

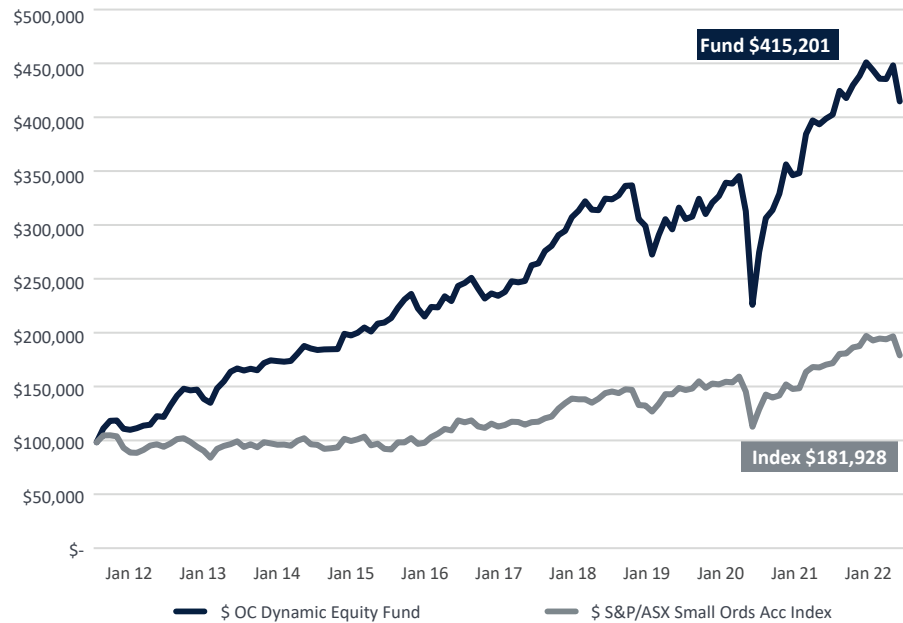
**-7.4**  
Fund down -7.4% for the month

**15.3%**  
Returned 15.3% 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 31 January 2022 <sup>1</sup>	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.	Incep. % p.a. (Dec 2000)
OC Dynamic	-7.4	-4.8	5.4	12.5	12.0	15.3	12.3
S&P/ASX Small Ords Accum	-9.0	-8.0	6.7	10.1	9.6	6.2	6.4
<b>Outperformance</b>	<b>1.6</b>	<b>3.2</b>	<b>-1.3</b>	<b>2.4</b>	<b>2.4</b>	<b>9.2</b>	<b>5.9</b>
S&P/ASX Small Ind Accum	-9.8	-10.4	2.3	8.8	8.7	9.8	6.6
<b>Outperformance</b>	<b>2.4</b>	<b>5.6</b>	<b>3.1</b>	<b>3.7</b>	<b>3.3</b>	<b>5.6</b>	<b>5.7</b>

The total return performance figures quoted are historical, calculated using cum-distribution end-of-month soft-close mid-prices and do not allow for the effects of income tax or inflation.

### Performance review

Equity markets entered the new year with considerable momentum but swiftly reversed course and closed the month well down as concerns about the trajectory of inflation intensified and the prospect of rising interest rates precipitated a short and sharp sell-off. The domestic small cap indices were not spared with the S&P/ASX Small Ordinaries Accumulation Index down 9.0% and the S&P/ASX Small Industrials Accumulation Index down 9.8% for the month of January. The OC Dynamic Fund fared better, but still closed the month down 7.4%.

