

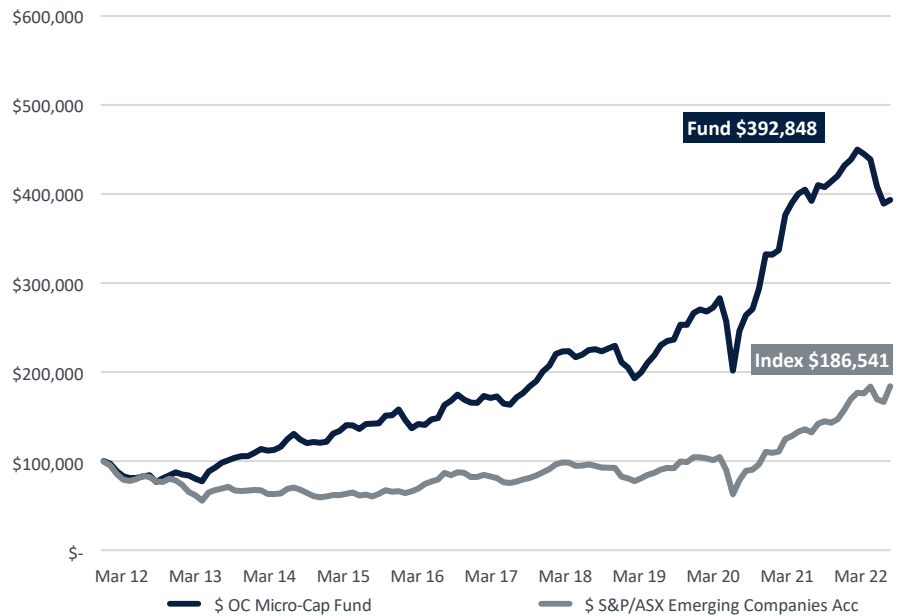
 Fund down 10.4% for the quarter  
**-10.4%**

 Returned 17.9% p.a. for the past 5 years  
**17.9%**

 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 March 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. (Mar 2003)
OC Micro-Cap	1.1	-10.4	0.3	21.6	17.9	14.7	14.5
S&P/ASX Emerging Comp. Accum	10.6	0.2	39.6	28.8	18.1	6.4	NA
<b>Outperformance</b>	<b>-9.6</b>	<b>-10.6</b>	<b>-39.3</b>	<b>-7.1</b>	<b>-0.1</b>	<b>8.3</b>	<b>NA</b>

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 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 micro-cap market held up remarkably well compared to the broader market with continued strength in commodity stocks cushioning material falls across the micro-cap industrial space which came under significant pressure during the quarter. 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 Micro-Cap Fund returned a disappointing -10.4% for the quarter. Optically, the number looks very ordinary relative to the benchmark which warrants some explanation. The quarter (indeed the past year) has seen an incredibly divergence in performance of industrial stocks versus resource stocks in the micro-cap index. Over the quarter a large number unprofitable resource stocks with market capitalisations above \$500m at the start of the quarter staged remarkable rallies which enabled the index to weather the broader market downturn. To illustrate, the top ten contributing stocks to the micro-cap index during the quarter were mining stocks: **Lake Resources (LKE, +97.5%)**, **Core Lithium (CXO, +133.0%)**, **AVZ Minerals (+59.4%)**, **Sayona Mining (SYA, +84.6%)**, **Jervois Global (JRV, +38.1%)**, **Arafura Resources (+73.8%)**, **Strike Energy (STX, +51.2%)**, **Red 5 (RED, +29.3%)**, **Neometals (NMT, +23.5%)** and **Firefinch (FFX, +20.8%)**. These companies combined to contribute +10.1% to the net +0.2% benchmark return during the quarter. None of these

stocks will generate a profit in FY22 and all have market capitalisations above \$500m. Over half of these stocks have exited the micro-cap index at the index rebalanced on the 18th March.

Most 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 commodity stocks perform well and we will underperform the Index. The past year has been such an instance given the incredible performance of early-stage resource stocks. Indeed, over the past year resource stocks have contributed an incredible 37.0% of the micro-cap indexes 39.3% return. 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.

We remain comfortable with the long-term returns we are generating for our investors (14.6% p.a. since inception in November 2003) and we do not plan on changing our investment process to enable us to invest more in speculative opportunities.

