp but hindered by disappointing performance from the "Magnificent Seven" with the NASDAQ only rising 2.8% (in USD). The MSCI China Net Total Return Index fell over most of the quarter, but bounced in September after stimulus measures were announced, and ended up 23.5% (in USD).

The S&P/ASX 200 Total Return Index rose 7.8%. The August earnings season impacted sector divergence. Information Technology jumped 16.1% as WiseTech announced new products, and Communication Services lifted 8.0% with similar franchise extension drivers from REA and CAR. Banks advanced 8.5% on better updates again, and also due to a rotation from resources, although this partly reversed after China stimulated. Materials lifted 10.8%, and Iron Ore 3.3% (in USD). Energy was the worst performer, declining 6.2%, as Woodside announced two acquisitions with poor financial metrics, and the sector reported disappointing earnings with production issues and as Brent weakened 16.9% (in USD) on a looser demand/supply balance.

The US Federal Reserve cut rates 50bp after making progress on inflation and jobs growth slowed. US Personal Consumption Expenditure (PCE) Inflation eased to 2.2% in August vs pcp, down from 2.6% in May. Futures are pricing ~70bp more cuts by year end, which increased over the quarter. The US 10-year Treasury yield rallied 62bp to 3.78%, and the 2-10 year curve steepened 50bp. The US election in November remains a key risk with Trump threatening large tariffs, which are likely to be inflationary.

China announced a significant stimulus package in late September. Key measures included reducing borrowing costs and encouraging lending; releasing the equivalent of USD$140 billion into the financial system, with the possibility of further cuts by year-end. There were also increases to the amount banks can borrow to help state-owned companies buy up empty apartments, and a host of new support to prop up China's lagging share market and jump-start mergers and acquisitions. The stimulus is still fresh, so has not yet shown up in macro data. However, commodity prices reacted immediately, with Copper, Aluminium, and Iron Ore all up strongly over the ensuing week. This, most likely, led to a rotation from Australian Bank stocks back into Resource equities late in the quarter.

PERFORMANCE

The Fund outperformed by 2.06% over the quarter.

Contributors/Detractors

Positives

Brambles (BXB) Overweight
Brambles rose on a strong earnings result and an investor day that highlighted better than expected future financial targets.

Newmont (NEM) Overweight
Newmont rose on higher Gold (13.2% in USD qoq) and Copper prices (3.1% in USD).

ResMed (RMD) Overweight
ResMed rose on a solid earnings result and easing concerns around the impact of weight loss drugs on demand for their sleep apnoea machines.

Woodside (WDS) Underweight
Woodside fell on investments in two large higher risk and low return opportunities, dampening the prospect of free cashflow return to shareholders.

Fortescue (FMG) Underweight
Fortescue fell on weaker Iron Ore and steel demand.

Negatives

Westpac (WBC) Not held
Westpac rose on marginally better quarterly profits due to lower one-off loan losses and seemingly, also due to a rotation from resources and following the US Banks despite different fundamentals.

QBE Insurance (QBE) Overweight
QBE weakened on a softer premium rate trajectory, and as lower interest rates create a headwind.

Block (SQ2) Overweight
Block underperformed on concerns over Gross Payment Volume (GPV) growth in Square's Seller business where product innovation and sales restructuring is taking place in recent quarters.

Beach Energy (BPT) Overweight
Beach Energy underperformed following a reduction in reserve estimates.

Origin (ORG) Overweight
Origin eased following a softer operating result, which was also impacted by higher bad debts.

Portfolio Changes

Purchases

Alcoa (AAI)
Alcoa was purchased on an improving demand outlook for aluminium, tight feedstock supply, and strong valuation support.

Macquarie Group (MQG)
Macquarie was increased on projections of an earnings inflection due to offshore leads, and relative valuation support versus the banks.

QBE (QBE)
Premium rates remain solid, margins are improving, and QBE's valuation versus Banks was supportive.

Fortescue (FMG)
Fortescue was purchased late in the quarter on iron price falling to cost curve support and attractive valuation.

Seek (SEK)
Seek was added on improving confidence around operating leverage, monetisation of Growth fund, and strong valuation support.

Sales

CSL (CSL)
CSL was reduced on a lower earnings outlook as Vifor and Seqirus divisions weigh on a stronger Behring growth outlook.

Rio Tinto (RIO)
Rio Tinto was reduced on lower iron ore outlook earlier in the quarter.

Beach Energy (BPT)
Beach Energy was reduced on lower iron ore outlook earlier in the quarter.

Technology One (TNE)

Technology One was exited after outperformance. Company continues to execute well, valuation is fair post significant re-rate.

Insurance Australia Group (IAG)

IAG was reduced after outperformance. Strong premium rates, benign claims and capital management continue to support valuation upside.

ENGAGEMENT

During the quarter we undertook a total of 41 engagements in which we explicitly discussed ESG matters, with 27 companies relevant to the strategy. Of these, 83% 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. Climate change continued to be a strong focus, as a number of portfolio companies published their latest climate disclosures. With cost of living and social licence issues continuing to be relevant at the macro level, the most notable topic in the period was conduct and stakeholder relations.

