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	4.42	5.14	29.20	27.16
S&P/ASX Small Ordinaries Total Return Index	5.06	6.53	18.79	10.09
Excess Return	-0.64	-1.39	10.41	17.07

*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

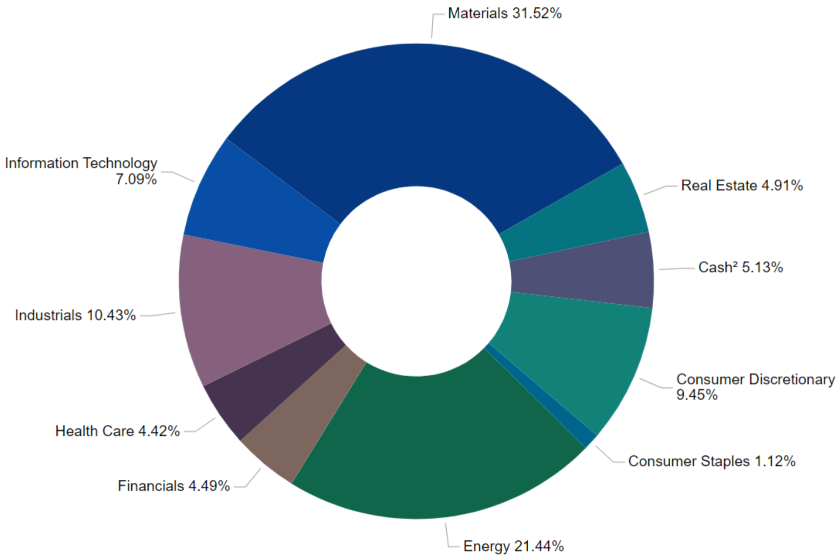
FUND OVERVIEW

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	57
Portfolio Dividend Yield	1.29%
Fund Size (AUD)	$ 5M

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%

02 8227 7400 | distribution@paradice.com | www.paradice.com

Performance in AUD unless otherwise noted.

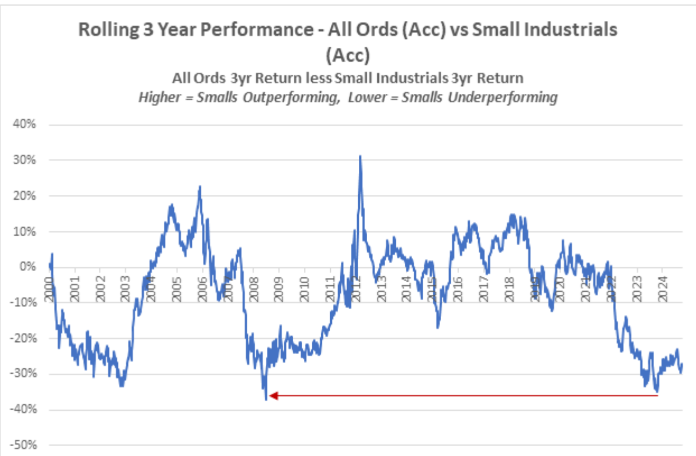
MARKET REVIEW

The MSCI World Total Return Index rose 6.6% (in USD) and the US S&P 500 Total Return Index 5.9% (in USD) in the September quarter versus the prior comparable period (pcp). The S&P was boosted by the Federal Reserve cutting its benchmark interest rate 50bp but hindered by disappointing performance from the “Magnificent Seven” with the NASDAQ Total Return Index only rising 2.8% (in USD). The Japanese Nikki Total Return Index rose 8.5% (in USD) but had two pullbacks on concerns rates may need to move higher, and fears of a ‘carry-trade’ unwind reverberated globally. The MSCI China Net Total Return Index fell over most of the quarter, but bounced in September after stimulus measures were announced, and ended up 23.5% (in USD).

Our benchmark, the S&P/ASX Small Ordinaries Total Return Index rose 6.5%. There was a divergence between the S&P/ASX Small Industrials Total Return Index (+7.54%) and the S&P/ASX Small Resources Total Return Index (+3.85%) during the quarter, with the divergence even wider intra-quarter (in early September the Small Resources Index was down 11% for the quarter, but the index staged a late rally, buoyed by the US Federal Reserve cutting rates, the Chinese stimulus package and an escalation in the Middle East conflict).

Commodity prices were mixed. Gold (+13%), Thermal Coal (+8.7%), and Aluminium (+5.2%) were the strongest commodities, while Oil (Brent -16.9%), Coking Coal (-30.3%), and Spodumene (-30.2) were the weakest (all in USD).

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. 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, 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 7th October 2024.

The Fund continues to have a large overweight exposure to the uranium exposed companies – and we continue to believe the outlook for uranium miners over the medium term is likely to strengthen. Whilst the spot price has continued to fall this calendar year (including in this September quarter) – just like last quarter term pricing (which is the price from which most contracts are struck) has continued to strengthen.

