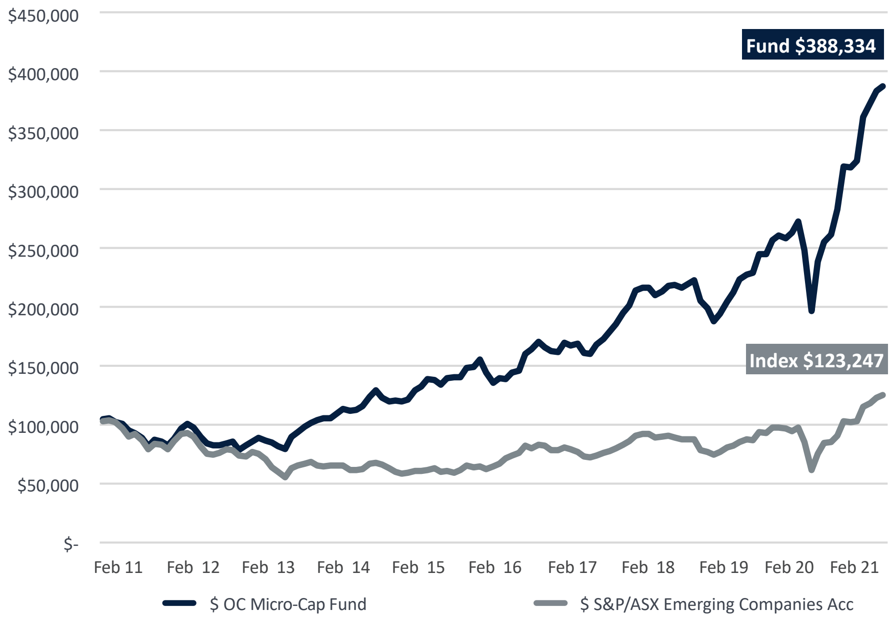
1.1% Fund up 1.1% for the month

24.2% Returned 24.2% 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 28 February 2021†	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	1.1	7.5	57.6	21.9	24.2	20.6	14.6	15.7
S&P/ASX Emerging Comp. Accum	2.0	8.8	51.5	11.5	15.7	10.6	2.1	NA
Outperformance	**-0.9**	**-1.3**	**6.2**	**10.5**	**8.5**	**10.0**	**12.5**	**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 enjoyed a solid reporting season finishing February up +1.1% which was behind the S&P/ASX Emerging Companies Accumulation Index which returned +2.0% for the month. It is now just on a year since the COVID-19 pandemic spread to our shores causing significant collateral damage in the domestic equity market. Over that period, the OC Micro-Cap Fund has returned investors +57.6% which is comfortably ahead of the very strong +51.5% return generated by the S&P/ASX Emerging Companies Accumulation Index over the same time horizon.

Capitol Health (CAJ, +25.5%) delivered an outstanding interim result during the month. The management team's focus on market share gains and cost discipline as it exited COVID-19 restrictions translated to strong HY21 earnings delivery and analysts have subsequently marked up FY21 (and beyond) earnings ahead of prior expectations. As a reminder, the OC investment team identified CAJ as a quality business which was experiencing government imposed difficulties during the depths of the COVID-19 lockdowns (particularly in Victoria) and we participated in a discounted capital raising in April 2020 at 16cps (closed February 2021 at 32cps). CAJ has a network of 63 diagnostic imaging clinics, predominantly in Victoria (but also with a presence in WA, Tasmania and SA), providing services such X-ray, Ultra-Sound, Magnetic Resonance Imaging (MRI) and Computerised Tomography (CT) to a predominantly 'bulk billed' client base. CAJ managed the difficult CY20 conditions well and in recent months has emerged from the lockdowns in solid shape with margins improved, market share gains won and ready to work through a backlog of GP imaging referrals which were, in many cases, put on hold during lock down. We see CAJ as well positioned to continue to execute on its strategy, with a strong balance sheet giving line of sight on further selective acquisitions and greenfield site openings.
We continue to hold the stock as a core position in the portfolio.

