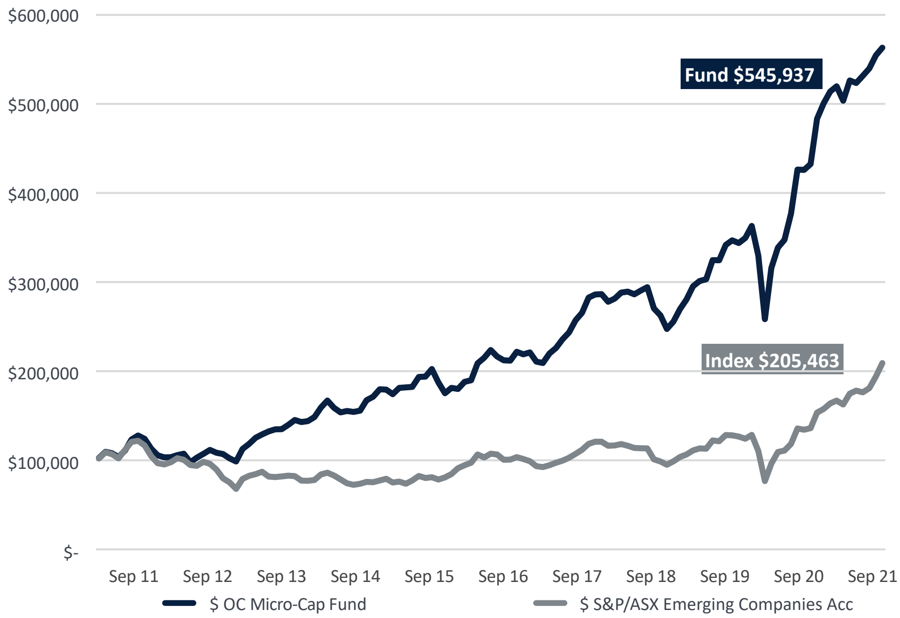
5.9% Fund up 5.9% for the quarter

20.3% Returned 20.3% 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 September 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	1.5	5.9	32.2	24.1	20.3	19.8	18.5	15.7
S&P/ASX Emerging Comp. Accum	7.7	18.8	55.9	22.7	14.3	14.2	7.5	NA
Outperformance	**-6.2**	**-12.8**	**-23.7**	**1.4**	**5.9**	**5.6**	**11.1**	**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 had a solid quarter from an absolute return perspective returning investors +5.9%. It was however left behind by the very strong performance of the S&P/ASX Emerging Companies Accumulation Index which returned an impressive +18.8% for the quarter. Prima facie this is a disappointing relative return for investors. But if we examine the actual drivers of the Index outperformance in the context of the OC investment process, we remain satisfied that the strategy continues to generate investors strong risk adjusted returns.

Over the quarter a number unprofitable resource and biotechnology stocks with market capitalisations above $500m at the start of the quarter staged remarkable rallies which drove the strong Index return. To illustrate, the top five performing stocks in the micro-cap index during the quarter were: **Liontown Resource (LTR, +91.0%)**, **Paladin Energy (PDN, +34.0%)**, **Vulcan Energy Resources (VUL, +69.2%)**, **Ioneer Resources (INR, +80.0%)**, **Imugene Limited (IMU, +35.2%)**. None of these stocks will generate a profit in FY22 and all have market capitalisations well above $1b, despite being in the micro-cap index until the Index rebalance towards the end of September. Investors will be aware that our micro-cap mandate prevents us from investing in stocks with a market capitalisation above $500m (when we first invest). Further our focus on capital preservation and risk management leads us to exclude most unprofitable biotechnology and resources stocks from the portfolio, other than for short-term 'event driven' trades. Consequently, there will be times when these sectors are 'hot' and speculative stocks perform well and we will consequently underperform the Index. The September quarter was such an instance.

We remain comfortable with the short and long-term returns we are generating for our investors and we do not plan on changing our investment process to enable us to invest in more speculative opportunities.

