

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	2.07	11.16	23.78	16.04	12.29	8.68	11.49	9.79
Mid Cap Composite Benchmark ¹	1.29	11.93	18.78	15.50	12.46	9.41	11.96	7.24
Excess Return	0.78	-0.77	5.00	0.54	-0.17	-0.73	-0.47	2.55

*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 Benchmark¹ 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.

KEY DETAILS

Number of Holdings	44
Portfolio Dividend Yield	1.62%
Fund Size (AUD)	\$ 65M

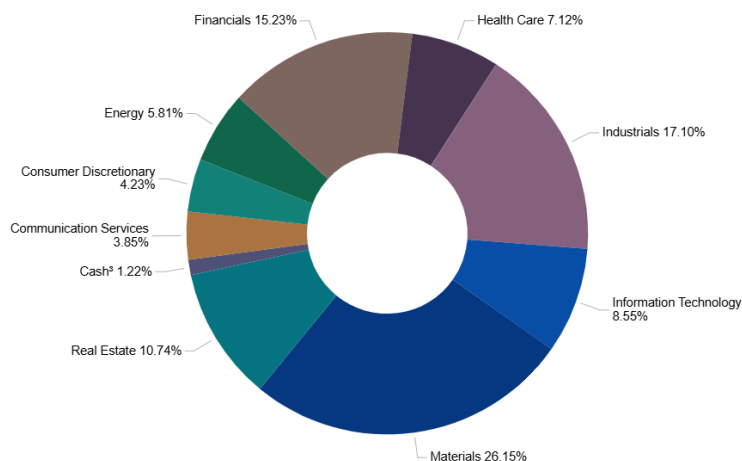
TOP 10 POSITIONS

	WEIGHT %
Life360, Inc.	5.30
ALS Ltd.	5.00
Charter Hall Group	4.91
Orica Ltd.	4.84
SGH Ltd.	4.45
Vicinity Centres	3.98
Cleanaway Waste Management Ltd.	3.67
Genesis Minerals Ltd.	3.63
Lynas Rare Earths Ltd.	3.47
Nextdc Ltd.	3.24

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%

SECTOR ALLOCATION



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AUSTRALIAN MID CAP FUND

— CLASS A

PARADICE
INVESTMENT MANAGEMENT

Performance in AUD unless otherwise noted.

MARKET REVIEW

Key events that impacted the market

Global equity markets continued to grind higher through the quarter. Momentum behind artificial intelligence (AI) — particularly generative AI — remained a defining structural force. Both the Federal Reserve and the RBA cut rates during the period, supporting risk appetite.

Trade developments in August lifted the average U.S. tariff rate, though markets largely shrugged this off. Gold, somewhat paradoxically, staged a powerful rally to new highs as investors hedged against inflation and macro uncertainty.

Australia's reporting season produced clear winners and losers. Consumer discretionary rallied on improving sentiment, REITs outperformed on the back of rate cuts, while Healthcare lagged with weaker earnings and cautious outlooks.

Global returns

Global equity markets remained firm through the quarter. The MSCI World Total Return Index rose 7.6%, supported by continued resilience in US equities, where the S&P 500 Total Return Index and NASDAQ Total Return Index extended gains, up 8.1% and 11.4% respectively (all in USD). China (MSCI China Total Return Index) was also up strongly posting 20.7% growth (in USD) during the quarter. Small caps were in vogue around the world, with the Russell 2000 Total Return Index up 12.4% (in USD).

Domestic interest rate and market moves

The September quarter saw a divergence across the Australian Equity market. The S&P/ASX 300 Total Return Index was up 5.0% for the quarter. Safety within the S&P/ASX 50 Total Return Index was tested during reporting season and drove its underperformance, up 2.8%. The strength in Mid Caps (S&P/ASX Mid Cap 50 Total Return Index) continued up 10.5%. Small caps (S&P/ASX Small Ordinaries Total return Index (ASX Small Ords)) also performed strongly, up 15.3%. Within the ASX Small Ords, the ASX Small Ordinaries Resources was up 25.6%, thanks to the rally in gold prices during the quarter, with gold accounting for 14% of the Small Ords Index.

Inflation data pointed to lingering price pressures. July CPI rose 2.8% y/y, well above consensus (2.3%), driven by travel and electricity costs. Employment trends remained stable, with unemployment edging down to 4.2%. These figures support the RBA's measured approach to easing — cutting slowly while the inflation path remains uncertain

Key sector and stock moves

Materials surged on the back of broad-based strength in mining and resources. Iron ore, gold, and battery-related exposures (such as lithium) posted outsized gains, with stocks like Mineral Resources and Pilbara Minerals delivering standout returns. Both Pilbara and Mineral Resources dropped out of the ASX50 into the ASX Mid Cap 50, around its lows. The rally was underpinned by stabilising Chinese demand signals and strong commodity price momentum through the quarter.

