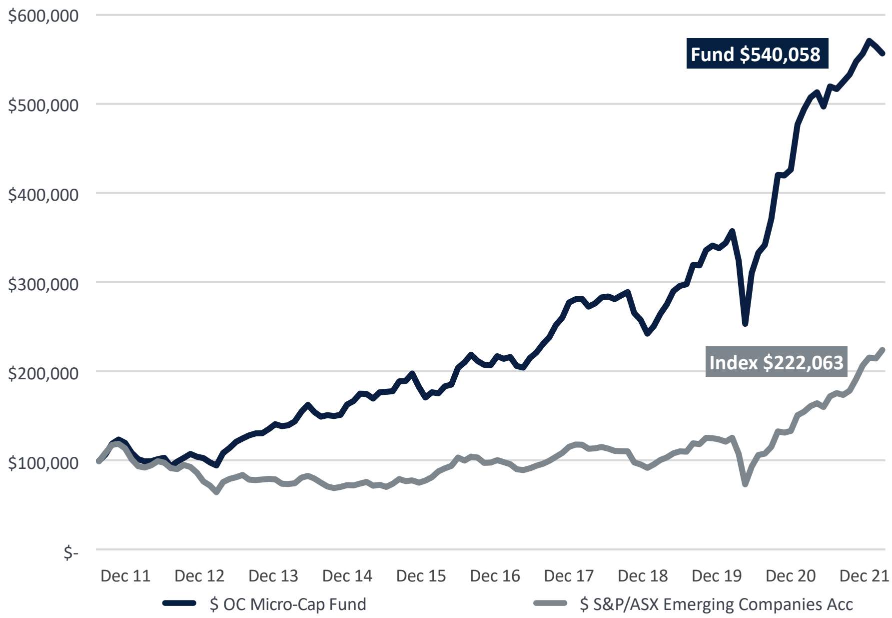
0.1% Fund up 0.1% for the quarter

21.6% Returned 21.6% 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 December 2021†	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.	Incep. % p.a. (Mar 2003)
OC Micro-Cap	-1.4	0.1	12.6	31.5	21.6	18.4	15.5
S&P/ASX Emerging Comp. Accum	4.3	8.3	43.8	33.7	17.6	8.3	NA
Outperformance	**-5.7**	**-8.2**	**-31.2**	**-2.2**	**4.0**	**10.1**	**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 31 October 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 cum-distribution end-of-month hard-close mid-prices and do not allow for the effects of income tax or inflation.

Performance review

The domestic micro-cap market continued to track higher in December, brushing aside the rapid spread of the highly infectious Omicron COVID-19 variant across the globe and a hawkish pivot by key central banks, including the US Federal Reserve, to round out another positive month (+4.3%). The S&P/ASX Emerging Companies Accumulation Index also posted another very strong quarter, up 8.3%. This was well ahead of the OC Micro-Cap Fund which returned +0.1% for the quarter.

Over the quarter a number unprofitable resource and biotechnology stocks with market capitalisations above $500m at the start of the quarter once again rallied sharply which drove the strong Index return. To illustrate, the top five contributing stocks to the micro-cap index during the quarter were AVZ Minerals, Lake Resources, Syrah Resources, Neometals and Incannex Healthcare. None of these stocks will generate a profit in FY22 and all now have market capitalisations well above our $500m threshold for initial investment.

Long term 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. This was the case in September quarter and it transpired once again in the December quarter.

Despite the speculative fervour in the micro-cap market at the moment, OC Fund's has maintained its disciplined investment approach which focusses on profitable, cashflow positive companies. We believe this approach will generate investors strong risk adjusted returns over the long-term without the volatility.

Global Energy Ventures (GEV, +39.2%) enjoyed a share price resurgence during the quarter when it continued to deliver on its strategy to facilitate new energy solutions ultimately aimed at the decarbonisation of the global economy. GEV is an energy transition company enabling the development of the trillion dollar green hydrogen market through its proprietary compressed hydrogen shipping solution. Its mission is to become the leading provider of storage and transport solutions for green hydrogen projects globally. During the quarter, GEV announced its first company led project in the geographically strategic Tiwi Islands where it will develop a solar powered hydrogen facility with the aim of exporting product to an expansive customer base in Asia. GEV also updated the market on its participation in the HyEnergy Export Project in the Gascoyne Technology and Innovation Cluster of WA and the launch of its 2022 compressed hydrogen ship development program with the appointment of globally recognised consultants, Capilano Maritime Design and Wartsilla. The 2.8GW phased Tiwi Islands project will produce up to 100k tonnes per annum of green hydrogen which will be delivered to customers by GEV's planned fleet of 430 tonne (cargo) compressed hydrogen ships. Importantly, GEV will have a number of options to finance and operate the solar farm, the electrolysis process and the shipping fleet thereby minimising the capital requirements for GEV shareholders. Financing alternatives will include government funding for hydrogen, farm-out to large energy/renewable majors and 'green bonds' for project finance of infrastructure and shipping assets. The project is endorsed by all critical stakeholders, including the landowners and the Northern Territory government, and should continue to attract funding as an important 'future energy' project. We have been long term supporters of the GEV strategy, its IP and the management team and believe the company is now at the forefront of the nascent green hydrogen juggernaut and its share price performance over the medium to long term should continue to reflect this industry positioning.

