31 DECEMBER 2024

AUSTRALIAN SMALL CAP OPPORTUNITIES FUND – CLASS A

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTHS	1 YEAR	SI* P.A.
Australian Small Cap Opportunities Fund - Class A	-4.79	0.40	22.34	22.31
S&P/ASX Small Ordinaries Total Return Index	-3.07	-1.01	8.36	7.52
Excess Return	-1.72	1.41	13.98	14.79

*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, noting that performance fees were waived prior to July 2024, 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

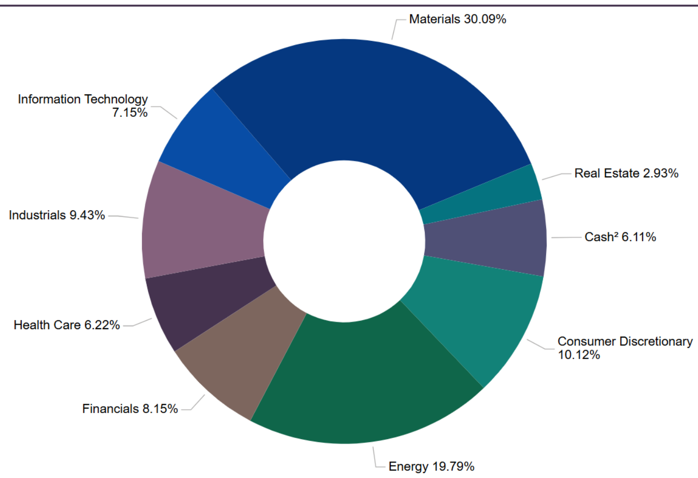
FUND OVERVIEW

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

KEY DETAILS	
Number of Holdings	56
Portfolio Dividend Yield	1.18%
Fund Size (AUD)	$ 8M

TOP 5 POSITIONS
Deep Yellow Ltd.
Generation Development Group Ltd.
Genesis Minerals Ltd.
Life360, Inc.
Light & Wonder, Inc.

SECTOR ALLOCATION



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	Typically 0 – 10%

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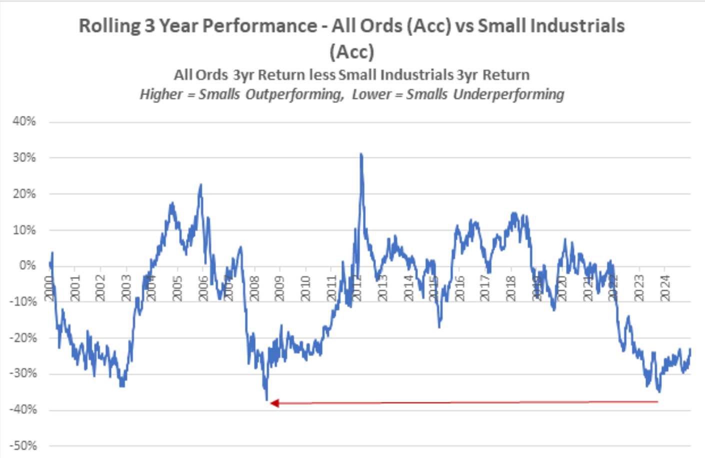
Performance in AUD unless otherwise noted.

MARKET REVIEW

The MSCI World Total Return Index fell -1.0% (in USD) but the NASDAQ (+6.4% in USD) US S&P 500 Total Return Index (+2.4% in USD) rallied in the December quarter versus the prior quarter (QoQ%) buoyed by Donald Trump's US Presidential Election Victory. During the quarter the Federal Reserve cut the cash rate by a further 50bps. Korean (-19.2% in USD) and Indian equities (-11.3% in USD) were the laggards[1]. Chinese equities continued to struggle (MSCI China Total Return Index -7.7% in USD) and the FTSE 100 Total Return Index also fell 6.8% (in USD) in the quarter.

Our benchmark, the S&P/ASX Small Ordinaries Total Return Index, fell 1.0%. There was however a divergence between the S&P/ASX Small Industrials Total Return Index (-0.4%) and the S&P/ASX Small Resources Total Return Index (-2.7%) during the quarter, with commodity prices generally weaker. Given our positioning, this was a general headwind to the Fund's performance.

The S&P/ASX 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, and as can be seen in the chart below there has been somewhat of an improvement of late. Whilst having conviction around the timing of any significant re-rate is difficult, in our view the performance dispersion represents an attractive entry point currently for small cap focussed investments, much like the post-GFC period where we saw a c.40% re-rating of small cap stocks vs large caps from 2010 to 2018.



