



## Form ADV Part 2A: Firm Brochure

September 26, 2014

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This brochure provides information about the qualifications and business practices of Paradice Investment Management LLC and its affiliates (collectively "Paradice" or "Advisor"). If you have any questions about the contents of this Brochure, please contact Lucinda Hill at (720) 473-7501 or [lucinda.hill@paradice.com.au](mailto:lucinda.hill@paradice.com.au).

Additional information about Paradice is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Paradice is registered as an investment adviser with the United States Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940 (the "Advisers Act"). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

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## **Item 2: Material Changes**

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Paradice had no material changes since the filing of its last Brochure.

### **Item 3: Table of Contents**

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## Item 4: Advisory Business

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Paradice is an investment management firm organized as a limited liability company under the laws of the State of Delaware. Paradice was founded in July 2012 and is a wholly owned subsidiary of Paradice Investment Management Pty Ltd (“PIM”), an investment firm located in Australia. PIM is also an exempt reporting adviser under the Advisers Act. PIM is wholly owned by its employees, with majority ownership belonging to Angus David Paradice.

The investment activities of Paradice are led by Kevin Beck (“Beck”), Lead Portfolio Manager, and Anand Vasagiri (“Vasagiri”), Co-Portfolio Manager

Paradice provides global small- to mid-cap equity portfolio investment advisory services (the “investment strategy”) to its clients. Paradice’s investment strategy is designed around a diversified portfolio of undervalued global securities, generally with a portfolio of approximately 40-80 global investments.

Paradice typically sub-advises accounts whose owners have retained PIM as the primary investment manager. The management of these accounts is governed by the terms of a sub-advisory agreement with PIM (the “PIM sub-advisory agreement”).

## Item 5: Fees and Compensation

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Paradice typically receives compensation from fees based on a percentage of assets under management, as well as a performance-based fee. The management fee is typically payable in arrears on a quarterly basis. Such fee is payable as of the last day of the calendar quarter based on the average daily market value of the assets under management for the quarter. The performance fee is based upon the formula, below, and is payable on an annual basis.

The PIM sub-advisory agreement sets forth, in detail, the fee structure, which is generally set forth within the following schedule:

1. A base management fee of 0.85% per annum based on the market value of the portfolio, as determined by the clients’ custodian; and<sup>1</sup>
2. A performance fee equal to 15% per annum of the amount of the portfolio’s relative outperformance above the benchmark, generally the S&P BMI \$1bn-\$5bn Cap Range, Index after having first recovered any prior cumulative underperformance (high water mark) and the base management fees in that year.

Paradice may amend these fee schedule terms for each client, which in such instances would be described in more detail within the client agreement.

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<sup>1</sup> Account values are calculated on the domestic currency used for each client’s legal domicile. Typically, for Paradice’s clients, this will be the Australian Dollar or the British Pound.

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In each case, fees due to Paradise are billed to PIM and paid out of the management fees they collect as primary manager to the managed accounts.

## **Item 6: Performance Based Fees and Side-by-Side Management**

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As described above, Paradise receives performance-based compensation, which are fees based on a share of capital gains on or capital appreciation of portfolio assets.

The fact that Paradise is compensated based on the trading profits may create an incentive for Paradise to make investments on behalf of clients that are riskier or more speculative than would be the case in the absence of such compensation. Further, the performance-based fee received by Paradise is based on both realized and unrealized gains and losses. As a result, the performance-based fee earned could be based on unrealized gains that sub-advised portfolios may never realize

Paradise believes, however, that performance fee arrangements provide an incentive to seek to achieve a rate of performance higher than a calculated benchmark, and therefore aligns its interests with those of its clients. Further, Paradise's portfolio managers actively monitor portfolio risk on the front-end of the management process. Additional oversight of portfolio risks are overseen, on a day-to-day basis, by Paradise's CCO. Finally, PIM's back office support staff, operating out of Sydney, monitor the holdings and trading activities within the client portfolios sub-advised by Paradise.

## **Item 7: Types of Clients**

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Paradise provides its discretionary investment strategy on a sub-advisory basis to certain superannuation retirement funds, other corporate and institutional accounts, and pooled investment vehicles – each of which are clients of PIM.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

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Paradise's investment philosophy rests on finding strong business franchises trading at substantial discounts to a determination of intrinsic value. The investment strategy employs a bottom-up investment process to build a diversified portfolio of undervalued global securities that exhibit four key characteristics – undervaluation, business quality, strong financial metrics, and shareholder friendly management teams.

As value investors, Paradise strives to buy assets with at least a 30% discount to an assessment of intrinsic value. The intrinsic value of a security is what the security would be worth if a buyer was to purchase 100% of the business. Paradise employs discounted cash flows and real world transaction multiples to arrive at assessments of intrinsic value. While undervaluation is the lynchpin of the investment process, investment candidates must also exhibit unique business quality with solid financial strength and management teams that know how to grow business

value, which is revealed in those businesses that have leading market shares, solid margins, strong free cash flow generation, and improving returns on investment capital.

