30 SEPTEMBER 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	1.22	-	-	1.53
S&P/ASX Small Ordinaries – Total Return Index	-4.04	-	-	-5.51
Excess Return	5.26	-	-	7.04
				*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).

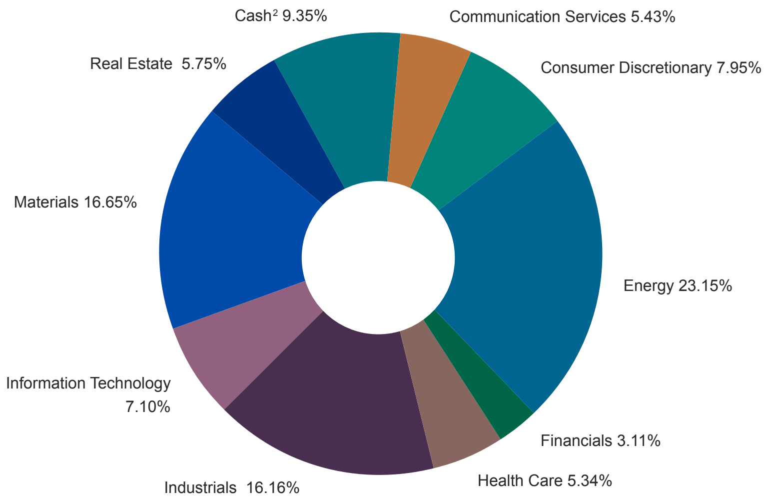
LEAD PORTFOLIO MANAGER

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	43
Portfolio Dividend Yield	1.84%
Fund Size (AUD)	$2M

TOP 10 POSITIONS	WEIGHT %
Light & Wonder, Inc.	6.10
Viva Energy Group Ltd.	4.00
Capricorn Metals Ltd.	3.98
Genesis Minerals Ltd.	3.70
NexGen Energy Ltd.	3.43
Monash IVF Group Ltd.	3.34
Boss Energy Ltd.	3.25
OFX Group Ltd.	3.11
Life360, Inc.	3.09
Domain Holdings Australia Ltd.	2.68

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.

30 SEPTEMBER 2023

AUSTRALIAN SMALL CAP OPPORTUNITIES FUND – CLASS A

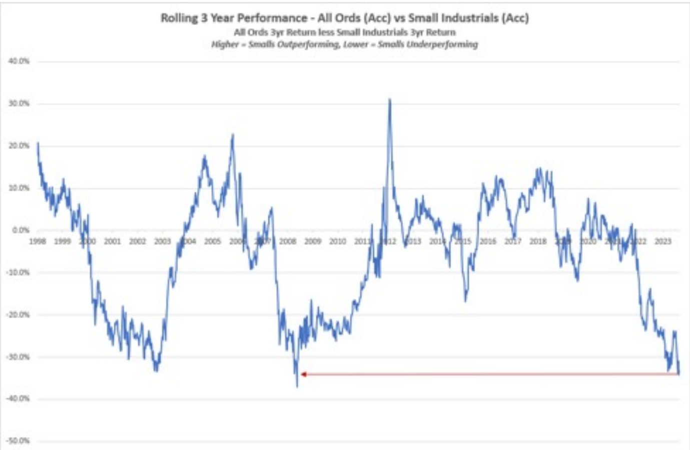
PARADICE
INVESTMENT MANAGEMENT

Performance in AUD unless otherwise noted.

MARKET REVIEW

Global equity markets lost ground in the September quarter 2023, with the MSCI World Net Total Return Index falling by 3.36% (in USD) for the period. US stocks fell as markets weighed the prospect of rates remaining higher for longer. Inflation fears returned with energy commodities surging. The WTI Oil Price rose 29% (in USD) to finish the quarter at US$90.79/bbl. Chinese stocks continued to drift lower, as falling property prices added to concerns about slower consumer spending and export demand.

The Australian market posted a modest decrease, with the S&P/ASX 200 Total Return Index falling 0.8% over the quarter. However, our benchmark the S&P/ASX Small Ordinaries Total Return Index continued to lag the broader market, falling 1.9%. The S&P/ASX Small Ordinaries Total Return Index now sits at multi-year lows on a relative performance basis versus the S&P/ASX All Ordinaries Total Return Index. If we compare the Small Industrials specifically relative to the All Ordinaries Index, it is at levels only seen twice since 1998 (see chart below).



Source: PIM, as at 29th September 2023.

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.

