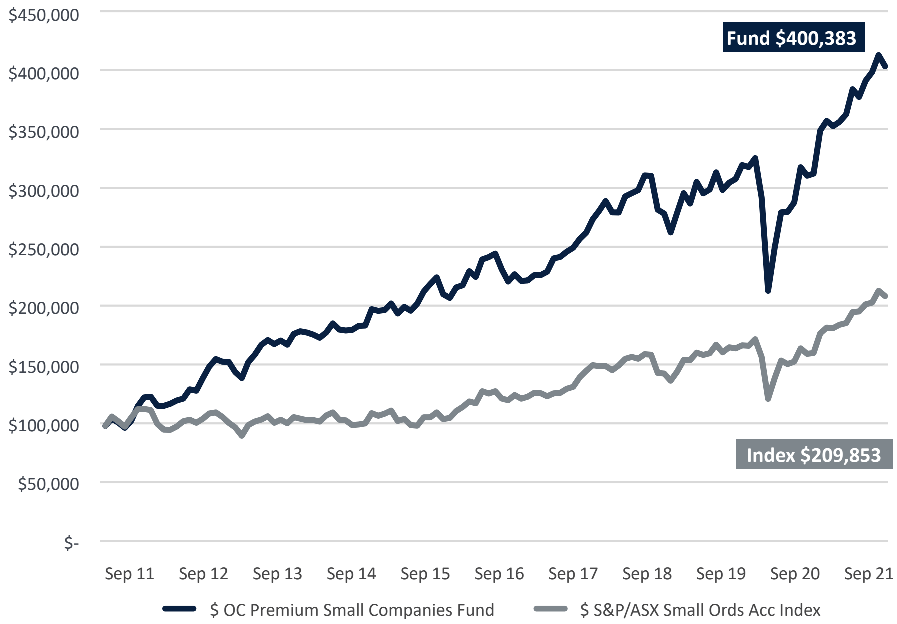
3.1% Fund up 3.1% for the quarter

14.9% Returned 14.9% 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 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. (Dec 2000)
OC Premium	-2.3	3.1	29.6	9.1	10.4	12.1	14.9	11.5
S&P/ASX Small Ords Accum	-2.1	3.4	30.4	9.4	10.2	10.4	7.7	6.8
Outperformance	**-0.1**	**-0.4**	**-0.8**	**-0.4**	**0.3**	**1.7**	**7.2**	**4.7**
S&P/ASX Small Ind Accum	-1.3	3.8	29.1	9.5	9.8	10.5	11.6	7.2
Outperformance	**-1.0**	**-0.7**	**0.5**	**-0.5**	**0.6**	**1.6**	**3.3**	**4.4**

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 cap market enjoyed a solid September quarter, shrugging off concerns about supply chain bottlenecks, rising freight costs, rising energy costs and other inflationary pressures, as well as fears of financial contagion around the China Evergrande debt crisis to grind higher over the quarter. The S&P/ASX Small Ordinaries Accumulation Index finished the quarter up +3.4% and the S&P/ASX Small Industrials Accumulation Index was up +3.8% both of which shaded the OC Premium Small Companies Fund which rose +3.1% for the quarter.

During the quarter, optimism about the reopening of the Sydney and Melbourne economies and the reopening of major global economies was a key catalyst for the domestic small-cap market. Re-opening beneficiaries delivered handsome returns for investors during the quarter, with a basket of 're-opening' stocks tracked by JPMorgan having outperformed the ASX300 Index by a staggering 20.41% since 19 August when the nation crossed the threshold of 50% of the population having received one vaccination. In the domestic small-cap space, the rush of money into re-opening beneficiaries is perhaps best illustrated by the outstanding performance of travel stocks, in particular Flight Centre, Webjet Limited and Helloworld Travel Limited which are up 63.2%, 32.2% and 94.1% respectively since 19 August. Both Flight Centre and Webjet now have enterprises valuations above the levels they were at the beginning of the COVID-19 pandemic, despite still having significant ongoing operational challenges predominately relating to the complications of travelling in a COVID-19 world. Whilst the Fund has benefited from the 'reopening trade' via exposures such as IDP Education and Life 360, we are cautious that the popularity of this broad thematic has pushed the share prices of some companies too hard and too fast, with the road to normalcy in a post COVID-19 world still playing out.

