30 JUNE 2025

AUSTRALIAN MID CAP FUND – CLASS A

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	7 YEARS	10 YEARS	SI* P.A.
Australian Mid Cap Fund - Class A	1.08	11.02	17.31	12.32	11.11	7.47	10.41	9.31
Mid Cap Composite Benchmark[1]	0.80	9.84	15.24	12.52	11.10	8.09	10.50	6.70
Excess Return	0.28	1.18	2.07	-0.20	0.01	-0.62	-0.09	2.61

*Since Inception date (SI) – 25 September 2006

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 Mid Cap Composite Benchmark[1] of 70% of the S&P/ASX Mid Cap 50 Total Return Index and 30% of the S&P/ASX Small Ordinaries Total Return Index over a three to five year period (after management costs and before tax).

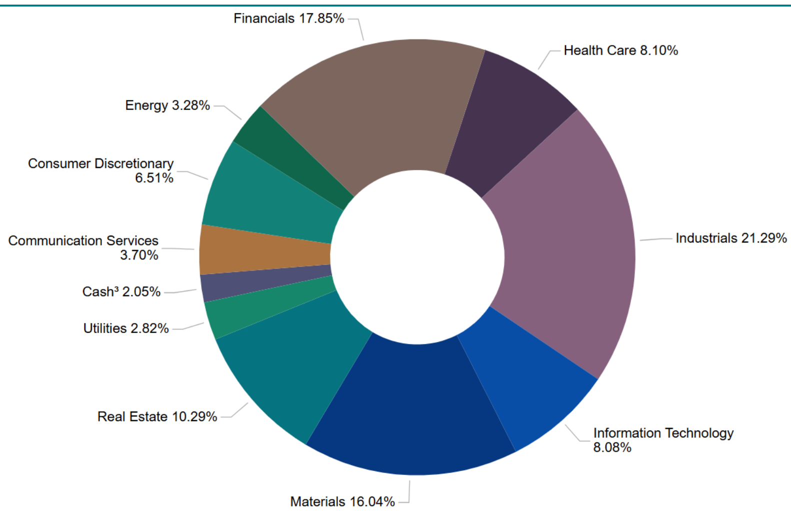
LEAD PORTFOLIO MANAGER

Matthew Riordan

FUND OVERVIEW

The highly experienced team have a focus on downside protection and aim to generate strong, long term risk-adjusted returns.

SECTOR ALLOCATION



KEY DETAILS	
Number of Holdings	45
Portfolio Dividend Yield	1.96%
Fund Size (AUD)	$ 60M

TOP 10 POSITIONS	WEIGHT %
SGH Ltd.	5.81
Orica Ltd.	4.81
ALS Ltd.	4.78
Charter Hall Group	4.60
Vicinity Centres	4.24
Cleanaway Waste Management Ltd.	3.85
Qube Holdings Ltd.	3.79
Technology One Ltd.	3.70
JB Hi-Fi Ltd.	3.23
Washington H. Soul Pattinson	3.14

FUND DETAILS	
APIR Code	ETL9086AU
Distribution Frequency	Semi-Annually
Management Fee	0.90% p.a.
Performance Fee[2]	15% p.a.
Buy Sell Spread	+/- 0.25%
Minimum Investment	$20,000
Stock Range	Typically 40–60
Cash Range	0–10%

02 8227 7400 distribution@paradice.com www.paradice.com

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Performance in AUD unless otherwise noted.

MARKET REVIEW

Key events that impacted the market

What began as a potentially weak quarter, ended up being very strong for global equity markets. The period began with Liberation Day dragging down sentiment, and geopolitical risks escalated as Israel and the US bombed Iran. However, markets rebounded as a truce was brokered, and progress on trade deals helped restore confidence. There is no certainty to the permanence of either of these outcomes as at the time of writing with the paused tariffs set to be reintroduced on 9 July (although they may well be paused again). Despite the volatility, risk appetite improved through the quarter.

Global returns

Global equity markets delivered strong gains in the June quarter. The MSCI World Total Return Index advanced 11.5%, while the S&P 500 Total Return Index rose 10.9%. The NASDAQ Total Return Index was the standout, returning 18.0% as investors rotated back into large-cap tech names. The MSCI EAFE Total Return Index also rose strongly, up 11.8%, while MSCI China Total Return Index delivered a modest 2.0% return (all in USD) as despite early progress towards a trade agreement, concerns remain that China is a primary target of any US action in this regard.