If we look at specific performance within the benchmark over the quarter, there was a large dispersion in underlying equity returns. The Uranium stocks were strong performers, which we discuss below. Elsewhere, Megaport (+63%), Siteminder (+59%) and Audinate (+46%) posting large gains in the quarter. Reporting season saw some volatile share price moves (with a skew to the upside), but many of which have now returned to levels around where they were pre the result. On the other end of the spectrum there was significant and broad weakness in a range of Metals & Mining stocks, with some of the worst performers being Chalice Mining (-63%), Core Lithium (-55%) and Argosy Minerals (-50%). Mesoblast was the worst performing stock in the Small Ordinaries during the quarter (-66%).

Portfolio Introduction

This is our inaugural quarterly review, with the Paradice Small Cap Opportunities Fund going live on July 20, 2023. We'd like to thank our early class investors for their support and look forward to delivering outperformance over the long term.

Key Positions

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 a 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.

NexGen Energy (NXG): We typically avoid early-stage developers in the mining space, with a preference for cashflow producing companies. But NexGen Energy is an exception to this - given their level of de-risking of the project, strong economics and upside exposure to the Uranium price. 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 which we discuss below - the investment gives us upside leverage we seek in the sector in a scenario where the U308 price moves materially higher.

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 >$300m of free cash flow with Mt Gibson ramped up. The stock looks attractive to us at the current EV of c$1.5b.

Mining Services: We have 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 replacement cycle, underpinned by on-going maintenance capex requirements. The pandemic has tightened supply chains in many areas enhancing the returns. 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 <50%), we see some compelling investment opportunities.

AUSTRALIAN SMALL CAP OPPORTUNITIES FUND – CLASS A

Key Positions

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 rocked of delivering shareholder returns. With the acquisition of the Gwalia assets (which we visited in the 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). With the current EV of $1.3bn, and potential to deliver $300-400m of free cash p.a. by 2027, we believe this is an attractive investment.

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. VEA is well positioned to benefit from the ongoing recovery in international aviation fuel sales and refining margin improvement after recently closing a US$2/bbl margin gap to its key competitor. We see strong potential for convenience retail diversification following its acquisition of Coles Express and proposed acquisition of On The Run.

Monash IVF (MVF): We initiated an overweight position in Monash IVF, with the stock currently in our top-5 holdings. Monash IVF is a leading Assisted Reproductive Services (ARS) in Australia. Our investment thesis is based on structural tailwinds including, the aging population, people getting married and starting families later in life (impacting fertility), rising rates of immigration, and the increase in same sex families. MVF is building strong moats around its business through investment in people, systems, and technology. Success rates have improved and there are positive regulatory tailwinds emerging. These include Medicare Benefits Scheme (MBS) support for carrier screening genetic testing for chromosomal defects and genetic disorders.

Contributors/ Detractors

Positives

Uranium: Boss Energy (BOE), NexGen Energy (NXG), Paladin Energy (PDN) and Deep Yellow (DYL) were in our top 5 positive contributors to our performance since inception during in the quarter. The Uranium spot price was strong during the quarter (up c.30%) driving stock performance.

The fundamentals for Uranium look very promising over the medium term. At the recent World Nuclear Symposium the WNA updated their supply/ demand outlook, with deficits forecast from today right through to beyond 2040. On the supply side the two largest producers (KAP and CCJ) are sold out until 2027, and with some production shortcomings that might mean they still need pounds to fulfil existing contracts already signed. The sector has emerged from a very difficult period, which means projects and exploration were cancelled. Restarts/ramp ups are likely to experience difficulties, and new projects are seeing delays. All this is likely to make the situation even worse from an undersupply perspective. Geopolitical tensions could add further pressure on supply in some geographies, particularly western countries. Inventories at utilities have been rundown, and in the US they are sitting at lowest levels since 2012.

On the demand side, Uranium is increasingly being recognised as a key part of the low emission future, providing a good source of base load power coupled with renewable generation. We are seeing a change in policy around the world, with planned shutdowns being reversed. Increasing power demand has seen a large increase in new builds. Small Modular Reactors (SMRs) which were previously seen as too challenging, are now coming to fruition - adding further to demand. Our view is that demand from utilities is relatively price inelastic, so unlike other commodities where there is demand destruction as prices rise, the uranium price is relatively uncapped.

Light & Wonder (LNW) – Overweight. a positive contributor to portfolio performance during the quarter. Operationally LNW delivered a better than expected Q2 operating result, with double digit revenue growth and margin expansion across all 3 operating businesses. Leverage also declined with good cashflow outcomes, with net debt to EABITDA falling to 2.9x (from 3.1x in 1Q23). We will be attending the upcoming G2E Global Gaming Conference in Las Vegas in early October - and will be specifically looking for ongoing product enhancements and a widening in the number of game concepts and titles to continue with the initial momentum we have seen in the business.

