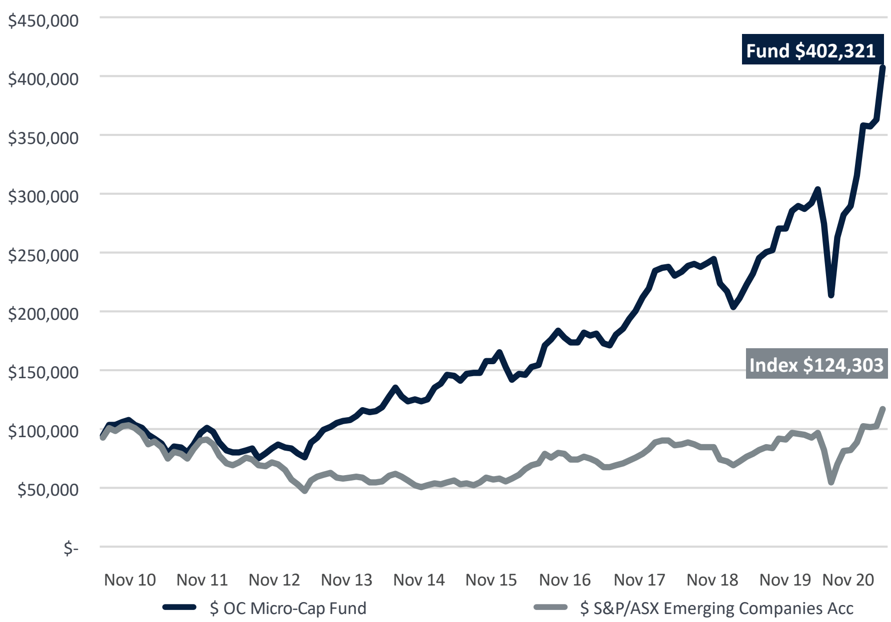
11.8% Fund up 11.8% for the month

20.0% Returned 20.0% p.a. for the past 5 years

We remain confident the Fund is well placed to deliver strong long-term returns

Performance comparison of $100,000 over 10 years*



Total returns

At 30 November 2020†	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Incep. % p.a. (Mar 2003)
OC Micro-Cap	11.8	13.4	40.6	22.1	20.0	20.3	15.0	15.5
S&P/ASX Emerging Comp. Accum	12.9	13.2	21.3	11.2	14.0	9.5	2.2	NA
Outperformance	**-1.1**	**0.1**	**19.2**	**10.9**	**6.0**	**10.8**	**12.8**	**NA**

Inception date for the Fund is 21/11/2003. Inception date for the Index is 31/12/2003. The performance reflects the performance of the OC Micro-Cap Fund since the change of strategy on 30 September 2016 and the performance of the OC Concentrated Equity Fund prior to that date. Performance is after fees applicable at the time. The total return performance figures quoted are historical, calculated using end-of-month hard-close mid-prices and do not allow for the effects of income tax or inflation.

Performance review

The OC Micro-Cap Fund successfully navigated the overwhelmingly positive vaccine news in early November to post a return of +11.8% for the month, behind the S&P/ASX Emerging Companies Index which was up +12.9% for the month. Despite the strong headline numbers from indices domestically, it was a challenging month for fund managers given the high volatility in individual stocks as the share prices of perceived 'opening up' or 'vaccine beneficiary' companies rocketed and conversely the share prices of 'COVID-19 beneficiary' companies came falling back to earth. November was the Fund's third double digit monthly return since the March lows and the Fund remains well ahead of the S&P/ASX Emerging Companies Index over the calendar year having returned +38.1% (versus +23.8% for the Index).

Childcare operators, **Think Childcare (TNK; +63.3%)** and **Evolve Education (EVO; +88.9%)**, rocketed higher during the month. TNK is a high quality childcare service provider with 60 centres across the Australian market. TNK provided a market update early in November confirming it was emerging from COVID-19 in a very strong position. This update attracted the attention of not one but two bidders for the company with a low ball indicative proposal from Alceon Private Equity (at $1.35 per share) soon followed by a much more appropriately priced, non-binding indicative proposal from Busy Bees Early Learning at $1.75 per share. We remain holders of TNK pending the outcome of this corporate activity. New Zealand based, dual listed EVO has rallied hard off its lows seen through the COVID-19 pandemic, where childcare services were severely disrupted, and this rally was justified when management provided a bullish business update and interim result during November. Both TNK and EVO are now being valued some multiples higher than where their share prices plumbed the low points seen during the pandemic and it shows the rewards on offer for patient long term investing.