Telix Pharmaceuticals (TLX, +28.5%) was once again a strong contributor for the Fund during the quarter on the back of further key milestones being achieved, especially around its prostate cancer imaging product Illuccix. As a reminder, Telix is a late-stage bio-technology company specialising in cancer imaging and treatment via molecular targeted radiation (MTR). MTR is on the cusp of revolutionising treatment of certain cancers, thereby avoiding the deleterious effect of chemotherapy and radiation therapy on healthy tissue surrounding certain tumours. Late in the quarter TLX announced that it had received US FDA approval for its lead prostate cancer imaging product, Illuccix which was approved for both Primary Staging and Biochemical Recurrence. This is a significant milestone for TLX, validating one of the cornerstones of its companion diagnostic and therapy approach to using MTR for prostate cancer. TLX recently updated its Illuccix USA total addressable market (TAM) estimate to US$725M (from US$575M) and has aspirations to capture 40% of that within three years from commercial launch. Illuccix US approval ought to move TLX out of the "concept stock" basket into significant profitability with a well thought out manufacturing and distribution platform that will enable the speedy commercialisation of the product. Illuccix looks set to win significant market share due to the accessibility of its radioisotope Gallium-68 and the ease of use and accuracy of its imaging product versus key competitor Lantheus (Pylarify) who may be constrained by the limited availability of cyclotrons. Illuccix was also approved by Australia's TGA in early November and is progressing marketing authorisation applications in 14 European countries, plus Canada and other jurisdictions.

TLX has a robust pipeline of additional material opportunities in the growing field of radiopharmaceuticals which is attracting far greater attention from investors and regulators. In particular, TLX-591 is currently being developed as a second-line therapy used for patients with PSMA-expressing metastatic castration resistant prostate cancer (mCRPC). TLX591 represents TLX's largest opportunity with a A$5.2b TAM. TLX's pipeline also includes opportunities in renal imaging product (TLX-250) with a TAM (A$627m) due for launch in 1H23 as well as glioblastoma (TLX-101) and hematolgic oncology (TLX-66). Given the depth of the R&D pipeline and the cost of clinical trials, we would expect TLX to raise additional capital in the near term to fund these opportunities. Few pre-commercial biotech companies have been able to assemble such a collection of partners that should underpin clinical development (Genesis Care), manufacturing (GRAM) and distribution (Cardinal, Pharmalogic) across most of their products. These partners not only serve to put the commercial infrastructure in place to facilitate a rapid and global launch of their products but also helps add credibility to TLX as a highly attractive entrant into the growing radiopharmaceuticals space.

Trajan Group (TRJ, +25.8%) was higher for the quarter after announcing the acquisition of Axel Semrau and Neoteryx. Trajan also released a positive trading update at the AGM which indicated that its early FY22 experience was that the growth trends of FY21, which consisted of organic revenue growth of 16% on a constant currency basis, was continuing.

Axel Semrau designs and develops laboratory automation and chromatography software systems such as the Chronos intelligent sequencing software platform upon which Trajan's automated workflows are built. Trajan has worked with Axel Semrau for a several years and has built automated workflows on the Chronos platform.

Strategically for TRJ, Axel Semrau has 50 staff across Europe which builds out TRJ's presence in a location where it was previously under-represented. Furthermore, Axel Semrau has expertise in food and environmental sciences whereas TRJ's main capability to date is in the pharmaceutical and clinical sectors. Trajan also acquired Neoteryx, a global leader in blood micro sampling devices in California. Whilst this acquisition is not likely to be accretive near term, this capability adds to the hemapen micro-sampling product which TRJ is developing. This product could disrupt large industries such as pathology.