Seven Group Holdings (SVW) – Overweight. performed well in the quarter with a strong FY23 result. The key business units of WesTrac and Coates performed strongly, and the outlook is positive, supported by strong mining equipment and infrastructure investment. SVW also offers exposure to infrastructure and construction spending through its 73% owned stake in Boral (BLD), which has positive momentum. BLD reported a strong FY23 result and more favourable industry dynamics in the Australian construction materials market is driving positive earnings revisions.

Monash IVF Group (MVF) – Overweight. MVF delivered a solid FY23 result in August, with fresh cycle market share up 220 bps in 2H23 in key markets (including acquisitions). Revenue beat consensus by 2% and underlying NPAT was in line with guidance. The pipeline for FY24 is strong, with new patient registrations up 23% in 2H23 and up 12% organically. In our view this supports further likely share gains in FY24 for MVF. September saw further positive news flow around industry growth rates, with the release of August Medicare data showing 20% growth in fresh and frozen cycles. The ARS market growth has rebounded faster than expected after cycling a very strong period during the pandemic. We believe the stock is well-placed to continue its re-rating.

Karoon Energy (KAR) – Overweight. KAR outperformed during the quarter driven by stronger than expected earnings delivered for FY23, announced in late August, coupled with the rally in the oil price. Production guidance of 9-11 million barrels for FY24 was reiterated, alongside unchanged investment expenditure and unit production and DD&A cost guidance for FY24. In late September the company hosted its annual Brazil field trip which helped underpin confidence in the key Bauna, Piracaba and Patola oil fields located in offshore Brazil. We expect an update on refinancing shortly, with the company assessing opportunities to establish a larger funding position for potential acquisitions.

Reject Shop (TRS) – Overweight. TRS was a positive contributor to portfolio performance in the September quarter. The company delivered a strong 2H23 result and trading YTD in FY24 was above market expectations and other retailers driving stock outperformance. The relatively new senior leadership team is driving a change in strategy, improved merchandising, focus on a compelling value proposition, gross margin management, and discipline around cost of doing business. TRS is well-placed in the current environment with its exposure to the value-conscience consumer and focus on everyday essentials. The company has a strong balance sheet underwriting capital management, which was another feature of the FY23 result.

Negatives

Pro Medicus (PME) – Underweight. PME was a detractor from our portfolio performance during the quarter. On September 25th the company announced a $140m, 10-year contract win for the full stack of Visage 7 products with Baylor Scott & White Health, the largest not-for-profit healthcare system in Texas. This is PME's largest contract win to date and increased the markets confidence in the company meeting growth expectations. While we believe PME is an excellent company with strong growth prospects in the Enterprise Imaging and Radiology Information Systems software market, we struggle to justify the current valuation at 70x revenue, with peers trading at c.10x revenue. In our view the current valuation requires the company to grow revenue at 20% CAGR (above its historic 13%) for nine straight years to 2031 and only then does it reach 18x EV/EBITDA (CSL's current FY24 multiple).

FINEOS Corporation Holdings (FCL) – Overweight. The portfolio was impacted by an overweight position in financial services systems provider Fineos. The FY23 result and outlook were broadly in line with expectations, however, the company unexpectedly raised capital to sure up the balance sheet. The market also became concerned that the size and frequency of new contract wins could slow in the near term. While we think FCL is a well-managed company with solid long term growth prospects, we decided to exit our position (in favour of more attractive opportunities) on concerns that unprofitable technology companies will struggle to outperform in the current higher discount rate environment. The path to profitability seems to be further away to us.

NextEd Group Ltd. (NXD) – Overweight. NXD underperformed during the quarter after issuing a profit warning on August 17th on the back of unexpected popularity of the 408 Visa, which would be a factor for FY24, likely detracting from NXD's student enrolments. This caused a sharp move down in the share price. At that point we decided to exit our position given the greater uncertainty and regulatory risk. Shortly after, on August 31, the Australian Government announced it was cancelling the 408 Visa ending the pathway to new applications from September 1, 2023, which is a positive for NXD. The stock recovered about half its August 17, 2023 losses but has subsequently moved lower. Despite the more attractive valuation (due to the share price decline, $1.20 on August 16, 2023 to 0.85 on August 17 2023) we have decided to stay away and focus on other opportunities.

OFX Group Limited (OFX) – Overweight. OFX detracted from portfolio performance during the quarter. The company held their AGM on August 3 and included a 1Q24 trading update, confirming it's on track to deliver FY24 guidance provided in May. Net Operating Income was $60.1m, slightly higher than anticipated, but included an unusual item. Following the departure of a handful of traders who left the recently acquired Firma business, $3.7m (AUD) of funds in Escrow have been returned to OFX, as this was a foreseen risk. The company has taken defensive actions in the short term to mitigate the risk of further departures and expects revenue to return to historic levels through the year. In our view this was not relevant to the long-term investment thesis. The stock is trading at an undemanding 13x FY24 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.

