31 MARCH 2024

AUSTRALIAN MID CAP FUND – CLASS B

PARADICE INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	SI* P.A.
Australian Mid Cap Fund - Class B	3.04	7.30	14.42	6.94	8.58	8.13
Mid Cap Composite Benchmark[1]	3.85	6.90	14.59	7.30	9.44	9.18
Excess Return	-0.81	0.40	-0.17	-0.36	-0.86	-1.05

*Since Inception date (SI) – 15 May 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 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).

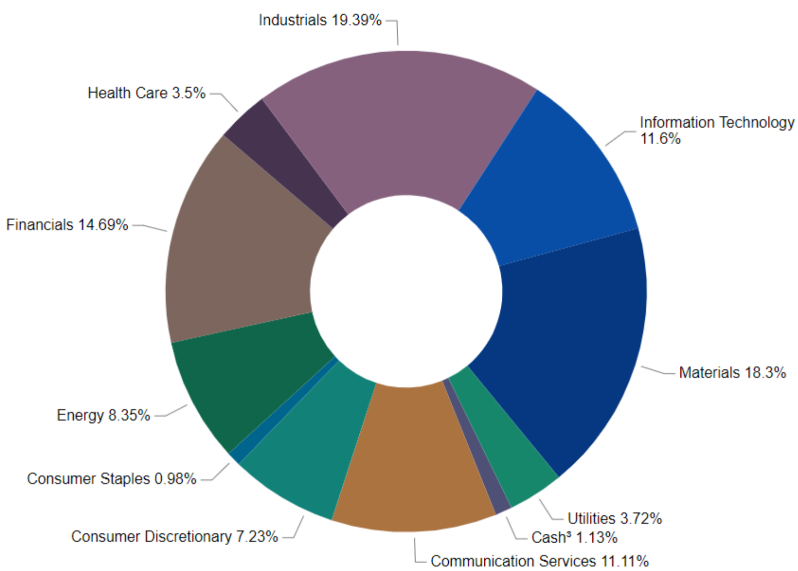
LEAD PORTFOLIO MANAGER

John Lake & 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	2.18%
Fund Size (AUD)	$ 83M

TOP 10 POSITIONS	WEIGHT %
CAR Group Ltd.	6.84
Orica Ltd.	5.12
WiseTech Global Ltd.	4.92
Seven Group Holdings Ltd.	4.77
Ampol Ltd.	3.58
Qube Holdings Ltd.	3.36
Cleanaway Waste Management Ltd.	3.16
Block, Inc.	3.07
NEXTDC Ltd.	3.06
REA Group Ltd	2.99

FUND DETAILS	
APIR Code	ETL8772AU
Distribution Frequency	Semi-Annually
Management Fee	1.10% 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 March quarter, encapsulating the February reporting season, was strong, driven by resilient earnings, the perceived peak of the interest rate cycle and greater belief in an "at worst" soft landing scenario. Geopolitically, things were seemingly at odds with the market, with the Eastern European and Middle East conflicts showing no respite.

Globally the strong Q1 was evident in the MSCI World Net Total Return Index lifting 8.2% (in USD), with the Nikkei 225 Index contributing with a 20% (in JPY) rally. However, despite Apple and Tesla being weak over the quarter, the "magnificent 7" were again exceptional, gaining 17.1% with Nvidia the standout, rallying 82.5% (in USD). The AI thematic has had fairly long tentacles, with, for example, established data centre operators and suppliers such as NEXTDC and MegaPort rallying strongly and even Goodman Group getting a big tick from markets for highlighting its Data Centre development opportunity.

Locally the S&P/ASX200 Total Return Index lifted by 5.33% over the quarter, with Mid Cap[1] (+6.6%) and Small Cap[2] (+7.55%) strong. A big driver of the market performance has been multiple expansion on top of net positive earnings revisions. Property (driven by Goodman Group in Australia), Tech (Altium takeover, NEXTDC and MegaPort – see above) and Consumer Discretionary were the standout sectors. The Consumer Discretionary sector has surprised us with its strength as we underestimated the interest rate and inflationary combined offsets of accumulated savings, higher wages and government handouts.

Bonds underperformed as yields rose across the curve. The US10yr yield was up 32bps over the quarter, with the 2 year yield rising 37bps. In Australia the curve also lifted but at a far more modest level with AU10yr bond yields up 7bps. On the currency front the AUD was slightly soft against the USD, down 4.3%.

