

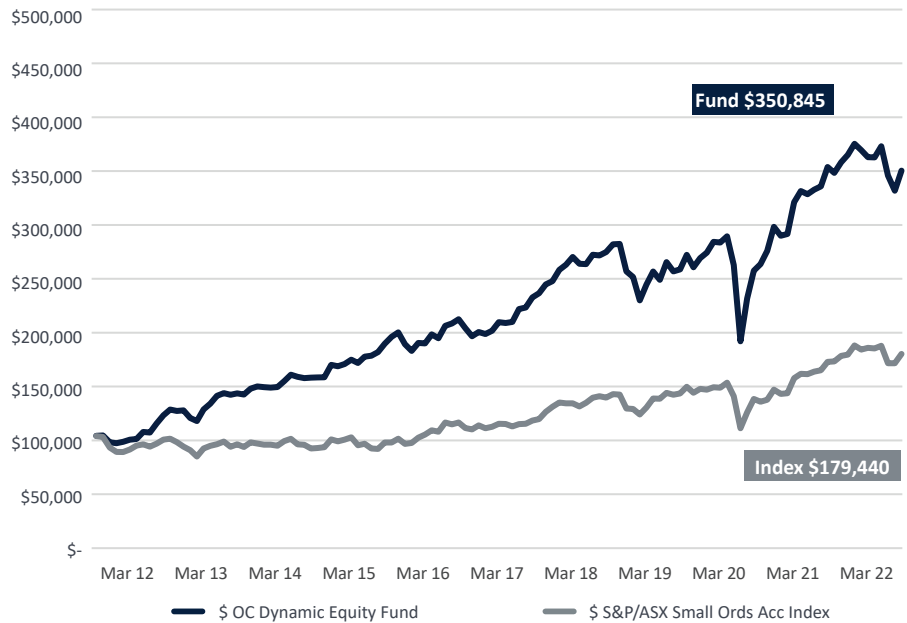
 Fund down -6.2% for the quarter

 Returned 13.4% 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 March 2022*	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	5.7	-6.2	4.4	12.3	11.1	13.4	12.3
S&P/ASX Small Ords Accum	5.3	-4.2	9.7	9.6	9.9	6.0	6.6
Outperformance	0.5	-2.0	-5.2	2.7	1.2	7.4	5.7
S&P/ASX Small Ind Accum	3.0	-9.1	0.0	6.5	7.7	8.5	6.6
Outperformance	2.8	2.9	4.4	5.8	3.4	4.9	5.7

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 March quarter was a challenging one for investors with a multitude of risks including surging inflation, tightening monetary policy, rising bond yields, the Ukraine war, Russian sanctions and soaring commodity prices conspiring to drive equity markets sharply lower across the globe. The domestic small cap market held up relatively well with continued strength in commodity stocks cushioning falls across the broader S&P/ASX Small Ordinaries Accumulation Index, which was down 4.2% during the March quarter.

The divergence in fortunes between the performance of resources and industrial stocks was stark during the quarter with the S&P/ASX Small Resources Accumulation Index up +14.5% for the quarter versus the S&P/ASX Small Industrials Accumulation Index which fell 9.1%. Russia and Ukraine together are major producers of gas, crude oil, coal, aluminium, nickel, copper, titanium, palladium, gold, neon gas, vanadium and cobalt and supply chain disruptions and heavy Western sanctions on Russia has seen energy and commodity prices spike sharply in recent

months. Not surprisingly, resources stocks garnered significant investor support with money flowing out of high growth stocks, including technology names, into the commodity and energy names.

Against this backdrop, the OC Dynamic Equity Fund returned -6.2% for the quarter. This was a credible result given our aversion to investing in single commodity or single mine resource stocks which do not pass our strict risk management screens. Many of the companies that comprise the small resources universe on the ASX are pre-production and unprofitable, particularly the battery metals stocks which have performed spectacularly well in recent months. For instance, early-stage Lithium hopefuls **Lake Resources (LKE, +97.5%)**, **AVZ Minerals (AVZ, +59.4%)**, and **Liontown Resources (+13.2%)** surged during the quarter and have market capitalisations of \$2.5b, \$4.3b and \$4.1b, yet remain years away from production. In the absence of fundamental earnings support, these stocks will be vulnerable to steep share price falls when the mining cycle turns and commodity prices fall back to earth.

