31 MARCH 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	-3.91	-1.52	3.56	2.74	13.79	6.90	8.44	8.82
Mid Cap Composite Benchmark[1]	-3.54	-2.61	1.32	2.72	14.62	7.54	8.71	6.25
Excess Return	-0.37	1.09	2.24	0.02	-0.83	-0.64	-0.27	2.57

*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).

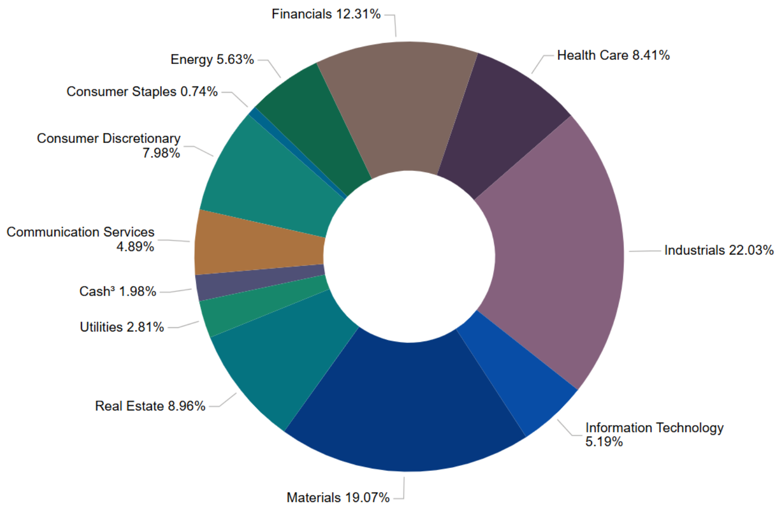
LEAD PORTFOLIO MANAGER

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	47
Portfolio Dividend Yield	2.08%
Fund Size (AUD)	$ 55M

TOP 10 POSITIONS	WEIGHT %
SGH Ltd.	5.47
Orica Ltd.	4.51
ALS Ltd.	4.43
Evolution Mining Ltd.	4.28
Vicinity Centres	4.24
Charter Hall Group	3.84
JB Hi-Fi Ltd.	3.69
Qube Holdings Ltd.	3.54
REA Group Ltd	3.47
Worley Ltd.	3.20

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%

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Performance in AUD unless otherwise noted.

MARKET REVIEW

The start of 2025 has seen the post-Trump election euphoria take a dramatic turn, with markets entering a pronounced risk-off environment. This shift began in January, triggered by a sell-off in U.S. technology stocks, led by DeepSeek's disruptive entry into the AI sector. Concerns over President Trump's trade policies further dampened confidence in global growth prospects.

The MSCI World Total Return Index eased 1.3% (in USD) in the March quarter. After leading global markets for much of 2024, the S&P 500 Total Return Index declined 4.3% while the NASDAQ Total Return Index dropped 10.3% (both in USD). The MSCI Europe, Asia and Far East (EAFE) Total Return Index rose 6.9%, and MSCI China surged 15.0% (both in USD), as investors rotated into these markets.

Domestically, the Reserve Bank's first interest rate cut since 2020 was overshadowed by global market uncertainty and one of the most volatile reporting seasons in recent memory. The Mid Cap Composite benchmark (the Benchmark) declined 2.6%, in line with the S&P/ASX 200 Total Return Index (-2.8%). The S&P/ASX Small Ordinaries Index (Small Ords) performed slightly better, down 2.0%, supported by gold's defensive characteristics, which account for approximately 17% of the Small Ords index.

Among sectors, Information Technology was one of the worst performers due to a rotation away from growth and momentum stocks toward defensives. Data centre operators like NextDC and Macquarie Technology fell over 20% in the quarter, driven by concerns about overcapacity and return on investment. Microsoft's withdrawal from certain AI-related projects globally, including in Australia, exacerbated these pressures. Energy underperformed as weaker refining margins and disappointing results from Viva Energy weighed on sentiment[1].

Conversely, Consumer Staples like A2 Milk outperformed, buoyed by strong results and resilience in a challenging Chinese market. Real Estate also delivered solid performance through robust February results from Charter Hall and Vicinity Centres, coupled with lower yields 1.

Performance within Industrials varied. SGH outperformed following its strong result. Boral continues to surprise the market with its ability to raise prices and deliver margin expansion. On the flipside, Reece and Reliance Worldwide lagged on poor updates and limited signs of recovery in the U.S. or Europe. Reece also faced competitive pressures as a new entrant captured a significant share of its workforce in the waterworks segment.