Mining services providers **Primero Group (PGX; +29.8%)** and Emeco Holdings **(EHL; +36.9%)** enjoyed strong share price gains during the month. PGX is now more than 5 times higher than its pandemic induced March lows where we were adding to our shareholding in this quality engineering business. PGX received a recommended cash-scrip takeover bid from another WA mining services business (and OC Funds holding) NRW at a price equivalent to $0.55 per share. Although we see this bid as a little on the cheap side, we acknowledge PGX faced other challenges (including a major contract dispute) and we will accept this bid in the absence of any other interest from counter bidders. EHL was added to the Fund as it emerged from the pandemic with a forced capital raising in August at what we considered an attractive entry level for new shareholders such as OC. Following a refinancing of its debt and a solid AGM update in November we see EHL as now more sensibly priced and a good derivative exposure for the Fund to commodity price strength, particularly in the gold and iron ore sectors.

The Fund continues to assess many IPO opportunities and we are pleased to report some high quality names have made it through our rigorous assessment process and into our portfolio. November saw the listing of new Fund holding, **Duratec (DUR; +20%)**, which provides building and infrastructure maintenance and remediation solutions to government and private asset owners across Australia and is well positioned to benefit from the nations ageing asset base. DUR delivered FY20 revenue of some $250m and has some exciting avenues for growth. The investment team has met with the DUR management team on five occasions over the 12 month journey to IPO and we have become increasingly comfortable with their capability and the DUR business model. Early December has seen the ASX debuts of further new fund positions including Doctor Care Anywhere, Booktopia and GenusPlus. We will be sure to talk about these exciting new holdings more in the future.

During the month we exited our position in **3P Learning (3PL; +10.1%)** after its proposed scheme of arrangement was voted down with investors instead preferring other (less certain) proposals for a whole of company transaction. The IXL Scheme bid, announced in August at $1.35 per share, was voted down by shareholders as a further competing bid emerged at higher levels and this Scheme has now been terminated. The first competing conditional bid from BYJU, by way of a Scheme at an indicative price of $1.50, is now competing with a more complex merger proposal from Blake eLearning (developer of the 3PL distributed Reading Eggs products). The matter is further complicated by a 3PL shareholder building a commanding 25% stake in the company and backing the merger proposal which in turn needs to be viewed over the long term to determine its true value. With the BYJU proposal now also likely to fail, we have exited our position at a handsome profit to our entry price and will look for other opportunities.

McPherson's (MCP; -19.6%) put out a disappointing trading update during the month with their China JV partner (ABM) advising of significantly lower than expected sales for key growth brand, Dr Lewinn's. The poor trading during the critical 'Singles Day' promotional period was widespread for ABM, with Dr Lewinn's actually outperforming other brands, but a period of destocking will now be required for the channel which will lead to lower sales over the balance of the year. The reason for the lower growth is not immediately clear, but poor Australia-China relations are unlikely to help and unfortunately, we can't see a swift turnaround in that aspect, despite the optimism of ABM. With this key growth engine faltering, we have exited our position in MCP.

Outlook

Investors have continued to take a 'glass half full' approach in recent months casting aside record daily COVID-19 cases in the US and parts of Europe, as well as poor economic data across the globe, with a confluence of individually significant events arousing the 'animal spirits' of investors creating a risk-on investment environment for equities which bodes well for continuing solid near-term investment returns. Some of these events include:

- record low interest rates domestically and the adoption of a quantitative easing strategy by the RBA;
- an election outcome in the US which ought to be supportive of equity markets; and
- stunning early successes on the COVID-19 vaccine front (in the West) with preliminary Phase 3 efficacy data from both Pfizer/BioNTech and Moderna and later Oxford/AstraZeneca extremely promising.

Following the gravitational pull of other central bank moves offshore, the RBA again dropped the official cash rate in early November to just 0.10% and announced that it would commence buying A$100 billion of bonds in the coming six months. This so called 'quantitative easing' is designed to make the structure of interest rates in Australia lower, to make it cheaper for businesses, households and governments to borrow and invest, and to keep the AUD lower to support economic growth and jobs recovery. Significantly, the RBA laid out a medium-term forecast: "*[T]he Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. For this to occur, wages growth will have to be materially higher than it is currently… require[ing] significant gains in employment and a return to a tight labour market. Given the outlook, the Board is not expecting to increase the cash rate for at least three years*." We are in a 'lower for longer' interest rate environment and RBA governor Dr Philip Lowe has urged households and businesses to guard against becoming too risk averse and "seize the opportunities" offered by low rates to invest and grow. Dr Lowe conceded that it is certainly possible that the domestic economy could rebound quicker than the RBA's own upgraded growth forecasts from earlier in the month.

