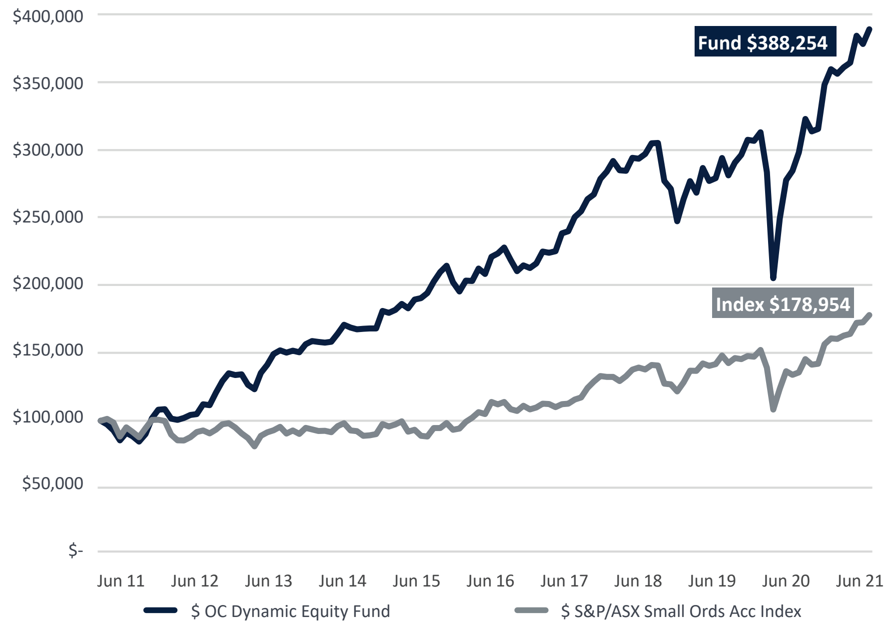
6.8% Fund up 6.8% for the quarter

14.6% Returned 14.6% 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 30 June 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 Dynamic	2.9	6.8	36.8	9.9	13.3	13.7	14.6	12.9
S&P/ASX Small Ords Accum	3.1	8.5	33.2	8.6	11.2	10.1	6.0	6.8
Outperformance	**-0.2**	**-1.7**	**3.5**	**1.3**	**2.1**	**3.6**	**8.6**	**6.1**
S&P/ASX Small Ind Accum	3.9	7.3	33.0	9.4	10.8	10.6	10.0	7.2
Outperformance	**-1.0**	**-0.5**	**3.8**	**0.4**	**2.5**	**3.1**	**4.6**	**5.7**

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

The OC Dynamic Equity Fund finished the June quarter up +6.8%, which was behind both the S&P/ASX Small Industrials Accumulation Index (+7.3%) and the S&P/ASX Small Ordinaries Accumulation Index (8.5%).
FY21 was in many ways an extraordinary year with markets casting aside monumental health and economic challenges brought about by COVID-19 to post equity returns which were nothing short of spectacular.
The S&P/ASX Small Ordinaries Accumulation Index rallied some +33.2% over FY21 and the S&P/ASX Small Industrials Accumulation Index was up +33.0%, which were the best returns from both indices in over a decade (since 2007).

The OC investment team had entered FY21 with a degree of trepidation with the COVID-19 health crisis in full swing across the globe and markets trading well off their nadir of late March 2020. The coordinated policy response to the pandemic from central banks and governments globally unleashed an unprecedented wave of stimulus that ultimately laid the foundations for a global economic recovery that is still gathering momentum as we enter the new financial year.

The OC investment team drew on 60+ years of investment experience to navigate the many challenges thrown at us in FY21 and we were pleased with the performance of our Funds over the year. The OC Dynamic Equity Fund returned +36.8% for FY21, which was comfortably ahead of both small cap indices for the year.

Much of the heavy lifting for the Fund was done following the outbreak of COVID-19 in Q4 FY20 when we abruptly repositioned the Fund away from global growth names which were under severe pressure at the time into a portfolio of stocks which was overweight structural beneficiaries of COVID-19 including e-commerce players such as Kogan.com and Redbubble, as well as opportunistic recapitalisation plays that had been oversold. It was this initial rotation that underpinned the strong returns for investors in the first half of FY21.

The release of the vaccine efficacy data in November 2020 by Pfizer/BioNTech and Moderna was the catalyst for another significant portfolio pivot by the investment team which significantly reshaped the make-up of our portfolio heading into the second half of the financial year. At this time, COVID-19 recovery trades replaced technology and e-commerce names as our preferred themes, and we continued to weight the portfolio into reflation beneficiaries and cyclical recovery stories over much of the balance of FY21. Significantly, our decision to retain a handful of preferred technology names including NextDC, Life360 and Nitro Software has more recently served our investors well as long bond yields have moderated and technology stocks have staged a recovery into the end of FY21.