Source: S&P/ASX All Ordinaries Index (Acc) and S&P/ASX Small Industrials Index (Acc) Bloomberg, PIM, as at 2nd January 2025.

The Fund's largest investment theme continues to be our various investments in uranium producers and development companies. Whilst the fundamentals for the uranium investment have continued to significantly strengthen in our view (both with unreliable forecasts for supply growth and more recently demand growth that continues to surprise to the upside), we have not seen these fundamentals being reflected in the spot uranium price (which saw price declines over 2024, including in the December quarter). Whilst most of industry volumes are sold not in the spot market but rather through long-term contracts (hence the term price is more relevant for the cashflows our investments are likely to generate), those prices too are difficult to garner, with disclosures poor or non-existent, contracts commercial in confidence and subject to non-disclosure obligations etc. Cameco does however publish a summary of the 'industry average prices' from the month-end prices published by UxC and TradeTech – and we note after a long period of sequential monthly strengthening in the term price we saw December 2024 fall by $1/pounds, the first drop in nearly 2.5 years. Despite this weakness, we continue to believe the outlook remains strong – and our investments in the space have a significant upside skew should our thesis continue to play out.

Whilst uranium may be the largest single theme in the Fund, our largest single stock exposure remains Light and Wonder (LNW). In our last quarterly we discussed the impact from some intellectual property claims brought seemingly successfully by Aristocrat (ALL) around a specific game in Dragon Train. This has continued to heavily impact the LNW stock price negatively, the degree to which is unjustifiable in our view, and hence we have used the weakness to add to our position during the quarter.

During the quarter we attended the G2E Conference (the Conference) in Las Vegas, a global gaming expo, where we had an excellent line up of meetings with executives covering various slot companies, industry consultants, and casino operators/slot floor managers.

From our perspective some of the key points to emerge from the Conference included:

1) The competitive landscape for Electronic Gaming Machine companies has seen a bifurcated market (ALL and LNW ahead of everyone else) - with LNW now posing some real challenges to ALL as leader. Whilst last year the undoubted talk of the Conference was ALL dominance (which we believe to still be the case as, in our view, they have excellent product), this year there was a lot more positive feedback on LNW wide array of content which are reportedly doing well across a number of formats.
2) Macro Environment for the gaming and casino industry not as positive as last year, however still seems manageable (at least for now). Operators were generally more cautious on their operating environment this year versus last- with the consensus being that this was primarily driven by the low-end customer base. The rationale was that the gaming segment has been more affected by inflation/ interest rates with lower levels of disposable income. Whilst we might be seeing inflation normalise somewhat and have started seeing interest rate cuts –in our view we are unlikely to see this segment accelerate back positively. On the more positive side the mid and high-end customer base has continued to be strong - and generally expectations are for this to continue.

3) The Replacement cycle is likely to be more muted. - After a more buoyant period of unit sales for the market post Covid - there is an expectation of a flattening/slight decline in replacement investment in the year ahead. There is seemingly always pressure to modernise the gaming floor, and during Covid there was a clearer realisation that the gaming floor is the driver of revenues (there had been a little more focus on non-gaming capex spend earlier). However, given the more uncertain macro environment we are likely to see some pause here.

1. *MSCI Korea Total Return Index in USD and MSCI India Total Return Index in USD*

4) Participation continues to grow above expectations. We have seen a big change in the industry with much more participation on the floors. We may see this trend continue, especially if we have a slower replacement market, and in that case the casino operators may choose to use participation to refresh their floors. In our opinion this has partly been driven by a change in pricing structure of participation with ALL launching Lightning/Dragon Link with flat fees yet achieving big revenue performance for the casinos. We have also seen a change in the type of product being offered on participation. It used to all be licensed product with the investment in the titles rather than necessarily the game play/math and hence those machines would have quite short lives on the floor. Whilst there is still a limited amount of licence themes, the focus is more on core self-generated themes and strong math performance.

5) Industry culture seems to be changing. The industry has always been relatively competitive given they are all fighting over a defined pie size, but despite that, it has also been quite collegial. In our view, this has been slowly changing and was especially evident this year. We had all the large manufacturers banning the others from their respective stands, with security at entrances checking badges etc. What is causing this change is hard to know however we have companies acquiring/being acquired, a bigger private equity ownership in the industry and the most successful manufacturer in ALL now being challenged by LNW (out-shipping them in the last quarter). This also comes at a time where there have been legal challenges to IP.

