Fund Update - 30 June 2019

Australian Equities Fund

PARADICE INVESTMENT MANAGEMENT

Fund Objective

The Fund aims to outperform the S&P/ASX 200 Total Return Index (after fees and before taxes) over a rolling three to five year period.

Performance Net (%)	1 Month	3 Months	1 Year	Since Inception* p.a.
Australian Equities Fund	3.96	6.98	3.70	12.38
S&P/ASX 200 - Total Return	3.70	7.97	11.55	12.36
Excess Return	**0.26**	**-0.99**	**-7.85**	**0.02**

* Inception date - 02 August 2017

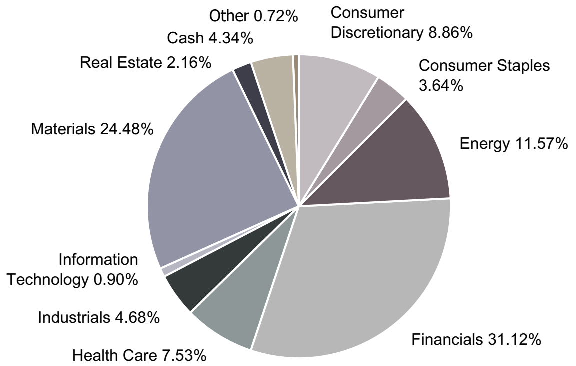
Fund Details

APIR Code	ETL8084AU
Fund Size (AUD m)	$46
Fund Base Currency	AUD
Distribution Frequency	Semi-Annually
Management Fee	0.75% p.a.
Performance Fee	0.15% p.a.
Buy Sell Spread	+/- 0.20%
Minimum Investment (AUD)	$20,000

Characteristics

Number of Stocks	38
Portfolio Dividend Yield	3.70%
Stock Range	30 - 50
Industry Range	Unconstrained
Cash Range	0-10%

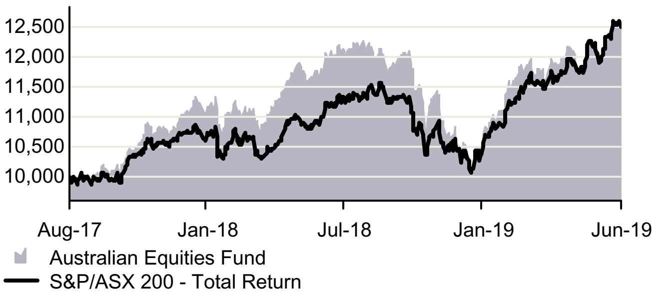
Sector Allocation (%)



Top 10 Positions (%)

	Fund
BHP Group Ltd.	11.64
National Australia Bank Ltd.	7.29
Westpac Banking Corporation	6.43
Commonwealth Bank of Australia	6.39
CSL Ltd.	5.49
Aristocrat Leisure Ltd.	5.29
Australia and New Zealand Banking Group	4.76
Santos Ltd.	4.49
Origin Energy Ltd.	3.96
Newcrest Mining Ltd.	3.80

Growth of AUD 10,000



Contact

Phone: 02 8227 7400

Email: distribution@paradice.com

Website: www.paradice.com

Commentary

MARKET REVIEW

For the purpose of comparison, commentary is quoted in AUD terms and Australian sector returns refers to the S&P ASX 200 Total Return Index except where stated otherwise.

The S&P ASX 200 Total Return Index was up 8.0% over the June quarter, bouncing after a surprise federal election result which saw the Liberal-National coalition retain power. Domestic cyclical stocks such as banks rallied as tail risk concerns over Labor policies such as abolishing negative gearing unwound. Medibank and Ramsay also had relief rallies with Labor's proposed cap on health insurance premiums off the table. At the same time defensive yield sectors performed well benefiting from continued downward pressure on bond yields globally. The energy sector was the only sector in the red, impacted by declining oil prices.

Global markets (+4.9%, MSCI AC World NTR Index) extended their Q1 rally with Emerging Markets (+1.8%) underperforming Developed Markets (++5.3%). The S&P 500 Price Index (+3.8%, denoted in USD) ended the quarter at a near record high, spurred by a dovish Fed and expectations of a trade truce between the US and China at the G20 summit.