Investors have also been emboldened by the outcome of the US election with a gridlocked Congress close to the ideal scenario for many investors. A Biden presidency is highly likely to be more predictable than an ongoing Trump regime, but none of the Democrats' more progressive policies such as tax hikes, large public spending and widespread regulatory reform are likely to pass into legislation. The Republicans don't yet have a decisive majority in the Senate, with the remaining two seats to be decided when Georgia's run-off election races are held in early January. But the Democrats gaining control of the Senate seems like an unlikely tail-risk given Georgia is typically Republican leaning.

In a stunning turn of events, each of Pfizer/BioNTech, Moderna and Oxford/AstraZeneca have released interim data on Phase 3 human trials which suggests that an effective COVID-19 vaccine is within reach. Significantly, these vaccines are reporting far greater efficacy than had been anticipated and they are immediately applying for emergency use in several countries, including the US. Pfizer/BioNTech and Moderna are reporting approximately 95% efficacy, well above the >50% minimum threshold hurdle set by the FDA for regulatory approval. There are still some unknowns around the vaccines, including the duration of the immunity provided which will not be determined until the trials are concluded and peer reviewed.

Both Pfizer/BioNTech and Moderna will have doses ready for emergency use in the US by year end and the Pfizer/BioNTech vaccine has already received emergency approval in the UK. Australia has secured 10 million doses of the Pfizer vaccine, which still has some logistical challenges to overcome for use domestically, and the Oxford/AstraZeneca vaccine has commenced mass production by pharmaceutical manufacturer CSL at their facility in Melbourne in early November. All three vaccine companies have applied for fast track regulatory approval with key regulatory bodies world-wide. Whilst a vaccine will not be an immediate panacea to the economic damage caused by the pandemic, the prospects for the global economy and markets are vastly improved in the medium term. This will likely encourage more risk taking in equity markets, particularly in COVID-19 'recovery trades' as regulatory approvals are granted.

Domestic markets have once again brushed aside the worsening relationship with China, our largest trading partner, which plumbed new lows during the month as debilitating tariffs were slapped on wine exports and the Chinese foreign ministry mocked the Australian army's alleged human rights transgressions in Afghanistan. Instead investors are focussing on the steep economic recovery out of recession, recently confirmed in last week's national accounts which showed a 3.3% jump in September quarter GDP, clawing back close to half the 7% collapse in the June quarter. The Treasurer Josh Frydenberg immediately declared the "recession is over", although he cautioned that the "recovery is not". Almost everyone, OC Funds included, has underestimated the resilience of the Australian economy and the strong economic rebound looks set to continue into the new year underpinned by Victoria's reopening and government stimulus measures.

Usually we would be sounding a cautionary note around all the bullish indicators at this time given the risk of the market overshooting while the COVID-19 induced economic damage is still very real, infection rates remain elevated in many countries and the timing around a full vaccine roll-out remains uncertain. But we expect that the domestic small-cap market may continue to grind higher in the coming months with the wave of positive investor sentiment continuing to support risk appetite and as the Australian economy enters 2021 with a recovery tailwind.

With the festive season approaching we would like to wish our investors and their families and safe and prosperous holiday season and New Year. We thank you sincerely for your support through what has been one of the more volatile and challenging years in our 20-year journey as fund managers. For those of you who may have endured hardship as a result of the COVID-19 pandemic, we are hopeful that better times lay ahead for you in 2021 and beyond.

Top 5 holdings#

Company	ASX code
Evolve Education Grp	EVO
Frontier Digital Ltd	FDV
Probiotec Limited	PBP
Propel Funeral	PFP
Telix Pharmaceutical	TLX

The top 5 portfolio holdings are in alphabetical order and may not be representative of current or future investments.

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† The total return performance figures quoted are historical, calculated using hard-close end-of-month mid-prices and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. The performance is quoted net of all fees and expenses. The index does not incur these costs. This information is provided for general comparative purposes.
* The performance comparison of $100,000 over 10 years is for illustrative purposes only. All returns shown are based on Australian dollar figures. Past performance is not a reliable indicator of future performance. The total returns shown are prepared on an ongoing basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the S&P/ASX Emerging Companies Accumulation Index is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index.