Last quarter we flagged our concerns that inflationary pressures were becoming more broad-based and persistent and that central banks were becoming more hawkish. We had consequently increased our exposure to companies that ought to be able to weather a sustained increase in global inflation. This rotation proved timely in January with companies exhibiting solid pricing power or an ability to pass on emerging cost pressures to their customers generally outperforming the market as inflation prints in the US and Australia spooked

investors. Stocks in the OC Funds portfolio which ought to outperform in an inflationary environment include:

- **Worley Ltd (WOR, +8.7%)** – energy and commodity leveraged stocks tend to outperform in an inflationary environment;
- **G.U.D Holdings (GUD, +8.4%)** – the brand strength in portfolio names such as Ryco, Wesfil, Narva and Davey leave GUD well positioned to pass on cost increases to customers;
- **Seven Group Holdings (SVW, +0.4%)** – key division Westrac is well positioned to pass on price rises in parts and heavy equipment to customers due to the strength of the Caterpillar brand;
- **Bapcor (BAP, -0.1%)** – ought to have the ability to pass on any price rises in automotive parts to its customers.

It logically follows that we are seeking to avoid companies in the portfolio that are price takers or that operate in highly competitive markets with limited pricing power.

We exited Kogan Limited last quarter, partially because of its inability to pass on significant cost increases in its supply chain to its customers given the highly competitive nature of the online consumer goods business in which it operates.

Recently listed **Ventia Services Group (VNT, +9.5%)** continued to perform strongly after its ASX debut late last year despite the selloff in global markets. The service provider to essential infrastructure in Australia and New Zealand saw house brokers JP Morgan and Barrenjoey initiate coverage, driving some greater awareness in the name, at a time when investors were searching for this type of stable, lower PE, high dividend yield stock. VNT has an industry leading position providing services to telecommunications and transport infrastructure, social infrastructure and defence under long term contracts with a stable and predictable demand profile. We participated in the IPO of VNT in mid-November 2021 and continued to purchase stock on market in early January. We believe the company offers good value as well as stable earnings which should not be significantly impacted by the disruptions caused by COVID-19 or macroeconomic changes.

Recent IPO **GQG Partners (GQG, -16.8%)** was sold down heavily during the month, as investors dumped the stock as equity markets plummeted. GQG is a boutique global asset management company, managing around US\$91bn in funds across four primary equity strategies. CIO and Co-founder Rajiv Jain's impressive +20-year investment track record has been integral to GQG's early success and the company's philosophy of client alignment (competitive fee structures and co-investment), highly effective distribution, alignment between key staff and shareholders and scalable strategies has enabled rapid growth. Both GQG and Mr Jain are well known to OC Funds, with long-term Fund holding **Pacific Current Group (PAC, -4.7%)** a 5% foundation shareholder in the GQG business.

Whilst we understand investor nervousness around GQG given the January equity market rout, the sell-off in GQG seems excessive and short-sighted given that the core strategies closed the month of January close to flat (on average) from an absolute return perspective, and all four generated meaningful alpha for clients during the month. The strong relative investment performance in a falling market will fortify GQG's already strong performance track record and ought to help it to continue to attract solid fund inflows through its institutional, sub-advisory and wholesale channels. GQG trades on the low earnings multiple of 11.8x prospectus 12 month NPAT (to June 2022) and the company is tracking ahead of the funds under management trajectory necessary to hit this forecast, despite the recent global equity market sell-off. OC Funds has used the share price weakness to increase

our holding in GQG and expect that the company will re-rate once the market better understands the quality of the business and the strength of its investment team and the investment process.

Linen and furniture retailer **Adairs (ADH, -23.2%)** sold off sharply on the release of a trading update late in the month. The update outlined first half EBIT to be approximately 10% lower than the consensus of covering brokers due to a confluence of factors such as a greater impact than expected from lockdowns and higher warehouse costs. The impact of lockdown enforced store closures was more acutely felt during the year due to lower government and landlord support than in prior lockdowns which left ADH to carry the burden of the wage bill for staff retained but less able to productively work. The increased warehousing costs were also a COVID-19 related issue with the widespread workforce shortages, isolation requirements and country wide distribution delays leading ADH to slow the transition to its new national DC and retain one of its existing DCs post its scheduled closure date. While these impacts are clearly only temporary, with lockdowns now behind us and isolation rules substantially relaxed, there will be ongoing headwinds into the start of the second half from the reduced footfall and sustained higher absenteeism caused by the current high COVID-19 case numbers. That said, ADH is a quality retailer, it's recently acquired Focus on Furniture stores are outperforming expectations and the impacts of COVID-19 on shoppers and workers will normalise over time. We remain happy with our ADH position and hope to see the company shrug off these concerns as investors take a more forward looking view.

