Fund Update - 30 September 2018

Global Small Mid Cap Fund - Class A

PARADICE INVESTMENT MANAGEMENT

Fund Objective

The Fund aims to outperform the S&P Global BMI (US$1bn - $5bn Market Cap Range) Net Total Return Index in AUD** by 3% per annum over a three to five year period (after management costs and before tax).

Performance Net (%) p.a.	1 Month	3 Months	1 Year	3 Years	5 Years	Since Inception*
Global Small Mid Cap Fund - Class A	-0.84	0.40	9.17	8.81	13.23	17.08
Benchmark**	-1.49	2.80	14.98	11.48	13.65	16.87
Excess Return	**0.65**	**-2.40**	**-5.81**	**-2.67**	**-0.42**	**0.21**

* Inception date - 18/01/13

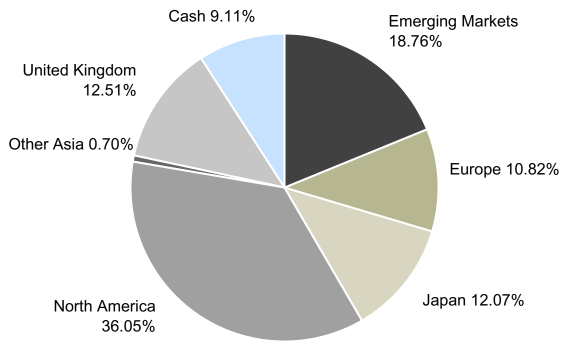
Fund Details

APIR Code	ETL0365AU
Fund Size (AUD m)	$841
Number of Stocks	73
Average Market Capitalization (AUD)	2,879
Application Price	$2.1895
Redemption Price	$2.1764
Distribution Frequency	Semi-Annually
Management Fee	1.40% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/-0.30%
Minimum Investment (AUD)	$20,000

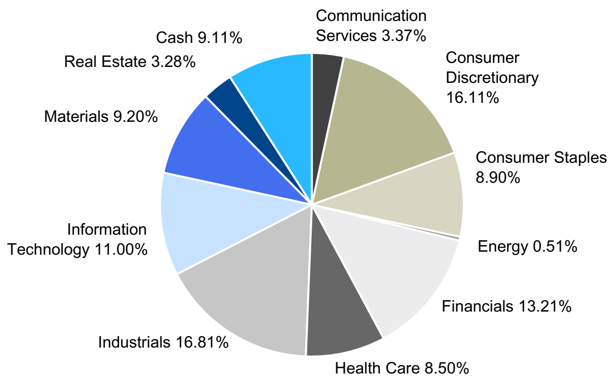
Top 10 Positions (%)

	Fund
Nihon Kohden Corporation	2.76
ITT, Inc.	2.65
KLX, Inc.	2.50
International Speedway Corporation Class A	2.43
Scapa Group Plc	2.40
CNO Financial Group, Inc.	2.36
Mandom Corporation	2.32
Equiniti Group Plc	2.30
Kansai Paint Co., Ltd.	2.18
Seven Bank, Ltd.	2.13

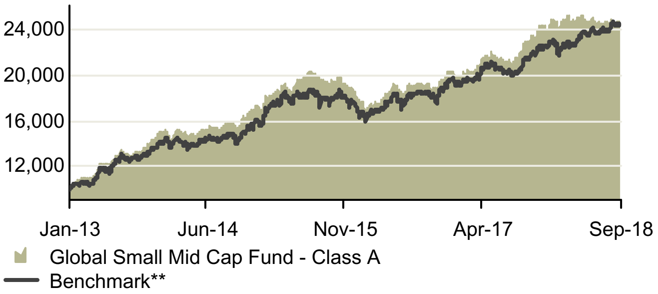
Region Allocation (%)



Sector Allocation (%)



Growth of AUD 10,000



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** S&P Global BMI (US$1bn – $5bn Market Cap Range) Net Total Return Index in AUD effective from 1 October 2015 inclusive. Prior to this date the benchmark was S&P Global BMI (US$1bn – $5bn Market Cap Range) Index in AUD

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 rose a modest 0.8% (2.9% in AUD) in Q3 2018. The US, up 3.6%, was the primary driver of this performance with tax reform and strong economic growth again contributing to favorable earnings reports. This US equity strength was not mirrored broadly, with Japan (aided by a weaker yen) up less than 1% and most other geographies in negative territory. The UK is plagued by Brexit anxiety, Europe is fretting about Italy's Populist government and budget plans, while Emerging Markets continue to be pressured by a strong USD. Unsurprisingly, our top performers were all in the US. Our portfolio underperformed for the quarter, however, due to stock specific issues in Emerging Markets and Europe.