IT continued its strong run as investors rotated into growth sectors. AI-linked optimism and resilient global demand for software and digital services supported the sector. Names like Life360 (360) (+65.4%) benefited from ongoing monetisation and subscriber growth, while broader sentiment was buoyed by the strong lead from the NASDAQ. Zip (ZIP) (+44.0%) also performed strongly, supported by profit upgrades and evidence that US consumer spending remains resilient.

The Healthcare sector was weighed down by disappointing updates and weaker earnings guidance across several large constituents.

¹Unless otherwise stated performance represents that of the Mid Cap Composite Benchmark

Telix (TLX) fell 40.3% as enthusiasm around its radiopharmaceutical pipeline was tempered by concerns over execution risks and the timing of regulatory approvals. Ramsay's (RHC) share price declined (-12.5%), weighed down by ongoing cost pressures¹.

Commodity moves

Gold rallied 16.8% (in USD), supported by safe-haven demand and central bank buying. Lithium prices rebounded +32.8% (in USD) as temporary Chinese mine shutdowns tightened supply, though the rebound may prove short-lived with production now resuming. Iron ore rallied 9.6% (in USD) on hopes of Chinese support and improved steel mill profitability.

Global economic trends

The JPM Global Composite PMI printed 52.9 in August (up from 52.5 in July), indicating continued expansion led by services while manufacturing steadied. Cooling inflation and reduced macro uncertainty supported risk appetite, with policy settings expected to normalise gradually across major economies.

Australian economic trends

Australia's Composite PMI eased to 52.4 in September (from 55.5 in August) but remained expansionary. Headline inflation tracked ~3.1% y/y through the quarter, while the RBA cut rates by 25bp to 3.60%. Labour markets stayed relatively resilient, and futures pricing points to additional policy easing over the next 12 months as growth and inflation re-balance.

PERFORMANCE

The Fund was up 11.16% during the September quarter, underperforming the ASX Mid Cap Composite Benchmark by 0.77%. Over 1 year the Fund is up 23.78%, outperforming the Benchmark by 5.0%.

Contributors/Detractors

Positives

Zip Co Ltd. (ZIP) – Overweight

Zip outperformed after reporting better than expected results and guidance that was ahead of market forecasts. US total transaction value grew 45.4% during the fourth quarter and Australia is also seeing a turnaround in performance. The Company continues to manage credit losses effectively.

Life360 Inc (360) – Overweight

Life360 outperformed after reporting better than expected results. Global monthly active users reached 88 million and the conversion to subscription revenue was strong.

Genesis Minerals (GMD) – Overweight

Gold miner Genesis outperformed with the gold price during the quarter and was amongst the best performing stocks within the gold sector. GMD reported EBITDA up 246% year on year and production above guidance.

Negatives

SGH – Overweight

SGH underperformed during the quarter on disappointing FY2026 guidance. Growth is likely to be 2H26 weighted with construction activity not expected to see meaningful pick-up until CY2026. Meanwhile, WesTrac growth is expected to moderate against recent periods as elevated Capital sales begin to normalise off high levels.

AGL Limited (AGL) – Overweight

AGL reported a disappointing result as depreciation and amortisation and finance costs following a heavy investment period is expected to weight on earnings.

AUSTRALIAN MID CAP FUND

— CLASS A

PARADICE
INVESTMENT MANAGEMENT

AUB Group (AUB) – Overweight

Despite reporting a strong result, AUB de-rated during the quarter

PORTFOLIO CHANGES²

Purchases

NextDC (NXT)

We re-initiated a position in NXT on strong demand momentum and a strategic shift toward partnership-based funding — reducing the need for dilutive capital raisings.

Ansell (ANN)

We increased our position in ANN as confidence grew that tariff impacts would be offset through pricing. ANN offers double-digit earnings growth and trades at attractive valuations.

Seek (SEK)

A new position was initiated in SEK on improving volumes and management's disciplined cost control, which should drive operating leverage

Sales

Technology One (TNE)

We sold our position in TNE following its move into the ASX 50.

Qube (QUB)

We reduced our holding in QUB on valuation after strong share price performance.

AGL Energy (AGL)

We exited our position in AGL given concerns about the earnings impact of its transition phase.

TRIP TAKEAWAYS

We exited our position in AGL given concerns about the earnings impact of its transition phase. Our September US trip covered corporates across retail, fintech, AI infrastructure, and industrials giving a broad read on the consumer, technology, and policy landscape. Discussions across the Goldman Sachs Retail Conference and company visits highlighted strong management discipline on cost and productivity, with a clear pivot toward AI-driven efficiency and selective pricing to protect margins in a mixed macro backdrop.

