30 JUNE 2024

AUSTRALIAN SMALL CAP OPPORTUNITIES FUND – CLASS A

PARADICE
INVESTMENT MANAGEMENT

PERFORMANCE NET (%)	1 MONTH	3 MONTHS	1 YEAR	SI*
Australian Small Cap Opportunities Fund - Class A	-2.11	2.14	--	26.95
S&P/ASX Small Ordinaries Total Return Index	-1.39	-4.46	--	5.36
Excess Return	-0.72	6.60	--	21.59

*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

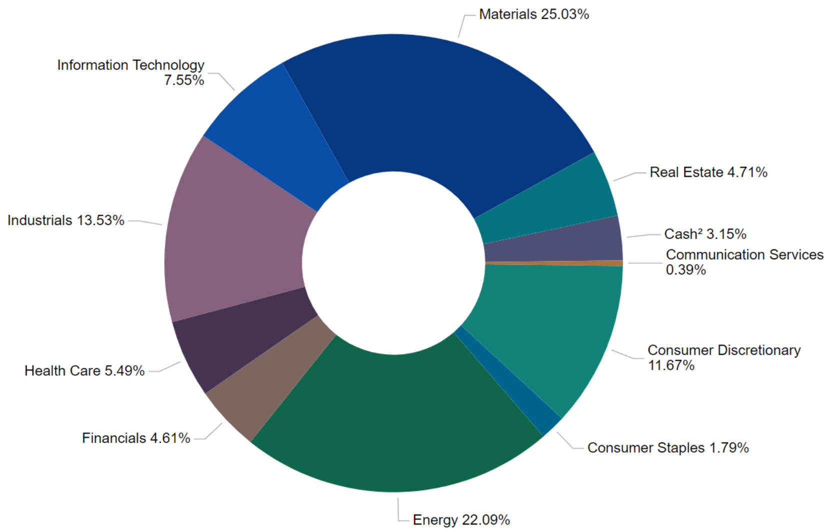
FUND OVERVIEW

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	1.52%
Fund Size (AUD)	$ 3M

TOP 5 POSITIONS
Deep Yellow Ltd.
Genesis Minerals Ltd.
Life360, Inc.
Light & Wonder, Inc.
Ora Banda Mining Ltd.

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	0–10%

Performance in AUD unless otherwise noted.

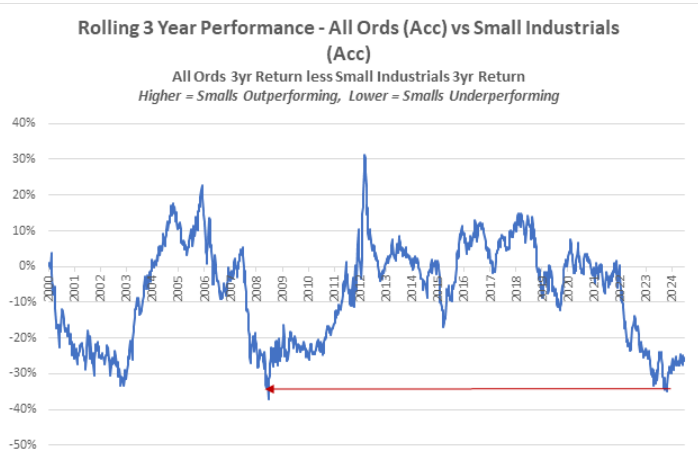
MARKET REVIEW

Global equity markets continued their rally in the June quarter 2024, with the MSCI World Net Total Return Index[1] gaining 2.9% (in USD) for the period adding to the 19% gain over the previous six months. US stocks recorded a solid 4.3% gain (S&P 500 Total Return) for the quarter. Nvidia was a highlight, becoming the largest company globally by market capitalisation. The Indian equity market was a standout performer, rising 10% (MSCI India Total Return Index in USD) in the quarter. In commodities, copper (up 8.6% in USD), aluminium (+8.0% in USD) and gold (+4.3% in USD) were standouts.

