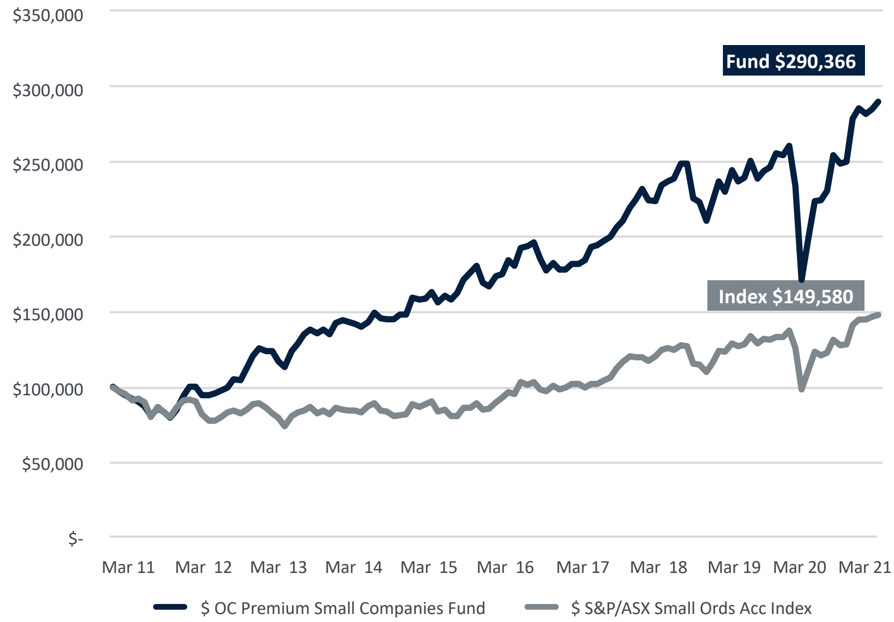
1.6% Fund up 1.6% for the quarter

11.3% Returned 11.3% p.a. for the past 10 years

We remain confident the Fund will continue to deliver attractive long-term returns

Performance comparison of $100,000 over 10 years[*]



Total returns

At 31 March 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. (Dec 2000)
OC Premium	1.8	1.6	69.4	9.0	10.8	10.5	11.3	11.2
S&P/ASX Small Ords Accum	0.8	2.1	52.1	8.3	10.7	8.4	4.1	6.4
Outperformance	**1.0**	**-0.5**	**17.2**	**0.6**	**0.1**	**2.1**	**7.2**	**4.9**
S&P/ASX Small Ind Accum	1.7	3.3	49.7	9.2	9.6	9.0	8.7	6.8
Outperformance	**0.1**	**-1.8**	**19.7**	**-0.3**	**1.2**	**1.6**	**2.6**	**4.5**

The total return performance figures quoted are historical, calculated using end-of-month soft-close mid-prices and do not allow for the effects of income tax or inflation.

Performance review

Global markets continued to bounce in the March quarter with a combination of unprecedented monetary and fiscal stimulus from governments and central bankers, accelerating vaccine rollouts in most countries and positive economic data supportive of a continued upwards trajectory in stocks. Following the global lead, the Australian small-cap indices tracked higher, with the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index up 2.1% and 3.3%, respectively, for the quarter. The OC Premium Small Companies Fund too posted a positive March quarter, up 1.6%, albeit our performance marginally lagged the small-cap indices.

The OC Premium Small Companies Fund has bounced strongly out of the COVID-19 induced equity market pummelling of the March 20 quarter, with the Fund up 69.4% over the past year. This is comfortably ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which returned a solid 52.1% and 49.7%, respectively, over the same time horizon.

