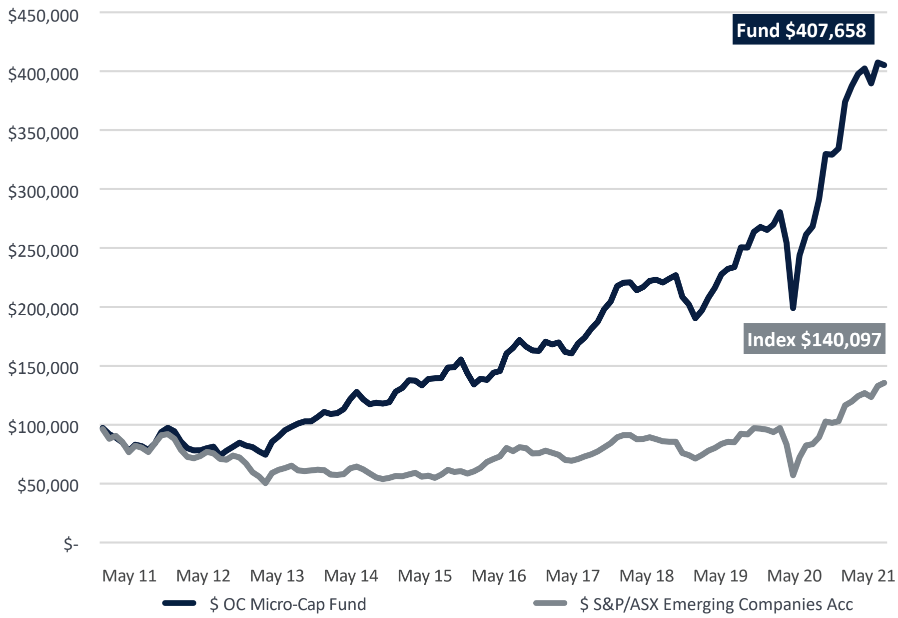
-0.5% Fund down -0.5% for the month

22.7% Returned 22.7% 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 31 May 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	-0.5	0.7	54.5	22.0	22.7	20.2	15.1	15.5
S&P/ASX Emerging Comp. Accum	2.0	6.7	63.3	14.7	13.6	12.8	3.4	NA
Outperformance	**-2.5**	**-6.0**	**-8.8**	**7.3**	**9.1**	**7.4**	**11.7**	**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 domestic small and micro-cap indices finished modestly higher in May, with the focus of markets still firmly on inflation and particularly on whether the inflationary outbreaks we are witnessing are structural or transitory and the broader implications for monetary policy.

The S&P/ASX Emerging Companies Accumulation Index was up +2.0% for the month, with strength in junior resource stocks and several early-stage biotechnology stocks underpinning a solid outperformance of the Index versus the OC Micro-Cap Fund (-0.5%) which has limited exposure to the more speculative end of the micro-cap stock universe. As investors we tend to be relatively risk averse which means we can underperform the Index in a 'risk-on' environment when the more speculative end of the micro-cap market is running hot. We find this part of the market opaque and therefore difficult to value and typically avoid it, other than for short term event driven trades. When the 'heat' comes out of the market, or there is a material pull-back, these speculative stocks tend to fall disproportionately. This risk averse approach goes some way to explaining why the OC Micro-Cap Fund has outperformed its Index in most quarters since the Fund became a pure micro-cap product in September 2016 (the Fund has outperformed the Index in 95% of all quarters since launch).

Fund holding **Lotus Resources (LOT, +48.2%)** had another strong month of share price performance with its shares now trading around 10 times the price of our initial investment less than two years ago (September 2019). Lotus owns 85% of the mothballed Kaylekera uranium project (previously owned and operated by Paladin (ASX:PDN)) with the balance of the project owned by the Malawian government. Historically Kaylekera has produced 11 million pounds of uranium which was widely accepted by conversion facilities in the US, Canada and France and only needs approximately $50m spend to refurbish the plant and restart operations. We continue to believe Kaylekera's low cost to recommence production, coupled with its near mine exploration opportunities (including prospective rare earth targets) make LOT an attractive proposition given the forecast improvement in Uranium pricing. Uranium is increasingly being accepted as a cheap, 'zero-carbon' source of base load power and the spot and term markets are seen as being in significant supply/demand imbalance as prices have been unsustainably low for much of the past 10 years. Whilst we believe LOT remains attractively priced against its peer group, we have been judiciously taking profits whilst maintaining a healthy portfolio position for the Fund.

