PARADICE
INVESTMENT MANAGEMENT

Global Small Cap Fund

Fund Objective

The Fund aims to outperform the S&P Global BMI (US$1bn - $5bn Market Cap Range) Net Total Return Index ex Australia and New Zealand in AUD over a three to five year period (after management costs and before tax).

Performance Net (%)	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since Inception* p.a.
Global Small Cap Fund	-0.07	8.55	-4.53	10.64	9.57	14.85
Benchmark**	-0.61	10.03	3.25	11.59	10.81	14.74
Excess Return	**0.54**	**-1.48**	**-7.78**	**-0.95**	**-1.24**	**0.11**

* Inception date - 18 January 2013

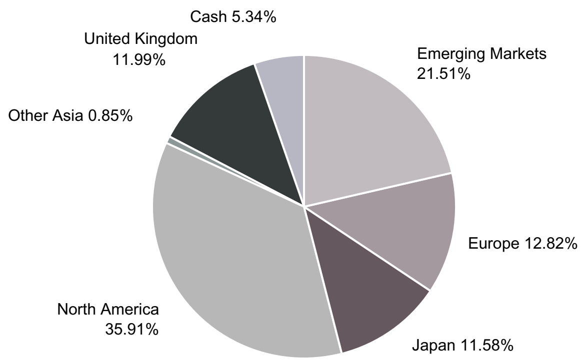
Fund Details

APIR Code	ETL0365AU
Fund Size (AUD m)	$793
Number of Stocks	75
Weighted Average Market Capitalization (AUD)	$3,137
Application Price	$2.1025
Redemption Price	$2.0899
Distribution Frequency	Semi-Annually
Management Fee	1.25% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/-0.30%
Minimum Investment (AUD)	$20,000

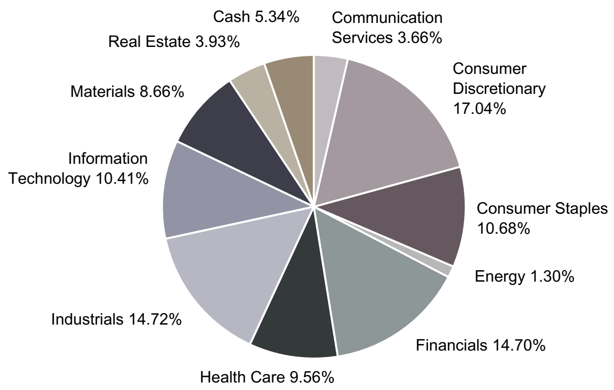
Top 10 Positions (%)

	Fund
Dairy Crest Group plc	2.95
Kansai Paint Co., Ltd.	2.63
ITT, Inc.	2.61
Abercrombie & Fitch Co. Class A	2.33
Prologis Property Mexico, S.A. de C.V.	2.33
Nihon Kohden Corporation	2.30
Axis Capital Holdings Ltd.	2.29
Lear Corporation	2.26
International Speedway Corporation Class A	2.23
Mandom Corporation	2.19

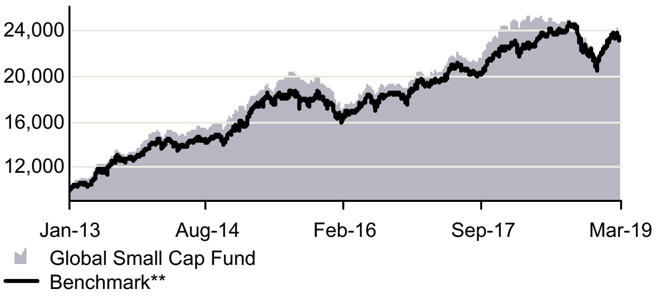
Region Allocation (%)



Sector Allocation (%)



Growth of AUD 10,000



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** S&P Global ex Australia and New Zealand Between USD1 Billion and USD5 Billion (AUD) NTR Index effective from 5 November 2018. Prior to this date the benchmark was S&P Global Between USD1 Billion and 5 Billion (AUD) NTR Index effective from 1 October 2015 to 4 November 2018 inclusive and S&P Global Between USD1 Billion and 5 Billion (AUD) TR Index prior to 1 October 2015.

Commentary

MARKET REVIEW

For the purpose of comparison, commentary herein is quoted in USD terms, except under the 'Performance' heading which is quoted in AUD currency.

Global small caps rallied 10.0% in Q1 2019 (S&P Global ex AU & NZ Between USD1 Billion and USD5 Billion Net Total Return Index) on broad based strength across sectors and geographies. The US led the rally, quickly reversing declines from late 2018. Positive soundbites regarding a trade deal with China and a dovish Fed stance brought buyers back into the market. Asia was generally a laggard in the quarter with Emerging Markets and Japan trailing the benchmark. All sectors contributed positively to the rally, with the non-cyclical IT and Health Care sectors outperforming. The Energy sector also outperformed driven by a recovery in oil prices (up 20% in the quarter after a substantial decline in Q4 2018).

PERFORMANCE

The Fund returned 8.6% during the March quarter, versus our benchmark which returned 10.0% over the same period.

