PARADICE

International Small Cap

Strategy (USD)

PARADICE INVESTMENT MANAGEMENT

30 June 2025

Portfolio Managers

Kevin Beck
Co-Portfolio Manager
Joined Paradice: 2009

Paul Mason
Co-Portfolio Manager
Joined Paradice: 2010

Toby Shute
Co-Portfolio Manager
Joined Paradice: 2015

Investment Objective

The strategy aims to outperform its respective benchmark over an economic cycle by investing in well-capitalized businesses the team believes are undervalued relative to the quality of the franchise.

Key Details

Strategy Inception Date	1 Oct 2020
Total AUM	$14.5M
Benchmark	MSCI World ex-USA Small Cap Net Total Return Index

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Portfolio Characteristics

No. of Holdings	44
Weighted Avg. Mkt. Cap ($USD)	3.2B
Active Share (%)	98.5

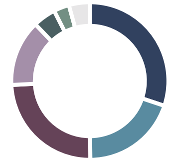
Market Cap Allocation (%)

Greater than $5.0B	16.7
$2.5-$5.0B	21.4
$1.0-$2.5B	34.7
Less than $1.0B	22.9
Cash	4.3

Top Ten Positions (%)

Allfunds Group plc	4.9
Ichigo Inc.	3.7
Fagron SA	3.6
Arcadis NV	3.6
nVent Electric plc	3.3
Onex Corporation	3.3
Relo Group, Inc.	3.0
Pet Valu Holdings Ltd.	2.9
TechMatrix Corporation	2.9
ConvaTec Group Plc	2.9

Region Allocation (%)



EMEA Developed	30.1
United Kingdom	19.8
Japan	24.3
North America	13.6
Emerging Markets	4.7
Other Asia	3.2
Cash	4.3

Sector Allocation (%)

Industrials	18.6
Financials	12.2
Information Technology	13.5
Health Care	13.0
Materials	5.4
Consumer Discretionary	13.7
Real Estate	8.9
Consumer Staples	4.7
Communication Services	3.7
Energy	2.0
Utilities	--
Cash	4.3

PERFORMANCE (%)

	3M	YTD	1YR	3YR	SI
Paradice Strategy - Gross	12.94	15.31	12.00	11.24	8.48
Paradice Strategy - Net	12.66	14.73	10.88	10.14	7.40
MSCI World ex USA Small Cap NTR Index	16.82	20.79	22.92	13.40	8.15
Excess Return - Net	-4.16	-6.06	-12.04	-3.26	-0.75

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Commentary

Market Review

Building off the strength seen in Q1, non-US small caps posted an even better Q2, zipping 16.9% higher. This was aided in part by the US dollar shedding 6.5% in value. Interestingly, this universe of smaller stocks managed to crank out strong returns even as the US 'Mag 7' trade regained momentum, returning 21%. So much for our theory that US large cap tech needed to implode for international small caps to catch a bid!

Equity markets have strengthened with improved breadth. Even UK small caps, which sat out last quarter's rally under the strain of rising corporate tax, minimum wage, and National Insurance contribution rates, joined the party and rallied more than 20%. Markets are generally rallying on tariff/trade deal "progress," which even once resolved still leaves the global economy worse off than before "Liberation Day," in our view. This is quite the feat, particularly given a backdrop of escalating conflict in the Middle East as well as signs of stress on the US consumer.

For example:

- 90-day delinquency rates on auto loans are close to their post-GFC (global financial crisis) peak;
- 90-day credit card delinquency rates are up roughly 60-80% for both top and bottom income zip code cohorts since their respective troughs in Q3-Q4 2022, and the share of people in delinquency has surpassed GFC levels;
- Per LegalShield, bankruptcy inquiries jumped to their highest level since early 2020, before stimulus checks came to the rescue;
- In June, the Conference Board's Consumer Expectations Index fell to 69.0, compared to a 'threshold' of 80 that typically signals a recession ahead.'

Relative bright spots for the US economy are recent inflation readings coming in somewhat cooler than expected, and a labor market that continues to add jobs at a solid pace.