Spirit Telecom (ST1, -23.7%) sold off on concerns around organic revenue growth after their recent market update. Management disclosed that revenue from January to April grew 8% when compared to the prior four months (which also benefited from a school infrastructure renewal project). ST1 believes that the most recent period from January to April encapsulated greater public holidays and hence is a quieter seasonal period for the ST1 managed services business. ST1 has evolved in recent years into a managed services provider and a reseller of telco and cyber security products to business customers from SMB to larger corporates and Government. ST1 has largely grown via acquisition with the strategy of bundling and cross-selling multiple products to their customer base in order to provide their customers with a sole IT and telco vendor.

ST1 also gave an update as to the integration process of its various acquisitions which appear to be on track. In particular, ST1 is decommissioning 35 of 45 systems across 13 acquisitions with the integration of only three companies outstanding by 30 June. We remain holders of ST1 and look forward to the next update post FY21 year end where ST1 should experience stronger SME trading conditions.

Propel Funeral Partners (PFP, +17.5%) rose sharply on the news that the company was going to internalise its management structure. The present external management structure was a deal breaker for some potential investors, although in reality it had resulted in low management costs in recent years given that COVID-19 related restrictions had supressed the death rate (paradoxically) and kept a lid on earnings and the share price. We believe the opportunity to internalise the management structure (at a relatively low cost) whilst the sector has been depressed by COVID-19 related issues is a sensible outcome for investors. The cleaner structure makes the business more directly comparable to industry stalwart **Invocare (IVC, -7.2%)** which trades at a premium valuation despite its slower growth rate in recent years. We continue to be attracted to PFP's growth prospects which ought to be driven by both acquisitions and the mean reversion of industry conditions as COVID-19 issues dissipate with the vaccine roll-out.

Gym owner and operator **Viva Leisure (VVA, -13.6%)** was down -13.6% for the month after the AFR reported on a legal dispute between VVA, as the franchisor of the Plus Fitness network, and a number of dissatisfied Plus Fitness franchisees. The dispute relates to the potential for competition between franchisee owned gyms and nearby VVA owned gyms. Given that the dispute pertains to the Plus Fitness franchisee network which generates only a relatively small proportion of VVA revenues the share price reaction was larger than expected. Furthermore, the focus of the roll out of further VVA corporate gyms is less likely to conflict with the predominantly NSW based Plus Fitness franchisees given VVA will likely open new gyms in Victoria and Queensland. Later in the month, VVA announced guidance for FY21 earnings which were broadly in line with market expectations. In particular, corporate owned gyms were growing members at mid-teens rate (%) with stronger margins experienced in high intensity group class format HIIT Republic. HIIT Republic enjoys nearly double the revenue per member than that of a 'big box' gym. Furthermore, better margins were achieved in the second half of FY21 with improving margin trajectory for FY22 which would be further improved by any acquisitions of mature gyms.

Outlook

Inflationary pressures and economic recovery remain the dominant focus across markets heading into the end of the financial year. The question of 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 is becoming more contentious, as signs of inflationary breakouts become more prevalent. Indeed, the US core Consumer Price Index (CPI) – which excludes the volatile food and energy prices – came in well ahead of economists' expectations at +3% in April, albeit off a low base at the beginning of the pandemic. The US core CPI increased +0.9% month on month (the largest increase since 1981) reflecting gains in nearly every major category and elevating concerns that the world's largest economy may start overheating. Additionally, the core personal consumption expenditures price index (PCE) increased +3.1% in April from a year earlier. Federal Reserve officials in the US consider the core PCE to be the best gauge of inflation as the index captures price movements across a variety of goods and services and is generally considered a wider ranging measure of inflation as it captures changes in consumer behaviour and has a broader scope than the Labor Department's CPI measure.

The US economy continued its ongoing economic recovery adding 559,000 jobs in May, double April's disappointing total, and the unemployment rate ticked down to 5.8% from 6.1%, according to data released by the Bureau of Labor Statistics at the start of this month. Half of all US residents have received their first dose of vaccination and confirmed coronavirus cases in the US have fallen to levels not seen since March 2020 in a further positive sign for an ongoing economic recovery. The US Federal Reserve is now forecasting CY21 GDP growth of +6.5%, up strongly from an earlier projection of +4.2% in December 2020. The US economy is being squeezed by bottlenecks in the supply chain, as manufacturers and suppliers try to ramp up production capacity to meet the new demand. Shortages, exacerbated by regional droughts in the US, have led to the rapid escalation in prices for products ranging from computer chips to lumber, plastics, grains and meat and poultry.