In terms of Q4 FY21, **Mineral Resources (MIN, +41.3%)** finished the quarter near a record high with the iron ore price remaining at elevated levels and the outlook for the lithium market continuing to strengthen. The strength in the spot iron ore price, which remains above US$200 per tonne, is more than offsetting the labour shortages and supply chain issues which have led to minor production slippage during the quarter. At the same time the lithium market is heating up and the price of both spodumene and lithium hydroxide has moved materially higher. Whilst the MIN share price has moved sharply higher over FY21 (+153.8%), the stock remains a core portfolio holding for the Fund into the new financial year and we remain excited about three potential developments that could be short-to-medium term game changers for MIN and lead to a step-change in earnings and scale for the company. These include: a) the Ashburton iron ore project which has the potential to well over double MIN's current iron ore production over the next few years at a relatively low cash cost; b) Southwest Creek, where MIN is well positioned to gain access to two berths with a 50mtpa shipping allocation within Port Hedland which could be utilised for the 25mtpa Marillana iron ore opportunity, as well as 15mtpa from the Ophthalmia iron ore project, both of which are held in a 50/50 JV with Brockman Resources; and c) the conversion of all its spodumene production to higher value lithium hydroxide which, in addition to its Kemerton plant, could involve MIN building lithium hydroxide plants in China with its world class lithium JV partners Albemarle and Ganfeng. MIN has a very strong balance sheet and cash flow to fund these projects which could see MIN's iron ore production grow from 20mtpa to 90mtpa over the next 3 to 5 years and add significant value to its lithium operations. We expect material news flow from MIN in the coming months which could drive a further significant share price re-rating.

Uniti Group (UWL, +43.9%) had another strong quarter following a solid result in February and positive sentiment toward the telco fibre sector due to the Vocus Group takeover. At its result, UWL reported that the recently acquired OptiComm business was performing above expectations and that the business was well positioned for accelerated organic growth. We expect UWL will continue to expand its market share in 'last mile' fibre infrastructure through new exclusive greenfield deals with large developers given that Telstra is now enabled as a UWL reseller. The interest in the sector from investors also remains elevated given a number of recent transactions for telco infrastructure assets such as the takeover of Vocus by MIRA and Aware Super. In late June, Telstra also announced that a consortium of super funds agreed to purchase 49% of its mobile towers infrastructure business for 28x FY21 EV/EBITDA (after leases). The expanded UWL business, post the OptiComm acquisition, will be the most significant small cap telco fibre company listed on the ASX at a time when investors are starting to appreciate the value of fibre infrastructure assets.

The potential remains for the Vocus or Telstra towers bidder to also bid for UWL as Aware Super emerged as an underbidder for the OptiComm assets. Potentially any underbidder for the NBN may also assess a bid for UWL which in our view has a superior, yet smaller fibre footprint. We increased our exposure to UWL in December and January after the OptiComm acquisition had been finalised, wanting to maintain our exposure to fibre infrastructure. We remain comfortable with this position, with our growth expectations also revised upwards during the quarter.

Telix Pharmaceuticals (TLX, +42.3%) continued to be a standout performer for the Fund during the quarter on the back of further key milestones being achieved, including positive early-stage clinical outcomes across multiple indications, further strategic alliances and partnerships being cemented, positive feedback from regulatory bodies and key index inclusions including both the S&P/ASX 300 Index and the MSCI Global Small Cap Index. As a reminder 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 which is attracting far greater attention from investors and regulators alike and which received further validation in early June when competitor Novartis announced late-stage clinical trial success. During the quarter TLX announced some extremely positive clinical developments, as well as reporting a positive reception from the FDA at its scheduled Late Cycle Meeting regarding the ongoing review of the NDA for its prostate cancer PET tracer Illuccix. TLX announced that the FDA indicated that there were "no outstanding substantive review issues" with the submission. We expect TLX to have strong news flow in the second half of CY21, 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 continue to believe the company has the potential to be a highly profitable business within three years.