Readytech Holdings (RDY, +45.4%) was up for the quarter after gaining more attention from the market, on the back of an inline result for FY21 combined with robust guidance for FY22. RDY reported 15% organic revenue growth in FY21 driven by new business wins across all key divisions. RDY also unveiled a medium-term revenue target of $125M by FY26 based on organic revenue growth. Furthermore, RDY announced the small bolt-on acquisition of a specialist enterprise student management software business, Avaxa. RDY is a provider of mission-critical software as a service for the education, workforce management, government and justice sectors. The Fund acquired its holding in RDY at a capital raise in November 2020 when the company acquired government and justice software provider Open Office from Pemba Capital. We had followed RDY since it was listed by former private equity owner Pemba Capital, via an IPO in 2019. RDY had largely executed to plan, yet has traded below peer valuations due to the history of private equity ownership, perceived stock overhang and the stigma attached to the Open Office acquisition (which was a portfolio company of Pemba, which still holds a material interest in RDY). Our thesis has been that the stock should re-rate if management can deliver clean results and organic growth and we are pleased to report that we are beginning to see this play out.

Over the quarter, the market was heartened by the rapid acceleration in the take up of COVID-19 vaccinations which has resulted in a greater clarity around the timeframe for the return of normal trading for many businesses affected by lockdowns. Two key beneficiaries of the accelerated vaccination take up in the micro-cap portfolio have been Viva Leisure and Helloworld Travel.

Gym business **Viva Leisure (VVA, +42.7%)** was up after vaccination rates have enabled governments to chart a pathway out of recent lockdowns which have dampened the short-term operational performance of the network. Given that VVA was founded in Canberra and opened its first Club Lime at CISAC in Belconnen in 2004, the network began and built up a large base of members in Canberra before beginning to expand into NSW, Victoria and QLD. As such, the recent lockdown in Victoria, NSW and the ACT had a large impact on VVA cashflow which necessitated a A$11.7M placement in late August in which we participated. A stronger balance sheet will facilitate a return to normalised trading by the end of 1H22 which will enable gym visitation, membership numbers and margins to recover. VVA also has also announced that it has agreed terms for the acquisition of 14 clubs which are likely to be finalised when VVA is back to normal trading.

The strong take up of vaccinations also helped the share price of **Helloworld Travel (HLO, +53.3%)** over the quarter. Accelerated vaccination adoption has allowed various levels of government to provide pathways out of lockdown, with the Prime Minister announcing that states and territories will be able to reopen to international travel once 80% of eligible residents are vaccinated. Flights to the UK, the US, Japan, Singapore, Canada and Fiji have been flagged as some of the first countries where routes will be serviced. Qantas has confirmed that Australia to London flights will resume from as early as November, albeit transiting via Darwin rather than the usual stop overs in Perth and Singapore. The HLO network will benefit from improvements in travel volumes, particularly international flights, having previously aggregated over $6.5B in travel transaction value in FY19. HLO is the franchisor to a network of over 2000 retail travel agents in addition to operating wholesale, inbound and corporate travel businesses.

US centric buy-now-pay-later (BNPL) stock **Sezzle (SZL, -35.0%)** saw a significant share price decline over the quarter. The company announced continued growth in all key metrics, however this unfortunately included the provision for uncollectable accounts which saw a sharp rise in the June quarter to 3.4%. The provision was impacted by additional friction created by non-integrated offerings including testing with large enterprise merchants and the fallout from COVID-19 with the end to stimulus in key US markets. At the same time, there has been increasing noise from other overseas entrants into the BNPL battlefield including the acquisition of **Afterpay (APT, +2.7%)** by US based payments provider Square, Amazon entering a partnership with Affirm and **Zip Co (Z1P, -6.7%)** acquiring a stake in Indian BNPL provider ZestMoney (with India also being a target market for SZL). Aside from the mixed operational metrics, the SZL share price has seen some impact from the heavy investor rotation from high growth stocks into lower multiple cyclical and value stocks due to a rising outlook for bond prices, a topic covered later in the outlook section. While we were disappointed by the performance of SZL during the month, we have retained our position which was rewarded in recent days with the stock rallying as major US retailer Target has been promoting (via social media) SZL as a payment option. It appears SZL has emerged from a trial with the retail powerhouse as the only BNPL provider offering an interest free pay in four instalments product for Target customers.