Domestic interest rate and market moves

The ASX Mid Cap 50 Total Return Index (Mid Cap 50 Index) continued its trend of being the strongest performing segment of the Australian market. The Mid Cap 50Index rose 10.3% for the quarter, compared to the S&P/ASX 200 Total Return Index (ASX 200) up 9.5% and the S&P/ ASX Small Ordinaries Total Return Index (Small Ordinaries) up 8.6%. For the financial year, this brings the total return of the Mid Cap 50 Index to 16.5%, higher than the ASX 200 of 13.7% and the Small Ordinaries up 12.3%.

The Reserve Bank of Australia cut the cash rate by 25bp in May, the second cut in this easing cycle, amid evidence of cooling inflation and soft consumer demand. Bond yields fell across the curve, with the Australian 2-year and 10-year yields down 47bp and 22bp respectively, reflecting a growing expectation of further easing.

Key sector moves[1]

Information Technology and Energy were strong performing sectors over the quarter. Information Technology rallied as AI optimism and a strong lead from the NASDAQ supported the sector. Energy benefited from continued strength in uranium and a rally in oil prices early in the quarter, underpinned by OPEC supply discipline and the action in Iran.

Conversely, Utilities and Health Care detracted from performance. Utilities lagged amid a benign Winter and rising competition in retail electricity markets. Health Care was impacted by soft updates and lingering concerns over the impact most-favoured-nations would have on the sector. Both sectors also suffered from a move away from defensives.

Key stock moves

In our universe, Zip (ZIP) was a top contributor, benefiting from two profit upgrades and signs that the US consumer remains more resilient than feared. Life360 (360) also performed strongly as ongoing monetisation efforts delivered positive operating leverage and improved market confidence.

On the downside, IDP Education (IEL) underperformed due to continued pressure from regulatory uncertainty in international student flows and disappointing near-term earnings momentum. Ansell (ANN) also detracted, on concerns over weaker industrial demand and as the market continues to grapple with the impacts of tariffs on their offshore manufacturing base (the US being a key market for Ansell).

Consumer conditions

Consumer conditions remained challenging despite the RBA rate cut. Several retailers downgraded earnings, including Accent Group and KMD Brands, citing soft foot traffic and elevated promotional activity. While volumes stabilised in some categories, margin pressure persisted as value-seeking behaviour dominated and discounting intensified.

Commodity moves

Gold rose 5.7% (in USD) over the quarter, supported by central bank demand and its safe-haven appeal. Copper gained 3.8%(in USD) as supply constraints and energy transition demand underpinned the market. Iron ore declined 8.9%(in USD) due to softer steel production, while Brent crude fell 9.5% (in USD) as concerns about global demand outweighed early quarter gains and the situation in Iran moderated (for the time being).

Global economic trends

Global growth softened modestly during the quarter. The JP Morgan Global Composite PMI edged down to 51.2 in May, reflecting a deceleration in services activity and ongoing weakness in manufacturing. Trade and policy uncertainty remained elevated, though the overall global expansion remained intact.

Australian economic trends

Australia's economic activity showed tentative signs of expansion, with the Composite PMI rising to 51.6 in June. Inflation moderated, allowing the RBA to continue its easing cycle in May. Labour market conditions remained resilient, but leading indicators suggest a cautious outlook amid subdued consumer sentiment and a soft housing backdrop. Market pricing at quarter-end implied a further 80bp of cuts by year-end.

PERFORMANCE

The Fund outperformed the ASX Mid Cap Composite Benchmark by 1.18% for the quarter in a very strong environment.

The outperformance for the quarter was largely driven by stock picking with strong contributions from stocks held (see Positives) and avoiding stocks with earnings issues such as Reece and Aurizon. In terms of stocks that we held that underperformed a number did so on a lack of news (AGL, Worley) while we also did not participate in the rebounds in Next DC and Paladin.

Contributors/Detractors

Positives

Zip Co Ltd. (ZIP) – Overweight

Zip outperformed following a strong rebound in transaction volumes and robust US segment performance. Continued progress on profitability and improved funding access were also well received with the company upgrading twice in the period.

Life360 Inc (360) – Overweight

Life360 gained as user growth and monetisation initiatives continued to deliver.

NexGen Energy (NXG) – Overweight

NexGen rose alongside a strengthening uranium market, as investor focus returned to supply constraints and increasing global interest in nuclear energy solutions.

Negatives

IDP Education Ltd. (IEL) – Overweight

IDP Education declined materially on weaker international student demand and concerns around visa policy changes in its key destinations, which saw a massive H2 profit downgrade.

Nextdc Ltd. (NXT) – Underweight
Nextdc rebounded in line with the broader sector and the announcement of new contract wins.

AGL Energy (AGL) – Overweight
AGL lagged the broader market on a more benign winter that may impact energy usage.

