31 DECEMBER 2024

# GLOBAL SMALL CAP FUND

PARADICE
INVESTMENT MANAGEMENT

| PERFORMANCE NET (%) | 1 MONTH | 3 MONTHS | 1 YEAR | 3 YEARS | 5 YEARS | 7 YEARS | 10 YEARS | SI* P.A. |
|---|---|---|---|---|---|---|---|---|
| Global Small Cap Fund | 1.24 | 4.97 | 7.94 | 1.28 | 3.11 | 3.15 | 5.58 | 9.52 |
| Benchmark[1] | 0.80 | 6.84 | 16.37 | 5.92 | 7.69 | 7.70 | 9.00 | 11.75 |
| Excess Return | 0.44 | -1.87 | -8.43 | -4.64 | -4.58 | -4.55 | -3.42 | -2.23 |

*Since Inception date (SI) – 18 January 2013

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

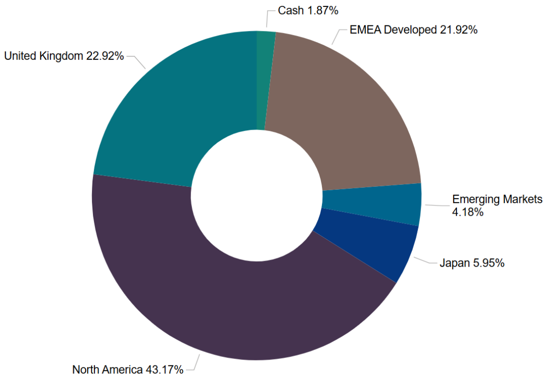
The Fund aims to outperform the S&P Global ex Australia and New Zealand Between USD1 Billion and USD5 Billion Net Total Return Index in AUD over a three to five year period (after management costs and before tax).

## LEAD PORTFOLIO MANAGER

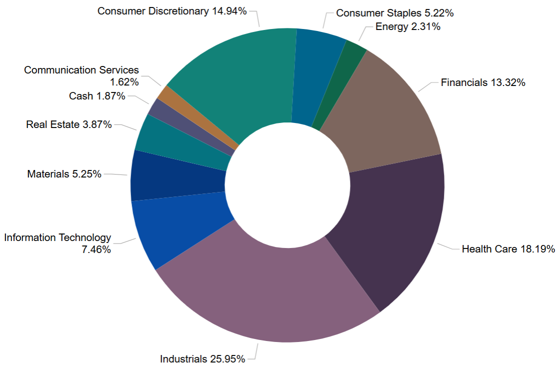
Kevin Beck & Paul Mason

| KEY DETAILS | |
|---|---|
| Number of Holdings | 47 |
| Weighted Avg Mkt Cap (AUD M) | $6,025M |
| Active Share | 99.1% |
| Fund Size (AUD) | $ 100M |

## REGION ALLOCATION




## SECTOR ALLOCATION




| TOP 10 POSITIONS | WEIGHT % |
|---|---|
| Renewi Plc | 4.00 |
| Allfunds Group plc | 3.61 |
| OPENLANE, Inc. | 3.61 |
| Onex Corporation | 3.59 |
| Euronext NV | 3.44 |
| Tandem Diabetes Care, Inc. | 3.30 |
| Gates Industrial Corporation plc | 3.29 |
| Globus Medical Inc Class A | 3.18 |
| Envista Holdings Corp. | 2.82 |
| ConvaTec Group Plc | 2.71 |

| FUND DETAILS | |
|---|---|
| APIR Code | ETL0365AU |
| Fund Currency | AUD |
| Distribution Frequency | Semi-Annually |
| Management Fee[2] | 1.25% p.a. |
| Performance Fee[3] | 15% p.a. |
| Buy / Sell Spread | +/- 0.30% |
| Minimum Investment | $20,000 |

 [1] S&P Global ex Australia and New Zealand Between USD1 Billion and USD5 Billion (AUD) NTR Index effective from 5 November 2018. Prior to this date the benchmark was S&P Global Between USD1 Billion and 5 Billion (AUD) NTR Index effective from 1 October 2015 to 4 November 2018 inclusive and S&P Global Between USD1 Billion and 5 Billion (AUD) TR Index prior to 1 October 2015. [2] The management fee is effective 5 November 2018. Prior to this date the management fee was 1.40% p.a. [3] Applies to the investment performance achieved by the Fund (after management fees and costs) in excess of the Benchmark. Refer to PDS for more information.

