31 DECEMBER 2023

AUSTRALIAN SMALL CAP OPPORTUNITIES FUND – CLASS A

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTH	1 YEAR	SI*
Australian Small Cap Opportunities Fund – Class A	5.94	5.86	-	7.48
S&P/ASX Small Ordinaries – Total Return Index	7.23	8.52	-	2.54
Excess Return	-1.29	-2.66	-	4.94
				*Since Inception date (SI) – 20 July 2023

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/ASX Small Ordinaries Total Return Index over the longer term, (after fees and before taxes).

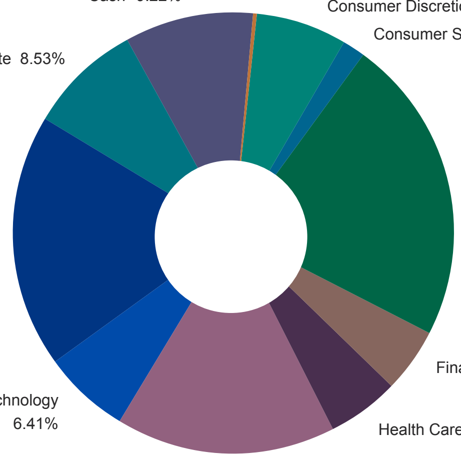
LEAD PORTFOLIO MANAGER

Sam Theodore

FUND OVERVIEW

The highly experienced team employs a detailed fundamental research process to identify undervalued stocks on a risk-adjusted basis. The Fund is agnostic of investment style, which favours well-managed, good value companies that have significant growth opportunities through their comparative advantage.

SECTOR ALLOCATION



KEY DETAILS	
Number of Holdings	47
Portfolio Dividend Yield	2.06%
Fund Size (AUD)	$2M

TOP 10 POSITIONS	WEIGHT %
Viva Energy Group Ltd.	5.82
Light & Wonder, Inc.	5.12
Genesis Minerals Ltd.	4.39
Capricorn Metals Ltd.	4.12
NexGen Energy Ltd.	3.73
Life360, Inc.	2.72
IPD Group Ltd.	2.56
Auckland International Airport Ltd.	2.52
OFX Group Ltd.	2.51
Waypoint REIT Ltd.	2.41

FUND DETAILS	
APIR Code	ETL4624AU
Distribution Frequency	Semi-Annually
Management Fee	1.00% p.a.
Performance Fee[1]	20% p.a.
Buy Sell Spread	+/-0.30%
Minimum Investment	$20,000
Stock Range	Typically 30–70
Cash Range	0–10%

[1] 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. [2] The Cash percentage in the Sector Allocation chart is inclusive of derivatives held in the Fund, if any.

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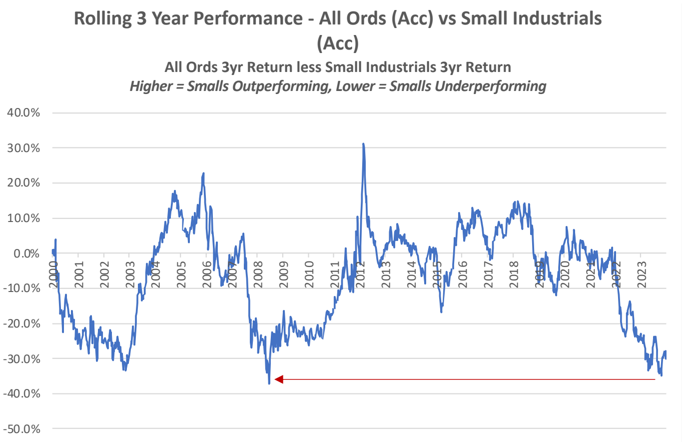
Performance in AUD unless otherwise noted.

MARKET REVIEW

Global equity markets rallied strongly in the December quarter 2023, with the MSCI World Net Total Return Index gaining 11.1% (in USD) for the period. US stocks rose as markets factored in the prospect of rates being cut in 2024. Inflation fears dissipated with some supportive data. The Uranium price rose 30% during the quarter reaching US$91/lb by the end of the December. The Brent Oil price gave back 3Q gains, falling 19% to close the period at US$77/bbl.

