Fund Update - 31 December 2019

Global Emerging Markets Fund

PARADICE INVESTMENT MANAGEMENT

Fund Objective

The objective of the Fund is to outperform the MSCI Emerging Markets Net Total Return Index (AUD) over a three to five year period (after management costs and before tax).

Performance Net (%)	1 Month	3 Months	Since Inception* p.a.
Global Emerging Markets Fund	2.40	7.76	19.60
MSCI EM (Emerging Markets) - Net Return	3.40	7.30	10.81
Excess Return	**-1.00**	**0.46**	**8.79**

* Inception date - 15 May 2019

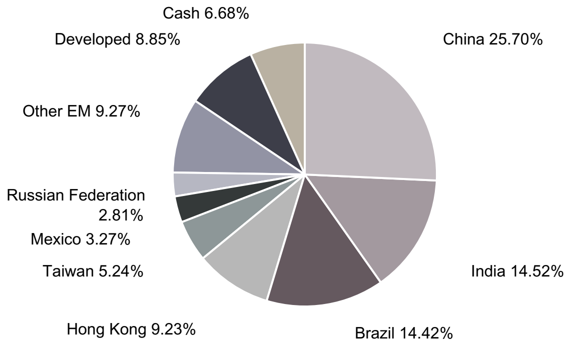
Fund Details

APIR Code	ETL2741AU
Fund Size (AUD m)	$163
Number of Stocks	43
Weighted Average Market Capitalization (AUD m)	$139,994
Fund Currency	AUD
Distribution Frequency	Semi-Annually
Management Fee	1.25% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/-0.40%
Minimum Investment (AUD)	$20,000

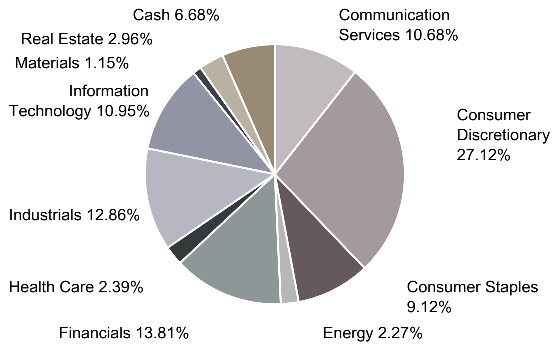
Top 10 Positions

	Weight %
Alibaba Group Holding Ltd. Sponsored ADR	4.82
Taiwan Semiconductor Manufacturing Co.,	4.68
HDFC Bank Ltd. Sponsored ADR	3.90
AIA Group Ltd.	3.82
B2W Companhia Digital	3.64
Tencent Holdings Ltd.	3.58
YDUQS Participacoes S.A.	3.51
Grupo Aeroportuario del Sureste SA de CV	3.27
GDS Holdings Ltd. Sponsored ADR Class A	2.98
Hang Lung Properties Ltd.	2.96

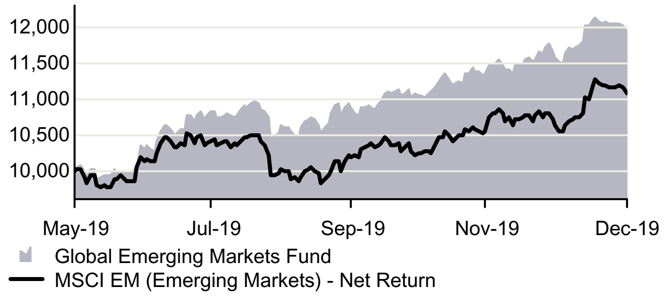
Country Allocation



Sector Allocation



Growth of AUD 10,000



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Commentary

MARKET REVIEW

For the purpose of comparison, commentary is quoted in AUD terms except where stated otherwise.

The fourth quarter of 2019 witnessed an increase in risk appetite as many longstanding headwinds began to abate. Most notably, positive comments out of Washington regarding the ongoing negotiations with Beijing helped boost emerging markets equities in the final month of the year. The fact that equity indices rallied so much on the positive trade rhetoric also reveals the underlying vulnerability should a Sino-US phase 1 agreement fail to materialise.