During the quarter we attended the World Nuclear Association (WNA) Symposium 24 in London, where a record 700 participants gathered. It is the week where typically European/Northern Hemisphere utilities come back from summer holidays and typically kicks off contracting around the nuclear supply chain into the year-end (which we note this year has been very low in terms of total volumes). We had numerous meetings with several companies, traders and advisors in the nuclear industry and nuclear fuel cycle, as well as attending the sessions at the Symposium. To us, the Uranium market continues to feel like a slow-moving train crash - we are in a stand-off between utilities that seemingly don’t care about the uranium price (or are not incentivised to care); suppliers who are either currently in production but have forward sold out their available production; and potential developers who seemingly are not incentivised nor able to get to production on current terms. The view from one of the traders we met was that the only way this can play out will be either:

a) a slow and steady increase in term prices to over US$150/lb which then becomes stable. This may see supply potentially re-enter the market and lead to exploration to find new supply; or

b) a truly explosive move in the price as the scraps for the last remaining inventories are fought over.

If either of these outcomes come to fruition, we believe it will be a strong positive for our uranium investments - which now seem to be pricing a uranium price well below spot levels and floor levels in term contracts.

Sam Theodore at the WNA Symposium 24

PERFORMANCE

The Fund underpeformed by 1.39% over the quarter.

Contributors/ Detractors
Positive

Ora Banda Mining (OBM) - Overweight: OBM was again one of our largest contributors, driven by the rising gold price and continued ramp-up in production at the Riverina Mine. The company reiterated FY25 guidance, which builds confidence around progress to becoming a 150,000 oz p.a. plus gold producer. The shift in strategy to focus on high-grade underground mine development is playing out as planned. Positive recent drilling results are highlighting the high-grade, continuous nature of the Riverina orebody. This is resulting in an acceleration of exploration drilling, with a second diamond rig commencing in September. There is further upside potential from a large land holding that we believe will be explored for underground potential near the mill once the 2 underground operations are in production – which poses as further upside potential for the stock.

Regis Healthcare Ltd. (REG) – Overweight: During the quarter the REG share price was driven by an above consensus FY24 result and the release of the Australian Federal Government long-awaited response to the Aged Care Taskforce, targeting long-term sustainability and increased investment into the sector. Key reforms which should be positive for REG include: 1) Refundable Accommodation Deposit (RAD) retention of 2% pa; 2) increasing the maximum room price to $750k (from $550k since FY14); 3) higher everyday living funding; and 4) biannual Daily Accommodation Payment (DAP) indexation. These changes will probably be phased in from July 2025, but we estimate they could add 30-40% of incremental EBITDA by FY28E. We see these regulatory reforms as structural in nature, providing REG with a strong tailwind to add to its positive operating momentum and conservative balance sheet, supporting significant M&A optionality.

Ama Group Limited – Overweight: The fund was able to participate in the $125m capital raising in July. The company raised primarily to repair an over geared balance sheet (post the raising balance sheet leverage fell to 0.6x; reducing interest costs; allowing a re-fi of the existing senior debt facility and giving the company the flexibility to spend money on needed maintenance capex). The business has faced a number of operating challenges and a weak operating environment over the last few years. However there have been signs of some stabilisation, as evidenced by the FY24 numbers which were released at the time of the capital raise that were above market and at the top end of guidance. The cost out strategy ($20m identified) and renegotiation of contracts seems to have been the primary driver for this outcome.

Andean Silver Limited (ASL) – Overweight: In the September 2024 quarter, ASL experienced strong share price growth, driven primarily by progress in its Chile-focused exploration projects and market demand for silver. Silver as a commodity had lagged the performance of gold - and we believe we have seen some catch-up on this basis. This, combined with ongoing positive drilling news, boosted the stock's performance. Additionally, Andean raised $25m of equity during this period, providing the company with the capital needed to accelerate its exploration activities. The stock remains a small position in the portfolio.

Genesis Minerals Limited (GMD) – Overweight: GMD experienced share price outperformance due to strong operational results and the gold price. The company posted a solid FY24, reflecting its increased gold production and strong operational execution at its gold projects in Western Australia. This financial performance, along with its transition to profitability, was a major factor driving investor confidence. Additionally, Genesis raised its gold output forecast for fiscal 2025, which further boosted market sentiment, despite a brief dip in share price following this announcement. The company's consistent progress in expanding its gold assets and achieving key milestones in production supported its share price during the quarter.