Pivotal Systems (PVS, -28.1%) delivered a strong half year result in August (indeed, comfortably ahead of market expectation) but its cautionary statements around potential supply chain issues in the coming fourth quarter gave some holders pause for thought around their broader PVS investment thesis. We remain comfortable PVS is emerging as the leading proponent of gas flow monitoring and control technology equipment for the global semiconductor industry. It has become abundantly clear in the last 12 months how reliant the global economy has become on the ubiquitous semi-conductor and the demand for PVS's products, which are critical in driving production efficiencies in the sector, should only increase as PVS continues to qualify its devices across the big three semi-conductor manufacturers (Intel, TSMC, Samsung) and the leading OEM's (Lam Research, Applied Materials and Tokyo Electron). At these share price levels, PVS is trading on an undemanding EV/EBITDA multiple for a high growth tech-facing company and should potential supply chain issues be managed effectively, as we understand they are currently being, then PVS potentially represents outstanding value. PVS is around cash flow breakeven and remains a key concept stock in our portfolio with near-medium term catalysts including a Nasdaq dual-listing and migration of its core technology into adjacent sectors including battery materials and med-tech.

Outlook

Equity markets have become more volatile recently and we are carefully watching several key developments which could impact on equity markets going forward. These include the China Evergrande debt crisis, global supply chain bottlenecks which are leading to inventory shortages for some businesses, inflationary trends and their impact on bond yield and interest rate expectations, as well as the trajectory of the global recovery as vaccination levels globally hit key government thresholds and economies re-open. We are cognisant of these risks and will discuss some in more detail below.

The collapse of China's second largest property developer Evergrande has exposed vulnerabilities in the Chinese financial system and led to concerns about contagion extending well beyond the heavily indebted and over-developed property sector in China. The question that remains is how much of the Chinese economy will it impact, and whether its fate is a symptom of much bigger problems. China is Australia's largest trading partner and everything from the health of the federal budget (mostly via the price of iron ore) to Australia's capacity to pay for the pandemic economic stimulus package depends on the health of China's economy. Our own Reserve Bank of Australia (RBA) articulated the delicate balancing act facing the Chinese Government with regards to a bailout of Evergrande in its October Financial Stability Review: *"If they act too quickly in addressing these vulnerabilities, confidence in the implicit guarantees that underpin much of China's financial system could collapse, which would lead to financial distress. In contrast, if they act too slowly, the probability of more severe financial stress in the future will increase. Continued bailouts also risk further entrenching perceptions of implicit guarantees"*.

As China's Golden Week holiday draws to a close, thus far there's been little clarity from regulators on the approach they will take with Evergrande, although there are rumours of potential bailouts from both the government itself and other private enterprises. Clearly, we are monitoring the situation closely as the stakes for Australia are high, as well as for the broader global economy. We feel the most likely outcome is that the central government will make further moves to ring-fence the problem and limit a collapse that would trigger wider stress across the financial system.

At the company coalface, the most vexing operational issue that we are hearing about from our stock universe relates to supply chain and logistics challenges, mostly brought about by COVID-19 related dislocations. Many companies are reporting lengthy delays in sourcing inventory, predominately out of Asia, and are also experiencing rapid increases in container freight costs. Over the August reporting season, delays, shortages and rising costs in the supply chain were called out by most retailers, as well as other companies in the resources and industrial sectors. Some companies are starting to respond to these inflationary pressures by implanting price rises which has broader implications for the economy. Just last week Fund holding **Baby Bunting (BBN, +0.4%)** warned at its AGM that supply chain constraints, industrial shutdowns in China caused by fresh COVID-19 outbreaks and the continued acceleration of shipping and container costs had ratcheted up the cost of goods for the baby goods retailer. To date, BBN has managed the issues well due to strong supplier and freight forwarder relationships and has resisted passing these costs onto consumers. But this is an area we are monitoring vigilantly across our stock universe as we expect that it will begin to impact the profitability of some small cap companies in the coming months.

In recent weeks bond yields have continued to ratchet up in both Australian and the US with the 10-year bond yield reaching 1.7% and 1.6% respectively. This is the highest level since mid-June and comes amid concerns over rising inflation due to a surge in energy prices and supply bottlenecks, as well as prospects of monetary policy tightening by central banks across the globe. Until recently, these inflationary pressures have largely been dismissed as being transitory, especially by key central banks including the RBA and the US Federal Reserve (the 'Fed'). But the evidence is starting to mount of a broader and more persistent issue. The Reserve Bank of New Zealand has moved ahead of the pack and raised rates last week and signalled further tightening to come, as it looked to curb inflationary pressures and cool the red-hot property market. The rate hike puts New Zealand ahead of most other developed nations, although countries including South Korea, Norway and the Czech Republic have already raised rates.