Battery metals stocks were also strong performers in the small-cap index during the quarter. The S&P/ASX Small Ordinaries Accumulation Index's two largest stocks by index weight, lithium miners **Pilbara Minerals (PLS, +41.4%)** and **Orocobre Limited (ORE, +34.3%)**, proved to be a significant headwind to the Funds index relative performance during the quarter. PLS and ORE are both screened out of our investment universe and not investible by the Fund as they are single commodity stocks which we consider to be inherently risky and tend to be volatile due to their exposure to the commodity cycle.

From a Fund perspective **IDP Education (IEL, + 39.0%)** was a stand-out performer during the quarter, in part driven by the strategically sensible and EPS accretive acquisition of the India IELTS business from British Council in early July, but no doubt accelerated by the market rotation into stocks that stand to benefit from a global reopening as international travel resumes. IEL is an international provider of student placements and a co-owner of IELTS, an international standardised test of English language proficiency which is widely accepted across the globe. IEL has endured a challenging past 18 months with COVID-19 weighing heavily on student placement numbers globally and greatly diminishing the need for IELTS testing as lockdowns have shut international borders and stalled student mobility.

A challenging industry backdrop did nevertheless provide the opportunity for IEL to make the highly complementary acquisition of the British Council Indian IELTS testing business from a cash strapped British Council. Currently IEL and British Council both administer IELTS testing in India operating parallel pan-Indian distribution networks, but IEL will become the sole distributor of IELTS in India following the completion of the transaction. There ought to be material benefits from combining and simplifying the operations with estimated run-rate synergies of $6m-$8m per annum expected to be delivered within 24 months of completion of the acquisition. The Indian IELTS market was growing at +20% per annum from CY10 through to CY19 (prior to the onset of COVID-19) and the structural drivers for high growth remain once the pandemic passes given the relatively young demographic, a high propensity to study abroad and good levels of demand for migration to English speaking countries. The transaction with British Council appears to be financially compelling for IEL being ~13% EPS accretive (pre synergies) on a pro forma CY19 basis (reflecting the 12 months prior to the impact of COVID-19) and as much as 25% accretive should the expected synergies be realised. No doubt the IEL business has faced its share of challenges brought about by COVID-19, but the business has a very strong strategic position, a well-regarded management team and a balance sheet well positioned to sustain strong medium term-growth once the world normalises post the COVID-19 pandemic.

Global multi-boutique asset management business **Pacific Current Group (PAC, +32.2%)** rallied consistently throughout the quarter buoyed partially by robust market conditions and a solid FY21 earnings result, but predominately driven by growing market enthusiasm for the impending IPO of the star manager in the PAC stable, GQG Partners. As discussed in the August Monthly Review, GQG is a global asset manager founded and led by renowned portfolio manager Rajiv Jain. Since its foundation in 2016, GQG has enjoyed spectacular growth in funds under management as well as exceptional investment performance and the company now manages approximately US$86b across global equities, US equities, international equities, and emerging market equities. PAC originally invested US $2.7m in GQG Partners to help launch the business in 2016 in return for what is now a 5% equity stake in the business. Former PAC Managing Director Tim Carver left PAC to be the founding GQG Partners Managing Director, and the current PAC Managing Director Paul Greenwood is a non-executor director on the GQG board of directors which illustrates the close ties between the two businesses.

OC Funds has been involved in the cornerstone shareholder meetings for the GQG Partners IPO with the business set to list on the ASX later this month and we are well acquainted with the high-quality global manager. Whilst final pricing is yet to be determined, the businesses is being indicatively valued for the purposes of the IPO bookbuild at a market capitalisation of approximately $5.9b to $6.5b. This will essentially value the PAC stake in GQG Partners at the IPO at +$300m, versus a total market capitalisation for the PAC business of ~$380m at the end of the September. Whilst there will be some tax to be paid and PAC is selling just 1% of its 5% stake into the IPO, we believe that the market is still mispricing the value of the GQG Partners stake to PAC, and we expect the PAC share price will continue to rally into the GQG IPO later in October.