PERFORMANCE

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

Avanos Medical (US) Avanos Medical continued its powerful rise, tacking on another 20% gain for the quarter. The company's transformation was described in our prior quarterly missive. The medical device company delivered a beat and raise quarter that led analysts to further hike both their earnings estimates and their valuation assumptions.

Luxfer (US) Luxfer, like Avanos, remained in the winner's circle for a second consecutive quarter, motoring 34% higher. The company reported a 76% jump in quarterly earnings, citing growth across business units, improved execution, and the early benefits of productivity initiatives under the relatively new management team. This operational momentum allowed the company to raise its full year guidance.

ITT (US) ITT was an industrial standout, delivering above-consensus quarterly results and a full-year guidance hike. Organic revenues rose 7% while organic orders shot up 15%, driven by oil & gas / chemical pump projects, commercial aerospace & defense, and share gains in the North American and Chinese markets for automotive brake pads.

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

Altran (France) As detailed in our July letter, R&D and engineering outsourcer Altran has seen a collapse in confidence after uncovering fraudulent accounting at Aricent, its recent US acquisition. Sentiment has yet to turn and it will likely be some time before management can regain investors' trust.

Lear (US) Auto seatmaker Lear has sold off as investors flee the cyclical automotive industry. Near resolution of NAFTA negotiations and continued revenue/profit growth at Lear were not enough to support the Company's share price as investors increasingly fear a downturn in the sector.

Renewi (UK) Renewi, a provider of waste services in Europe and North America, has seen its share price suffer a continual decline throughout the year driven by onerous contracts with UK municipalities. Management's improvement initiatives are on track but have yet to be reflected in the financial results.
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Verifone Systems (US) exited our portfolio following a buyout led by PE firm Francisco Partners at a very satisfactory premium. We sold out of two additional holdings during the quarter: Kaiser Aluminum (US), as we determined the stock had realized its full value, and cable manufacturer NKT (Denmark). The latter business was a stub holding left over from the demerger of "old" NKT, which we purchased prior to the separate listing of its two businesses: high-end floor cleaning equipment leader Nilfisk (the main attraction for us) and NKT, which we have determined does not meet our quality criteria.

We reduced our holdings in several stocks that have revalued sharply higher since purchase, we scaled into some newer holdings such as Glenveagh Properties (Ireland), and we selectively added to older holdings including Savills (UK) on what we view as temporary weakness.

We established several new positions during the quarter. The first is an industrial business where we see room for increased operational focus after a complex reorganization related to legacy liabilities that diverted management attention for several years. The second is a distributor that possesses structural advantages, should benefit from emerging cyclical tailwinds, and trades at a sharp discount to peers. The 6third is a spinoff trading at a very depressed valuation, but where we see solid franchise value and downside protection in the form of solid free cash flow generation and a relatively clean balance sheet.

Lastly, oil & gas services business KLX Energy (US) entered our portfolio following its spinoff from existing holding KLX (US), which is in the process of being acquired by Boeing.

OUTLOOK

After a very strong start to the quarter, sentiment soured and our benchmark declined in September. The 'Goldilocks' economy in the US, characterized by moderate growth, low inflation, and an accommodative Fed, may be approaching its end. Growth is strong, allowing the Fed to raise interest rates, and inflation has arrived with commodity prices and wages on the upswing. Rising interest rates will compel the market to re-evaluate the appropriate discount rate (i.e., P/E multiple) for equities globally, potentially creating a future headwind for momentum and growth investments which have outperformed during this lengthy bull market. The market now faces a conundrum as investors evaluate the attractiveness of accelerating growth offset by margin pressure (due to inflationary inputs) and higher financing costs (due to rising interest rates). Given what we view as a likely transition to another, less ebullient phase in the markets, we feel we are well positioned given our focus on normalized earnings, strong balance sheets, and paying reasonable valuations.