Anecdotally, we have been hearing of companies not only receiving price rises from their suppliers who are blaming supply disruptions and labour shortages, but more recently some companies are starting to pass on these price rises to their customers or are planning to do so.

In response to signs of inflationary pressures becoming more persistent, both the RBA and the Fed have turned more hawkish in recent weeks and have signalled a faster and earlier tapering of asset purchases. Both, however, have reaffirmed their commitment to keep rates on hold for a protracted period. To date, this has largely appeased market participants, although we are seeing signs that this may not last much longer. Movements in treasury markets more recently suggest that markets are starting to price in interest rate rises ahead of the RBA and the Fed's stated timeframes. OC Funds has responded in its portfolio positioning and has reduced its exposure to long duration growth assets that are sensitive to movements in 10-year treasury yields, instead we are now putting more focus on inflation beneficiaries.

Inflationary pressures aside, the global economic recovery looks to be largely on track and many economies are re-opening and opening their borders, albeit with stringent travel and quarantine restrictions, as vaccination levels hit government targets. Australia's vaccination levels have accelerated materially, a key factor no doubt being the promise of re-opening when certain thresholds are reached and also the threat of severe curtailment in liberties and privileges for those who refuse to be vaccinated. More than 80% of Australian adults have now been vaccinated at least once, with Victoria passing 85% and NSW 90%. Contrary to earlier expectations, Australia has turned out to be a pro-vaccine country with the potential to reach 90% vaccination levels nationally which will have strong positive implications for our health system and our ability to live with COVID-19 going forward.

With reporting season in the rear-view mirror and with markets still supportive on new equity issuance, IPO activity has surged back to life with a vengeance. Our Funds are at scale and our reputation and investment banking relationships are such that we are increasingly invited into IPO processes at the early Non-Deal Roadshow (NDR) stage. During NDR soundings, a select few funds are typically shown the potential IPO opportunity under a non-disclosure agreement and asked to give feedback on the deal, including offering guidance around the pricing of the IPO. Being involved in the NDR is often a precursor to becoming a 'cornerstone shareholder' whereby select prospective institutional investors can take a meaningful stake in the IPO before it is offered to the broader market, including other fund managers. The bankers do this to lock in some quality shareholders in a meaningful way which gives them the currency to promote the IPO to other fund managers and retail investors, as well de-risking the deal from an underwriting perspective.

As part of the NDR process, we get extensive exposure to the management of the prospective listing and we are frequently offered an opportunity to reach out to customers and suppliers of that company and conduct site visits. This is an important part of our due diligence process. Not all these proposed IPOs will make it onto the ASX, nor will the Funds ultimately decide to invest in all opportunities reviewed. Nevertheless, the opportunity to be heavily engaged early in the IPO process gives us the chance to put our 'best foot forward' in terms of securing a meaningful allocation in the better IPO candidates. Importantly, these deals have not yet been efficiently priced by the listed market which gives us the potential of adding meaningful alpha if we do our job well and the company subsequently lists on the ASX at a premium to the offer price.

We are currently engaged in processes for multiple micro-cap IPOs including innovative underwear brand Step One, NZ telco Orcon Group (although this process has been paused after multiple meetings as the company explores a merger with another telco), Autopact a multi-brand national automotive dealership network and Fettle, a WA based gym business. To date, the quality of the micro-cap deals has been varied, and we have passed on several, although Step One will be joining the portfolio shortly. The devil is always in the detail in IPOs and ultimately the IPO pricing will help to determine whether we bid and become shareholders, or in most instances, pass on the deal. We look forward to discussing some of these deals in greater detail with our investors in upcoming investor communications.

Top 5 holdings#

Company	ASX code
Adairs Limited	ADH
Booktopia Group	BKG
Cedar Woods	CWP
Monash IVF Group Ltd	MVF
Viva Leisure Limited	VVA

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
Jude Fernandez	Distribution Manager	0414 604 772 | jfernandez@copiapartners.com.au
Sam Harris	Distribution Manager	0429 982 159 | sharris@copiapartners.com.au
Greg Black	Distribution Manager	0407 063 433 | gblack@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.