Europe, meanwhile, is grinding its way towards a neutral reading on the manufacturing PMI (purchasing manager's index), posting its best level since August 2022. Japan sits around that neutral mark as well, while the UK remains mired in contraction.

Overall, we find it difficult to be wildly enthusiastic about the macro outlook from here and, as usual, are taking profits where the market is discounting a bright future with not a cloud in the sky. We continue our search for businesses that we believe will be resilient in the face of potential headwinds, and with a reasonable prospect of beating the mid- to long-term expectations reflected in their market prices, in our view. Despite the improving market breadth mentioned earlier, we see no shortage of left-behind businesses trading at deep discounts to their average historical valuations and what we view as their true worth.

Portfolio Performance

The benchmark returned 16.82% for the quarter, and, while the Strategy was in strongly positive territory as well, it again did not keep up. Strategy outperformance in the North America, Emerging Markets (which is not included in the benchmark), and EMEA did not offset weaker results in the UK and Japan, plus a cash drag from retaining some dry powder. The UK results were particularly frustrating, with four different holdings experiencing double-digit declines despite the 20%+ lift in that market. Only two of our non-UK holdings experienced this level of weakness in the quarter.

Auction Technology Group ('ATG') was the single largest detractor in the period, not because it fell the most, but because it was our largest average weight among the double digit decliners. ATG is a leading facilitator of online auctions across various categories, including art, antiques, industrial equipment, and consumer goods. ATG, which is

Portfolio Performance (continued)

UK-based but whose primary market is the U.S., was initially viewed as a tariff beneficiary due to its role in facilitating auctions for used industrial and agriculture equipment, but that sentiment reversed into concerns over deteriorating fundamentals after management noted a slowdown in the month of March. Between this remark and a multi-year stagnation in gross merchandise volume (e.g. the final sale value of lots sold via winning bids placed on ATG's marketplaces/platform), investors appear to be wrestling over the near-to-medium-term growth trajectory of the business. Having backed ATG since its flotation, we are positive on the business and its outlook for several reasons:

- Online penetration by curated auctions, at roughly 50%, remains low compared to other online marketplace categories;
- The playbook for monetizing these marketplaces is very similar, providing a clear roadmap;
- The ATG platform's value-added services (e.g. marketing, payments and shipping) are still in the early innings of rollout/adoption, thus poised to drive 'take rates' (the percentage earned on transaction values facilitated) higher; and
- The company is making important investments in people and technology to help drive usability improvements for both the seller and buyer, which should reduce transactional frictions and convert more listings into winning online sales.

After trimming what had grown to be an outsized position early in the quarter, we added those shares back and then some at significantly lower prices. We believe ATG shares offer compelling upside from the current level.

Endava, a UK-based information technology (IT) services company, was another drag on performance in the quarter. Endava specializes in digital transformation and technology consulting projects primarily for the fintech, healthcare and auto industries. The company's weak share performance in the quarter can be attributed to multiple customers delaying large IT projects due to tariff uncertainty. This was particularly acute within their automotive customer base. Additionally, they had a large fintech customer come under takeout by a larger organization, leading to future project uncertainty with that customer. As a result, Endava downgraded their full year earnings outlook, sending shares down sharply in the quarter. Since the result, we spoke with management who assured us that many of the projects will eventually come through. We also believe that the guidance is sufficiently de-risked for the remainder of the year, leading to a potential earnings beat if these delayed projects start to convert to revenue. Overall, we still believe Endava is a critical and specialized partner who will play a key role in developing customized artificial intelligence solutions for its customers.

Our other two UK double-digit decliners are in the proverbial doghouse and may be candidates for replacement, particularly as we have recently returned from a week of very good meetings in London. We'll have more to say about our views on the UK in an upcoming piece, so stay tuned for that.