The UK was our leading geographic contributor due to stock selection and our overweight positioning. Europe also outperformed for the Fund, but overall these highlights were offset by unfavorable stock selection in both the US and Japan. We continue to be underweight the US as well as the volatile Energy sector which made it difficult to keep up in the quarter.

The top contributors to performance include:

Dairy Crest (UK)
Dairy Crest received and accepted a takeover bid from Canada's Saputo at a significant premium to the recent trading range. While we believe the price somewhat undervalues the company's commanding position in UK branded dairy products, the result is favorable. We expect foreign interest in UK listed businesses to continue as the temporary (although longstanding) Brexit headwinds impact the UK's economy and currency. Longer-term, this acquisition validates our view that there are valuable assets in the UK trading at below their intrinsic value. We remain overweight the UK with the expectation that the market, like Saputo, will eventually recognize this value.

Abercrombie & Fitch (US)
Apparel retailer Abercrombie delivered a strong finish to 2018, reporting +3% same-store sales driven by the company's Hollister brand, which now counts 18 million members of its relatively new Club Cali loyalty program. Abercrombie, to the surprise of numerous short sellers, continues to grow despite the perceived decline of all mall-based retailers. The Company is reviving its brand, successfully transitioning to omni-channel sales and fulfillment, and responsibly managing its store base and lease commitments.

Luxfer (US)
Luxfer continues to be a strong contributor due to its accelerating sales growth and improving profitability under new CEO Alok Maskara. The shares pulled back heavily in Q4 2018 upon the announcement of the acquisition of Canada's Neo Performance Materials as investors were worried about the ambitious deal. This acquisition was cancelled in Q1 which reversed the decline. Luxfer is currently focused on various simplification and lean manufacturing initiatives to drive organic earnings growth. We expect Luxfer to leverage M&A to add capabilities and technologies in the future, but we appreciate management's re-commitment to near-term, organic opportunities prior to pursuing acquisitions.

The top detractors to performance include:

Renewi (UK)
Renewi, a provider of waste services in Europe and North America, has seen its share price suffer a continual decline for the past nine months. Initially driven by onerous contracts with UK municipalities, the issues were compounded when Renewi was blindsided by a regulation halting the reuse of thermally treated soil in the Netherlands. After months of regulatory limbo, Renewi is still lacking the ability to sell its high margin treated soil. As Renewi has reported results without the benefit of this business line relentless selling of the shares has continued.

We view these issues as temporary over a multi-year horizon (in contrast to the equity market which has largely discounted Renewi's ability to re-enter the treated soil business). Management's improvement initiatives are on track but have yet to be reflected in the financial results. The core business in the Benelux region is strong and we expect a better year ahead.

Nihon Kohden (Japan)
After a strong performance in 2018 Nihon Kohden gave back some gains in Q1. 2018 was buoyed by brisk domestic replacement demand for its AED resuscitation equipment as well as solid US sales of patient monitors. Aided by pent-up replacement demand from medical institutions the medical device maker saw a sharp rebound in domestic sales in the second half of 2018. Debate about the Company's ability to maintain its growth trajectory have led to a modest pullback in the share price in Q1 2019. Longer-term we expect the Company's innovation pipeline to continue to drive growth with a slew of new products expected to be introduced throughout 2019 and into 2020.

Cashbuild (South Africa)
South African small caps have fared poorly due to a weakening economy, currency, and broader emerging market concerns. Cashbuild has not been spared from the general emerging market malaise, and the shares continued to leak lower on limited news flow. The cash and carry building materials retailer is resilient and consistently generates excellent returns on capital in good markets and bad, but macro sentiment and capital flows invariably swing the share price around. We see no structural impairment that would derail the path of this long-term compounder.

Portfolio changes over the quarter is as follows:

The Fund was largely unchanged in the first quarter. We added, in a small way, to a handful of names on price weakness, including Avanos Medical (US). Avanos pulled back after 2019 guidance was a few percentage points below estimates.

We sold out of aerospace component provider Astronics (US) as the share price hit our price target. We continued to reduce our holdings in Nihon Kohden (Japan) and Novanta (US) due to the strength in the share prices of each company entering 2019.

We did not establish any new positions in the quarter.

OUTLOOK

US Fed Chairman Powell's shift to a looser monetary stance, alongside reduced concerns about the slowdown in China, lies behind the rebound witnessed in Q1. This episode underscores the fragility of equity markets, which have grown dependent on incredibly loose monetary policy. For now, we are back in 'Goldilocks' mode, with the global economy neither growing fast enough to justify Central Bank tightening nor slowing sufficiently to induce credit stress. Market prognosticators are increasingly predicting an end of the 'Goldilocks' era, and volatility has followed as investors debate between two equally unattractive outcomes – rising interest rates in the US could reduce global economic growth, but continued low interest rates may create longer-term risk by limiting the Fed's ability to support the market in the *next* recession. Not surprisingly, the market cheered in Q1 as the Fed put the brakes on interest rate hikes, appreciating near-term certainty in exchange for long-term risk.

Uncertainty is the theme of the market today and we expect volatility to continue throughout 2019. In this environment we will look to be buyers in the event investor sentiment or macro funds flows present attractive valuations for quality businesses.