31 MARCH 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	6.66	13.01	--	21.46
S&P/ASX Small Ordinaries Total Return Index	4.79	7.55	--	10.28
Excess Return	1.87	5.46	--	11.18

*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).

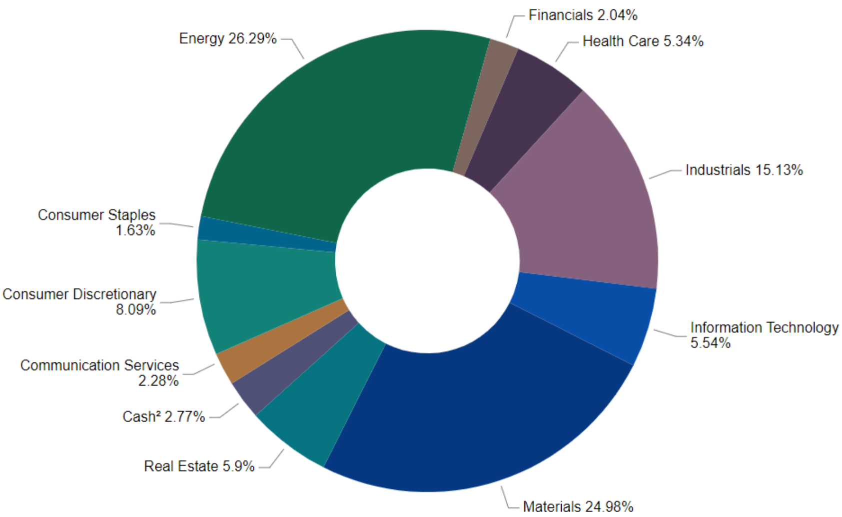
LEAD PORTFOLIO MANAGER

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 style agnostic, favouring well-managed, good value companies that have significant growth opportunities through their comparative advantage.

SECTOR ALLOCATION



KEY DETAILS	
Number of Holdings	49
Portfolio Dividend Yield	1.75%
Fund Size (AUD)	$ 3M

TOP 10 POSITIONS	WEIGHT %
Light & Wonder, Inc.	5.87
Genesis Minerals Ltd.	5.05
Viva Energy Group Ltd.	4.40
NexGen Energy Ltd.	4.12
Deep Yellow Ltd.	4.00
Ora Banda Mining Ltd.	3.45
Capricorn Metals Ltd.	3.41
Life360, Inc.	3.41
Metals Acquisition Limited	2.83
Whitehaven Coal Ltd.	2.51

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%

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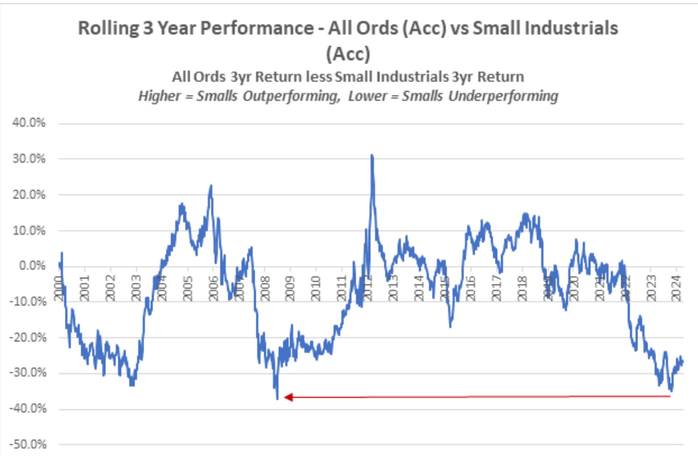
Performance in AUD unless otherwise noted.

MARKET REVIEW

Global equity markets continued their rally in the March quarter 2024, with the MSCI World Net Total Return Index gaining a further 8.2% (in USD) for the period adding to the 11% gain in the December quarter. US stocks led the charge, with the "Magnificent 7" continuing their momentous run. In commodities, oil (Brent up 13.6% in USD) and gold (+8.1% in USD) were standouts. Central banks remained on hold, but the market continues to expect multiple rate cuts (albeit a reducing number) from the Fed and ECB towards the back end of 2024. The equity market rally was interesting in the context of bond yield movements during the quarter, with the US 10-yr rising 32 bps.