Within Consumer Discretionary, retailers have seen a moderate increase in sales but as consumers continue to search for value, sales are concentrating around key sales events like Black Friday. The deeper discounting is resulting in margin pressure.

The Bloomberg Commodities Index rose 8.9% (in USD). Gold, the ultimate safe port in a storm, has had its best quarter since 1986, up 19.0%. Copper followed, rising 11.1% (both in USD). Iron Ore, Brent Oil and the Lithium spectrum were relatively stable. Thermal Coal dropped 17.8% and JKM LNG 8.2% (both in USD) on weaker demand due to warm northern hemisphere weather.

Global economies weakened on 'uncertainty' around President Trump's tariff policies. The JP Morgan Global Composite Purchasing Managers Index (PMI) dropped slightly in March to 52.1 from 52.6 in December. The US Federal Reserve maintained rates and in March emphasised a more cautious approach amid economic uncertainty. The futures were pricing ~90bp of cuts by 2025 year-end as at 31 March, which increased over the quarter from 60bp, and the US 2-year Treasury yield fell 36bp, as Trump tariffs could weaken growth. China seems to have stabilised their economy, as the CAIXIN PMI was 51.8 in March and has been in expansion territory five consecutive months.

Australian economic growth stabilised. The Australian Composite PMI was 51.6 in March, up from 50.2 in December. 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, although they didn't back it up with a consecutive cut in March. 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 the ASX Mid Cap Composite Benchmark by 1.09%.

The outperformance for the quarter occurred during a data heavy period for companies that was dominated by February Reporting Season. The Fund was largely on the right side of the updates which included a reasonable level of profit downgrades that were mostly avoided.

Contributors/Detractors

Positives

Genesis Minerals (GMD) – Overweight
Genesis advanced on a higher gold price.

De Grey Mining (DEG) – Overweight
De Grey advanced on a higher gold price.

Reece Limited (REH) – Nil Holding
Reece reported a soft first half result driven by macro headwinds in Australia and the US. The emergence of competition in its waterworks business was also a negative surprise.

Negatives

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.

A2 Milk (A2M) – Nil Holding
A2 Milk reported a strong result and upgraded guidance. English Label sales growth was the standout as the company continues to outperform in a tough China infant milk formula market.

NexGen Energy (NXG) – Overweight
NexGen fell in sympathy with the broader uranium market.

PORTFOLIO CHANGES

Purchases

Reliance Worldwide (RWC)
Share price weakness following the result provided an attractive entry point. Management have executed well during a challenging macro environment across all geographies.

NIB Holdings (NHF)
The NIB result outperformed modest expectations with ongoing strength in the Australian health insurance business and signs of a turnaround in peripheral businesses. After reporting they also secured a solid premium increase which is supportive of future earnings.

Evolution Mining (EVN)
Evolution was increased on expectations of an improved earnings outlook on a higher gold price, and because of strong demand for the commodity from central banks.

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Sales

Pro Medicus (PME)
Pro Medicus was sold as the stock moved into the ASX 50.

Block (XYZ)
The Block overweight was reduced this quarter post the earnings miss and deteriorating consumer outlook.

HMC Capital (HMC)
Exited the position on concerns around ability to continue fund raising.

TRIP TAKEAWAYS

During the quarter Jordan Woods conducted a trip to China, following Matthew Riordan's visit in October. The current assessment indicates that while a significant recovery is not yet evident, there are encouraging signs of marginal improvement, particularly in consumer sentiment and stabilisation of tier 1 and 2 city housing prices. The impact of the government's response to tariffs, US relations, policy initiatives, particularly in stimulating domestic consumption and supporting the private sector, will be crucial to monitor in the coming months. The commodity markets remain varied, with long term copper and rare earth outlooks appearing strong, and iron ore and lithium remaining more constrained.

China's macroeconomic environment continues to be challenged by a weak housing market, diminished consumer confidence, elevated household savings, youth unemployment exceeding 20%, and subdued private sector investment. Consequently, export growth has been a key driver of GDP, supporting the nation's 5% growth target. However, potential trade policy shifts from the Trump administration pose a risk to this export-led growth.

In response, the Chinese government has implemented targeted measures to bolster domestic consumption and investment. The trip revealed a discernible shift in consumer and private sector sentiment since October 2024. The effectiveness of these policy measures in translating into tangible consumption growth will be closely monitored.

China's "special action plan" outlines a comprehensive strategy to stimulate consumption, including employment support, minimum wage increases, asset price stabilisation, social safety net enhancements, targeted consumer sector support, and improved labour conditions. Early signs of policy impact are evident in the stabilisation of tier 1 and 2 city housing prices following the relaxation of purchase restrictions. The recently expanded trade-in program has also spurred increased sales of appliances and automobiles, and consumer confidence indicators appear to be bottoming out.