The ECB became the first major central bank to cut rates with a well-flagged 25 bps cut on May. Other major central banks remained on hold with the US Fed now expected to pass on one cut in 2024 vs three previously. Equity markets continued their rally despite bond yields rising further.

The Australian equity market weakened, with the S&P/ASX 200 Total Return Index falling 1% over the quarter. Our benchmark, the S&P/ASX Small Ordinaries Total Return Index (the Benchmark), underperformed, falling 4.5%, giving back some of the positive momentum over the previous 6 months.

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 akin to 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 July 2024.

If we look at specific performance within the Benchmark over the quarter, the Healthcare Sector was the only sector to record a positive total return. The Consumer Discretionary Sector was the weakest sector (-11.7% total return), giving back all the gains from the previous quarter. The June quarter saw several profit warnings announced in the consumer space which drove the underperformance. The Fund has had a significant underweight exposure to the consumer sectors, and continues to do so.

The Energy Sector was the second worst performing sector within the Benchmark with uranium stocks underperforming over the quarter. The Fund continues to have a large overweight exposure to the commodity – and we continue to believe the outlook for uranium miners over the medium term continues to strengthen. Whilst the spot price has fallen relative to the levels we saw at the beginning of the year – importantly term pricing (which is the price from which most contracts are struck in the sector) has continued to strengthen. Over the quarter we visited three of our uranium investments (PDN, DYL and BMN) in Namibia – where we spent a significant amount of time with the respective management and operational teams on site.

(Photo 1 -Portfolio Manager Sam Theodore at Paladin's recently opened Langer Heindrich mine in Namibia
Photo 2 – Drill rig operating at Deep Yellow's Tumas project in Namibia
Photo 3 – Bannerman's large scale heap leach demonstration plant at its Etango Uranium project in Namibia)

Drilling down to specific stocks in the Benchmark, Mesoblast, Telix and OFX posted the largest gains for the quarter. The worst performing stocks in the Benchmark during the quarter included Cettire, Wildcat Resources and Kogan.

Some of the key general themes we witnessed over the quarter included:

- Capital raisings - We saw several raisings, in many varied sectors. We have been very selective in the opportunities that have been pursued by the fund – and pleasingly it has been an area of alpha generation in the quarter.
- Profit warnings – There were several negative earnings updates, as we have approached the end of the year and into 'confession season' as the realities of the economic environment have often outweighed the over-promise of some of the promotional management teams. This seems to have been especially prevalent from discretionary consumer names, including but not limited to APE, BAP, CTT, KGN, MHJ and SKC.
- Corporate Activity – There were a number of takeover offers in the market, particularly in the smaller and less liquid parts of the market, which continues a theme we have seen all year. We believe this speaks to the attractive valuations that have been evident in this part of the market, and which continue to be so. The IPO market has been very quiet for the last two years, but the June quarter saw the successful listing of GYG (which was highly publicised – but where the fund did not participate) and some smaller companies.

PERFORMANCE

The Fund outperformed by 6.60% over the quarter.

Contributors/ Detractors

Positives

Ora Banda Mining (OBM) - Overweight: OBM shares performed well in the quarter buoyed by the rising gold price, and management's ongoing progress moving the company to a 150k oz p.a. gold producer. As we have discussed in the past, the appointment of Luke Creagh as CEO and the shift in strategy to focus on high-grade underground mine development we believe will change the fortunes of this historically troubled gold mine (challenging low grade high strip open pit mine). The company has now delivered the first leg of its transition to underground mining with the commissioning of the Riverina Underground mine, and has recently sanctioned the commencement of its second, Sand King. Whilst both mines might look initially to have a modest mineral inventory (and hence mine life) – we believe this is more a function of lack of drilling focused on an underground resource – and expect over time more inventory to be added – and hence mine life extensions. Further there is a large land holding that we believe will be explored for underground potential near the mill once the two underground operations are in production – which poses as further upside potential for the stock.