The Australian market posted solid gains, with the S&P/ASX 200 Total Return Index rising 5.3% over the quarter. Our benchmark, the S&P/ASX Small Ordinaries Total Return Index (the Benchmark), outperformed, up 7.6%, continuing its momentum from late 2023. 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 April 2024.

If we look at specific performance within the Benchmark over the quarter, the uranium stocks outperformed, despite the uranium spot price generally weaker over the quarter. The Consumer Discretionary Sector (+12.4% total return), Information Technology (+22.6%) and Financials (+13.6%) were the main contributors to the Benchmark's quarterly performance. The Materials (+0.4%) and Communication Services (-1.9%) sectors were the main detractors.

Drilling down to specific stocks in the benchmark, Zip Co (+119%), BrainChip Holdings (+82%) and Mesoblast (+79%) posted large gains for the quarter.

The worst performing stocks in the Benchmark during the quarter included SSR Mining (-64%), Calix (-57%), and Bowen Coal (-48%).

The Small Ords (+1.7%) outperformed the ASX 200 (+0.8%) during February Reporting Season. This was driven by strong earnings results and M&A activity. Earnings in general exceeded expectations with a "beats to miss" ratio of 1.6x (32% of stocks outperforming v 20% below expectations). M&A activity picked up during the period, with bids for AWC, BLD, CSR, MRM, SCL and VUK announced. Small Cap stocks featured heavily in the top 20 and bottom 20 performers across the broader market. In terms of reactions to results - the strength of Consumer Discretionary and Information Technology stocks were of particular note. We remain significantly underweight Consumer Discretionary, which we discuss later in the write-up.

Contributors/ Detractors

Positive

Peninsula Energy Limited (PEN) – Overweight: PEN successfully completed an A$60m capital raising on January 15th to fund its proposed mine restart and construction of a processing facility in Wyoming, USA. The stock had lagged some of its peers and the share price was volatile during the quarter. We believe it remains significantly undervalued vs peers considering the expected production that will be generated from the Lance Projects once production has fully ramped up, but with obvious risks through that process. Further there seems to be additional funding still required – with any progress around funding offered by government agencies likely to be well received by the market.

Light & Wonder (LNW) - Overweight: The stock continued its outperformance in the March quarter, following another strong result (4Q23) released in late February, reinforcing our view that the business has strong operational momentum, built around its R&D program. We see upside to the company's FY25 AEBITDA target, which should drive further consensus earnings revisions. On March 13th, key competitor Aristocrat (ALL) filed a claim in the US District Court of Nevada, taking legal action against Light & Wonder (LNW) and its new game, Dragon Train. According to the filing, claims have been made by ALL that it breaches intellectual property, including trade secrets, copyright and trade dress infringements relating to ALL's game, Dragon Link. While we can't predict the likely outcome of the matter, litigation is common in the highly competitive gaming space, with claimants having had mixed legal success.

Life360 (360) – Overweight: 360 was one of the strongest performers in the benchmark during reporting season, beating consensus estimates and providing a positive update. The key new news was around the strategy to commence advertising in the app for non-paying subscribers. This should significantly lift the Total Addressable Market (TAM) available to 360 and the stock reacted immediately and strongly to the news, despite having for years talked about the potential for new verticals to be added to the product. It's becoming apparent that the company could move to a positive statutory EBITDA position faster than the market previously estimated.

Ora Banda Mining (OBM) – Overweight: This is a stock we have continued to add to over the quarter. OBM is an emerging Australian gold producer. While the asset has previously struggled to successfully transition to steady state operations after start up, we believe the current strategy led by CEO Luke Creagh represents a significant strategic shift. Their Riverina underground mine is expected to reach commercial production in the next quarter, with ongoing positive drill result around the Sand King which is likely to see OBM develop a second underground mine (FID potentially this quarter). We do not believe the current price reflects the potential production and cashflow generation this business will be able to generate in the next 2-3 years.