On the commodities front, iron ore was a laggard dropping below US$100/T, due to a more subdued China outlook, with gold (+8.1% in USD and breaking through US$2,200/Oz) and oil (Brent +13.6% in USD) being the standouts. Gold has a lot of support seemingly coming out of China and oil has been a result of both Middle East conflict and stronger growth. Lithium stocks started to find some support over the quarter, with prices stabilising after aggressive falls from their lofty highs. The copper price started to rally strongly at the back end of the quarter as focus returns to future demand curves driven by EV, new energy and household growth, and the growing cost of getting new future supply to the market.

There was a marked change in view on the direction of interest rates over the quarter, with the BOJ being the only major developed economy to raise its rates in March (from -0.1% to a range of 0% to +.01%), the first raise in 17 years. Most other advanced economy central banks left policy unchanged during the quarter (AU cash rate at 4.35% and US Fed Funds at 5.5%). Rate cut expectations have been dialled back over the past few months with inflation still running above the targeted bands.

Takeover activity increased significantly from mid 2023. Whilst the bulk of the takeover bids in 2023 were for smaller cap names, bids for a number of larger cap names have come into the fray in 2024. Altium received an approximately AUD$9 billion bid from Japan's Renesas, APM received a non-binding bid from CVC, Boral received a bid to mop up the balance that Seven Group does not currently own, CSR is to be taken over by Saint-Gobain in a AUD $4.3 billion deal, VUK UK has been bid for by Nationwide (approximately AUD $5.5 billion), plus Alumina by Alcoa, and Superloop by Aussie Broadband.

There is a lot of cash in the market (be it private assets in money market funds or PE liquidity) looking for places to invest so we expect corporate activity to continue during CY24. In addition, companies that have enjoyed strong share price re-rates and have secured their balance sheet positioning are better positioned to join the action as well.

PERFORMANCE

The Fund delivered a positive return for the quarter of 7.30%, outperforming the Mid Cap Composite Benchmark by 0.40%. Whereas some of our larger portfolio positions made up the positive side of the ledger, the underperformers were largely stock-specific attribution rather than incorrect sectoral or factor tilts (see 5 key negative contributors listed below).

Stocks such as Lynas and Champion Iron have both been negatively impacted by external factors largely outside their control and we remain confident in our thesis of backing the companies and their execution. A2 Milk and JB HiFi are two companies where we do like management, however we have concerns about the market in which they operated and the cycle respectively. Stronger results than anticipated was enough for the market to look through these challenges, so we have to acknowledge the good management.

Positives

Car Group (CAR) – Overweight
A great result with better than expected improvements coming out of the USA from Trader Interactive.

CSR Limited (CSR) – Overweight
CSR received a takeover bid from Saint-Gobain of France.

GQG Partners (GQG) – Overweight
GQG continues to perform strongly and experience net positive FUM inflow.

Light and Wonder (LNW) – Overweight
LNW continues to make inroads into the gaming market with strong machine innovation driven by a management team who have done it all before.

Liontown (LTR) – Nil Holding
With the Lithium pricing dropping, the economics and funding of their underground project raises some question marks.

Negatives

a2 Milk Company (A2M) – Nil Holding
Whilst the result and outlook for the full year FY24 result were more positive than expectations, the market took a decidedly glass half full view.

Champion Iron (CIA) – Overweight
A weak iron ore price has weighed on the sector. CIA is doing a lot right in achieving their targeted production goals (albeit with a few delays here and there) and we remain positive over the medium term.

JB HiFi (JBH) – Nil Holding
JBH delivered another fantastic result given the base they were coming off, exceeding markets expectations for a bigger drop in earning than that delivered.

[1] *Mid Cap refers to the S&P/ASX Mid Cap 50 Total Return Index.*
[2] *Small Cap refers to the S&P/ASX Small Ords Total Return Index.*

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Lynas Rare Earths (LYC) - Overweight

LYC continues to do everything right. Their Australian facility is operating and they have negotiated an extension of operations in Malaysia – the key issue is the NDPR commodity price.

Virgin Money (VUK) – Nil Holding

VUK received a takeover bid from Nationwide in the UK.