The Australian market posted solid gains, with the S&P/ASX 200 Total Return Index rising 8.4% over the quarter. Our benchmark, the S&P/ASX Small Ordinaries Total Return Index (the Benchmark), performed broadly in line, up 8.5% (although outperforming over the final 2 months of the year). The Small Ordinaries Total Return Index still sits close to 15-year lows on a relative performance basis versus the S&P/ASX All Ordinaries Total Return Index. Whilst having conviction around the timing of this to bottom is difficult, in our view the performance dispersion represents an attractive entry point currently for small cap focussed investments.



Source: S&P/ASX All Ordinaries Index (Acc) and S&P/ASX Small Industrials Index (Acc) Bloomberg, PIM, as at 4th January 2024.

If we look at specific performance within the Benchmark over the quarter, the Uranium stocks gave back some ground despite the Uranium commodity price surging to new 10 year highs. Elsewhere, Imugene (+139%), Zip Co (+135%) and Neuren Pharmaceuticals (+126%) posted large gains for the quarter. The sectors that performed best were Health Care, Consumer Staples and Real Estate. On the other end of the spectrum the Energy sector was the worst performer (-5%) and the Lithium stocks were also amongst the underperformers.

The worst performing stocks in the Benchmark during the quarter included Appen (-44%), Neometals (-42%), Core Lithium (-38%), and Bowen Coal (-38%).

Key Positions

Viva Energy (VEA): Viva Energy holds a strong integrated refining and marketing position in Australia, with its Geelong refinery supporting over 14 BL sales and has opportunities to expand a retail convenience offer following the acquisition of Coles Express, which was completed in May 2023. VEA is well positioned to benefit from the ongoing recovery in international aviation fuel sales and refining margin improvement. We see strong potential for convenience retail diversification following its acquisition of Coles Express and proposed acquisition of On The Run (OTR)

Light & Wonder Inc. (LNW): LNW is a key competitor to Aristocrat in the global gaming machine, systems and software market. We see positive industry characteristics, including an oligopoly structure with wide moats which are relatively protected by licencing regimes; strong return characteristics; growing end markets; and regulatory changes allowing for digital penetration. LNW has had a large turnaround built around stabilising the company over the past 2 years, which included asset sales to reduce leverage, personnel changes and a change in strategy. We are now seeing early signs that some of these changes are now gaining traction, with the company delivering strong earnings growth. Management have issued an FY25 target for US$1.4b in EBITDA. Whilst we make some adjustments to this management number (for instance adding back staff based compensation) – we believe the stock can see significant upside should such an outcome be delivered. The key risk to our thesis remains any significant weakness in the US economy - and how that may impact consumer spending in casinos and casino customers willingness to invest capex on new product.

Genesis Minerals (GMD): Genesis is another example of our focus to find strong management teams with exciting projects in attractive commodities. Leading the management team at GMD is Managing Director, Raleigh Finlayson. He has over 20 years of technical and operational experience underground and in open pit operations, and has a great track record of delivering shareholder returns. With the acquisition of the Gwalia assets (which we visited in the last quarter) and the synergies of this asset combined with Ulysses and Admiral, mines already being developed by GMD, we see a pathway to over 300M oz p.a. gold production for GMD and an attractive All In Sustaining Costs (AISC). The company will launch their 5 year plan with an associated investor day and site visit likely at the end of the upcoming quarter.

Capricorn Metals (CMM): We view CMM as having a first-class management team with a proven track record. The DNA of the company is built around quiet delivery of exceptional returns. The management team has previously delivered strong outcomes for shareholders and overseen two ASX gold mine companies, 4 projects built and operated, 7 processing plants, more than 15 open pits developed and operated. We are attracted to the company's Tier 1 assets in a Tier 1 location (Australia). The stock is considered by many to be currently expensive – but is it? Given management history, we look at what the business can generate 2-3 years out after Mt Gibson is executed and ramped up. The stock currently generates strong cashflow at Karlawinda, with the balance sheet in a net cash position, so Mt Gibson capex can be self-funded. At spot gold we believe the company can generate over $300m of free cash flow with Mt Gibson ramped up.