The Australian economy too continues to outperform expectations and has rebounded back to 2019 economic activity levels, being one of few developed economies to achieve this feat along with Singapore and South Korea. The unemployment rate continues to fall with the rate declining to 5.5% in April, with the feared 'JobKeeper Cliff' proving to be a non-event. In the monthly RBA board meeting statement, Governor Philip Lowe noted that "there are reports of labour shortages in some parts of the economy… and a further decline in the unemployment rate to around 5% is expected by the end of this year". From a Fund perspective, labour pressures have particularly been an issue over in the West with several listed companies calling out labour related challenges when tempering forward earnings expectations including Fortescue Metals Group, Perenti Global and Mineral Resources to name a few. In other areas of the economy, housing remains buoyant with the residential property market surging to new highs, underpinning a wealth effect whereby consumers feel more inclined to spend on areas such as new cars and in retail which is a clear positive for consumer confidence (ex-Victoria). Business investment is also robust, as is the construction sector with new dwelling activity showing ongoing sign of improvement.

The International Monetary Fund is now forecasting the world economy will expand by +6.0% in 2021, up from its +5.5% forecast in January as vaccines are rolled out and as advanced economies spend aggressively to counter the damage caused by the pandemic. Against a backdrop of strong global growth and emerging inflationary pressures, we remain focussed on the outlook for interest rates given that lower bond yields have been a key driver of multiple expansion across equity markets in recent years. The evidence in the bond market clearly suggests that Wall Street has made up its mind and the consensus view is that the rise in US inflation and other global inflationary pressures will be transitory. Indeed, the US 10-year Treasury Rate has actually fallen to 1.53% as at June 8, from 1.73% as at the end of April, and the consensus CPI forecasts from 48 of Wall Street's brightest and best economists on Bloomberg is equally clear-cut with the consensus inflation print in Q1 to Q4 of CY22 forecast to come in at a benign +2.2% in each quarter.

Investors have been closely watching economic data and comments from central bank officials for signs of runaway inflation and the possibility the central bank may begin to pull back on its massive stimulus measures. Specifically, we are watching for the start of the tapering cycle, as a return of inflation and economic growth prompts central banks globally to ease the emergency monetary policy measures that were introduced at the height of the pandemic last year. Some central banks, including the Bank of Canada have already begun to scale back their quantitative easing (QE) programs and there is a growing expectation in the market that the RBA will be one of the next to taper. Should this occur, it is likely to be a positive for financial stocks which the Fund is overweight and a negative for long duration growth stocks which we have reduced in recent months.

At its May board meeting the RBA reiterated its position that the cash rate is "unlikely" to rise "until 2024 at the earliest" but did open the door to tapering earlier by announcing they will make a decision at the July meeting on extending QE and shifting the maturity of the yield control curve (where it buys three-year bonds in order to keep benchmark borrowing rates low and help drive further employment growth) from the Apr-24 to the Nov-24 bond. The RBA said repeatedly that the conditions necessary for a rate rise was inflation "sustainably within the 2 to 3 per cent target range", and a labour market that was "tight enough to generate wages growth that is materially higher than it is currently". These conditions are still not present, and we therefore feel it is likely, on balance, that the RBA may defer any decision on tapering until later in the calendar year. Markets nonetheless are looking through the RBA's commentary and pricing in a much more optimistic view on economic growth by indicating that the cash rate is set to lift as soon as late next year. Bank bill futures in Australia now imply a cash rate of 1.1% by June 2024, which would equate to at least four 25 basis point rate hikes over this time horizon.

The recent coronavirus lockdown in Victoria has inflicted another bitter blow to struggling businesses and households in Victoria and we empathise with those suffering either financially and/or from a mental health perspective. Fortunately, it seems restrictions will be progressively lifted in time for the Queen's Birthday weekend, although not without a tremendous impact on many Victorians. It is a further reminder of the terrible human cost that COVID-19 has inflicted on many and the fragile nature of the recovery, until we can reach herd immunity.

June is a busy time for the OC Fund's team and despite the Victorian lockdown we have been extremely active in catching up with our Fund holdings ahead of the blackout period, before the August results period. Whilst we did not escape the May 'earnings confession' period unscathed, we remain confident that our portfolio is well positioned to report strong results in August and remain upbeat on the prospects of our holdings into the new financial year.

Top 5 holdings[#]

Company	ASX code
Booktopia Group Limited	BKG
Cedar Woods Properties Limited	CWP
MNF Group Ltd	MNF
Monash IVF Group Ltd	MVF
Propel Funeral Partners Limited	PFP

[#] 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.