LNW specifically continued to exhibit what we would expect to see from them for their ongoing development. The key from here to us is that the US$1.4bn FY25E guidance target looks achievable, and growth should continue beyond given the strong R&D pipeline. LNW should deliver stronger growth than its peers and it is trading at a significant valuation discount. The upcoming quarterly is likely to be the most impacted period (Dragon Train swap out), but as we move through this we believe the market will draw greater attention to the earnings growth evident beyond FY25. Below is a picture taken of the LNW booth entrance.

PERFORMANCE

The Fund outpeformed by 1.41% over the quarter.

Contributors/ Detractors
Positive

Generation Developments Group (GDG) - Overweight: The GDG share price rose 27% over the December quarter adding to strong gains over the calendar year (+112%). The stock remains one of our top 5 holdings. We are attracted to the structural growth of its investment bond business as an alternative to other investment structures due to the tax arbitrage and estate planning benefits. We also think the recently completed buyout of its remaining interest in Lonsec makes good strategic sense. In late October GDG released highlights of its 1Q25, reporting continued strong momentum, with the highest inflows on record, +40% on pcp. We believe we will see inflows into Lonsec's Managed Accounts business accelerate into FY25.

Emeco Holdings (EHL) – Overweight: The company's AGM (held on November 20th) was the key catalyst for the stock, triggering a 20% rise in the share price by the end of December. At the AGM, EHL provided maiden FY25E EBITDA guidance of "at least $300m". The stock is in our top 10 holdings, and we are attracted to its: 1) exposure to a tight mining equipment rental market; 2) medium term pathway to 20% ROC (before growth capex) target; 3) relatively cheap valuation, trading at a c.30% discount to NTA and 6.2x FY25E PE.

Genesis Minerals Limited (GMD) – Overweight: GMD was one of our top contributors for the second consecutive quarter despite the weaker gold price. Highlights during the quarter included a strong September quarterly report (released on October 17th) and an updated company presentation in mid-November. September quarterly production was c.3% above consensus and cash was c.7% above consensus. During the quarter, Genesis brought forward the re-start of the Laverton mill to October 2024, six months earlier than flagged in the March 2024 Five-year Plan. This resulted in an increase in the FY25 production outlook to 190 - 210,000oz (from 162 - 188,000oz) at an AISC of A$2,200 - 2,400/oz (from A$2,250 - 2,450/oz). Once the Laverton mill is ramped up to 3.0Mtpa nameplate, Genesis will have 4.4Mtpa processing capacity from two mills at the one production centre. The mid-November update highlighted a number of new drill results and reminded investors about the upside within the asset base which could see the company potentially beat expectations (c.325kozpa at an AISC of c.A$1,600/oz byFY29) set in the 5/10-year outlook released earlier this year.

Ora Banda Mining (OBM) - Overweight: OBM was one of our largest contributors for the 3rd consecutive quarter, which was achieved despite the weaker gold price. We took advantage of strong share price performance early in the quarter to reduce our holding but continue to have high conviction on the medium-term outlook for the company. During the quarter OBM delivered a strong September quarter production report with production, AISC and gold sales beating market expectations. The company's first underground operation, Riverina Underground achieved commercial production with 24koz mined in line with the required run-rate to achieve FY25 production guidance. During the period, mining operations commenced at the Sand King Underground mine with the portal established and mine development underway. The commissioning of these two high grade underground mines in parallel form the key pillars of OBM's growth strategy 'DRIVE to 150'. The stock did sell off dramatically late in the quarter (down ~32% from its highs achieved at the end of October), with the largest shareholder in Hawkes Point selling down ~15% of their large holding.

Fineos Corp Holdings (FCL) – Overweight: The FCL share price rallied +31% in the quarter, buoyed by the company's Strategy Day, held on November 13th. Management laid out medium term subscription fee, gross margin, EBITDA margin and R&D targets, implying FCL could move towards/meet the "Rule of 40" principle. In our view, despite this recent share price rally the current share price doesn't fully reflect the earnings and valuation potential of the company. While patience is required and contract wins are likely to remain lumpy, we believe FCL is well positioned as a major player in a large, fragmented market.