Recent listing **Ventia Services Group (VNT, +24.2%)** rallied strongly over the quarter as the market began to appreciate the resilience of the company's revenues in the face of volatile market and economic conditions elsewhere. The company provides maintenance and related services to the Telecommunications, Transport, Infrastructure Services, Defence and Social Infrastructure sectors in Australia and New Zealand. Services are secured mostly under long term contracts predominantly with government counterparties. We participated in the IPO of VNT in November 2021 and have subsequently added to the position. In February, VNT reported a maiden full year result (post listing) which was ahead of prospectus forecasts and confirmed prospectus guidance for CY22, which we believe to be readily achievable. The VNT share price rallied post the result and then rallied further, more recently, as the market re-evaluated value stocks such as VNT given the company's low double-digit earnings multiple and strong dividend yield. We remain comfortable with the outlook for VNT which has a very strong order book and a pipeline of opportunities which continues to grow, including remediation work from the recent devastating east coast floods.

A strong trading update for **Elders (ELD, +8.4%)** saw the stock sharply higher in March (+14.9%) as the company outlined its earnings guidance for FY22 (September year-end) to be significantly higher than analyst expectations. The company called out improvement in its Retail and Wholesale segments seeing increased sales and favourable seasonal conditions plus its agency businesses performing strongly due to high prices despite some volume reductions from restocking and good on-farm feed availability. ABARES also lifted its forecasts for agricultural production for all years out to 2026 which has lifted longer term analyst earnings forecasts for ELD. Despite the positive current conditions and earnings outlook for the stock, we lightened some of our holding into the rally as these strong agricultural conditions will ebb at some point, even if there is no sign of a slowdown as yet. ELD is well positioned to perform in an inflationary environment with its rural products division (which contributes ~50% of EBIT) able to raise the prices of farm inputs (including fertilisers and crop protection products) and other goods such as pet supplies. Additionally, the ELD agency business, which operates across livestock, wool and grain, ought to benefit from rising soft commodity prices and has seen prices trending higher in recent months. We expect ELD to continue to report solid earnings and outlook this year and look forward to their HY22 result to be reported in May.

Fibre infrastructure asset **Uniti Group (UWL, 6.3%)** finished the quarter in the black following two indicative conditional takeover bids from competing

infrastructure fund consortiums in March. The stock had been sold down heavily in the February reporting season after slower than expected construction residential completions caused a headwind in related telecommunications network construction revenue for UWL which led management to reiterate their full year earnings guidance, rather than upgrading them as had been anticipated by the market.

After prolonged media speculation, on 15 March UWL disclosed it had entered into exclusive albeit non-binding, conditional and preliminary discussions with HRL Morrison and Co, which later formed a bidding consortium with Brookfield Infrastructure Group, to be acquired for \$4.50 cash per share. This was followed by a similarly non-binding and conditional approach from a consortium formed by Macquarie Infrastructure and Real Assets for \$5.00 per share which was promptly matched by Morrison and Co. The HRL Morrison / Brookfield bid is non-binding and highly conditional with exclusive access to due diligence until 22 April. The last update in late March was promising and indicated that Morrison had made "significant progress in relation to their diligence programme and engagement with lenders and they have not identified anything that would indicate they will not be able to enter into a binding scheme implementation agreement with Uniti."

UWL is a high-quality last mile fibre infrastructure asset with contracted future revenue growth and negligible levels of churn. Although we remain hopeful of further competing takeover bids, we have prudently reduced our weighting in the stock to risk manage the position size.

Specialist wealth platform provider **Praemium (PPS, -53.1%)** dropped significantly during the quarter after announcing a weaker than expected 1H22 earnings result and flagging earnings guidance for the full year that was below consensus expectations. Heading into CY22, PPS had been riding high on the back of a takeover approach from listed competitor Netwealth Group Limited ('Netwealth') which the PPS board had deemed inadequate for it justify 'opening up the books'. The key driver of the miss was an unexpectedly large step-up in costs across the business in the first half including wages pressure incurred in filling vacancies from COVID-19 disruptions and platform investment including research and development spend for platform improvements. The step-up in costs overshadowed recent positive news which included increasing fund inflows, the agreed sale of the international business to Morningstar and the spurned takeover approach. The board has taken decisive action and implemented several management changes which OC Funds supports including removing the CFO and COO and appointing replacements. The scope of the miss and management changes would typically cause us