Negatives

Light & Wonder, Inc. (LNW) – Overweight: Late in the September 2024 quarter, Light & Wonder Inc. (LNW) experienced a significant drop in its share price, driven primarily by a legal challenge. On September 23, 2024, a U.S. District Court granted a preliminary injunction against Light & Wonder, halting the commercialisation of its Dragon Train slot machine. The ruling sided with competitor Aristocrat Leisure, which alleged that Light & Wonder misappropriated trade secrets in the development of Dragon Train. This legal setback causing the stock price to fall by approximately 19% in a day. Earlier in the quarter, LNW posted strong financial results, with Q2 2024 revenue growing by 11.9% year-over-year, driven by solid performances across its gaming, iGaming, and SciPlay segments. We continue to believe LNW has positive prospects - with a diversified game portfolio driving share gains across all of its businesses. Despite the Dragon Train set-back, the company has reiterated their $1.4bn EBITDA target for FY25 - and in our view the stock is significantly undervalued given this growth potential. We will be heading to Las Vegas in early October to attend the G2E Gaming Conference and believe there will be better clarity emerging around their mitigation strategy on the Dragon Train litigation issue following the show.

Zip Co Ltd. (ZIP) - Underweight: The ZIP share price saw significant volatility in the September 2024 quarter, driven by several key factors. The company's share price has surged over 300% since the beginning of 2024. One of the main drivers was strong performance in the Buy Now, Pay Later (BNPL) sector, particularly in the United States, where transaction volumes rose. Zip reported a 26% increase in quarterly revenue and improved margins, leading to stronger investor confidence. Additionally, the company's efforts to reduce debt by refinancing corporate facilities and its focus on growing cash EBITDA bolstered its financial position. Despite these gains, Zip's ongoing challenges in managing bad debts remained factors to watch in terms of the company's future performance. We are not attracted to the business and do not believe it poses an appropriate reward for the potential risks - and as such will continue to invest in other areas.

FINEOS Corporation (FCL) – Overweight: In the quarter, the FCL share price was driven by both positive developments and challenges. On the positive side, the company continued to secure new partnerships, including deals with Voya Financial and RBC Insurance, which boosted investor confidence in its cloud-based insurance software platform. However, the stock faced pressure due to broader market trends impacting tech stocks and ongoing profitability challenges. Despite revenue growth, Fineos' operating losses affected its overall financial performance, contributing to share price volatility.

NexGen Energy Ltd. (NXG) – Overweight: The NXG share price was largely driven by uranium market volatility during the quarter. NXG is one of our core uranium holdings and we believe the current share price continues to trade at a significant discount to our valuation. The stock offers a compelling opportunity considering our view on the medium to long term supply demand fundamentals of the uranium market, coupled with the likely timeline to production, long mine life and low all-in sustaining costs of the Rook I project and Arrow Deposit. In the short term we await the regulator's response to NexGen's re-submitted draft Environmental Impact Study (EIS). Short of any fundamental change in the approval process and timeline, we remain focused on the long-term fundamentals of the stock and will look to take opportunities as they arise.

Silex Systems Limited (SLX) – Overweight: Like NXG, the performance of the SLX share price in the quarter was largely driven by uranium market volatility. Like our other core Uranium holdings, we are focused on the medium to longer term opportunity that owning Silex Systems shares offer. We are also excited by the company's Silicon enrichment and Medical Isotope enrichment technologies. The Silex uranium technology has been under development for uranium enrichment jointly with US-based exclusive licensee Global Laser Enrichment LLC (GLE) for several years. SLX owns 51% of GLE, with Cameco owning the remaining 49%. Cameco has a call Option to acquire an additional 26% of GLE at fair market value. The option window closes 30 months after the successful TRL-6 demonstration, which is on track for completion by the end of CY2024. We see this as one of several medium-term catalysts for the stock as the company progresses in the commercialisation of the GLE technology.

ENGAGEMENT

Companies engaged during the quarter included Sandfire Resources (SFR). We met with the CEO and sustainability team to discuss several ESG matters, most notably the cultural heritage issue from 2018 at a site in WA reported by the company late last year and about which Sandfire had recently issued an independent report. As media had reported certain Traditional Owners had not felt consulted as part of the report, we sought to understand any additional context Sandfire could share. The company took us through some of the challenges and complexities with certain factions appearing in the Traditional Owner group. Nevertheless, Sandfire is seeking to enhance its engagement with its local groups and the CEO is making time to go on country every 2-3 months.

AUSTRALIAN SMALL CAP OPPORTUNITIES FUND – CLASS A

PARADICE
INVESTMENT MANAGEMENT

MARKET OUTLOOK

As we approach 2025, we remain wary of capital markets' valuations. Markets continue to grapple with the pace and scale of rate cuts and the likelihood of a hard or soft landing. Recent economic data in Australia suggests we are likely to enter a rate cut cycle in late 2024 or early 2025. The ongoing conflicts the Middle East and in Eastern Europe, combined with the US Federal government elections are adding to the potential for financial market volatility in the last quarter of 2024. We remain focused on the longer term, taking advantage of mispricing and finding undervalued investments we can own for the medium to long-term.

Higher costs (raw materials, labour, rent, interest and capital goods), combined with softer than expected volumes are impacting earnings in many sectors. It's always a challenge to determine what's priced in under 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 quarters and more importantly years.

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 some 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 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. 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.