PORTFOLIO CHANGES[2]

Purchases

Zip Co Ltd. (ZIP)
We added to Zip following the sharp sell off on continued strength in the US business and leverage to declining interest rates in Australia.

Fisher & Paykel Healthcare (FPH)
The position was added to after signs of recovery in hospital hardware demand, supported by improving margins and operating leverage.

Ramelius Resources (RMS)
Ramelius was purchased on the back of a constructive gold price outlook and the natural benefits that will accrue from its merger with Spartan Resources.

Sales

Evolution Mining (EVN)
We reduced our position in Evolution following strong recent performance and its move into the ASX 50.

De Grey Mining (DEG)
De Grey was taken over by Northern Star (NST) in the period. We received scrip in NST which we sold to pursue better opportunities in the space.

Whitehaven Coal (WHC)
Whitehaven was sold as coal price momentum faded.

TRIP TAKEAWAYS

Alongside our normal company visitation program, we had a quarter heavy with international visits with Matt Riordan visiting the US in May and Jovana Gagic visiting Europe in June.

USA Trip Takeaways

Our US research trip this quarter focused on the technology sector (via the JP Morgan Boston Tech Conference), housing (JP Morgan Homebuilder Conference), gaming, and key macroeconomic indicators.

Concerns around tariffs and tax policy persist and continue to shape the macroeconomic landscape. While there is some optimism about potential resolution, scepticism remains high. Interestingly, many corporates were unwilling to publicly discuss the impact of tariffs—perhaps due to fears of political or commercial repercussions. Despite this, robust consumer spending and resilient commodity pricing suggest underlying economic strength.

US homebuilders face mixed conditions. Affordability issues and the widespread use of incentives are prominent, particularly in the previously resilient Sun Belt—which has experienced significant overbuilding—and the West Coast. Builders are increasingly shifting toward “to-be-built” homes and land-light models to support ROE. While labour constraints have eased, land costs remain elevated. The recent downgrade of Reece highlights the broader impacts of ongoing US housing weakness.

AI adoption is accelerating rapidly. Over the past 18 months, we've observed a dramatic shift—from early uncertainty and weak financial justification to widespread belief that AI will be used across virtually all sectors. For example, Qualcomm and IBM are reportedly embedding inference capabilities directly into devices and software. Recruit is leveraging AI to enhance hiring efficiency in a cooling job market, even as demand for software engineers declines. So far, AI has had the most profound impact on service-facing roles (e.g., call centres) and, ironically, on programmers—where it has proven particularly efficient.

Data centre providers such as Equinix and DigitalBridge remain confident, though returns in hyperscale projects are tighter. Inference-driven demand is a growing focus. Notably, earlier fears that companies would pull back on data centre spending have largely dissipated.

In gaming, April’s weakness has reversed. A combination of improved weather conditions and rebounding consumer sentiment—following the initial “Liberation Day” shock—has driven the recovery.

Zillow and News Corp remain cautious on housing affordability and are dismissive of CoStar’s US model. This has implications for REA, particularly in the context of the pending Domain acquisition.

Payments companies have rebounded. Mastercard and Visa are expanding into crypto and direct payments. Sezzle is distinguishing itself in the Buy Now Pay Later (BNPL) space through product innovation, with positive read-throughs for Zip. Block is notably more upbeat on Q2 performance compared to Q1, citing consumer resilience. Execution in the second half will be key to full-year success.

UK Trip Takeaways

We travelled to the UK during the quarter to attend the JP Morgan European Industrial Conference and meet with a range of listed corporates operating in sectors relevant to our holdings, including building materials, mining services, retail, travel, data centres, and financial platforms.

Our trip revealed a mixed but gradually improving macro backdrop across Europe and the UK. Maersk noted healthy global volume growth, with Europe solid, Africa and Southeast Asia expanding, and early signs of recovery in China. The US was more mixed—at one point, US-China volumes fell 30–40%, but demand has since rebounded as customers brought forward shipments ahead of potential new tariffs. Container shipping capacity is set to rise, supporting a normalisation in freight rates. Tariffs and trade frictions were a recurring theme, with most companies confident in passing on higher costs, though some flagged potential demand risk at the margin.

In Europe, sentiment—particularly in Germany—has improved, helped by government investment, notably in defence. Building materials companies including Holcim, Heidelberg, and Saint-Gobain reported stable conditions and improving second-half expectations. Kingfisher cited stabilisation in UK repair and maintenance, with early signs of improvement in big-ticket housing categories.