Australia's 1Q GDP came in at 0.4% q/q with weak domestic demand. The annual rate of GDP growth dipped to 1.8% (from 2.4%), the lowest since the GFC fallout in 2009. The main contributor to this slowing has been household consumption growth.

The NAB business confidence index rose 7 points to +7 in 2Q19, in large part due to the positive election result. On the consumer front, the Westpac consumer confidence index remained stable at 100.7 through Q2. Employment increased by 85.4k positions in Apr-May however the composition of employment was skewed to part-time workers (+83.2k positions) with full-time employment up only 2.1k. The unemployment rate was stable at 5.2% thus far in Q2.

After three years of stability in the policy rate, the RBA cut the cash rate to a new historic low of 1.25% in Q2. The RBA statement noted "The Board took this decision to support employment growth and provide greater confidence that inflation will be consistent with the medium-term target." Credit markets imply an expectation of further cuts this year.

Across the commodities it was all about Iron Ore, up 38% to end the quarter at US$115 supported by ongoing supply disruption and solid demand. Metals fell in 2Q with the LME Metals Index down 7.8%. Base metals fell as data released during the quarter indicated at slowing global economic growth with PMI's weakening. Similarly oil prices fell on demand concerns with softer economic data. Gold was up 9% with a dovish fed, trade tensions and safe haven status all supportive.

Earnings revisions over the quarter were up 1.9%, although this was largely driven by mark to market upgrades on higher iron ore prices in the materials sector (BHP, RIO and FMG). In general, there were a number of downgrades in domestic cyclical companies suggesting a tough macro backdrop coming into August reporting season.

PERFORMANCE

The portfolio underperformed over the quarter due to its positioning and stock selection.

The top relative contributors to performance for the quarter are as follows:

Aristocrat Leisure (ALL) Overweight Aristocrat outperformed after a 1H19 earnings beat which demonstrated positive momentum in their digital business as well as a solid result in the core gaming division.

Fortescue Metals (FMG) Overweight Fortescue benefited from a strong iron ore price as ongoing disruption in supply from Vale was met with solid demand.

Newcrest Mining (NCM) Overweight Newcrest rallied on the back of stronger gold prices.

The top relative detractors from performance for the quarter are as follows:

Reliance Worldwide (RWC) Overweight Reliance was impacted by the selldown of majority shareholder Jonathan Munz and a soft trading update.

Treasury Wine Estate (TWE) Overweight Treasury underperformed on CEO share sales concerns and after it was marketed as a short by a hedge fund at a big US investment conference.

Macquarie Group (MQG) Overweight Macquarie sold off after providing FY20 guidance that was at a lower growth level than had previously been achieved and was also below market expectations.

OUTLOOK

We expect Australian equities to consolidate having bounced on accommodative global and Australian monetary policies and are now trading at the top end of their price/earning's multiple valuation range. The portfolio has an increased cash position.

Globally, the macro economic outlook has deteriorated. Our base case is still that a trade deal between the USA and China occurs, but the tensions are getting increasingly more difficult to resolve. China has increased stimulation – especially in infrastructure investment – but growth continues to slow. More cuts are being priced into the interest rate markets from the US Fed and Australia's RBA.

The portfolio remains overweight Materials, which are still attractive on valuation grounds, but we reduced exposure to the sector and we switched some exposure into more defensive stocks.

We expect oil prices to move in a range sideways. The demand outlook has weakened with slower global economic growth however OPEC has extended cuts until May 2020. Equity valuations are however still attractive, so the portfolio remains overweight Energy, although we have reduced the exposure to the sector.

The reduction in positions in Materials and Energy, and increase in cash, has reduced the portfolio's beta.

We remain overweight Banks. Relative valuation continues to be attractive. The Federal Coalition's policies, APRA borrowing capacity changes, two rate cuts and impending tax cuts have reduced the downside scenario for house prices, and our base case is now for stabilisation short term then modest increases. This has improved the outlook for credit growth. NIMs remain pressured.

Central banks globally have pivoted to an easing stance as global growth has slowed. This has caused concerns around the outlook and resulted in a decline in bond yields, however we think the magnitude of the move is overdone. Overall the portfolio is short bond proxies and long duration stocks, which we see as expensive. REITs also face declining growth. We are underweight the consumer sectors and have reduced the underweight position to REITS and Retail.

We remain invested in select industrials and we are underweight healthcare on stock specific and valuation concerns.