**Pinnacle Investment Management (PNI, -27.7%)** traded lower during the month in sympathy with the falling equity market. PNI is an investment management firm providing its affiliate investment managers with distribution, infrastructure and other support services. PNI also takes minority equity ownership positions in its investment managers to ensure alignment with its fund manager principals. PNI earns fees from the services provided to its managers as well as a share of the manager profits (and performance fees) in line with its relevant equity stakes. PNI's stable of managers include Hyperion Asset Management, Firetrail, Solaris and Plato (and others) with combined assets under management of around \$90 billion across a globally diversified suite of asset classes. PNI's asset manager exposures are, however, heavily skewed to Australian and global equities (approximately 60%) and when we see a negative move in equity markets, such as we experienced in January 2022, PNI's leverage to equities will see this negative sentiment translate into a share price downdraft. For example, PNI's highly successful Australian based 'equity growth' manager, Hyperion Asset Management, represents

almost a quarter of PNI's forecast manager earnings and Hyperion's key funds were estimated to be approximately 12% lower during January. PNI shares were hit hard as investors factored in lower management fees (and performance fees), potential fund outflows and reduced FUM based services revenues for PNI. We believe PNI is well positioned to continue to grow and diversify its stable of asset managers and have retained our portfolio position through this current equity market turmoil as we see the share price move as excessive.

## Outlook

As we enter the new calendar year, concerns about the speed at which inflationary pressures have been building finally spilled over into equity markets with investors fretting that central banks around the world, including the US Federal Reserve (the Fed) and Reserve Bank of Australia (RBA), will unwind ultra-easy pandemic-era policies quicker than they had been anticipating. Whilst conjecture about the direction of inflation and interest rates had dominated the narrative around financial markets (and the OC Monthly Review outlook) for many months, the circuit breaker for markets seems to have been the December US inflation print, released on 12 January 2021 and the hawkish pivot by the Fed which followed shortly thereafter.

Consumer price inflation rose to 7.0% in the US in December, ahead of consensus market expectations. It was the fastest annual rate of increase since 1982 and the third month in a row inflation had tracked above 6%. To put this in context, one year ago inflation was just 1.4%. Core inflation, which strips out more volatile energy and food prices, rose to 5.5% as inflation spread to used cars, food, airfares and clothing. Whilst economists continue to debate the extent to which the inflationary surge has been brought about by a supply and demand imbalance that has resulted from the COVID-19 pandemic versus the extraordinary increase in money supply owing to accommodative central bank quantitative easing programs, it is now clear that these pressures are not simply transitory and will require central bank intervention to cool the economy.

In a significant policy pivot, the Fed finally relented and has now moved to get ahead of the inflation narrative and announced that it would stop buying bonds in March and put markets on notice that US rates could rise before the economy reaches full employment. Following its latest two-day meeting in late January, the Fed chair Jerome Powell said: "I would say the committee is of a mind to raise the federal funds rate at the March meeting assuming that conditions are appropriate for doing so," adding that "The economy no longer needs sustained monetary support". The end of the Fed's easy money has somewhat unnerved

investors, with the key concerns being the speed at which rates may need to be hiked in order to bring inflation under control and whether a rapid tightening cycle may eventually throw the economy into recession.