NexGen Energy (NXG): NexGen's Arrow project is a world class asset (the largest scale and lowest cost project currently in development in the Uranium commodity complex globally). It features a long life mine, conventional lower risk mining and processes and a positive geographic exposure (relative stable jurisdiction in Saskatchewan Canada). The project is significantly advanced from a permitting perspective, with timelines suggesting early/mid 2024 to see the project fully permitted. Whilst there are always risks to operating cost and capex assumptions presented in Feasibility Studies - even when we stress test these assumptions the project economics remain sound. And with the company adopting a strategy of looking to contract volumes with no cap on price, combined with our positive view on the upside risk in this commodity - the investment has the potential to give us the upside leverage we seek in the sector in a scenario where the U308 price moves materially higher.

Mining Services: We continue to maintain an overweight exposure with holdings across several stocks including Seven Group Holdings (SVW), Emeco Holdings (EHL), NRW Holdings (NWH), Macmahon Holdings (MAH), and MMA Offshore (MRM). Following the decline in commodities at the end of the last cycle in 2013, producers pulled back on expansion and investment. This has led to a long period of underspend on development, infrastructure, plant, and equipment. We are well-placed for the emerging investment and replacement cycle, underpinned by on-going maintenance capex requirements. Contracts for procurement of services and capital equipment are more favourable for the providers in the current cycle and balance sheets are strong. With many of these companies trading at well below replacement cost (in some instanced below 50%), we see some compelling investment opportunities.

Contributors/ Detractors

Positives

Sigma Healthcare Limited (SIG) – Overweight: SIG announced a merger with Chemist Warehouse Group (CWG) late in the quarter, which drive a strong share price reaction. Separately the company raised $400m through a rights issue (which we participated in) to fund the working capital requirements for the upcoming Chemist Warehouse supply contract. The CWG merger is yet to receive the necessary shareholder and regulatory approvals. If the merger goes ahead it will allow CWG to list providing an exposure to one of the strongest franchise networks in Australia. Given the significant positive reaction to the proposed merger, we have since trimmed our position.

Genesis Minerals Limited (GMD) – Overweight: GMD share price rallied as they were a beneficiary of the ongoing strong gold price in US dollars (and also in A$). The management team have maintained their guidance for a 5-year outlook to be released in March as part of the company investor day, and associated site visit to Gwalia – which is expected to be a key upcoming catalyst for the stock. In the quarter the company was also able to fully consolidate their Dacian Gold acquisition and agreed to acquire the Bruno-Lewis and Raeside gold projects from Kin Mining for A$53.5m (A$15m cash, 21.9m shares).

MMA Offshore Limited (MRM) – Overweight: MRM provided a positive operating update in November, significantly lifting guidance, which drove the stock higher. Rates for offshore vessels have been rising, with limited supply and strong demand in conventional oil and gas markets as well as emerging green energy (mainly offshore wind) markets. MRM have had an extremely strong start to the FY24 with the business performing ahead of expectations. 1H24 EBITDA is expected to be in the range of $55-60m. We estimate this was over 50% above previous sell-side consensus. Activity across all key markets and service areas have been very strong which has resulted in higher returns and illustrates the operating leverage within the business in the current market.

Viva Energy Group (VEA) – Overweight: During the quarter VEA hosts a Capital Markets Day and received ACCC clearance for the On The Run (OTR) acquisition. During the Capital Markets Day the company provided medium term guidance of the three key divisions (Convenience & Mobility, Commercial & Industrial, and Refining). The combined Group 5-year EBITDA target is c.$1.25bn, which was significantly above sell-side consensus at the time. In December the ACCC stated that it will not oppose the OTR acquisition. With the transaction now clear to settle in early 2024, this announcement prompted positive EPS revisions. We remain attracted to the renewed Convenience and Mobility strategy, with OTR likely to significantly enhance the offer.