In retail, spending remains resilient but uneven. Affluent consumers are healthy, while lower-income households are showing strain, particularly in the Consumer Staples. Housing activity remains subdued amid high mortgage rates and affordability concerns. Tariffs are being largely mitigated, not passed through, with sourcing diversification, vendor concessions, and mixed management. Promotions are surgical, supply chains stable, and AI increasingly embedded in forecasting, customer service, and inventory decisions.

The Buy Now Pay Later (BNPL) sector continues its structural evolution from niche financing to mainstream credit. Affirm, a US-based BNPL provider, now adds 1–2 million new users each quarter, with repeat usage near 95%. Its card product is scaling quickly (+134% YoY), driving offline spend. Profitability is improving as GMV doubles with flat operating costs, and funding sources diversify. The Klarna IPO, which launched on the NYSE in September 2025, was heavily oversubscribed and jumped sharply on debut — a sign of strong investor appetite.

Across all sectors, AI adoption was the unifying theme. Equinix and Cloudflare highlighted surging demand for inference and edge computing. Intuit, Meta, and OpenAI showcased tangible productivity gains from generative tools — now firmly embedded in operations, driving margin improvement and efficiency. AI has clearly shifted from pilot phase to production reality.

ENGAGEMENT

During the quarter, we undertook a total of 34 engagements in which we discussed ESG matters including 28 companies relevant to the strategy. A vast majority 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, conduct and stakeholder relations and environmental management

Given SGH Ltd (SGH) reported two fatalities in the financial year, we raised safety in our recent engagement with management. Unfortunately, one Boral employee died after falling into a silo; the investigation indicated that regrettably the established safety procedures were not followed. The second fatality involved a Coates contractor unloading equipment, with investigations ongoing. The safety component of the STI was zeroed for executives and SGH is in the process of ensuring learning from the incidents are fed back into the business. Additionally, we discussed workers' compensation liabilities and silica dust exposure management.

OUTLOOK

Geopolitical fragmentation continues to shape the global policy landscape. The Trump administration's renewed tariff push — spanning branded pharmaceuticals, heavy trucks, and household goods — has so far failed to rattle markets, but it signals a more interventionist trade stance heading into 2026. The proposed Section 232 probe into PPE highlights the administration's willingness to extend industrial policy under the guise of national security.

For now, tariffs remain a manageable headwind. However, any escalation risks denting corporate confidence and disrupting supply chains just as manufacturing momentum stabilises. The U.S. consumer remains the growth anchor, supported by easing inflation and solid real incomes, but election-driven protectionism could reintroduce volatility to an otherwise soft-landing narrative.

The AI investment cycle continues to deepen, transitioning from hype to measurable productivity outcomes. Corporates are deploying AI tools to streamline logistics, accelerate software development, and enhance client servicing. The current phase is less about experimentation and more about integration, with board-level accountability around ROI now common. The market strength indicates AI gains have begun to be priced in however, any slowdown in adoption — due to cost overruns, talent shortages, or regulatory bottlenecks — could undermine investor confidence in this theme.

Domestically, interest rate cuts, easing inflation, and 2024 tax relief are lifting real household incomes and restoring consumer confidence. While further cuts in the near term now look less likely, there is enough momentum to see a continued lift in spending.

China's recovery remains stop-start, with repeated mini-stimulus efforts failing to generate durable momentum. Macro data weakened across exports, credit, and domestic demand in 3Q25, but equity markets outperformed on improving U.S.–China dialogue, rising AI optimism, and stronger policy coordination. The anti-involution campaign — aimed at curbing destructive price competition — is beginning to reshape behaviour in key industrial sectors. We saw this play out in the lithium market, but more recently, the restarting of mines in China is causing question around the ability for the rally to continue.

Meanwhile, the tech rivalry with the U.S. has intensified. Washington's decision to revoke export waivers for Taiwan Semiconductor Manufacturing Company (TSMC) and Samsung was met with Beijing's accelerated push toward semiconductor self-reliance and AI chip innovation. Policy momentum is building: the National Development and Reform Commission's (NDRC) RMB500bn financing tool and Ministry of Industry and Information Technology's (MIIT) new industrial roadmap mark a coordinated effort to upgrade manufacturing and green industry capacity.

AUSTRALIAN MID CAP FUND – CLASS A

PARADICE
INVESTMENT MANAGEMENT

The upcoming 4th Plenum and release of the 15th Five-Year Plan will be key markers for direction and tone. A potential Xi–Trump meeting could help stabilise sentiment, but weak domestic demand and lingering external frictions will continue to cap near-term upside.

- 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.*

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