A notable shift in private sector sentiment is observed, driven by President Xi's public support for private enterprise. A key development was the February business symposium where President Xi, alongside prominent business leaders like Alibaba founder Jack Ma, emphasised the importance of private sector investment and growth. This change in rhetoric signals a more supportive stance towards private capital and aims to reassure both domestic and international investors. Alibaba's subsequent announcement of increased capital expenditure and job creation further underscores this shift.

ENGAGEMENT

During the quarter, we undertook a total of 21 engagements in which we discussed ESG matters with 19 companies relevant to the strategy. A majority (81%) were held at either board or executive level. The engagements covered a range of issues with most covering multiple ESG matters. In this period, the most discussed topics were the climate transition, and human capital management.

We met with AGL Energy (AGL), with a key theme being new energy strategy, particularly on batteries. For the first time, AGL was able to showcase the attractive returns it's achieving on its Torrens battery by capturing favourable pricing throughout the day. AGL expects to be able to achieve similar financial performance from its Liddell battery, due to commence operations in early 2026. The attractive returns are incentivising clean energy buildout, with AGL noting it wants to get batteries "on the ground ASAP" and reiterated its intention to carry these assets on its balance sheet. Interestingly, the company highlighted that the grid is the key constraint to ramping up capacity.

OUTLOOK

President Trump's Liberation Day tariffs represent the most aggressive trade policy shift since World War II. At the time of writing, the proposed measures include a minimum base tariff of 10%, with much higher reciprocal levels imposed on certain markets including 54% for China, 26% for India and 24% for Japan and Malaysia. 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 there is room for discussions, it seems likely that US effective tariffs, even after negotiations, are likely to rise. Retaliatory tariffs are likely, further flaming a global trade war. China has promptly announced a 34% tariff on all US imports and restrictions on exports of rare earths.

The uncertainty supporting tariffs has created significant challenges for business. The topic of tariffs came up 700 times[2] during quarterly earnings calls for S&P 500 companies - an all-time high in data going back to 2005 and slightly above the numbers seen in 2018 when Trump first enacted tariffs. This has given way to a significant pause in corporate investment decisions and a weakening consumer backdrop. For the upcoming quarterly earnings, it's unclear, what, if any, upside could be provided which is likely to result in further volatility.

Higher inflation may also make it more difficult for the Fed to cut rates despite slower growth. Looking at the glove industry as an example, 80-90% of manufacturing occurs in Malaysia and China. The level of price rises to offset the cost pressures is significant. Ansell, provides safety solutions and manufactures personal protection equipment for healthcare and industrial workplaces, has responded with plans to push prices to offset the impact. While this may be possible given the cost impost impacts most of the industry, it's likely that such a price increase would negatively impact underlying demand.

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 Federal Election is expected to take place in May with minimal highly controversial policies.

China's response remains pivotal. More recently, strong exports have helped offset the weakness in the housing sector. To date the level of stimulus has been disappointing. However, it's likely China has waited to see the extent of Trump's tariffs before responding. If weakness in exports eventuates, they may choose to stimulate infrastructure and property as an offset.

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The technology sector, which drove much of 2024's market gains, is now grappling with a reality check. The rapid ascent of DeepSeek and Microsoft's withdrawal from several global AI projects—including initiatives in Australia—highlight growing scrutiny of capital allocation in the sector. Investors are shifting focus from aspirational AI narratives to tangible returns, as questions mount about overcapacity in data centres and the viability of AI-driven growth projections.

During the quarter, we capitalised on market volatility to add positions in companies where valuations and earnings upside presented compelling entry points including Reliance Worldwide and NIB Holdings. Within technology, we reduced our overweight in CAR Group and sold Pro Medicus as they migrated to the ASX 50. We took profits in several outperformers, including BlueScope (where steel prices increased ahead of demand fundamentals) and Ansell (where FY2026 earnings had downside risk and was trading around fair value). We also trimmed our overweight in Block due to bottom-up concerns about consumer spending resilience.

The Fund continues to be made up of companies where we believe there are strong structural tailwinds to drive ongoing strong earnings growth as well as take advantage of short-term mispricing in the market. For the upcoming quarter, the team has a timely trip planned to the US where we will look to gain further clarity around the tariff impact on companies. From a bottom-up perspective, we are actively assessing the first order impact of tariffs and second order impacts of demand.

1. Unless otherwise stated performance represents that of the Mid Cap Composite Benchmark.
2. Tariff Worries Surpass 2018 Levels, Dominating Earnings Season, Bloomberg News, 28 February 2025.