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*Performance in AUD unless otherwise noted.*

## MARKET REVIEW AND PORTFOLIO PERFORMANCE

The election of Donald Trump as president of the USA for the second time became the key focal point for markets during the quarter. It appears that Trump's presidency (much like his first) will be decidedly pro-USA, led by significant onshoring initiatives and tariffs on low cost importers into the USA. This sent a wave of capital into the US equity market as investors seek to get ahead of the multiyear reshoring trade. Bonds were sold off aggressively on fears of inflation having a second wave, sending interest rates and the USD higher. Certain ex US markets were sold off, somewhat indiscriminately in our view, to fund the US buying frenzy. We are carefully deploying capital in select ex US markets as a result. Overall, we prefer the lower relative valuations in ex US equity markets, though remain open minded that the US deserves a valuation premium based on policy, demographics, innovation and earnings growth. It is worth noting that the valuation premiums are much more accentuated in large cap stocks than smaller names.

### Top Performers for the Quarter Included

**Globus Medical (US):** Globus Medical was a top performer in the quarter after continuing to demonstrate success in the acquisition and integration of former rival, NuVasive, which closed almost one year ago. The medical device company has transformed itself into one of the most dominant players in the spine market led by the most technologically advanced spine robot on the market, in our view, and one of just a handful commercially available at scale. Globus will also look to expand outside of spine as the company's flagship robot recently received FDA approval for use in hip and knee surgeries, complementing its small but growing portfolio of hip and knee implants. We believe Globus is well-positioned for continued market share gains both in its core spine market and in the broader orthopedic market, driven by their focus on meeting patient and surgeon needs through differentiated innovation. The company still trades at what we see as a reasonable valuation despite being what we believe to be one of the most intriguing names in the medical device industry.

**Renewi (UK):** UK listed Renewi is a waste firm that specializes in environmentally sustainable waste management. During the December quarter, Renewi received a takeover bid from Macquarie Asset Management. We have long believed that Renewi was a prime takeout candidate as we have seen significant consolidation in the waste management industry across a range of geographies. Renewi is an example of our team's philosophy and process of active ownership. Behind the scenes, we have continued to push the management team and the board of Renewi to explore a sale of the business. It has taken a little longer than we would have liked to achieve this outcome, it is pleasing nonetheless to see the business recieve an attractive buyout offer price.

**Openlane (US):** Openlane shares rallied during the quarter, bucking the trend of most automotive facing businesses. Openlane provides used US car auction services to auto dealers and is also a leading floorplan financing businesses in North America. Floorplan finance is a type of lending that car dealers use to finance operations and maintain liquidity. We have long believed that this asset within Openlane is an underappreciated asset by the equity market and have consistently pushed the company to do a better job of highlighting this to investors. During the period, the company announced an investor day dedicated to the floorplan financing segment of the business including increased financial disclosure and operating metrics. Openlane's other segment, the Marketplace (their car auctions business), continues to perform well in a challenging macro environment. We suspect that anyone that has tried to buy a used car in the last 3 years would attest that the market is highly competitive and tight, largely due to new car volumes being subdued. This has reduced the need for Openlane's auction business as car dealers have typically been able to clear inventory quite quickly. As the market continues to normalize, we believe there will be a significant rebound in volumes in the auctions business, leading to sharp earnings growth for the company.

### Bottom Performers for the Quarter Included

**ams OSRAM (Switzerland):** Swiss listed semiconductor and lighting business, ams OSRAM, had a 2024 that it (and we) would likely rather forget. A combination of a high capital expenditure budget, the loss of a major customer, and the eventual need to raise capital has seen the shares lose a material amount of their value this year. We continue to engage with the management team regarding the best path forward from here. We believe there are multiple ways to generate shareholder value from the company's current valuation, ranging from sale and leaseback of property, division sales and new applications for their world class LED lighting products. We expect to see some action from the management team to deliver value in 2025. It goes without saying that this has been an investment that has well underperformed our expectations thus far.

**Avanos Medical (US):** Avanos, a medical device company in the US, was a top detractor in the quarter after the company announced sales that came in below market expectations along with the retirement of the company's CEO. The disappointing sales resulted from supply challenges in a single product in the company's Pain Management portfolio, the segment of the business that has faced a multitude of challenges over the past few years. In our view, this segment significantly detracts from the company's overall valuation as we view the company's other segment, Digestive Health, as a crown jewel asset comprised of highly regarded feeding tubes and solutions for enteral, neonatal and pediatric use. After the company's poor earnings results, we spoke with the incoming CEO/current CFO of the business and, while we are disappointed in the recent company earnings results, we believe that the company is finally turning the page on recent operating challenges and entering 2025 on better footing. At the company's current valuation level, we believe the market is severely underappreciating the quality of the Digestive Health business alone, in addition to providing investors with a free call option on the recovering Pain Management business.