Australian Clinical Labs (ACL, +32.9%) performed strongly over the quarter with the company presiding over a strong FY21 result and also delivering two further upgrades to prospectus earnings guidance. While the strong results have been primarily driven by increased COVID-19 testing volumes, the company also pointed to margin benefits from scale and operating leverage, and the delivery of growth in non-COVID-19 related revenues. In addition to the forecast NPAT for 1H22 being +178-206% above prospectus, it remains conservatively framed with the upgrade only reflecting actual trading experience up to September and a sharp decline back to prospectus levels for November and December which in our view seems very unlikely. In contrast to this huge outperformance, the share price today is less than 9% above the May 2021 IPO price. Although COVID-19 related testing volumes will retreat over time from the August peak, testing will be required for the foreseeable future for travel and potentially for several other settings. In the United Kingdom, where the re-opening has already occurred, testing remains at volumes similar to pre re-opening levels and only 30% lower than the peak testing volumes that country experienced in March 2021. In addition, tests for travel tend to be charged at a higher rate than those funded by Medicare so the impact of the reduction in revenue from lower testing volumes should be somewhat cushioned. Lateral flow rapid antigen testing has been called out by some market participants as a potential threat to future volumes. Rapid tests however are less accurate, do not provide the chain of custody or reporting to the government and presently attract no government funding making them less appealing in most situations. We expect, like in the UK and the US, these rapid antigen tests will prove useful for a number of new applications where a quick result is essential, but they will not replace the PCR testing. We remain holders of ACL and look forward to potential acquisitions, funded in part by the gains from the prospectus beat with the balance sheet now in a very strong position.

The September quarter saw strong performances from some of our agriculture exposed holdings, **Select Harvests (SHV, +22.8%)** and **GrainCorp (GNC, +24.4%)**. While both businesses have benefited from higher rainfall in Australia this year, the drivers of their share prices are more varied. SHV put out two crop and market updates during the quarter, confirming the increased crop size and improved quality of the crop as well as noting the increase in the international almond price. California is the largest exporter of almonds and the ongoing severe drought in the state has impacted growing conditions which were reflected in the recent US Objective Crop Estimate. The lower than previously expected US crop estimate has had a marked impact on almond pricing and SHV shares rallied as a result. Similarly, GNC reported another upgrade to guidance during the quarter. The continued strong seasonal conditions led the company to guide to significantly increased earnings and point to the higher end of prior upgraded receivals and carry out inventories guidance which will put the company in a strong position for the following FY22. While strong seasonal conditions (and perversely weak conditions overseas) have led to some great present conditions for both SHV and GNC, we took advantage of the share price strength to substantially exit these positions. Markets are forward looking and while conditions may be perfect now, with no signs of adverse change, weather patterns do revert to trend over time. It is likely that when the first signs arise of the outlook for these agriculturally dependent businesses being less favourable than the current exceptional conditions, the equity market will be swift to price in the anticipated decline in their fortunes, as we have seen in the past.

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.

Mineral Resources (MIN, -13.3%) is a company that we have written plenty about in recent years, predominately for positive reasons with the management team proven money makers over a sustained period. That said, the company has endured a challenging past two months with the full year result falling just short of lofty market expectations, notwithstanding the underlying FY21 EBITDA being up +148% year-on-year, and the iron ore price falling precipitously of late which has impacted the near-term earnings outlook for the business. No one, including OC Funds, expected the iron ore price to hold the recent stratospheric highs of over US$200 per tonne but the speed of the recent declines has spooked the market with the spot price of 62% grade iron ore trading below US$100 per tonne in September before settling at its current level around US$116 per tonne. A confluence of events has led to the steep falls in the iron price; firstly, measures taken by the Chinese government to rein in steel output and swirling rumours around potential production curbs later in the year to reduce air pollution ahead of the Winter Olympics in February 2022 and, secondly, the debt crisis around Chinese development behemoth Evergrande Group which will likely reduce development activity and therefore dampen iron ore demand in China.

Whist the steep recent falls are undoubtedly a negative, we are more frustrated by ongoing delays and lack of news flow around several potentially game changing projects for MIN which ought to 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 more than 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 a material shipping allocation and potential low cost rail access 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. Updates on these projects have been frustratingly slow, although they are complex deals which involve multiple large-scale international and domestic counterparties as well as government authorities who set their own timelines. Sometimes we need to step back and assess whether our investment thesis is broken. But in this instance, we believe that the delays whilst frustrating are understandable and warrant patience. The potential upside to shareholders in the long-term continues to outweigh any near-term challenges for MIN and it remains a key portfolio holding.

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 cornerstone processes for multiple $1b plus IPOs including global fund manager GQG Partners, hotel e-commerce platform SiteMinder, challenger SME lender Judo Bank and workplace services business APM Group. To date we have been pleasantly surprised by the quality of these businesses and their management teams. That said, the devil is always in the detail 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
Eagers Automotive	APE
IDP Education Ltd	IEL
Mineral Resources	MIN
Steadfast Group	SDF
Uniti Group Ltd	UWL

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 hard-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.