MMA Offshore (MRM) – Overweight: MRM has been benefiting from rising offshore support vessel (OSV) rates as the supply/demand dynamics move favourably for OSV operators. The company is highly leveraged to rising rates which was evidenced from the very strong 1H24 result. We were well positioned to a take advantage of rising OSV rates with an overweight position in the company but had been selling into strength, as the investment thesis played out and being cognisant of valuation. In late March private equity firm Cyan made a A$2.60/share bid for MRM, while only an 11% premium to last close, this catalysed our exit from the position.

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Negatives

Mount Gibson (MGX) – Overweight: MGX was the biggest detractor to fund performance during the March quarter. This was largely driven by the iron ore price which fell 27% over the period. MGX is on track to achieve its annual FY24 shipping guidance of 3.8-4.2 Mwmt. High grade shipments for the nine-month period to 31 March 2024 totalled 3.2 Mwmt. MGX is in a very strong financial position, with cash and investment reserves further increased during the March quarter, closing the period at A$430m vs its current market cap of c.A$550m. With a limited mine life but strong cash generation expected over this period – questions remain as to the extent to which management will return capital relative to deploying into potential opportunities.

CSR Limited (CSR) – Underweight: During the quarter CSR agreed to be taken over by St-Gobain, entering a binding scheme implementation deed. The proposed A$9.00 per CSR share cash bid has been unanimously recommended by the CSR board. The proposed takeover is subject, amongst other things, to shareholder and regulatory approvals (including ACCC and FIRB). Across CSR's key building products offering, St-Gobain does not have an Australian presence, thereby likely minimising any ACCC concerns. Whilst difficult to define timing of the close, the companies anticipate scheme implementation to conclude during the 2H CY 2024.

Megaport Ltd (MP1) – Underweight: In late January MP1 announced its 2Q FY24 result, which was similar to 1Q but resulted in a strong share price response given expectations of a much softer print. Revenue and EBITDA guidance remain unchanged, signalling a higher run-rate of costs as investments in the Go-to-Market engine evolve. Key operating metrics were guided to improve from Q4. Cash generation continued to improve and lower capex guidance signals a likely higher net cash figure exiting FY24.

Develop Global Limited (DVP) – Overweight: The DVP share price continued to be impacted by the weak lithium price, following the company's recent acquisition of Essential Metals. They have recently disclosed a production restart study on their Woodlawn project, with restart capex of A42m for first production in 1HCY25. The company has said they will start exploring funding options which may result in it selling a minority interest in Woodlawn.

The Reject Shop (TRS) – Overweight: The TRS share price underperformed following its 1H24 earnings print. 1H24 EBIT was below market expectations and down c12% y/y, with c4% sales growth offset by a c75bp lift in shrink (theft). Notwithstanding shrink, earnings still missed market expectations, with Q2 like for like just +1.6% vs. Q1 +3.2%. While the company reported a weaker than expected 1H result, the strategy and outlook seems sound. We believe TRS remains fundamentally undervalued, with it a potentially attractive strategic consolidation proposition given growing customer base, value position and net cash position.

ENGAGEMENT

One company of focus during the quarter was Beach Energy (BPT). We met the new CEO, who started in January, after the half year result. With BPT announcing its Otway Basin CCS project was on hold, we sought to understand the new CEO's views with respect to CCS and pursuing other decarbonisation options for the company. He shared more on his background, which included setting up the New Energy Solutions business within Santos, and interest in advancing BPT's approach. While the Otway CCS project was found to not be commercially viable, BPT is pursuing other CCS opportunities as well as wind projects. We also discussed recent poor safety performance, with the company admitting it was challenged by labour shortages resulting in use of less experienced contractors.

MARKET OUTLOOK

Entering the 2Q24, we are becoming increasingly wary of capital markets valuations, especially given the backdrop from the potential that rates remain higher for longer and the significant geo-political turmoil around the world. Australia appears to be better placed than most developed markets. However, we remain cautious in the near-term on the Australian consumer, a view that has not played out to date. In our view we may see asset values and discretionary consumer spending come under pressure in 2024/25. 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.

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 currently 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, have strong balance sheets, that are significantly undervalued in our view.