Autosports Group Limited (ASG, +43.5%) was a strong performer during the quarter and, like **Eagers Automotive Group (APE, +7.1%)**, continues to recover from COVID-19 lows when new car sales fell steeply. Management provided a half yearly earnings update which was well ahead of market expectations which highlighted strong operating leverage across the group brought about by solid gross margins in new and used car sales and tight cost control. Like APE which also upgraded earnings guidance during the quarter, ASG has benefitted from supply constraints caused by COVID-19 induced production bottlenecks for automakers (mainly due to semi-conductor shortages) allowing dealers to better manage inventory and reduce competitive discounting pressures. Australian new vehicles sales were up 22.4%% in March (FCAI industry data), the fifth consecutive month of growth after a run of 31 months of consecutive monthly declines from March 2018 to October 2020. The prestige category, where ASG remains heavily exposed, continues to perform strongly in a further positive sign for the group. Whilst margins on new car sales will likely moderate in the back end of the calendar year as supply levels normalise, the outlook for new car volumes remain strong, driven by record low interest rates and a resurgent housing market which tends to correlate strongly with new vehicle sales. Our FY21 earnings forecasts for ASG remain comfortably ahead of consensus analyst expectations and we have been adding to our position in recent weeks.

Uniti Group (UWL, +34.5%) had another strong quarter featuring a solid result in February and positive sentiment toward the telecommunications sector on the back of the **Vocus Group (VOC, +34.9%)** takeover. At their result, UWL reported that the recently acquired Opticomm business was outperforming their expectations and that they are positioned for accelerated organic growth. The interest in the sector from investors also remains elevated with the takeover for VOC by MIRA and Aware Super set to take the largest small-cap telco off the boards. The expanded UWL post the Opticomm merger will be the most significant small cap telecommunications company at a time when investors are starting to appreciate the value of infrastructure assets within these businesses. Furthermore the potential remains for the bidders for VOC to also acquire UWL after Aware Super were the underbidder in a bidding war for the Opticomm assets. We increased our exposure to UWL in December and January after the Opticomm merger had been finalised, wanting to maintain our telco exposure. We remain comfortable with this position, with our growth expectations also revised upwards during the quarter.

GrainCorp (GNC, +25.3%) performed strongly during the quarter after it confirmed at its February AGM that the widely anticipated bumper east coast crop was harvested without any major weather incidents or infrastructure/ logistics interruptions. GNC also hosted an investor day later in the quarter where it presented a medium-term strategy that gave investors further confidence in the outlook for the business. GNC's crop update confirmed one its largest receivals on record and, even after it paid out on its crop insurance contract, still managed to deliver a full year earnings forecast ahead of consensus analyst expectations. At the investor day, GNC announced $25m of initiatives which involve leveraging its existing assets (including its port capacity) and its in-house capabilities that mean it is now targeting 'average season EBITDA' of $240m by FY24. The investor day announcements, along with good recent rains in key growing areas contributing to soil moisture, have injected much needed investor certainty into the GNC business and we too look forward to the coming seasons with a reasonable degree of confidence.

Perenti Global (PRN, -23.4%) was one of our key disappointments from the February reporting season when it became apparent that COVID-19 was affecting the business more broadly than originally forecast. PRN is a Perth based, global mining services company providing surface (open pit) and underground mining and drilling services to a broad client base, with a particular focus on gold projects in Africa and Australia. At the half year result release, PRN tempered the market's full year earnings expectations on the back of COVID-19 impacts dragging down margins and the ongoing costs of exiting problem contracts in Africa. Foreign exchange movements also negatively impacted the result. Looking forward, PRN is improving the quality of its earnings by focussing away from Africa, including winning more contracts at good margins in 'safer' jurisdictions such as Western Australia. PRN is also improving the quality of its balance sheet through asset sales and a recently completed major debt refinancing. PRN is highly cash generative and is positively impacted by an improving gold price. It offers strong value at its current share price despite recent challenges.

Global document productivity and e-signing software company **Nitro Software (NTO, -23.7%)** came under considerable pressure during the quarter despite posting a full year result that was ahead of its Prospectus forecast. In late February, NTO posted annual recurring revenue (ARR) of $27.7m (ahead of both the Prospectus and recently upgraded company forecasts), as well as demonstrating a step-up in customer growth. The share price sell-off during the quarter was likely the result of two interacting forces: 1) the sharp sell-off in small technology stocks brought about by the spike in the 10-year treasury yield during the quarter (discussed in the February Monthly Review); and 2) investors being reluctant to purchase the stock ahead of a mooted sell-down by two cornerstone investors, Starfish Ventures and Battery Ventures, who came out of escrow post the full year result. At times, the market can be somewhat irrational short-term and at one stage NTO's share price was in free fall around early March as buyers deserted the screens amid the sharp tech sell-off and a perceived stock overhang. We try to remain rational and opportunistic at such times and the Fund stepped into the market and purchased heavily discounted stock at around $2.20 in early March, well below our internal valuation and also comfortably below the current share price of $2.73.