Generation Developments (GDG) - Overweight: We initiated an overweight position in GDG during the quarter. Whilst the stock has performed relatively strongly for some time, the company has continued to deliver operationally, with accelerating flows into the investment bond business. The proposed Australian superannuation tax changes are reinforcing the attractiveness of investment bonds as an alternative product for people with larger super balances, which we believe may see significant acceleration of flows over the next 24 months (something that is currently not priced into the stock in our view). The company's move to 100% ownership of Lonsec (announced in early June) makes strategic sense and may see double-digit EPS accretion. We do note however, the annuity business management are pursuing is still loss making and seemingly will take some time to build significant traction – but nonetheless is a strategy we support.

Macmahon Holdings (MAH) - Overweight: The share price continued to rerate over the quarter – as we believe we are getting closer to the company delivering strong free cashflow outcomes at the FY result. This stock is an example of the deep valuation support for some stocks we have found – where we were buying MAH at a ~50% discount to Net Tangible Assets (NTA). Whilst some of this discount has since closed – the stock continues to pose good value on an earnings/cashflow basis. MAH announced its intention to acquire Decmil (DCG) in mid-April. DCG shareholders will vote on the proposed acquisition on July 31. While not without its risks, the acquisition of DCG is on stated strategy for the business and a logical extension (with potential to add significant EPS accretion, scale and diversification, and incremental ROCE). We continue to see good value in mining services stocks more generally. We partially sold down our overweight MAH position late in the quarter on the back of the strong share price performance, switching into cheaper peers.

Life360 (360) - Overweight: Life360 shares continued to perform strongly in the June quarter, following on from the substantial gains in the March quarter. Key drivers included continued growth in Paying Circles (groups of members within paying subscriptions), the NASDAQ listing in early June and continued digestion of the increasing TAM[2] (including a better understanding of the potential that the new pillar of advertising could bring for the company). In mid-June Life360 put out a media release saying it had reached 2m global Paying Circles. This indicates continued momentum at around 100k additions per quarters, which is a positive sign heading into the seasonally stronger, US back-to-school period in 3Q. Life360's Top Grossing and Usage rankings continued to reach new heights following record numbers in Q1FY24.

Jupiter Mines (JMS) – Overweight: We initiated a small position in JMS following news of the significant storm that hit S32's GEMCO mine and associated infrastructure damage, which we believe will see manganese production impacted for a sustained period hence impacting global supply; which should drive tailwinds for the manganese price over an extended period. JMS free cash flow yield is attractive at over 10% from FY24 onward, which now has upside given tailwinds in the manganese market. The company previously released a strategy update, focused on becoming the largest manganese producer globally and growth into the HPMSM market. We have partially reduced our overweight into recent share price strength.

Negatives

Pinnacle Investment Management (PNI) – Underweight: At the Macquarie Conference in early May PNI reported continued good momentum in FUM growth to April 30, albeit at a slower pace than the very strong March-24 quarter. On May 1, the company announced its intention to establish a new affiliate with a handful of former Royal London Asset Management Portfolio Managers focused on global equities and based in the UK. The team has a strong track record (5% pa alpha over seven years in its higher-concentration strategy), has worked together for 20+ years, managed £12b+ in global equities. This is a type of stock we consider generally to have high beta – that is, it has large leverage to markets going up. As such, when we see stronger markets it is likely to outperform (like we have seen this quarter).

Domain Holdings Australia Ltd (DHG) – Overweight: Despite a positive update at the Macquarie Conference, DHG continued to underperform the market and its peer, REA. The 3Q FY24 results show DHG listings, yield, revenue, EBITDA growth all lagged REA. As vendor marketing schedules keep rising, we expect more market debate re the size of Domain's unique audience + leads vs. cost. Despite listing growth guidance expectation moving towards the upper end of the guidance range (1-3%), cost guidance was also increased to the upper end of the range, which we believe is hindering operating leverage. We subsequently exited the position during the quarter.