Negatives

Andean Silver Limited (ASL) – Overweight: ASL continued to deliver strong drilling results from its Cerro Bayo Silver Project in Chile during the quarter. The outlook for resource growth is underpinned by the exceptional drilling results from the Pegaso 7 area where high-grade mineralisation has been intersected over a 600m strike length and to a 300m depth and remains open in all directions. However, during the quarter the share price was largely driven by movement in the silver price (-6% in USD). After very strong performance in the first 9 months of 2024 (+238%) the share price retreated by -35% in the December quarter. It remains a relatively small holding in the Fund.

Arcadium Lithium Plc (LTM) – Underweight: The LTM share price rose 93% during the December quarter as Rio Tinto (RIO) entered into an agreement with the LTM Board to acquire 100% of LTM in an all-cash transaction for US$5.85 per share, soon after the stock has re-entered the Small Cap benchmark. We have been underweight LTM and Lithium exposed stocks given our view that the medium term supply-demand outlook is unattractive for the commodity.

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Mesoblast Limited (MSB) – Underweight: In December the US FDA approved MSB's Ryoncil. This is an allogeneic (donor) bone marrow-derived mesenchymal stromal cell therapy indicated for the treatment of steroid-refractory acute graft-versus-host disease (SR-aGVHD) in paediatric patients two months of age and older. It was also announced in December that MSB would be added to the NASDAQ Biotechnology Index. The share price moved up +57% in the last two weeks of December following these two announcements.

St. Barbara Ltd. (SBM) – Overweight: The SBM share price fell 38% over the quarter, driven by two factors: 1) a fall in the gold price from its late October peak and 2) an adverse tax announcement from the PNG Internal Revenue Commission (IRC). The stock fell 34% on December 24th when the company announced that Simberi Gold, a wholly owned subsidiary of SBM had been hit with an A$210m tax notification by the IRC. Simberi Gold intends to lodge a formal and extensive objection within the 60 days objection period.

Deep Yellow Limited (DYL) – Overweight: The DYL share price fell 18% over the December quarter impacted by 1) DYL announcing it has pushed the timeline for a final investment decision for its Tumas Uranium Project (TUP, Namibia) to early March 2024, from previous guidance of end 1HFY25 and 2) a softer Uranium spot price. DYL remains one of our core Uranium exposures. We have a high level of conviction that DYL management can execute on TUP and that we are entering a favourable term pricing environment which should deliver strong cash flow to shareholders.

ENGAGEMENT

We met with Yancoal (YAL) in the quarter regarding its methane emissions management and compliance with the safeguard mechanism, which can require certain facilities to purchase carbon offsets. We sought to understand whether changes to measurement methodologies for fugitive methane emissions – associated with gas released during the mining process – would have impacts for the company's safeguard mechanism liabilities. Additionally, we got an update on the challenges to reducing fugitive methane emissions, given the viability of technologies can vary depending on site-specific geology and type of mine. It is our understanding that the company is also working to reduce other emissions sources over which it has more control and exploring options to generate its own carbon credits.

MARKET OUTLOOK

As we commence 2025, as always, the future is uncertain. In the coming year markets face heightened uncertainty around key economic and geopolitical issues such as global trade, energy transition, monetary and fiscal policy settings. Whilst we don't have a strong view or any particularly unique insight into these issues, we are constantly trying to stay aware of what impact they may have on the stocks in our portfolio and in our universe. We continue to focus on our investment philosophy, our process and taking advantage of mispricing of stocks in our universe.

Ongoing weakness in the Chinese economy could impact the outlook for many commodities, particularly iron ore and coking coal. The threat of the US imposing tariffs on key trading partners could cause significant disruption to global supply and demand for some products. Domestically, a federal election (due no later than the 17th of May) adds further to uncertainty and inflation seems to be lingering, delaying rate cuts.

There is currently a pronounced divergence amongst the stocks in our universe. At one end of the spectrum, we have a relatively small group of high multiple – typically larger - market darlings and at the other end a group of unloved - low multiple - stocks that are typically smaller in market cap, less liquid and in many cases, challenged. We continue to focus on owning companies with relatively simple business models, strong management teams displaying good governance, that have strong balance sheets, and that are mis-priced in our view.

We remain well positioned for the positive supply/demand outlook in uranium. We also see attractive dynamics in gold and are well positioned with exposure to well-managed emerging producers. Other themes we have exposure to include, the mining capex underspend over the last decade, infrastructure spending and the aging population. We continue to have limited exposure to the Consumer Discretionary, Real Estate and the Financials sectors. That said we are selectively adding names in these sectors which fit our investment philosophy and process.