Light & Wonder (LNW) - Overweight: On October 18th the stock was admitted to its first Australian Index, the S&P/ASX 200, after the company's CDIs listed on the ASX in May 2023. The index inclusion comes after a strong Q2 result, driving a positive contribution to portfolio performance during the quarter. We attended the G2E Global Gaming Conference in Las Vegas in early October and came away with a positive view on LNW's ongoing product enhancements, growing number of game concepts, and titles driving continued momentum across the business.

Negatives

Neuren Pharmaceuticals Limited (NEU) – underweight: NEU was the largest detractor to our performance during the quarter, with two events driving strong share price performance. On November 3rd NEU announced that its distribution partner, Arcadia Pharmaceuticals had reported stronger than expected Q3 sales of NEU's Rett Syndrome Drug, DAYBEU (Trofinetide). Anticipated royalties for Q4 and FY23 were above consensus expectations. On December 18th the company announced positive phase 2 trial results for NNZ-2591, its Phelan-McDermid syndrome drug driving a very strong share price response (+>50%).

OFX Group Limited (OFX) – Overweight. OFX detracted from portfolio performance during the quarter. On November 14th OFX reported its 1H24 result. The company narrowed EBITDA guidance towards the bottom end of the range, now A$63-70m vs $63-73m previously. The 1H24 result was slightly below expectations, but the company expects a stronger 2H24. The Canadian operating performance was particularly weak, with the company reporting a 23% decline in Average Transaction Values (ATV), impacted by weak corporate confidence. OFX indicated that the Canadian operating environment improved towards the back end of the half forming the basis for the stronger 2H. The stock is trading at an undemanding 12.5x FY24 P/E and has net cash on the balance sheet. We are attracted to OFX's strong management team and strategy to build a world leading cross-border payments business.

Karoon Energy Ltd (KAR) – Overweight: KAR share price was impacted by the weakness of the oil price in the quarter, as well as the impact of the company's announcement to acquire a 30% working interest in the Gulf of Mexico offshore Who Dat and Dome Patrol oil and gas fields, plus associated infrastructure and adjacent exploration acreage from LLOG Exploration Offshore and LLOG Omega Holdings. The transaction was partly funded by a $480m equity raise, the scale of which seems to have been slightly larger than the market may have expected (the company had been talking to a strategy of looking at acquiring an asset in the Gulf of Mexico on numerous occasions). Some may also question the timing of the deal – given it was likely negotiated and finalised at a time of relative strength in the oil price, and hence a view of a relatively full price paid for the asset.

Boss Energy Limited (BOE) – Overweight: BOE share price underperformed despite the strong uranium commodity backdrop – after a strong share price performance in the September quarter. The company in early December announced the acquisition of 30% of the Alta Mesa ISR project in the US from enCore Energy for A$96m, as well as taking a small equity stake in enCore. To fund the transaction the company raised A$205m by way of a placement, as well as A$15m in a Share Purchase Plan (SPP) – with the use of proceeds also including funds for 'exploration and expansion studies' at their existing Honeymoon mine. Management continue to confirm that the Honeymoon restart remains on time and on budget for production to commence at Honeymoon in 2QFY24, with first U3O8 expected in drum within 3QFY24. A recent key milestone was the generation of production-grade uranium during the pre-flush of the start- up wells, which somewhat de-risks the project. However, the risks in a start-up and subsequent ramp up are high – and we have hence managed our position size down earlier in the quarter to reflect this period.

Develop Global Limited (DVP) – Overweight: The DVP share price was impacted by the significant weakening in the lithium price, following the company's recent acquisition of Essential Metals. In the quarter DVP was awarded a $46m underground development contract by the Mt Marion joint venture to establish and develop an exploration decline at the Mt Marion lithium mine in Western Australia (Mt Marion is a joint venture between Mineral Resources and Ganfeng Lithium Group Co), with commencement early in 2024. The contract highlights a seemingly deepening relationship between MIN and DVP, following MIN's increased stake in DVP to ~14.0% in November 2023 (previously 12.9%) and MIN using its ~20.0% interest in Essential Metals to vote in favour of DVP's acquisition proposal.

