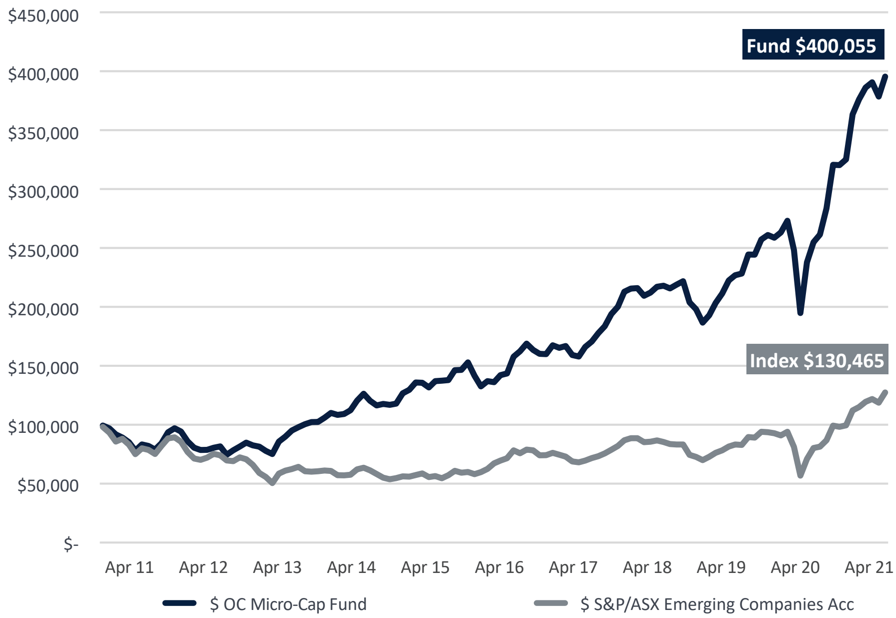
4.5% Fund up 4.5% for the month

23.9% Returned 23.9% 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 April 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	4.5	2.4	66.6	23.2	23.9	20.4	14.9	15.6
S&P/ASX Emerging Comp. Accum	7.5	6.8	82.0	14.5	14.0	12.4	2.7	NA
Outperformance	**-3.0**	**-4.3**	**-15.4**	**8.7**	**9.9**	**8.0**	**12.2**	**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

April was a strong month for equities globally and the domestic micro-cap market was no exception, with the S&P/ASX Emerging Companies Accumulation Index rallying throughout the month before finishing up +7.5%. Bond markets stabilised following the release of benign inflation data and central banks in key markets continued to talk down the prospect of rate rises in the short to medium term. The low interest rate environment is clearly supportive of elevated stock valuations, particularly in long duration growth names, and markets across the globe responded positively to the data during the month. The OC Micro-Cap Fund posted a solid +4.5% gain in April, albeit behind the very strong Emerging Companies Index.

Sezzle Inc. (SZL, +30.8%), a US pioneer in 'Buy Now Pay Later' (BNPL) consumer credit services, rallied during the month following a volatile March quarter. The company's quarterly earnings update showed continued robust growth above the consensus of analyst forecasts for revenue and usage metrics. SZL also announced its intention for a dual listing in the USA, the home of its head office and a significant majority of its business. We continue to find the strong growth trajectory and potential international expansion options for SZL appealing and await further updates from the company on their progress with international and enterprise client trials.

Global document productivity and e-signing software company **Nitro Software (NTO, +27.5%)** recovered after a sell-off during the previous quarter which we discussed in the March quarterly update. The share price softness in the March 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 selldown by two cornerstone investors, Starfish Ventures and Battery Ventures, whose holdings 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 comfortably below the current share price around $3.00. Indeed, Starfish Ventures eventually sold down its holding at the end of April at $3.15. Operationally, NTO is performing well with its recent quarterly update highlighting 66% ARR growth (on the March 2020 quarter), which is ahead of the 46% implied by the company's 2021 guidance (which was reaffirmed). The quality of NTO's revenue was further enhanced with subscription revenue now comprising 61% of total revenue.

Eroad Limited (ERD, +29.3%) was up for the month after announcing a quarterly operational update and an enterprise customer win in Australia. ERD is a transportation technology services company which helps trucking transport companies, mainly in NZ and the US, manage truck fleets, improve safety and comply with various regulatory fuel tax regimes. The product comprises both vehicle-installed hardware and software as a service which generates very high quality recurring revenue with 95% customer retention. Given the impacts of the pandemic in the US, ERD delivered softer new subscriber growth in the December quarter which lowered the expectations of the market ahead of the March update. The March update, whilst still below pre-pandemic trading conditions, nevertheless demonstrated a recovery in new subscription growth. Furthermore, ERD reported the first sales of its new dashcam product which bodes well for ARPU growth, particularly in the Key US market. ERD also announced a large enterprise customer win in Australia which should assist in scaling ERD's nascent presence in Australia.

Rhipe (RHP, +26.9%), a distributor of cloud software throughout Asia and provider of services to global software companies, experienced a share price bounce at the start of the month on the announcement of the acquisition of cyber security distribution specialist, emt Distribution. The acquisition is expected to provide over 15% accretion to RHP earnings per share on a full year basis. Towards the end of the month, the RHP share price took a further leg up as the company increased its earnings guidance when providing a trading update. The update demonstrated ongoing growth despite COVID-19 related headwinds in many RHP's operating geographies and reflects what we believe to be the resilient nature of the business.