Relative performance diverged significantly across countries this quarter. Key markets in Northeast Asia performed very well during Q4 with Taiwan, China, and South Korea up 13.16%, 10.06%, and 8.80% respectively. Brazil was also a bright spot delivering 9.58%. Meanwhile, ASEAN and the GCC countries were relative laggards with the UAE's -5.50% return coming in second only to Chile as the worst performing market during the quarter. Within ASEAN, Thailand and the Philippines significantly trailed the index as growth remained disappointing. Finally, India continues to wrestle with a challenged financial sector as well as new political worries emerging from a controversial citizenship bill that has sparked widespread protests. From a sector perspective, growing optimism around the tech cycle and progress on the trade front resulted in material outperformance for the information technology sector which was up 14.10%. There was notable divergence between consumer discretionary (+12.01%) and consumer staples (-1.51%) as more cyclical consumer plays were favoured over the relative defensiveness of staples. In fact, Consumer Staples was the worst performing sector followed by Utilities then Industrials.

PERFORMANCE

Similar to last quarter, Brazil and China were our two strongest geographic contributors due mostly to stock selection. Other geographies such as India, Taiwan, Mexico, and Russia also contributed positively. Performance was partially offset by weakness in UAE, Indonesia, and Poland. From an allocation standpoint, the portfolio benefitted from its limited exposure to Saudi Arabia and Chile but was negatively impacted by its limited exposure to South Korea and Taiwan.

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

B2W Companhia Digital (Brazil) E-commerce retailer B2W continues to be well positioned to benefit from the shift from physical commerce to digital and is showing strong growth in gross merchandise value (GMV) driven by marketplace which is now over 60% of total. The company rallied in December on the back of strong Black Friday results and a successful Investor Day event that highlighted the company's omnichannel capabilities.

Alibaba (China) Despite its size, Alibaba continues to deliver strong growth driven by both user and spend with much of the growth now coming from lower tier cities. Regarding earnings, the company indicated that its recent investment cycle was coming to an end and going forward they would focus more on efficiency and ROI which should benefit margins. The company also successfully listed the business on the HK stock exchange.

TSMC (Taiwan) TSMC, the leading semiconductor foundry, continued its strong performance in line with the broader semiconductor industry driven by better than expected demand particularly in 7nm. This resulted in TSMC increasing its capex guidance for 2019 and 2020. Growth is expected to be bolstered as well by 5G deployment.

The bottom detractors from performance for the quarter are as follows:

PT Telekomunikasi (Indonesia) Telkom is the dominant telco in Indonesia. Although the pricing environment continues to head in the right direction, concerns around competition persist. In addition, the company's enterprise business has been quite volatile thereby reducing revenue visibility.

Hang Lung Properties (Hong Kong) Mall developer and operator Hang Lung Properties was impacted by the continued protests in HK which could impact rental rates on HK properties. Valuation remains well supported though and retail sales in China are likely to perform much better which should offset HK weakness.

Container Corporation of India (India) Container Corp, market leader in rail container cargo handling, continues to be impacted by weak volume growth causing the company to lower its volume growth guidance for FY20. This is a result of weaker than expected export import (EXIM) growth in India reflecting a slowdown in trade. Over the medium-term, the company should be a beneficiary of the Dedicated Freight Corridor (DFC) coming online and the potential privatization of the company which is currently an SOE.

Portfolio Changes

We initiated three new positions in Q4. These purchases include a Chinese property management company, a Chinese coffee franchise, and a Chinese data centre operator. We also exited 6 positions during the quarter, mainly on account of finding better opportunities or having reached our target price.

Commentary

Although it feels like a lot has changed at the macro level, much remains the same. Broadly speaking, global growth continues to decelerate despite extremely accommodative monetary policy. As more and more countries begin to turn inward it is not clear what could cause growth to materially reaccelerate. Yes, trade negotiations appear to be heading in the right direction, yet as we have experienced multiple times since tensions first flared up, this direction can reverse at any moment. For better or worse the asset class remains quite sensitive to trade headlines even if we consider most of it to be noise. Geopolitical tension in the Gulf region has quickly become a key macro risk. We are carefully considering potential scenarios as we seek to form an understanding of how the portfolio might be impacted. Although we do not allocate capital in a top-down manner, we believe it is important to be aware of the macro dynamics at play.

Ending on a more optimistic note, we have an exciting pipeline of companies to research and believe 2020 has the potential to be a good year for our portfolio companies. The innovation, disruption and drive to succeed that we see from companies in our asset class is encouraging. The emerging markets remains a fertile ground for stock pickers. As always, our focus remains on compounding over the long term. Much of our time is spent on finding business models that are exposed to structural demand opportunities where we think the moat is resilient or can further expand over time.