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ENVIRONMENTAL, SOCIAL, GOVERNANCE ISSUES (ESG)

The major annual United Nations climate change conference COP28 concluded in Dubai in December, with a number of agreements made by member states while negotiations on a key sticking point (Article 6) failed. The conference also saw a ‘Global Stocktake’ undertaken, which was required under the 2015 Paris Agreement, in effect assessing countries’ efforts to-date and determining gaps to meet the agreed goals.

Member states agreed to “[transition] away from fossil fuels in energy systems”, the first explicit mention of fossil fuels more broadly rather than singling out coal, although some countries had sought stronger wording such as “phase out” or “phase down”. Nevertheless, it is notable that oil and gas have now been brought into scope.

Countries reiterated their commitment to the stretch goal of the Paris Agreement – pursuing efforts to limit warming to 1.5°C. The text acknowledged the need for deep, rapid and sustained emissions reductions to meet such a goal, and called for member states to contribute to these efforts with consideration given to national circumstances.

Another notable development at the conference was a new declaration regarding nuclear energy. More than 20 countries committed to work together to advance an aspiration goal to triple nuclear energy capacity by 2050. While Australia did not sign, globally significant countries such as the US, Britain, France and Canada did. We anticipate policy support and greater acceptance of nuclear as a climate solution to become more widespread in the medium term.

Renewable energy and energy efficiency were the focus of a new pledge signed by around 130 countries, seeking to drive installed capacity and double the annual rate of energy efficiency improvements by 2030.

Disappointingly, we are no closer to a global carbon market with negotiations on Article 6 of the Paris Agreement postponed to next year’s conference. This included a framework for carbon trading between countries and operationalising a UN supervisory body to administer a carbon trading mechanism for credits created by both the public and private sector.

Clarity on Article 6 had been hoped to help standardise and restore integrity to voluntary carbon markets, as well as provide a means through which countries could trade carbon in a manner which counts towards their nationally determined contributions. For now, national or regional level regulations and market initiatives will remain most influential in shaping carbon markets.

ENGAGEMENT

One company of focus during the quarter was Viva Energy (VEA). We spoke with a member of the Viva Energy sustainability team on carbon credits and sustainable aviation fuel (SAF). The company believes it is well positioned to pursue emerging opportunities in SAF given its capabilities in terms of both physical and human assets. We sought the company’s views on carbon credit supply in Australia and whether it believes it will be able to secure adequate supply to meet demand for its carbon neutral products as well as safeguard mechanism liabilities. It is confident in its ability to procure credits but it is an area of focus for the sustainability team.

MARKET OUTLOOK

As we start 2024, we remain cautious on the global economic outlook. We think inflation may linger. The market rally that occurred in the 4Q23 and expectations that rates will be cut aggressively in 2024 may be too optimistic in our view. Features of 2023, which surprised us somewhat, included record levels of immigration, a resilient consumer and a strong house price environment. In our view we may see asset values and discretionary consumer spending come under pressure in 2024. We see elevated risk of dislocation in asset prices, due to negative revaluations in the commercial property sector which may have broader implications for financial markets. Higher mortgage repayments and rent may impact discretionary consumer spending. In a backdrop of lingering inflation and stickier rates, equity markets may struggle to build on recent gains until a clearer rate-cut cycle emerges.

In the medium term we have a positive view on the outlook for commodities and see demand outstripping supply particularly in energy commodities.

We have positioned the portfolio for the medium to long term, with relatively concentrated positions in structural themes that we see playing out. We remain well positioned for the positive supply/demand outlook in Uranium. We also see attractive dynamics in energy and are well positioned with exposure to well-managed emerging gold producers. Other thematics we have exposure to include, the mining capex underspend over the last 10 years, infrastructure spending and the aging population. We have limited exposure to the Consumer Discretionary and Financials sectors, maintaining large underweight positions. We have partially closed out our underweight position to the Real Estate sector, with selective positions acquired during the 4Q23. We continue to focus on owing companies with strong management teams and balance sheets, that are significantly undervalued in our view.