Fleetwood (FWD, +22.7%) was a strong performer during the month and a recently flagged management change and the confirmation of FY21 earnings expectations have provided the catalyst for OC to re-initiate a position in the company. FWD's business divisions include:

- Accommodation Solutions - Searipple Village in Karratha and Osprey Village in Port Headland which are supported by blue chip resources company tenants.
- Building Solutions – providing modular buildings (built offsite) for various sectors including education, social housing, corrections and resources/mining.
- Recreational Vehicle (RV) Solutions – servicing the 'grey nomad' RV market which has been impacted by state lockdowns and international (inbound) tourism and travel restrictions.

We are particularly enthused by the annuity style earnings from its accommodation villages in the north west of WA but also by FWD's exposure to modular construction on the east coast of Australia which has a bulging pipeline of opportunities. The RV Solutions division is considered non-core. In late November 2020, well regarded former sell side (Macquarie) analyst and current FWD CFO, Andrew Wackett, was promoted to the interim CEO role whilst the company commenced a search for an east coast-based CEO. This is an important step for the board and the strategic direction of the company in that it recognises the future of the business lies in the modular construction of schools, prisons, affordable housing and other government sponsored projects in NSW, Victoria and Queensland. FWD has a strong net cash balance of $64m and has shown good cashflow conversion of around 100% of earnings in recent reporting periods. We look forward to the appointment of an east coast CEO and are excited by potential of the business as it executes on its Building Solutions strategy.

SILK Laser Australia (SLA, +15.3%), a recent IPO the fund participated in, performed strongly during February with a maiden result that contained an upgrade to the prospectus forecasts for the second half of FY21. The company provides beauty treatments such as laser hair removal, cosmetic injectables, skin treatments, body sculpting and skincare from 56 clinics nationwide. We anticipate SLA will continue to grow strongly via three avenues: a) the roll-out of additional clinics (both wholly owned and in partnership with nurse operators), b) the organic growth from existing clinics, many of which are not yet mature, and c) the acquisition of smaller chains of clinics or individual shopfronts. The benefits of scale and the growth driven by the maturing of the existing clinic network should continue to deliver benefits in this fragmented market, making the near-term growth prospects of SLA attractive in the absence of future COVID-19 induced lockdowns.

Recent **IPO Duratec (DUR, -17.9%)** traded lower during the month despite delivering a maiden interim result in line with expectations. DUR provides building and infrastructure maintenance and remediation solutions to government and private asset owners across Australia. It is well positioned to benefit from the nations ageing asset base and building defects such as the recently identified flammable cladding issue. The company's multi-disciplined capabilities combine engineering experience with project delivery expertise and use a range of in-house assessment technologies, including 3D capture and modelling technology with predictive analysis tools. DUR has 15 branches across Australia and building out its presence on the east coast is a key expansion goal for this WA headquartered business. DUR navigated the COVID-19 lockdown well, limiting impacts on the overall business productivity, and now has a record level of tendering ($567m) and Work in Hand ($113m) compared to its FY20 revenue base of $250m. With a market capitalisation of just $112m, and cash on hand of $31m, DUR is undoubtedly cheap trading on about 3.5x EV/EBITDA and we believe it is a quality micro-cap business that will be well worth persisting with.

Outlook

The February reporting season was one of the strongest in recent years, despite the significant COVID-19 disruptions with positive earnings surprises outweighing earnings disappointments across the broader Australian market, including the domestic small cap space. The positive upside in company results was largely driven by upside surprise on operating margins, rather than top line revenue growth and consensus earnings forecasts across the market have moved higher for the balance of the financial year. But the strength of the results period has been largely overshadowed by a surge in treasury yields with both the Australian 10-year treasury (month end 1.76%) and the US 10-year treasury (month end 1.44%) moving sharply higher and spooking markets that have become accustomed to the 'lower for longer' rhetoric on interest rates from our central bankers.