Mining equipment companies Metso, Weir, and FLSmidth highlighted diverging trends across commodities. Copper and gold activity remains strong, while lithium and iron ore are more challenged. The political backdrop is shifting in favour of mining investment. In the US, Trump’s designation of 20 mining sites as critical should accelerate permitting. In Argentina, President Milei is pursuing reforms to attract foreign capital, including the Incentive Regime for Large Investments (RIGI), which offers a 30-year guarantee of tax, customs, and FX stability for approved projects—providing rare legal certainty for long-term investors.

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Schneider Electric, Legrand, Prysmian, and Signify all pointed to sustained strength in data centre demand. Lead times remain extended, with order books for cabling and electrical infrastructure stretching into 2027–30. AI adoption is driving step-changes in power and capacity requirements, with the US leading due to faster permitting and infrastructure readiness. The need for liquid cooling and grid upgrades underpins long-term growth. Companies also cited digitalisation and data localisation (sovereignty) as structural demand drivers.

ENGAGEMENT

During the quarter, we undertook a total of 17 engagements in which we discussed ESG matters with 14 companies relevant to the strategy. A majority were held at either board or executive level. The engagements covered a range of issues, with most involving multiple ESG matters. In this period, the most discussed topics were the climate transition and corporate governance.

We had a meeting with Orica's (ORI) executive team post its half year results, where the company had reported it had generated $15m from carbon credits. With the tertiary catalyst abatement technology now commissioned at both the KI and Yarwun facilities, Orica is starting to generate Australian Carbon Credit Units (ACCUs) and safeguard mechanism credits. We sought to understand the potential for this revenue stream to grow through the sale to third parties or whether the company will increasingly need to bank the credits for its own carbon liabilities which may arise in the future. The company stressed it would be difficult to forecast but they did note the full benefits of the tertiary catalyst abatement technology is yet to be realised at Yarwun as it was commissioned more recently.

OUTLOOK

Progress has been made on tariff negotiations with several countries, including the UK, India, and more recently Vietnam. Discussions with China remain tentative, while engagement with Japan has delivered only limited progress. Despite these efforts, there is still a long road ahead, and the suspended tariffs from Liberation Day are scheduled to come into effect on 9 July—though there remains a possibility of another postponement. For now, the truce with Iran is holding, offering a measure of geopolitical stability.

While this has provided some support to sentiment, the broader backdrop remains challenging. Business and investment confidence continues to be clouded by tariff uncertainty and the broader policy environment. The sheer scale of proposed tariff changes and retaliatory threats have created significant headwinds, particularly for companies with complex supply chains or offshore manufacturing footprints. Forward guidance has become increasingly cautious across corporates, and capital expenditure plans remain on hold in many sectors.

The threat of tariffs has also seen the Federal Reserve pause its easing cycle, despite inflation remaining relatively benign. Markets have started to price in further rate cuts amid signs of softer growth, but political pressure—including direct criticism from President Trump—continues to complicate the Fed's path. Markets remain on edge as policymakers attempt to balance deteriorating business conditions with the need to maintain financial stability.

Australia has yet to secure a meeting with President Trump to discuss the implications of the new tariff regime or broader defence arrangements, despite his having been in office for over six months. Domestically, the recent federal election delivered a status quo outcome, which is likely to provide continuity in economic policy but may also reduce the urgency for any proactive trade response.

China remains a key swing factor. Although a framework for a trade deal has been proposed, Beijing's formal response has been limited. To date, stimulus has underwhelmed expectations, and any further support—particularly in infrastructure or property—will be closely watched. Export strength has provided a partial buffer, but risks to the broader Chinese growth outlook persist.

The US technology sector has rebounded following a softer period, with earlier concerns over a slowdown in AI and data centre investment having eased. Our recent US visit confirmed that AI is becoming increasingly embedded across business models and investment strategies, suggesting the sector's growth potential remains intact. While scrutiny around capital allocation continues, the pervasive influence of AI is reinforcing long-term tailwinds across software, infrastructure, and semiconductors.

During the quarter, we added to our position in Cleanaway, where improving operating leverage and better margin execution provided a favourable risk-reward outlook. We also initiated a position in Pilbara Minerals, supported by more stable lithium pricing and a more constructive demand backdrop. We reduced our position in REA Group following strong share price performance and on valuation grounds. Beach Energy was divested due to concerns around further delays at Watsia and higher capital expenditure reducing the likelihood of an increased dividend. Next quarter we return to the US, where we expect to gain further insight into how tariffs are influencing corporate behaviour and to refine our bottom-up assessments of earnings resilience.

1. Unless otherwise stated performance represents that of the Mid Cap Composite Benchmark.
2. Portfolio changes may not represent the most material changes to the Fund for the quarter.