We met with the Commonwealth Bank (CBA) at both Board and management level in the quarter, covering a range of ESG matters. Of note, was a focus on scams and fraud, as well as risk culture and conduct. We got additional context on the bank's decision to scrap the mortgage broker bonus caps, as well as the CBA's ongoing vigilance in respect of conduct considering issues revealed at peers. On climate, we discussed the data quality challenge and flow on impact for assurance of disclosures. With the Chair, we also discussed succession planning and board composition.

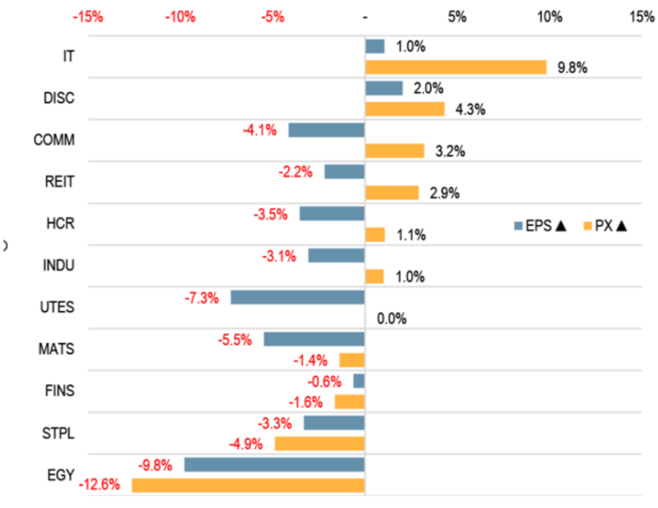
In the period we also met with Santos (STO) as we understand the company is preparing its 2024 Climate Action Plan, to be put for a 'Say on Climate' vote next year, we sought to provide feedback to the Sustainability Team on areas for enhancement. In particular, we discussed climate targets, scenario analysis and better practice disclosure examples. The company is actively considering how to form a relevant target to address Scope 3 emissions, while balancing practicalities such as lack of control or influence.

AUG - REPORTING SEASON SUMMARY

Across the reporting season, PE multiple expansion (+1.2pts) was a dominant force, even as earnings decline deepened resulting in a -3% downgrade to FY25 EPS. Multiple expansion was particularly acute across technology and communications, led by WTC and REA.

Positive outlooks were provided for the Banks, as commentary suggested Net Interest Margins are stabilising and a potential credit cycle pushed out again. The Consumer sector continues to have a bifurcated customer base, with companies like Qantas citing strong 'boomer' demand and austerity plays like KMart also benefiting from 'cost-of-living' pressures. However, volume and margin pressures were cited at Cyclicals and Consumer Discretionary names like James Hardie, Wesfarmers/Bunnings, and Woolworths. There was some evidence that the Artificial Intelligence theme is cooling at Goodman and Nextdc, and signs the AREIT sector may be troughing as asset valuations on transactions stabilise.

Drivers of P/E expansion by sector (ASX 100, Aug-24)



Source: Bloomberg Finance L.P.

OUTLOOK AND POSITIONING

Globally, equity markets appear overbought post the ongoing rally, which has occurred primarily via a valuation re-rate. In the USA, weaker August jobs data, and contractionary 47.2 US ISM Manufacturing PMI, justify expectations for ~70bp of rate cuts by year end. However, valuations for the US S&P500 at 24.2x forward price/earnings, vs 21.3x long-term average[1], are stretched. The US Presidential election, and Chinese and Middle Eastern tensions, may create some volatility.

Recent Chinese stimulus is welcome new news and suggests that policy leaders are stepping up the urgency to address economic challenges. Monetary policies announced late in September have been the most sizeable to date; additional policies to destock housing inventory were also announced to stabilize house prices, which have seen a 30-40% decline since the peak. These steps are critical as the consumer has been reeling from the negative wealth impact from housing and investment markets. The Central Bank of the People's Republic of China (PBOC) also signalled further easing to come; in particular, a step-up in fiscal stimulus which could drive reflation and consumption increases.

In Australia, inflation remains a risk and the RBA is unlikely to begin cutting rates until February 2025. Persistent inflation and higher, for longer, relative rates versus the US, do pose a risk to a higher Australian Dollar. The S&P/ASX200 Index valuation is not as elevated as the US, at 18.1x forward price/earnings, but is above the 14.9x long-term average.

The portfolio is increasingly overweight Materials. The portfolio is overweight Gold through Newmont and Northern Star. Gold is favoured as a store of value against both inflation and crisis, and typically outperforms when the interest rate cycle is peaking. The portfolio is also overweight Aluminium via Alcoa, Rio Tinto and South32 as we see favourable supply / demand dynamics. The portfolio is now approximately equal weight iron ore names with a view to further increase exposure on evidence stimulus is boosting demand.

[1]Source: Bloomberg

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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, which are benefiting from an ongoing insurance hardening (pricing) cycle. The portfolio continues to hold Block on supportive valuation, 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 who demonstrated at a recent investor day that they can continue to grow earnings and generate free cashflow, and Seven Group where earnings and margin outlook are supported by a sustained infrastructure and mining equipment replacement cycle.

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 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 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.