Booktopia Group (BKG -47.7%) was down for the quarter after releasing a disappointing Christmas trading update in late December. BKG indicated that 1H22 revenue grew +13% on the prior corresponding half with similar gross margins. This was below both OC's and the market's expectations and was caused by labour constraints on revenue growth brought on by the COVID-19 Delta outbreak during 1Q22 in Western Sydney where BKG is based. BKG also required increased spending on temporary labour during the half to address these constraints in addition to increasing management costs which led to materially lower EBITDA than the 1H21 period. This update in December was particularly disappointing as the AGM commentary in late November indicated that these margin impacts were not expected to be significant. Furthermore, this poor trading update came less than month post a CEO stock sell down at a discount to the prevailing market price which brings the credibility of management team sharply into focus for the market. We have voiced our concerns with respect to the adequacy of disclosure to the BKG Chairman and have received assurances of improvement. Whilst we think there is a bright future for this business the market is not likely to re-rate the stock until management can demonstrate improved results with improved disclosure. We will closely scrutinise future disclosures and updates from this management team.

PDF productivity and digital signature company **Nitro Software (NTO, -31.6%)** was sold off aggressively by the market in the second half of the December quarter. On 10th November, NTO undertook a significant capital raising to fund the €70m acquisition of European e-signing business, Connective. The Connective business has market leading e-signing and electronic identification technology with 1000 customers across 12 European countries where stricter regulatory requirements require identity checks to be performed for e-signing. These capabilities will accelerate NTO's expansion into high-trust enterprise grade e-signing applications and the deal was well supported by shareholders with the company's share price rallying immediately following the deal, hitting an all-time high on 17th November. Several factors thereafter conspired to drive the NTO stock price significantly lower over the balance of the quarter. Technology stocks were sold off heavily across the board as the spectre of inflation raised the likelihood of interest rate rises which saw long-duration risk assets such as technology shares begin to sell-off. This sell-off coincided with the retail rights offer component of the Connective acquisition raising and led to a shortfall of 59% for underwriters which subsequently put pressure on the stock over the balance of the quarter as underwriters sold down NTO stock to de-risk their position.

As long-term investors, we don't let short term price moves spook us and remain comfortable with the growth strategy for NTO over our forecast period. Whilst we have prudently trimmed our holdings in technology names in recent months given rising bond yields, we believe that the NTO business has strong secular tailwinds of document digitalisation underpinning it with penetration rates of e-signatures and PDF documents likely to continue to grow off a relatively low base for many years to come, even as the global economy emerges from COVID-19 restrictions.

Outlook

Equity markets closed out calendar year 2021 on a strong note with a late December 'Santa Rally' capping another strong year. It was a year in which markets shrugged off new COVID variants, protracted lockdowns, supply chain disruptions and rising inflation with investor risk appetite fuelled by government stimulus, vaccines rollouts and record low interest rates. The global economy and our own domestic economy look to be well positioned as we enter the new calendar year with economic growth forecasts above trend, unemployment tracking lower in most countries, household savings rates elevated and corporate earnings in good shape, despite the widespread disruptions currently being cause by the highly infectious Omicron COVID-19 variant. Notwithstanding this, the outlook for the market is somewhat clouded by the trajectory of inflation which looks to be more entrenched than our central bankers have previously acknowledged, and interest rates hikes in the coming months have the potential to take some of the gloss off an otherwise rosy economic outlook.

Inflationary concerns have been front of mind for almost all market participants in CY21, OC Funds included, with the escalation in long bond yields potentially seen as a harbinger of an overheating global economy which may eventually require central bank intervention in the form of near-term interest rate rises to quell the threat of inflation. The US CPI rose at 6.8% in November, the fastest annual pace in almost 40 years and significantly above consensus expectations. In Australia, underlying inflation is now at 2.1% and likely heading higher. Both the Reserve Bank of Australia (RBA) and the US Federal Reserve (the Fed) have recently admitted what now seems obvious;

namely that inflationary pressures appear to be stubborn and will persist for longer than they originally anticipated. The emergence of the Omicron variant has further disrupted global supply chains and sidelined infected workers and whilst the economic impact of Omicron is likely to be temporary, cost pressures across the economy are unlikely to moderate any time soon. COVID-19 related disruption of the supply of goods and labour, matched with strong consumer demand, has sent prices of a wide range of goods and services soaring forcing central banks to become more hawkish around monetary policy.
In a significant policy pivot, the US Fed has now moved to get ahead of the inflation narrative and announced that it will likely dial back its bond purchases in the coming months and it put markets on notice that US rates could rise before the economy reaches full employment. Minutes from the Fed's mid-December meeting, released in early January, indicated that officials are increasingly worried about inflation against a backdrop of a strong economy, noting that the jobs market is now approaching full employment. "While participants generally continued to anticipate that inflation would decline significantly over the course of 2022 as supply constraints eased, almost all stated that they had revised up their forecasts of inflation for 2022 notably, and many did so for 2023 as well," the minutes said. Fed officials were unanimous in expecting they would need to begin raising rates this year, according to anonymous projections published after the meeting. That marked a significant hawkish shift from the previous round of forecasts in September, which had shown the FOMC at the time was evenly divided on the question rate rises.