HUB24 Limited – Underweight: HUB24 continues to report strong operating results. The strong performance of the stock during the quarter was driven by another good quarterly Platform Net Inflows and Funds Under Advice (FUA) report printed on April 16. Platform FUA as at 31 March 2024 was up 10% over the quarter and up 34% on pcp[3] driven by strong net inflows of $3.5 billion (up 90% on pcp). During the quarter, 42 new distribution agreements were signed and the total number of advisers using the platform increased to 4,382 (up 17% on pcp). Strong equity markets have supported positive market movements and strong trading activity which will benefit revenue. The company is confident in meeting its FY25 Platform FUA target of $92 – $100bn. HUB is another stock with market beta – and hence is likely to outperform in strong market conditions.

Telix Pharmaceuticals Limited – Underweight: TLX was one of the strongest performing stocks in the Benchmark during the June quarter. It was a busy quarter of announcement for the company, completing 3 bolt-on acquisitions; announcing a positive 1Q result and announcing several new drug updates. Key Q1 2024 highlights included 75% revenue growth on pcp; 84% gross profit growth on pcp and $28.5m operating profit. The company cancelled a proposed US listing on June 14 which seemed to please the local market.

Alumina Limited (AWC) – Underweight: On Feb 26, AWC announced that it had entered into a scheme of agreement with Alcoa (AA) for AA to acquire 100% of the shares in AWC for a script consideration of 0.02854 AA shares for each AWC share. AWC shareholders are set to vote on the offer on July 18. Despite being under unchanged terms AWC shares increased 19% (in line with AA) during the June quarter. The key driver was the strong Alumina price, with spot prices rising 19% over the quarter. This has driven medium term Alumina price upgrades and significant positive earnings revisions.

ENGAGEMENT

Companies engaged during the quarter included NexGen Energy (NXG). We engaged the company in the lead up to the AGM in relation to concerns regarding remuneration and corporate governance more broadly. The company – headquartered in Canada – does not offer shareholders an advisory pay vote. We followed up with a letter to the Board expressing our concern that executive and director pay was excessive in the context of a pre-production mining company and sought improved disclosure around remuneration. While we view NexGen as having strong environmental and social performance from an operational perspective, we encouraged the Board to lift governance and remuneration standards to support its overall ESG standing.

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MARKET OUTLOOK

As we enter the back half of calendar 2024, we remain wary of capital markets' valuations. Markets continue to grapple with where we are the cash rate cycle. The timing of potential central bank cuts has been generally pushed out due to sticky inflation. Recent economic data in Australia (higher than expected inflation) has heightened the risk of a rate rise in the near term. The ongoing conflicts in Eastern Europe and the Middle East, combined with government elections in many countries are adding to the potential for financial market volatility in the back half of 2024.

The all-important August reporting season will be a feature of the next quarter. Expectations appear to be softening and the risk is that outlook statements for FY25 may be more cautious than consensus is implying, particularly in discretionary names. Higher costs (raw materials, labour, rent, interest and capital goods), combined with softer than expected volumes are impacting earnings. It's always a challenge to determine what's priced in in these circumstances, but we feel the portfolio is well-positioned to protect and grow our investors capital and take advantage of opportunities that will emerge over coming months.

We maintain a positive view on the outlook for commodities and see demand outstripping supply particularly in energy. We continue to position the portfolio for the medium to long-term, with relatively concentrated positions in structural themes. In addition, there have been several shorter-term opportunities emerging to complement our longer-term positions.

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 thematics we have exposure to include, the mining capex underspend over the last 10 years, infrastructure spending and the aging population. We continue to have limited exposure to the Consumer Discretionary, Real Estate and Financials sectors. We continue to focus on owning companies with relatively simple business models, strong management teams (with good governance), that have strong balance sheets, and that are undervalued in our view.

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2. *Global Total Addressable Market.*
3. *Previous comparable period.*