to exit a position, but the market reaction was swift and brutal. PPS has simplified its business post the sale of the international operations and continues to generate solid inflows and grow its profitability. PPS remains of obvious strategic value to competitors such as Netwealth and HUB24 who could extract large synergies (estimated to be around \$20m) and generate strong operating leverage in an acquisition scenario. We have retained our position given the large share price fall and believe that the rationale for a deal with a larger and better capitalised player is compelling and that the board and shareholders may be less inclined to rebuff the next bid assuming it includes a sensible control premium.

High growth technology names were sold off heavily during the quarter as the market de-rated long duration growth stocks as inflation spiked globally and key central banks, including the US Federal Reserve, became increasingly hawkish and began to rein in quantitative easing programs. Although the Fund has progressively reduced its exposure to high growth stocks (and the technology sector more specifically) over the past six months, the Fund was not immune to the sell-off over the past quarter with both **Nitro Software (NTO, -37.9%)** and **Life 360 Inc (360, -39.4%)** caught in the downdraft. Whilst both companies reported solid CY21 results in February, they each continue to burn cash as they rapidly grow market share. Both companies made strategically sensible but ill-timed acquisitions in the December quarter prior to the tech sell-off. Fortunately, they both raised capital at the time leaving them on a trajectory to reach cashflow breakeven within the next three years with a comfortable cash buffer. Both NTO and 360 have large global addressable markets and strong unit economics and we rate both management teams highly. With aggressive monetary tightening arguably now largely factored into markets, the quantum of the share price falls seems excessive with tech stocks very much out of favour. We have consequently added a small amount to our relatively small positions in each of these companies.

Outlook

Conjecture about the direction of inflation and interest rates continues to dominate the narrative around financial markets with the economic consequence of the Ukrainian conflict adding another layer of complexity for central banks and policy makers. Fragile supply chains, already frayed by the COVID-19 pandemic, have come under renewed strain from further disruption to global trade routes. This will likely delay the unwinding of supply bottlenecks, which had been expected to commence in the coming months, until later in the year and logistics costs will likely also remain elevated for a protracted period.

Higher commodity prices and supply side shocks have the potential to depress growth and stoke inflation, considerably raising the stakes for central bankers worldwide as they weigh the need to increase borrowing costs against the risk of stunting the economic recovery. Inflation is on the rise globally, particularly in the USA where the CPI rose at 7.9% in February, the fastest annual pace in 40 years after food, electricity and shelter drove a larger than expected rise in the CPI. The latest inflation reading from the US Labor Department did not include the oil and gas price surges and other price escalations that followed Russia's invasion of Ukraine on February 24. In Australia, headline inflation is now at 3.5% for the year and the trimmed mean measure of core inflation, preferred by the Reserve Bank of Australia (RBA), is now at 2.6%. With food accounting for about 20 per cent of the Australian Bureau of Statistics' (ABS) consumer price index basket, and petrol a further 4 per cent, it is hard to see inflation not tracking materially higher domestically in the near-term although it is likely to remain below levels in the US.

Following increasingly high inflation prints, US Federal Reserve (the Fed) kicked off its monetary tightening cycle in March with a 0.25% rate increase at its mid-March meeting. Chairman in capital Jerome Powell has said the central bank could raise rates in 50 basis point increments at upcoming meetings and leave rates higher in the longer term than would have traditionally been expected. Mr Powell said that: "If we determine that we need to tighten beyond common measures of neutral and into a more restrictive stance, we will do that". Federal Reserve governor Lael Brainard, previously renowned as an inflation dove, succinctly reiterated this view: "Currently, inflation is much too high and is subject to upside risks," she said. "The committee is prepared to take stronger action if indicators of inflation and inflation expectations indicate that such action is warranted." What seems clear is that if inflation proves to be stubborn, US interest rates could head significantly higher in the coming 12 to 24 months and indeed markets are now pricing in seven rate increases this year and several more in 2023.