Paradice also searches out companies that exhibit limited amounts of financial and operating leverage, which Paradice believes is financial strength that is both an offensive and defensive measure – offensive such that management teams can utilize this strength in an economic downturn to improve the earnings power of the business, and defensive in that it limits the permanent loss of capital in the portfolio. Lastly, Paradice's investment process is to search out those conservative management teams that understand business quality, the power of a strong balance sheet and what it takes to grow business value over time.

The investment strategy generally will be comprised of a diversified portfolio of approximately 40 to 80 global investments that exhibit these key characteristics with a goal of strong, long-term risk adjusted returns. The investment process begins with a universe of global companies with market capitalizations of less than AUD5 billion. Candidates for investment are identified through rigorous bottom-up fundamental research. Quantitative screens from Bloomberg initially are used to narrow the universe and identify businesses that the investment team thinks have attractive valuation characteristics (P/E, cash flow, P/B, earnings growth, profitability, and return on capital). In addition, the investment team screens on such items such as 52-week lows, spin offs, rights issues and poor performers in order to identify those situations where there may be some dislocation in the market. These screens are rotated on a weekly basis and sorted by geography. Once the quantitative screens have been generated, the investment team uses qualitative analysis to eliminate countries or businesses where it believes a minority shareholder would be disadvantaged, business quality is inconsistent or company management has a poor track record of generating value for shareholders. The initial screening generally results in a preliminary list of 50 to 100 companies that the investment team finds interesting and where it believes attractive risk/reward tradeoffs may be present.

At this point, the investment team selects companies from this list where it believes there may be an attractive risk reward tradeoff at a significant discount to its preliminary estimate of intrinsic value. The investment team creates its own proprietary discounted cash flow models with inputs from the company's historical financial statements in order to determine the value of the business. Future estimates of financial performance are determined from an understanding of the company's strategic targets, analysis of the industry and its growth dynamics, conversations with customers and competitors as well as Paradice's understanding of normalized growth and margins in a particular industry. Other steps in this process include interviewing the company's management team, speaking with industry and company analysts, attending industry trade shows and analyzing competitor financials.

At the end of this rigorous analytical process, companies are ranked by the degree of the discount of the current market price to the team's estimate of the company's intrinsic value. Paradice invests along the company's capital structure where the investment team believes it can get the best risk/reward characteristics. The investment team assembles the investment strategy portfolio(s) by taking bigger positions in companies where the discount is greatest and smaller positions in companies with narrower discounts. Sizing of investment are also subject to adjustments for appropriate diversification by geography, sector and liquidity.

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All investing involves a risk of loss, and the investment strategy offered by Paradise could lose money over short or even long periods. The investment strategy may be deemed a speculative investment and is not intended as a complete investment program. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of investment. No guarantee or representation is made that the investment strategy will achieve its investment objective or that the superannuation clients of PIM invested in the strategy will receive a return of their capital.

## **Item 9: Disciplinary Information**

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Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client or investor's evaluation of the adviser or the integrity of the adviser's management. Neither Paradise nor any of its officers, directors, employees or other management persons, have been involved in any legal or disciplinary events that would require disclosure in response to this Item.

## **Item 10: Other Financial Industry Activities and Affiliations**

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As described earlier, Paradise has executed a sub-advisory agreement with PIM whereby certain clients of PIM are invested within Paradise's investment strategy. The superannuation funds are not registered or organized in the United States, nor are any of the beneficial owners of the superannuation funds U.S. persons. Similarly, all accounts outside of the superannuation funds are not beneficially owned by US investors. PIM is currently an exempt reporting adviser under U.S. law.

Certain client accounts may be managed using advice provided by PIM, which is an affiliated adviser that is not registered in the U.S. Pursuant to a Memorandum of Understanding ("MOU") between Paradise and PIM, designated personnel of PIM may serve as investment professionals who are involved in (or have access to) investment advice to be used for or on behalf of Paradise's clients, including superannuation funds advised by Paradise.

Pursuant to the MOU, PIM is a "Participating Affiliate" of Paradise as that term is used in relief granted by the staff of the SEC allowing U.S.-registered advisers to use portfolio management and trading resources of unregistered advisory affiliates subject to the regulatory supervision of the registered adviser. PIM has agreed to submit to the jurisdiction of the SEC and to the jurisdiction of the U.S. courts for actions arising under the U.S. securities laws in connection with the investment advisory services it provides for such Clients.

The following advisory personnel of PIM who may work on Paradise matters from time to time are as follows:

- Angus David Paradise (PIM's Managing Director)

David has 27 years' experience in small company funds management and related activities (including funds management, strategy consulting, stockbroking, and chartered

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accounting). From May 1994 to December 1999, David was the smaller companies fund manager at Mercantile Mutual specializing in small company research/funds management. Prior to joining Mercantile Mutual, he held the position of Small Listed and Unlisted Portfolio Manager with the NSW State Superannuation Investment and Management Corporation. David's principal area of expertise is small company investments

- Anthony Miles Hammond (PIM's Chief Operating Officer and Company Secretary)

Tony joined Paradise in 2008. Tony was previously at St George Bank as its Head of Investment Sourcing and prior to that spent 8 years with BT Financial Group where he was responsible for all external investment manager and custody relationships.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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Pursuant to Rule 204A-1 of the Advisers Act, Paradise has adopted a written Code of Ethics (the "Code") predicated on the principle that Paradise owes a fiduciary duty to its clients. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners or employees of Paradise (the "Employees"), each Employee's spouse, minor children and other family members living in his or her household (the "Related Persons"), as well as each other individual designated in writing by a compliance officer as being subject to all or a portion of the compliance procedures or policies adopted by Paradise (collectively the "Covered Persons"). Paradise requires its Employees to act in clients' best interests, abide by all applicable regulations, and avoid any action that is, or could even appear to be, legally or ethically improper.