In early March, the Fund participated in the sell-down of **Genworth Mortgage Insurance Australia Limited (GMA, +7.1%)** by its parent company Genworth Financial Inc. GMA, through its subsidiaries, engages in the mortgage insurance business in Australia. The company facilitates residential mortgage lending by transferring risk from lenders to lenders mortgage insurance (LMI) providers, primarily for high loan to value ratio residential mortgage loans. We are comfortable with the parent company's exit from the register given that they were financially constrained and therefore had arguably been a handbrake on the GMA business in recent years. The extra liquidity will also be a positive and ought to eventually allow ASX

200 inclusion for the stock. GMA is an example of an attractively priced 'reflation trade' added to the portfolio in recent months, with another example being **Bank of Queensland (BOQ, +15.1%)** discussed in the February monthly. Most of the GMA book is with CBA on high LVR first mortgages and the book overall appears in good shape with loan deferrals dropping dramatically and the key economic indicators for the GMA business, including the employment and housing market, both showing increasing strength. GMA appears to be very well provisioned at present, with management having taken significant balance sheet provisions at the start of COVID-19. GMA currently has $203m or $0.49 in surplus capital that will likely be progressively released starting later in the calendar year should the economic recovery track its current course and the stock is still trading well below its current book value of $3.36.

Outlook

As we enter the June quarter, equity markets have stabilised and are once again trending higher following a sharp spike in treasury markets in the March quarter that stoked fears that central banks would be forced to act ahead of plan to subdue inflationary forces. Surging bond yields took much of the focus away from an otherwise strong February reporting season in the Australian small-cap space, where positive earnings surprises had outweighed negative revisions, despite the significant COVID-19 disruptions suffered by many companies in our stock universe. It is pleasing to see that corporate Australia is emerging from the COVID-19 pandemic in better shape than even the most optimistic forecasts at the start of the FY21 financial year. Balance sheets overall are in good health, with many companies raising fresh capital following the onset of COVID-19 and profit growth is recovering and, in some cases, accelerating.

The domestic economy looks well placed to navigate the winding up of the highly successful JobKeeper program which ended last month and the strength in job vacancies in the labour market means there is solid opportunity for those who lose employment from the end of JobKeeper. The March unemployment data showed that the unemployment rate had fallen to 5.8%, far exceeding consensus expectations. Furthermore, the ANZ Job Advertisement report, which measures the change in the number of jobs advertised in the major daily newspapers and websites covering the capital cities, showed job advertisements in early April had reached the highest level in a dozen years, indicating a robust employment market for workers coming off the JobKeeper scheme. Indeed, this report which was released last week put job vacancies 23% higher than they were on February 1, 2020.

The resurgent domestic housing market shows no signs of cooling with a 2.8% surge in dwelling values nationally in March representing the fastest monthly growth in 32 years. Sydney led the charge with a 3.7% gain in March with buying activity in that state intensifying amid stock shortages. With interest rates at record lows and the jobs market improving, the outlook for housing remains robust which is clearly positive for the domestic economy due to the positive 'knock on' effects from a strong housing market including resurgent construction activity and the 'wealth effect' of households being more willing and able to consume more in a rising house price environment. Despite the ongoing pick-up in economic activity, the Reserve Bank of Australia (RBA) held the cash rate at 0.1 per cent in early April. This further confirmed that its yield curve control program, which aims to keep three-year Australian government debt tethered to the same rate, will remain in place for bonds that mature in April 2024.

Sentiment in the global economy is also improving reflecting optimism around the pace of vaccinations and an economic recovery that is playing out much quicker than most had anticipated. The International Monetary Fund says in its latest forecast that it expects the world economy to expand 6 per cent in 2021, up from the 5.5 per cent it had forecast in January. This would be the fastest rate of expansion for the global economy in IMF records dating back to 1980. In the US, the economic outlook too continues to strengthen with the jobs market accelerating in February, retail sales jumping after $US600 relief cheques were distributed during the quarter, and with President Biden signing his $US1.9 trillion economic relief package into law.