PORTFOLIO CHANGES

Purchases

Beach energy (BPT)

New management and a renewed focus on getting cashflows back to shareholders in an environment that is positive for the oil price and BPT in the medium term.

Lovisa (LOV)

We continued to increase our position that we started to accumulate in 4Q CY23.

Treasury Wines (TWE)

TWE presented a good buying opportunity during the quarter as the positivity around the potential removal of the China wine tariffs was being overshadowed by concerns over short term earnings.

Webjet (WEB)

WEB's investor day highlighted the long growth runway in its WebBeds business. Achieving the targeted growth will drive strong earnings growth and pivot the business towards a more capital light model which warrants a premium earnings multiple.

Wisetech (WTC)

Following the 1H24 result, Wisetech have showed positive signs regarding recent acquisitions, as well as new products that should contribute strongly to revenue and earnings growth.

Sales

Aurizon Holdings (AZJ)

After entering the position on the back of the downgrade post the 1H23 result a year ago, we decided to take profits as earnings recovered the multiple reflected fair value.

Charter Hall (CHC)

With expectations that rates could be higher for longer and valuations still have a way to settle, we believe there are better opportunities elsewhere.

Domino's Pizza (DMP)

A disappointing interim result with Japan and France struggling to regain traction.

Neuren Pharmaceuticals (NEU)

Neuren was a tactical long position where we saw opportunities around a strong rollout of their Daybue drug in the US and the success of their phase 2 trial in relation to NNZ-2591. These two catalysts events have played out and as a result have exited the position.

NIB Holdings (NIB)

Post the 1H24 result, the strong Australian Residents Health Insurance result was offset by weakness across the broader group (International, Travel and NDIS).

ENGAGEMENT

During the quarter, we undertook a total of 16 engagements in which we explicitly discussed ESG matters with 14 companies relevant to the strategy. A majority (94%) were held at either board or executive level.

The engagements covered a range of issues and most meetings covered multiple ESG matters. In this period, the most discussed topics were climate transition, workplace health and safety and human capital management.

We met with Worley (WOR) executives twice in the quarter, each time discussing concerns around legacy conduct issues and the company's previous use of a subcontractor accused of corruption by the Ecuadorian Government which gained media attention in the period. In addition to understanding the nature of the legacy issue, we interrogated how the company had since enhanced anti-corruption and bribery controls, instilled a conduct culture and strengthened grievance mechanisms. With the issue arising prior to the current management team, and the company exiting Ecuador in 2017, we were satisfied that any potential shortcoming was in the past and the current management team were resolute in addressing the issue transparently and in the best interests of shareholders.

OUTLOOK

2024 has started off on a very positive footing. With fairly aggressive expectations for interest rate cuts over the course of CY24 moderating, it would appear that there is greater confidence that reasonable levels of growth can be maintained in both the USA and Australia. With inflation still running ahead of the Fed's and RBA's targets, there is also a growing view that "slightly" higher inflation will be tolerated for longer, with the caveat being that rates stay elevated for longer. This, for example, continues to support our view that being underweight REITS is the right way to be positioned.

In addition to our underweight property position in the portfolio, we have selective exposures to areas of the market that could be coming under growth pressures, more specifically retailers and building materials. Whilst we do own Lovisa for example due to their store and geographic rollout, we are underweight retail overall as we expect the mainstream consumer to feel elevated cost of living pressures. This is due to the lagged effect of higher interest rates and expectations that wage growth will come off the lofty heights they have been on for the past few years, with inflation staying slightly elevated. Building materials have been through a golden period due to strong completions coming through and the ability to put prices through seemingly at will. With completions starting to slow, we would expect a tougher period until some of the highly optimistic housing new build targets become more evident.

Going into the June quarter, the team is excited about prospects in addition to our normal visitation program, trips to Europe and China are planned in addition to the various large annual conferences organised by various brokers.

As we wrote in the December 2023 quarterly, while we keep abreast of macro activity and economic forecasts, we acknowledge accurately forecasting future market direction is near impossible. This was evidenced in the number of Wall Street "experts" who were very wrong in forecasting CY23 and regularly update CY24 forecasts. Trying to join all the dots can be a fruitless exercise. What we can do though is continue to seek out those businesses that are well managed, have some platform of advantage that enables them to realise economies of scale, pass on price and secure market share.