Portfolio activity picked up significantly in April amidst the post-"Liberation Day" tariff turmoil. We capitalized on the dislocation by initiating some new positions, including Italy's Interpump. This is a company we've been meeting and studying for several years, so we were able to move quickly and build a decent position in the first half of the month. While it now looks like another buy-the-dip blip, the pummeling that global stocks were taking in early April was significant and had us preparing for a long campaign in the trenches. We freed up dry powder by selling insurer Axis Capital (a long-term winner for the Strategy, purchased at the Strategy's inception (1 October 2023) at $43.79/share vs our last sale price of $93.77/share) and two holdings (French glassmaker, Verallia, and German medical software player, CompuGroup) which had come under tender/takeover offers. With 20/20 hindsight, we would have (re)deployed even more capital in this period, but it's never clear how fast to move during sharp selloffs like this. Overall, we're pretty happy with the decisions we made, which included adding aggressively to nVent Electric, a long-term Strategy winner (and foremost resident in our Hall of Heroes) that we had trimmed down substantially at much higher prices in 2024.

Portfolio Spotlight – Position Sizing

In the last two quarterly commentaries we spoke about 'why we buy what we buy' and 'why we sell what we sell'. As active managers, we live and die by stock selection, but a complementary discipline is position sizing. This can help us to both make the most of our differentiated insights (which are not easy to come by in this highly competitive arena) and contain the damage when events do not break in our favor.

We manage a roughly 50-stock portfolio (give or take five holdings), so we consider an "equal-weight" or normal position to be roughly 2% of capital. When taking a new position, we don't necessarily start it right at 2%, but most of the time we would expect to build it toward that level or above. The time it takes to build out a full position is really a function of our comfort/conviction. We are wary of the "honeymoon period" when it comes to brand-new names (e.g. businesses we don't have much history with) and find it best to curb our enthusiasm and take it a bit slow in such cases.

We've already touched on one example, Interpump, where we were able to move more decisively given our history of following the business. Very specifically, we put in successive orders to build the position to 1% and ultimately 1.75% over the course of about a week. We bought at successively lower prices, paying about 17.5% less for the final slug of shares compared to the first. We ended up with a cost basis of €29.40, compared to the low close of €26.18, so we didn't nail the bottom, but we were active right near it, paying as low as €26/share. We likely would have purchased even more had the shares continued lower. Share price appreciation since our purchase left us with a decent unrealized gain and a roughly 2.1% weight exiting the quarter.

This Interpump example provides more of a window into tactics than strategy. Judgment about desired ultimate sizing is really about expected returns – how much we stand to make/lose on an investment and the probabilities we explicitly or implicitly make about those different outcomes. We love asymmetry and loathe binary bets. You will generally see our larger holdings reflecting what we view as a combination of attractive return potential and strong downside protection.

As far as top weights go, we have at times run the portfolio relatively flat (e.g. no holding bigger than 3.25%) and at other times (such as the present) our conviction level has grown to let a top holding run north of 5% of capital. But generally speaking, you should expect our top portfolio weights to be roughly 3-5% at cost. How much we let them run above those weights is really a function of the same consideration given to any other holding (e.g. how does the spectrum of prospective returns look from here?), but, in line with our diversification preferences, you are unlikely to see us let a winner run to a double-digit percentage of the portfolio.

On the flipside, holdings in the 1-2% range may reflect several different circumstances:

- We are still scaling a newer position as we get to know the business;
- Shares appreciated faster than we were able to get set, resulting in a lighter holding than planned;
- We were building toward a full position, but have paused in the face of some negative development or finding that is challenging our conviction level;
- The position weight was higher, but the share price has declined along with our conviction level; or
- We like almost everything about the investment, but there is some element of downside risk that reduces the asymmetry and holds us back from making it a full weight.

We're generally not looking to hold sub-1% positions that can't 'move the needle'. So if you look at our portfolio and see positions in the sub-1% 'tail,' it's generally because we are scaling our way in or out.

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As at 31 March 2025, the MSCI ACWI SMID CAP NTR Index captures mid and small cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries*. With 7,343 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country. As at 31 March 2025, the World ex USA Small Cap NTR Index captures small cap representation across 22 of 23 Developed Markets (DM) countries* (excluding the United States). With 2,202 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. For a complete description of the index methodology for each of the aforementioned indices, please see: https://www.msci.com/index-methodology. Each of the aforementioned indices are unmanaged and do not reflect the impact of advisory fees. Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, and reflect the reinvestment of income and dividends. Investors cannot invest directly in an index.

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Definitions:

Definitions of terminology used can be found here: https://www.paradice.com/international/important-disclosures/.

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