With the global economy recovering ahead of expectations, inflation remains the single biggest tail risk for the economy and for asset prices including equities. Treasury markets, in particular the 10-year bond rate, have been in clear focus during the past quarter as market participants look for signs of inflation. The fear has been that rising treasury yields seem to be signalling that inflationary pressures are building even though the global economic recovery is still in its early stages and that interest rates may have to rise sooner than our central bankers would have us believe. Clearly this would have the potential to derail markets that have become accustomed to the 'lower for longer' rhetoric on interest rates from our central bankers.

The key question remains 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 clear negative implications for equity markets. Or are our central bankers, including the US Federal Reserve ('the Fed') and the RBA, indeed correct in that any near-term price rises will prove to be transitory in nature (driven by supply bottlenecks and short-term stimulus that will fade) given that the labour market remains significantly underutilised and the risk of sustained inflation is therefore very low.

The Fed continues to project near-zero interest rates at least through 2023 despite upgrading its US economic outlook with Chairman Jerome Powell noting in the past month that the Fed remains 'a long way from their goals' and that they 'will be patient if [they] see a transitory rise in inflation' and further that they '[e]xpect any inflation rise to be of a base effect, but not to be large or persistent'. Both the Fed and RBA have made it clear that they will wait to see that inflation is sustainably above their targeted range (2% and 2-3% respectively) before considering adjusting policy, which is a marked departure from typical central bank policy settings which are usually proactive, as opposed to reactive.

These are indeed unchartered waters and the wave of fiscal and monetary stimulus unleashed on the global economy since the onset of COVID-19 is unprecedented which makes predicting inflationary outcomes based upon historical references somewhat challenging. It seems clear that inflation is likely to accelerate somewhat in the coming months, simply given the base effects from last year's coronavirus-hit data. A surge in post-lockdown spending and supply chain disruptions caused by COVID-19 restrictions could exacerbate price pressures in some areas. However, wages growth remains subdued and labour markets are yet to recover, despite showing a strong positive trajectory in jobs data. Furthermore, the same powerful secular forces that have kept inflation in check for decades remain present. These include technological innovation which has arguably accelerated as a result of the pandemic and ought to continue to drive deflationary productivity gains across the economy.

Overall, we are not convinced that sustained inflation is likely in the near term. Rather, we view rising long-term 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 bond yields remain at historically very low levels.

Rather than 'bet the farm' on the likely gyrations of the bond markets, which seem to be determining whether growth or value stocks are outperforming on any particular day, we have structured the OC Funds portfolio with a healthy mix of COVID-19 reflation and cyclical recovery trades, as well as retaining some exposure to quality growth names including data centre provider NEXTDC Ltd which continue to have strong secular tailwinds. That said, we have reduced our exposure to growth names during the quarter including e-commerce players Kogan Limited and Redbubble Limited. Rising bond yields will likely continue to weigh on their valuations, and they are about to start cycling some very strong comparative sales from the start of the COVID-19 pandemic, which will likely make their growth look underwhelming in the next few quarters.

We have seen a very strong start to the year in terms of merger and acquisition activity, particularly in the small-cap space including SG Fleet announcing the acquisition of Leaseplan ANZ and EML Payments Ltd acquiring Sentenial Group in the past week alone. An ongoing economic recovery, low funding costs and solid corporate balance sheets, coupled with accelerating structural changes in the post-pandemic economy ought to be supportive of a strong year ahead for M&A activity. Throw into the mix cashed up private equity players hungry for deals and we expect to be busy assessing corporate deals in the months to come.

With travel restrictions winding back, the OC team will be out on the road in the coming month with trips planned to Sydney, Brisbane and Perth to visit existing and prospective investments. We have certainly missed the face-to-face interaction with key management and visiting company operations and understanding the 'nuts and bolts' of a business has always been an important part of our investment process. We would like to thank our investors for their ongoing support, and we remain confident in our ability to continue to generate strong investment returns for our clients over the long-term.

Top 5 holdings#

Company	ASX code
Bapcor Limited	BAP
Eagers Automotive	APE
Mineral Resources.	MIN
Sealink Travel Grp	SLK
Vocus Group Ltd	VOC

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 cum-distribution end-of-month soft-close 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 Small Ordinaries 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.