Rising treasury yields seem to be signalling that inflationary pressures are building and that interest rates may have to rise sooner than our central bankers would have us believe. The global economy seems now to be on a sustained pathway to recovery and the global rollout of COVID-19 vaccines has fuelled a wave of optimism in the global economy at a time when the market is awash with liquidity provided by record low interest rates and central bank quantitative easing, along with government stimulus programs. All this has the potential to see inflationary pressure build ahead of plan and this is what has created ructions in global bond markets in recent weeks. Given that lower bond yields have been a key driver of multiple expansion across equity markets in recent years, investors have been unnerved.

The pivotal question is whether we are witnessing the beginning of an inflationary wave which could force the hand of policy makers and necessitate interest rates rising at a time when the global economy is still relatively early in its recovery phase. This would have strong negative implications for equity markets. Or are our central bankers, including the US Federal Reserve and the RBA, indeed correct in that any near-term price rises will prove to be transitory in nature given that the labour market remains significantly under-utilised and the risk of sustained inflation is therefore still very low.

At this juncture, we are not convinced that sustained inflation is in our immediate future and feel it is most unlikely that central banks will need to abruptly pivot any time soon and embark on a round of interest rate rises. Rather, we view rising treasury yields as the natural consequence of a reflationary environment and that some price rises are a natural and healthy part of the economic recovery. We expect that treasury yields will likely continue to rise in the near-term but remind our investors that even with the recent increases in bond yields, the long-term yields remain at historically very low levels.

We have nevertheless rotated our portfolio somewhat in recent weeks reducing our weighting towards the technology sector and increasing our exposure to sectors such as financials and cyclical areas of the economy that are levered toward an ongoing recovery. Should evidence of inflationary forces become more pervasive in the coming weeks or months this would necessitate us rotating further away from long duration growth assets such as technology and healthcare towards cyclical, commodity and financial stocks that will likely perform better in such an environment.

Top 5 holdings#

Company	ASX code
Booktopia Group	BKG
Cedar Woods Properties	CWP
Estia Health Ltd	EHE
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.

CONTACT COPIA

1800 442 129 | clientservices@copiapartners.com.au | copiapartners.com.au

John Clothier	General Manager, Distribution	0408 488 549 | jclothier@copiapartners.com.au
Iain Mason	Director, Institutional Business	0412 137 424 | imason@copiapartners.com.au
Mani Papakonstantinos	Distribution Manager	0439 207 869 | epapakonstantinos@copiapartners.com.au
Matthew Roberts	Distribution Manager	0438 297 616 | mroberts@copiapartners.com.au
Jude Fernandez	Distribution Manager	0414 604 772 | jfernandez@copiapartners.com.au
Sam Harris	Distribution Manager	0429 982 159 | sharris@copiapartners.com.au

[†]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.

Past performance is not a reliable indicator of future performance. Positive returns, which the OC Micro-Cap Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns. A performance fee of 20.5% is accrued daily on any excess performance (after deducting the management fee) above the performance benchmark within a performance period. Any accrued performance fee will become payable if the Fund's return is positive at the end of the performance period. If the Fund's return is negative, any performance fee accrual will continue to be carried forward. The performance benchmark is the return of the S&P/ASX Emerging Companies Accumulation Index. The inception date of the S&P/ASX Emerging Companies Accumulation Index is 31 December 2003. This document is for general information purposes only and does not take into account the specific investment objectives, financial situation or particular needs of any specific reader. As such, before acting on any information contained in this article, readers should consider the suitability of the information for their needs. This may involve seeking advice from a qualified financial adviser. Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) is the issuer of the OC Micro-Cap Fund (ARSN 126 537 424). A current PDS is available from Copia located at Level 25, 360 Collins Street, Melbourne Vic 3000, by visiting ocfunds.com.au, by calling 1800 442 129 (free call) or by emailing clientservices@copiapartners.com.au. A person should consider the PDS before deciding whether to acquire or continue to hold an interest in the Fund. Any opinions contained in this document are based on information available to Copia at the time and may be subject to change without notice. Copia is under no obligation to update or keep any information contained in this document current.