**Sendas Distribuidora (Brazil):** Sendas was one of the Fund's top detractors in the quarter. Brazilian equities sold off hard in Q4 as the Brazilian Real weakened significantly against the US Dollar, reaching an all-time low in December. This weakness was driven by fears over rising inflation trends in the country, leading the Brazil Central Bank to increase interest rates in December while signaling additional rate hikes in the future. These dynamics had an outsized impact on Sendas during the quarter given that the company has a leveraged balance sheet that is sensitive to interest rate changes. We believe the business model of Sendas should perform well in an inflationary environment with rising food prices having a positive impact on revenue, but the company's cash flow will be burdened in a increasing interest environment. While we remain positive on the company's strategy and cash flow potential, we believe that Brazil, both economically and politically, needs to show signs of stabilization before investors begin increasing exposure to the country, which we expect Sendas to be a beneficiary of when that happens.

## PORTFOLIO PERFORMANCE

Despite the Fund rallying ~5% in the quarter, this lagged the benchmark by a little under ~2%. The largest detractor to our performance was the Europe region, for which we hold roughly double the benchmark weight and underperformed (mostly due to ams OSRAM, listed below). Our US holdings managed to almost keep up with a feverish US market which rallied over 13% in the quarter. We have used the strength in the US as a funding tool to deploy capital into other geographies. We have reduced some of our US positions as a result.

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## PORTFOLIO CHANGES

The Fund invested in two new companies during the period.

The first was a French listed producer of cognac. Cognac, the spirit, is unique as it can only be produced in the geographically small portion of the Cognac region in France and the production of is tightly regulated. The market is supplied by four major players, who behave rationally to preserve the luxury nature of the product. Over the years, Cognac has seen growth come from increasingly wealthy consumers and a strong uptake in Emerging Markets, particularly China. During COVID, there was a boom in alcohol purchasing and Cognac, along with most other alcohol types saw an uptick in demand. The years since have seen a slowdown in purchasing as consumers work through their inventories and return more to the traditional office work environment. There has also been a slowdown from China as their economy works through its current economic woes. Due to the reduced volumes sold in the past few years, we feel we are buying this Cognac company on a depressed earnings power at what we view as a trough multiple, an incredibly rare occurrence for such a scarce, luxury type asset. The company also has close to half its market value sitting on the balance sheet in aged Cognac, which is getting more valuable with each year that passes, a compelling margin of safety.

The other new investment during the quarter was in a US software business which assists corporations with collaborative work management (CWM). CWM software is integral for any company that utilizes employees' skills across different offices, countries, time zones or languages. The software provides a team leader or project manager with a top down view on progress, milestones and complications across a project. The more advanced, cutting-edge CWM software is becoming increasingly immersive. The software, via artificial intelligence, can begin to behave like a member of a team; filling out templates, assisting with coding, taking notes during meetings and creating action items on behalf of team members. The CWM software company in which the Fund invested in is founded and led by Facebook co-founder Dustin Moskovitz, who still owns over 35% of the business and continues to buy shares on the open market[1]. At the time of initial purchase, we believe we were paying a 50% discount to this companies nearest listed peers. Shares have performed well since our investment, rallying sharply after a product demonstration in New York that demonstrated artificial intelligence capabilities and revenue model, which seemingly impressed investors.

The Fund exited two positions in the quarter.

US listed commercial lighting business reached our intrinsic level of value. This leader in lighting is, in our view, a phenomenally well-run business with strong free cash flow generation and an astute management team. However, we believe that potential macro headwinds due to higher interest rates and less capital being spent on commercial office space may be a headwind to earnings growth in the near term.

The other exit, also in the US, was a home warranty provider. Under the stewardship of the CEO, who stepped in from the Chairman role, the business has demonstrated what we view as impressive cost controls and margin expansion. The share price has rewarded the earnings growth accordingly. We remain impressed by the business and management team in place; however, we have concerns that the current margin profile is overextended which may be a headwind to future earnings.

## OUTLOOK

There are not too many things that can be said with certainty in the world of finance, however, we are quite certain that 2025 will be an incredibly interesting time to be in investment markets. The range of outcomes that may stem from Trump's presidency, geopolitical tensions, inflationary pressures, interest rate divergences, artificial intelligence applications and global supply chain tensions are nearly infinite, in our view. We are quite bullish on the real economy, particularly in the US which we feel will benefit greatly from the great onshoring opportunity which lies ahead on the US economy. On the other hand, we are cognizant of how much higher rates need to travel before they crimp demand, we are already seeing homebuilders and automotive producers call out the consumer as being quite weak. As you may imagine, our strong value fundamentals also have us interested in UK and European names which we believe trade at discounts to their US counterparts. We expect 2025 to offer many opportunities to deploy capital into what we believe to be outstanding smaller businesses with strong cash flow and growing market positions at compelling valuations.

1. Source: Bloomberg as of 7 January 2025 (based on filing dated 1 November 2023).