It is now the consensus view in the market that the Fed will begin to raise rates as soon as March this year and the Fed's so-called dot plot, which the US central bank uses to signal its outlook for the path of interest rates, shows officials expect to raise the Fed funds rate three times this year and a further three times in 2023, based on median projections. While officials did not make any determination about when the Fed will start rolling off the nearly $8.3 trillion in Treasuries and mortgage-backed securities it is holding, some officials thought the Fed should start shrinking its balance sheet relatively soon after beginning to raise rates, the minutes said. Clearly this is another means by which the Fed can tighten financial conditions to cool the US economy.

Our own RBA seems behind the curve on interest rates and inflation. Domestic money markets (Interbank futures) are now pricing in the first interest rate hike in Australia July 2022, a stance which Governor Dr Philip Lowe has dismissed as an overreaction. The RBA has continued to rebuff suggestions of a likely surge in inflation over the coming months, singling out Australia's unique circumstances and noting that the "starting point for inflation and wages growth are lower in Australia than they are in many other countries", several of whom have moved rates higher in the past month. The minutes from the RBA's December board meeting added to the case for a "hard stop" to its $4bn-a-week bond-buying program, particularly after November's blockbuster employment figure, and indicated that board members would base their February decision on intervening labour and inflation data. "The risk to the recovery posed by the Omicron variant would also be more apparent by that time," the minutes read. Rates aside, the domestic economy looks solid heading into 2022 having navigated several lockdown periods. We now have a very high vaccination rates and a strong labour market, household and corporate sector meaning we are positioned for above trend growth heading into CY22.

Notwithstanding a robust domestic economic outlook, there is still much uncertainty about the coming months including the impact of Omicron on the health care system and the economy, the trajectory of inflation and the pace of interest rate hikes, as well as the impact of the withdrawal of central bank stimulus programs. These variables are difficult to forecast, especially given there are no historical frames of reference to look to for clues as to how things will play out given the unprecedented nature of the pandemic and record stimulus programs that followed. It does, however, seems likely that the days of record low rates and ample central bank liquidity may be coming to an end barring further economic upheaval.

An additional unknown is the impact of exploding Omicron cases which are starting to hurt businesses in a non-lockdown period as industries including retail, logistics and hospitality are forced to shut down or wind back operations as their workers and customers fall sick or are forced to isolate. This is adding to pressure on supply chains, already stretched from the pandemic, limiting the supply of goods and food with Coles and Woolworths already warning of shortages and rationing across some products. History suggests this variant will pass and the economy will rebound but how the pandemic will play out over the balance of the year is largely unknown.

Against this backdrop, the Fund has prudently increased its cash holdings to low double digits heading into the new calendar year by further reducing our exposure to high growth stocks which will likely come under pressure if interest rates rise abruptly . To be clear, we are not bearish but do feel that some caution is warranted until the central banks gets a better handle on inflation. The economic outlook is still robust and whilst the central banks are shifting gears and tapering quantitative easing, the economy can certainly handle the cash rate rising off 0.1%. By way of example, the 10-year Treasury Yield in Australia is still just 1.85% despite the emerging inflationary pressures and even if rates were to rise seven times in this tightening cycle, the cash rate would still be below 2% which is historically still very low. Assuming the economy continues to recover, and corporate earnings remain robust, equities are likely to remain an attractive asset class to invest in relative to most alternatives in such an environment. As always, the portfolio remains liquid so we can rapidly reposition if the economic environment or market conditions necessitate such a move.

Mercifully, market activity and corporate deal making has slowed after the frenetic pace of the last quarter with many market participants taking summer holidays. We wish all our readers good health and prosperity as we enter calendar year 2022 and we thank you all for your ongoing support of OC Funds Management.

Top 5 holdings#

Company	ASX code
Cedar Woods Prop.	CWP
Money3 Corporation	MNY
Propel Funeral	PFP
Telix Pharmaceutical	TLX
Viva Leisure Limited	VVA

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.