At the same time as rates begin a rapid tightening cycle, the Fed is also about to embark on the huge but necessary shift from quantitative easing (QE) to shrinking its balance sheet, or quantitative tightening (QT). Minutes of the Federal Reserve's March 16 meeting indicated the bank was planning to reduce significant bond holdings at a maximum pace of US\$95 billion (AUD \$126.4 billion) a month. QT represents the reversal of QE, the massive bond-buying program the US Federal Reserve embraced to cushion the economic disruption of the pandemic, and which caused its balance sheet to more than double to US\$9 trillion. There is some risk that the Fed's move to implement QT will drain liquidity from financial markets

and push long-term borrowing costs sharply higher. Coupled with an abrupt interest rate tightening cycle, the prospect of an economic slowdown in the US in the coming 12 month is real. Whilst Fed Chairman Powell has dismissed recessionary concerns saying “[t]his is an economy that can handle tighter monetary policy”, we are cautious about the economic outlook for the US and even more so Europe which looks particularly vulnerable to an economic shock from the Ukrainian conflict as a large importer of commodities. We are consequently cautious on companies that are heavily exposed to Europe and/or the US and are instead focussing our attention on companies that can grow their earnings outside of the economic cycle, as well as domestically focussed businesses given our conviction that the Australian economy is much better positioned to avoid a protracted economic downturn.

We remain upbeat on the strength of the domestic economy with Australia well placed to weather a global economic downturn, should it eventuate, due to the clear benefits that surging commodity prices such as coal, nickel, wheat and iron ore will have in strengthening our national accounts. This ought to leave the government with the fiscal firepower necessary to keep the economy in good health at a time when key industries such as education, tourism and our large services sector should be emerging from the COVID-19 induced hibernation. Indeed, recent news on the domestic economy front remains overwhelmingly positive with economic growth rebounding 3.4% in the December quarter, bouncing back from the COVID-19 Delta-variant lockdowns in NSW and Victoria. A low unemployment rate of 4.0% and a near doubling of the household savings rate to 19.8% during the December quarter leaves consumers well placed to loosen the purse strings, and recently announced budget handouts to low and middle income earners should provide an additional sugar hit to the domestic economy in the coming months.

The RBA has finally abandoned its language of patience and moved to a more hawkish tone at its April board meeting signalling that it could begin raising rates in June if upcoming data show accelerating inflation and wages growth, as is widely expected. We have long expressed our concerns that the RBA was behind the curve on inflation and the hawkish pivot seems well overdue. Governor Dr Philip Lowe’s April statement has removed prior references to the board being “committed to maintaining highly supportive monetary conditions”, or that the board was willing to be “patient” before lifting the cash rate. Money markets are now pricing an 84% chance of a 0.25% hike in the cash rate in June, followed by an aggressive tightening cycle that will see rates increase to 1.9% by year’s end. That said, most economists expect that the domestic tightening cycle will

be more moderate than this, a view that we concur with given the lower starting point for inflation.

Key exposures in the portfolio heading into the June quarter include:

- companies exhibiting strong pricing power or an ability to pass on emerging cost pressures to their customers including Elders Limited and GUD Holdings;
- companies that ought to be beneficiaries of a return to sustained domestic economic growth including Bank of Queensland and CSR Limited, and
- companies exposed to the reopening of the travel and services industry after the pandemic induced downturn, including Kelsian Group and IDP Education.

We are excited to announce that Aaron Yeoh will be joining OC Funds as a senior investment analyst in late April. Before joining OC, Aaron was a Research Analyst at Cooper Investors, where he was responsible for investing in Asian and global listed companies in consumer brands related sectors. Prior to Cooper Investors, Aaron worked in Equity Research at Goldman Sachs for over 5 years, where he was a highly regarded analyst in the emerging companies team focusing on a broad range of small to mid-cap companies in the consumer, technology and industrial sectors. Aaron is well known to the OC investment team having pitched ideas to us for numerous years at Goldman Sachs and we believe he will align strongly with both our cultural values and our investment philosophy. We wish him a warm welcome and hope that many of you get to meet him in the coming months.

Top 5 holdings[#]

Company	ASX code
Australian Clinical Labs	ACL
Eagers Automotive	APE
Mineral Resources	MIN
Seven Group Holdings	SVW
Uniti Group Limited	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 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 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 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.