Telix Pharmaceuticals (TLX, -12.6%) took a breather during the month following exceptionally strong share price performance in the 12 months to 31 March 2021, which had seen the stock trade from $1.00 to $4.28 on the back of several key milestones being achieved and strategic partnerships cemented. Telix is a late-stage bio-technology company specialising in cancer imaging and treatment via molecular targeted radiation. It has a robust pipeline of near-term material opportunities in the growing field of radiopharmaceuticals and has attracted significant strategic interest including an investment from Hong Kong listed China Grand Pharmaceuticals and Healthcare Holdings who ultimately acquired ASX-listed radiational oncology business Sirtex Medical. We expect TLX to have strong news flow in the second half of CY20, with its most immediate opportunity expected to be the FDA and EU approval of its Illuccix® prostate cancer imaging product which represents a revenue opportunity in excess of $100m per annum and has several advantages over current radio imaging assets (ease of use, accuracy) and is currently used on an investigative/compassionate use basis with almost 10,000 patient doses sold in the US and EU in CY20. We regard the TLX management highly and believe the company has the potential to be a highly profitable business within three years.

Outlook

Inflation continued to be the topic de jour throughout April following the spike in treasury yields in the March quarter, which raised the prospect of interest rates potentially rising faster than our central bankers would have us believe. It is a polarising debate between the inflation doves and hawks with historical references of little use in predicting likely outcomes given that we are in unchartered waters given the quantum of fiscal and monetary stimulus unleashed by central banks and governments globally since the onset of COVID-19.

During the month new data from the Australian Bureau of Statistics (ABS) showed that the March quarter CPI rose just 1.1%, the lowest annual movement on record. Despite this historical data, the signs that inflationary pressures are building in the economy are growing louder with a raft of senior executives calling out rising input cost pressures at the well-attended (virtual) Macquarie Conference last week. These included the chief executives from Transurban, a toll-road operator, Reliance Worldwide Corporation, which produces plumbing fixtures and Domain Group, a real estate classifieds business. Even the Sage of Omaha, Warren Buffett called it out at the recent Berkshire Hathaway annual shareholders meeting, saying '[W]e are seeing very substantial inflation…People are raising prices and it is being accepted". Commodity prices too are rising with copper trading to a 10 year high in recent weeks and iron ore also at all-time highs.

The pivotal question, contemplated in the March quarterly, 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 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 under utilised and the risk of sustained inflation is therefore very low.

The RBA remains steadfast in its views that the economic dynamics at play with record low rates bringing about rising asset prices, higher household expenditure and incomes, lower unemployment, higher construction activity and greater consumption are all a part of a healthy recovery from a sharp economic downturn. That is, reflation and rising bond yields are to be expected at this juncture of the recovery and despite the economy being back to its pre-pandemic level of GDP, wage growth remains anaemic and core inflation remains less than half of where the RBA is targeting "despite the significantly better state of economic activity and employment".

The US Federal Reserve (the Fed) also continues to project near-zero interest rates at least through 2023 despite upgrading its US economic outlook with Chairman Jerome Powell recently noting 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.

Bond markets still seem to be supportive of the views of our central bankers with 10-year treasury yields relatively stable over recent weeks, with the US and Australia 10-year treasury yields still well below 2%. No doubt quantitative easing programs, whereby central banks have been actively buying five and ten-year government bonds to supress long-term rates, has kept the long-term rates somewhat artificially low. But financial markets participants, on balance, seem to still be betting that near term pricing pressures will be transitory in nature and that inflation is unlikely to be an issue given the remaining slack in the labour market and the absence of wages pressure.

At this juncture, we remain of the opinion that sustained inflation is unlikely 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.

At this point, the portfolio remains tilted toward companies that ought to be beneficiaries of a return to sustained economic growth, price pressures and higher yields, commonly referred to as 'reflation trades', with our tech and growth exposure having reduced materially over the past six months. That said, we still retain several high-quality growth exposures in the portfolio including NEXTDC and Nitro Software. As previously mentioned, we remain in uncharted waters from an economic perspective given the highly expansive fiscal and monetary programs in play globally. Should evidence of inflationary forces become more pervasive in the coming months this would necessitate us rotating even 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.

This week the Treasurer Josh Frydenberg hands down the Federal Budget which will confirm that the nations finances are in much better shape than contemplated a year ago, thanks largely to a steeper economic recovery than anticipated and a surging iron-ore price. Key areas of focus for the investment team on Tuesday night will be on the aged care sector given our holding in Japara Healthcare, with the treasurer already confirming that the government will commit over $10b to the sector over forward estimates, the childcare sector given our holding in Evolve Education Group with the government confirming a $1.7b package in the budget and Infrastructure, resources and energy funding, given our investment in MLG Oz Limited and GenusPlus group. We look forward to summarising the impacts of the Federal Budget on our portfolio at our next investor communication.

Top 5 holdings#

Company	ASX code
Adairs Limited	ADH
Booktopia Group	BKG
MNF Group Ltd	MNF
Monash IVF Group Ltd	MVF
Propel Funeral	PFP

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

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