Lindsay Australia Limited (LAU) – Overweight. LAU detracted from the portfolio's performance in the September quarter. Despite reporting an FY23 result slightly above the top end of upgraded guidance the stock has performed poorly since we initiated our position. FY24 earnings revisions have also been positive driven by stronger organic growth in the core transport division and the recent WB Hunter rural products business. We feel the September quarter underperformance has been driven by: 1) a very strong outperformance of the stock from June 23, 2022 to May 26, 2023, where the stock was up 250%; concerns around rural conditions might be impacting sentiment in the Rural business and to a lesser expect the Transport division, which has a large exposure to fresh food logistics. A senior leadership change may also be adding to recent share price weakness. With positive industry tailwinds, and the stock trading at an FY24 PE of 8x and dividend yield of 5.4%, we are comfortable maintaining our overweight position.

ENVIRONMENTAL, SOCIAL, GOVERNANCE ISSUES (ESG)

This past quarter saw the majority of ASX-listed companies post either half year or full year financial results during the August 'reporting season'. While the focus in the related investor briefings continues to be financial performance, the trend in recent years of including more ESG content has continued.

Pleasingly, we have also seen the release of more 'integrated' annual reports – combining both key regulatory filings with material ESG information – and for those companies which produce a separate ESG or sustainability report, the publication of these at the same time as the annual report and as part of the full reporting suite. In the past, in many cases there has been a significant delay in the publication of such reports. Further, sustainability reports were often not formally included in the annual reporting suite published to the ASX.

The reporting season saw a number of updates on companies' decarbonisation efforts, including progress against established targets. We also saw two companies – Rio Tinto (RIO) and Boral (BLD) – highlight the near term challenges in decarbonising, both with rising costs and project delivery issues. Rio Tinto admitted its 2025 emissions target was at risk unless the company purchased carbon offsets, while Boral revised down its interim 2025 reduction target citing regulatory approval delays. Pleasingly, of the remaining 34 ASX200 companies which have an interim 2025 target, the majority are on track, with some even having met the target ahead of schedule. Reported safety performance was mixed, which tragically included an uptick in the number of worker fatalities, with our research indicating over 19 fatalities have occurred in the past 12 months across both large and small caps. This has occurred in the context of tight labour markets, increased use of contractors by some, and some continued issues arising from operational re-starts post COVID. Sectors which generally saw Total Recordable Injury Frequency Rates (TRIFR) improve included Materials, Chemicals and Energy. Companies across Consumer Discretionary and Mining had mixed performance.

An emerging theme this reporting season was Artificial Intelligence (AI), which added to the growing focus on cyber, data management and digital capabilities seen in recent years. Many companies were keen to highlight how they have been or are in the early stages of applying AI across areas such as unlocking operational efficiencies, reducing costs, improving safety and customer experience. A number had already documented productivity gains, while others also called out efforts to develop internal guidelines around the responsible use of AI.

ENGAGEMENT

In a recent meeting with NexGen Energy (NXG), a Canadian based company developing a uranium mine, we received an update on future environmental management. In particular, mine design to enable underground tailings management. Although it adds complexity, it is expected to reduce surface disruption and support site rehabilitation, as well as avoid exposure to tailings dam collapse. We also discussed remuneration outcomes for the Key Management Personnel.

MARKET OUTLOOK

We are cautious on the global economic outlook and expect inflation to remain relatively sticky. This is likely to keep interest rates higher for longer. In our view the effects of higher interest rates have yet to play out and we expect asset values to come under pressure and a slowing in consumer discretionary spending. The risk is we may see a harder landing than the market expects, with unemployment potentially moving higher. The Australian economy seems to be in better shape than Europe and the US, but this has not prevented the AUD from being relatively weak against the USD. 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. In a backdrop of higher rates for longer, we would expect equity markets to struggle until its clearer that the rising rate cycle is over.

AUSTRALIAN SMALL CAP OPPORTUNITIES FUND – CLASS A

PARADICE
INVESTMENT MANAGEMENT

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

We believe we have positioned the portfolio well for the current environment, and the medium to long term, with relatively concentrated positions in structural themes that we see playing out. As mentioned, we are well positioned for the positive supply demand outlook in Uranium. We also see attractive dynamics in energy and are well positioned with exposure to strongly managed emerging gold producers. Other thematics we have exposure to include, the mining capex underspend over the last 10 years, the aging population and immigration. We have limited exposure to Consumer Discretionary and Property with large underweights in these sectors. We are positioned in companies with strong management teams and balance sheets, that are fundamentally undervalued in our view.