The Fund's listed automotive dealers continued to perform strongly during the June quarter with both **Autosports Group (ASG, +22.6%)** and **Eagers Automotive Group (APE, +18.4%)** releasing market updates that exceeded consensus expectations and driving further positive earnings revisions. Ongoing inventory shortages across vehicle manufacturers look likely to persist throughout much of FY22, with semi-conductor shortages globally remaining the key culprit with dealerships still reporting protracted wait times of up to 6 months. The supply challenges facing dealerships are being exacerbated for some brands, with OEMs in some instances prioritising larger right hand drive markets and leaving the Australian market very low on stock. Against this backdrop, new car sales continue to rebound strongly after a protracted downturn and used car prices are hitting record highs in response to vehicle shortages. This environment has enabled car dealers to generate significantly higher margins on car sales, notwithstanding the long lead times for consumers and shortage of stock may be constraining sales volumes. The outlook for the industry remains buoyant driven by high levels of consumer confidence, record low interest rates and a surging housing market which typically correlates strongly with new car sales. We had expected margins to begin to moderate in the second half of FY22, but supply bottlenecks look likely to persist through FY22 with the semi-conductor shortage not likely to resolve near-term, meaning that both ASG and APE ought to generate higher margins for longer than the market is currently anticipating.

Nitro Software (NTO, +33.6%) rallied over the quarter with the document productivity and e-signing company recovering from its March quarter sell-off. There were several positive catalysts for the stock during the quarter including clearing the overhang of the pre-listing cornerstone investors (Starfish Ventures and Battery Ventures), the reporting of a solid first quarter result, the reconfirmation of earnings guidance and the acquisition of smaller Apple focussed PDF tool, PDFpen.

As discussed in our April monthly update, Nitro's price had been sold off in March under pressure from a perceived stock overhang and the rotation away from tech companies as long bond yields in the US lifted. This allowed us to increase our stake in the company at a temporarily reduced price. The US$6m acquisition of PDFpen marks the first acquisition for the company since IPO and will serve to springboard the core NTO capability onto Apple operating systems including Mac and iOS, beyond the in-browser e-signing already offered by NTO. PDFpen also has potential to expand NTO tablet user offerings with support for Apple Pencil and other Bluetooth stylus devices. We believe NTO is well positioned for growth and continue to hold the stock across the suite of small and micro-cap funds.

Seven Group Holdings (SVW, -9.8%) was marked down following an eventful quarter that included an equity raising in mid-April, a production and reserves downgrade from 30% owned Beach Petroleum (BPT) in late April and finally a low-ball takeover bid, with a number of iterations, for construction materials company Boral which is now 29.5% owned by SVW. As a long-term shareholder we are well acquainted with the entrepreneurial flare of Executive Chairman Kerry Stokes and his son Ryan Stokes (MD and CEO of the group). But even by their standards it was a busy quarter with the Fund participating in the April capital raising which was purportedly to provide balance sheet flexibility to support growth opportunities. Typically, we avoid capital raisings for companies who do not have a sensibly articulated use for the funds being raised. But the SVW management team has a solid recent track record on capital allocation decisions including the purchase of the remainder of Coates Hire from the Carlyle Group, the sale of WesTrac China and the purchase of the initial 10% stake in Boral at an average price well below $3.50 and, as a result, we extended them our support. This made the production and reserves downgrade at 30% owned BPT less than two weeks later an even nastier surprise given its proximity to the capital raising and in view of SVW having two representatives on the BPT board.

In the back half of the quarter, attention has been focussed on SVW's strategy to gain control of Boral. Of late, SVW has utilised the 'creep provisions' of the Corporations Act and Boral's on market share buy-back to increase its stake in the turnaround play to ~29.5%. In mid-May, SVW announced an opportunistic off-market takeover offer for Boral at a price that effectively offered no premium for control. Whilst the bid was clearly going to be rebuffed by the Boral board and most shareholders, it was designed to allow SVW to move further up the register and gain greater control of the board by allowing it to appoint at least two directors. The bid was later sweetened with the consideration to a maximum of

$7.40 per share and the deadline extended to 7th July. This ought to enable SVW to secure 34.5% of the issued capital and therefore achieve its objective of securing additional board seats (Ryan Stokes is already a director). Whist SVW has had a tumultuous quarter and not everyone is enamoured with the company's unorthodox approach, we continue to believe that Kerry Stokes will continue to create shareholder value (indeed the initial investment in Boral has well over doubled already). The core Seven Group businesses, namely WesTrac and Coates Hire remain well positioned to grow earnings and the stock looks fundamentally undervalued.

Outlook

As we enter the new financial year, the inflation hawks have momentarily retreated and bond markets have calmed since early June as recent data prints have lent credence to the US Federal Reserve (the Fed) and Reserve Bank of Australia's (RBA) contention that the recent inflationary pressure will prove to be transitory in nature. Nevertheless, the trend of inflationary pressures and the likely speed of interest rate normalisation remains a contentious and polarising debate and one which is likely to continue to dominate economic discourse for some time to come.