The Code generally requires internal preclearance of the purchase or sale of securities that are held within the portfolios managed by Paradise; requires internal pre-clearance before purchasing any initial public offering or limited offering (i.e., private placement); requires periodic reporting of Covered Persons' personal securities transactions and all holdings; and requires prompt internal reporting of Code violations. Paradise endeavors to maintain current and accurate records of all personal securities accounts of its Covered Persons in an effort to monitor all such activity. A copy of Paradise's Code is available upon request.

Certain transactions in which Paradise engages may require, for either business or legal reasons that no Covered Persons trade in the subject securities for specified time periods. Such securities will appear on a list (the "Restricted List") that will be circulated to all Covered Persons. No Covered Person may engage in any sort of trading activity with respect to a security or a derivative thereof on the Restricted List without obtaining prior written approval from the Chief Compliance Officer.



## **Item 12: Brokerage Practices**

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Although Paradise seeks competitive brokerage arrangements, Paradise does not necessarily pay the lowest brokerage rates available. The compensation paid to any one broker-dealer may be greater than the amount charged by another firm for executing the same transactions if Paradise determines in good faith that such compensation is reasonable in relation to the value of the brokerage and research services provided. Selecting brokers, based on considerations that are not limited to commission rates, may result in higher transaction costs. In selecting and approving broker-dealers for use in execution, Paradise considers factors including the broker-dealer's reliability and reputation; commission rates; the quality of its services, including research; its financial standing; and its execution capability and performance.

Paradise seeks to allocate investment opportunities in a fair and equitable manner taking into account clients' best interests. The investment team and the Chief Compliance Officer will routinely review investment allocations to ensure that allocations do not unduly favor any one client or group of clients.

Orders for the same security entered on behalf of more than one client will generally be aggregated if the aggregation is in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Filled orders may be allocated separately from subsequent orders or in instances where the market price of the security has not materially changed, subsequent orders may be aggregated with filled orders. Clients participating in an aggregated order shall receive the average price and pay a pro rata portion of commissions subject to any applicable broker-dealer minimum ticket charges.

Paradise does not participate in any soft dollar arrangements outside of receiving research available to other institutional investors. Research services received from brokers and dealers are supplemental to Paradise's own research effort. To the best of Paradise's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers.

## **Item 13: Review of Accounts**

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Generally, managed portfolios will be reviewed on a continuous basis by the Lead Portfolio Manager. These reviews will be designed to monitor and analyze securities positions, cash levels, compliance to investment guidelines, and total portfolio performance. Paradise will also provide regular reporting to PIM concerning the sub-advised assets, including regular monthly, quarterly, and annual reports as set forth in the PIM sub-advisory agreement.

## **Item 14: Client Referrals and Other Compensation**

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Paradise does not currently utilize referral or solicitation arrangements, and does not directly or indirectly compensate any person for client referrals.

## **Item 15: Custody**

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Currently, all client assets are held in custody by unaffiliated, qualified custodians selected by each client. Paradise does not have access to client accounts and does not directly debit client accounts for management fees or other expenses.

Clients receive statements from their qualified custodian, no less than quarterly, and clients have been reminded to carefully review those statements and compare these custodial records to any account statements that Paradise may provide.

It is possible that statements issued by Paradise may vary from these custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16: Investment Discretion**

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Paradise has discretionary authority to determine which securities or instruments to buy or sell, the total amount of securities or instruments to buy or sell, the executing broker or dealer for a transaction, and the commission rates or commission equivalents paid for transactions.

## **Item 17: Voting Client Securities**

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In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, Paradise has adopted and implemented written policies and procedures governing the voting of client securities.

Paradise shall vote proxies in a way that it believes will cause the value of portfolio securities to increase the most, or decline the least, in an effort to maximize portfolio value. Paradise will seek to avoid material conflicts of interest between its own interests, on the one hand, and the interests of clients on the other. All conflicts of interest will be resolved in the interests of Paradise's clients. In situations where Paradise perceives a material conflict of interest, Paradise may defer to the voting recommendation of the client, or take such other action, in good faith, which would protect the interests of its clients. The process of voting proxies will be driven by the Portfolio Managers and monitored by the CCO.

Paradise's complete proxy voting policy and procedures are memorialized in writing and are available upon request. In addition, Paradise maintains a record of all proxy votes cast, which is also available upon request.

## **Item 18: Financial Information**

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A balance sheet is not required to be provided as Paradise (i) does not solicit fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients, and (iii) has not been subject to any bankruptcy proceeding during the past 10 years.