Our own RBA remains stubbornly insistent that it remains "too early to conclude that [inflation] is sustainably within the target band". At the February meeting of the RBA, the status quo on rates was maintained, with board members continuing to point to transitory pricing pressures in the economy which might yet abate. This comes despite headline inflation recently printing at 3.5% for the year and the trimmed mean measure of core inflation, preferred by the RBA, now at 2.6%. The RBA has for some months now continued to rebuff suggestions of a likely surge in inflation, 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 recent months. The RBA board will nevertheless terminate its quantitative easing program in February which ought to start to withdraw liquidity from the economy and tighten financial conditions somewhat. RBA governor Philip Lowe has conceded that interest rates could plausibly be lifted later this year if the economy performs stronger than anticipated. OC Funds remains concerned that the RBA is behind the curve on inflation given that the inflation genie can be very difficult to put back into the bottle once it is unleashed. Contrary to the RBA stance, money markets continue to price in several rate increases in Australia in 2022.

It is important to note that rising interest rates are not, prima facie, alarming but rather signify that the economic recovery is accelerating and needs monetary tightening to prevent it from overheating. If left unchecked, a more drastic policy response may be necessary down the track which could have more negative economic implications. Rising rates are not dire for the stock market assuming that they are measured and that inflation can be contained. After a protracted period of near-zero rates, it is indeed healthy to see some reflation occurring in the economy, although controlling inflation remains the critical caveat.

Domestically, the economic signs remain overwhelmingly positive, despite the economic damage caused by the COVID-19 Omicron variant. Unemployment fell to 4.2% in December which is the lowest level since 2008 and households remain well placed to resume spending now that self-imposed lockdowns for many are ending with Omicron case numbers falling. A near doubling of the household savings rate to 19.8% during the December quarter leaves consumers well placed to loosen the purse strings once people feel safe to move around freely.

The stock market has staged a relief rally into the start of February, with domestic investors seemingly emboldened by the RBA holding firm on imminent rate rises. Whilst the Fund has benefitted from this bounce, we remain cautiously positioned heading into the February results period and expect further market volatility in the months ahead as accommodative central bank policies are unwound. The OC Fund's portfolio is holding fewer high growth stocks than perhaps at any stage in the past five years, having pivoted the portfolio towards stocks that ought outperform in a rising interest rate environment.

Company results period will no doubt refocus investor attention back on company fundamentals and away from macro-economic considerations. It has been a challenging six months for companies that have had to navigate some very different economic conditions including a reopening recovery followed by an abrupt slow-down brought about by a surge in COVID-19 case numbers, as well as well documented supply chain, labour shortages and other

pricing pressures. As always, we will remain focussed on the outlook for the companies in our stock universe with an eye to investing in those that are sensibly priced and best positioned both operationally and from a management perspective. We look forward to providing our investors with a comprehensive summary of the results period in our February monthly review.

### Top 5 holdings<sup>#</sup>

Company	ASX code
Eagers Automotive Limited	APE
Mineral Resources Limited	MIN
Seven Group Holdings Limited	SVW
Steadfast Group Limited	SDF
Uniti Group Limited	UWL

<sup>#</sup>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](mailto:clientservices@copiapartners.com.au) | [copiapartners.com.au](http://copiapartners.com.au)



<b>John Clothier</b>	General Manager, Distribution	0408 488 549   <a href="mailto:jclothier@copiapartners.com.au">jclothier@copiapartners.com.au</a>
<b>Mani Papakonstantinos</b>	Distribution Manager	0439 207 869   <a href="mailto:epapakonstantinos@copiapartners.com.au">epapakonstantinos@copiapartners.com.au</a>
<b>Jude Fernandez</b>	Distribution Manager	0414 604 772   <a href="mailto:jfernandez@copiapartners.com.au">jfernandez@copiapartners.com.au</a>
<b>Sam Harris</b>	Distribution Manager	0429 982 159   <a href="mailto:sharris@copiapartners.com.au">sharris@copiapartners.com.au</a>
<b>Greg Black</b>	Distribution Manager	0407 063 433   <a href="mailto:gblack@copiapartners.com.au">gblack@copiapartners.com.au</a>

<sup>\*</sup>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.

<sup>\*</sup>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.

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](http://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.