The US core Consumer Price Index (CPI) – which excludes the volatile food and energy prices – came in well ahead of economists' expectations at +3.8% in May, albeit off a low base at the beginning of the pandemic. This is the highest since June 1992 and well above the central bank's target of 2%. Additionally, the core personal consumption expenditures price index (PCE), the US Fed's preferred inflation gauge, increased +3.4% in May from a year earlier. Nevertheless, many of the price pressures seem to have come about as a result of supply chain bottlenecks brought about by the pandemic as manufacturers and suppliers try to ramp up production capacity to meet 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. Fed officials see these factors abating in coming months and 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.

The global economy seems to be on a sustained pathway to recovery and the global rollout of COVID-19 vaccines has fuelled a wave of economic optimism 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. 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 US Federal Reserve in a major policy shift at their mid-June monetary policy meeting indicated that they would likely speed up the pace of policy tightening, opened talks on how to slow down (taper) the rate of bond buying program, and said that the COVID pandemic was no longer a core constraint on US commerce with the US economy now forecast to grow at a stunning 7% this year. Signalling that rates normalisation may happen sooner than expected, Fed officials moved their first projected rate increase from 2024 to 2023, with 13 of 18 policymakers projecting an increase in borrowing costs that year, and 11 seeing two 25 basis point rate increases. Seven of the Fed officials see rates moving higher next year, opening the possibility of even more aggressive tightening in the US.

The RBA has remained steadfast in its position that the cash rate is "unlikely" to rise "until 2024 at the earliest" but has opened 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 were 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 the RBA may therefore defer any decision on tapering from the July meeting 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.

Although the global economy remains on the pathway to recovery and the vaccine rollout is gathering space in most developed countries, much of Australia has once again been plunged into lock-down with up to 12 million people currently behind closed borders or in city lockdowns which extend across four states. Having weathered the initial COVID-19 onslaught and successfully rebooted the economy, it seems our state governments are once again pursuing an elimination strategy in part driven by fear of the more infectious Delta variant, but also due to an underperforming national vaccine rollout which is lagging significantly behind other developed nations. With major Federal support programs such as JobKeeper having ended and other COVID-19 offsets such as rental and interest holidays now a thing of the past, we can only hope that the current wave of lockdowns end abruptly, or the economic and mental health damage inflicted on the vulnerable will be severe.

In such an environment it can be difficult to position a stock portfolio with 'lockdown' and 'reopening' beneficiaries whipping around at the whim of the national and global COVID-19 tally. As investment managers, we look through the 'noise' of the media and near-termism and structure the portfolio with quality stocks that we believe will perform strongly over the next 12 to 24 months. The OC 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'. We have also added to holdings in sectors such as financials and cyclical areas of the economy that are levered toward an ongoing economic recovery as the vaccine is progressively rolled-out globally. That said, we still retain several high-quality growth exposures in the portfolio including **NEXTDC**, **Life360** and **Nitro Software** all of which have been strong performers over the past month as bond yields have moderated and tech stocks rebounded.

We have now entered the 'black-out' period between the end of June and the August reporting season. Most companies will cease communication with investors around operational performance until they report and corporate activity including IPOs and secondary market placements will likely moderate significantly. As such, limited stock-specific news is typically released in the month of July. July is likely to provide some welcome respite from company meetings for the investment team after a very busy period since the start of the COVID-19 pandemic and several team members are taking long overdue breaks. We would like to thank our investors for their support and encouragement over the past financial year and we remain committed as ever to continue to work diligently to deliver strong returns for you all in the coming years.

Top 5 holdings#

Company	ASX code
Bapcor Limited	BAP
Eagers Automotive	APE
Mineral Resources	MIN
Sealink Travel Grp	SLK
Steadfast Group Ltd	SDF

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 soft-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.
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Past performance is not a reliable indicator of future performance. Positive returns, which the OC Dynamic Equity Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns. Total returns are calculated after taking into account performance fees. Where OC Funds Management generates a return on the OC Dynamic Equity Fund over and above the performance hurdle of 15% in any financial year, a performance fee of 20.5% of all profits above this level is charged to the Fund directly. 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 appropriateness of the information to 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 Dynamic Equity Fund (ARSN 098 644 681). A current PDS is available from Copia located at Level 25, 360 Collins Street, Melbourne Vic 3000, by visiting ocfunds.copiapartners. com.au or by calling 1800 442 129 (free call). A person should consider the PDS before deciding whether to acquire or continue to hold an interest in the Fund. Any opinions or recommendation contained in this document are subject to change without notice and Copia is under no obligation to update or keep any information contained in this document current.