**MMA Offshore (MRM, +64.9%)** share price moved higher during the quarter as its interim result illustrated the value now on offer in this once highly distressed capital equipment provider. MRM contracts out vessels, and marine and subsea services, to the offshore energy, renewables, and wider maritime industries in Australia and internationally. MRM operates a modern, world leading fleet of 24 vessels and has 1100 employees operating out of six facilities globally. MRM also carries a fleet of non-core vessels held for sale (approximate value \$30m). OC acquired its position in MRM at a deep discount to its prevailing NTA in late 2020, when its balance sheet required re-capitalisation, through a \$93m capital raising and a restructure of its debt facilities which included a term extension, covenant waivers and \$15m of debt forgiveness from its syndicate of lenders. MRM was traditionally seen as a service provider to the offshore oil and gas sector and leveraged to hydro-carbon market conditions. In recent years, MRM has expanded its offering into the burgeoning offshore wind turbine market and is also increasingly servicing the government and defence sectors through offshore surveys and infrastructure work. MRM's solid H1 result was delivered in the face of industry challenges brought about by COVID-19, with highlights including improved revenue growth and earnings margins, the further repayment of debt and the company guiding to an improved outlook in

H2. Still priced at a discount to NTA (0.8x), with surplus assets available for realisation to further strengthen its balance sheet, and trading on a high-single digit EBITDA multiple, we see MRM as a good exposure to continue to carry in the portfolio, particularly in view of strengthening energy markets.

**Lotus Resources (LOT, +29.0%)** performed strongly during the quarter, in line with many uranium exposed stocks, as equity investors continued to show enthusiasm for the resurgent commodity which is expected to play an important role in the decarbonisation of the global economy. LOT owns the mothballed Kayelekera uranium mine in Malawi which it is currently working toward bringing back into production. The mine is one of the few in the world that has previously produced commercial quantities of product, and which is also capable of being brought back online at a relatively low overall recommissioning cost. A sustainably higher spot Uranium price (currently around US\$55/lb) is the final piece of the puzzle that Lotus requires in order to return the Kayelekera mine to profitable operation in the short to medium term. A key driver of the upswing in the uranium spot price (from the stagnant levels of around US\$30/lb) has been the launch of the Sprott Physical Uranium Trust (SPUT) by North America based global commodities powerhouse, Sprott Asset Management. In the last six months SPUT has been deploying its substantial capital firepower into the acquisition of physical uranium in the spot market and this has had the effect of driving the spot price higher. Coupled with uranium's ability to contribute to a net zero carbon economy, which is becoming a global imperative, we expect the uranium market, and LOT, to continue to outperform in the short to medium term. It is unusual for the Fund to hold early stage resource stocks such as LOT but we took a view in 2019 that uranium was a commodity which was likely to be in high demand as the push to decarbonise the planet gathered momentum and nuclear power offered a practical solution. As a result, we have been amply rewarded with LOT closing at all time highs at the end of the quarter, some 20x above our initial investment price.

**Lumos Diagnostics (LDX, -61.3%)** was caught in the downdraft impacting many earlier stage med-tech companies during the quarter despite LDX updating the market with a very encouraging announcement regarding a partnership with the Victorian Government. LDX specialises in rapid, cost-effective, and complete point-of-care (POC) diagnostic test technology to help healthcare professionals more accurately diagnose and manage medical conditions. Lumos offers customised assay development and manufacturing services for POC tests and proprietary digital reader platforms. It also directly develops, manufactures, and commercialises novel Lumos-branded POC tests that target infectious

and inflammatory diseases. LDX has a number of products that are in late-stage approvals in Australia (TGA) and the US (FDA) which could be used in the fight against COVID-19 and are expected to deliver strong sales and shareholder returns in FY23. In February, the Victorian State Government announced a support package which would see it work with LDX in establishing a local manufacturing capability in rapid antigen tests (RAT's), which is subject to Australian TGA approval for CoviDx self-test. This same test was granted an interim authorisation order from Health Canada in 2021 and has already received material purchase orders from various Canadian customers. The Victorian Government is expected to be a foundation CoviDX customer once expedited TGA clearance is received (which expected in the near term). With a promising suite of products close to approval and commercialisation, we continue to hold LDX in the portfolio, albeit at a reduced weighting.

**Doctor Care Anywhere (DOC, -58.3%)** was impacted by the broader sell off in tech stocks during the quarter. DOC is a UK based telehealth business focussed on delivering best possible patient experience and clinical care through its proprietary digital platform. DOC also uses its relationships with health insurers, healthcare providers and corporates (employers) to connect with patients to deliver a broad range of base level, and increasingly more complex, health services. We have been invested in DOC since its IPO in 2020 and see it playing a key role in the provision of consumer health services in a 'post COVID-19' world where patients may be more reluctant to travel to, or attend, health clinics. DOC has been expanding its offering geographically from its UK base into Ireland and mainland Europe over the past 12 months and recently made an acquisition of Australian peer, GP2U Telehealth, as part of its push into the AsiaPacific region. Despite the UK being heavily impacted by COVID-19, DOC has continued to deliver on its forecasts and delivered A\$46m revenue in CY21 (growing +115% on CY20 revenue). Importantly, this growth trajectory was accelerating quarter on quarter during the second half of 2021 with gross margin also improving to +35%. Patient statistics were particularly impressive with 143,000 consultations delivered across the platform in the Q4 of CY21, including 50,000 new patients, and importantly the business treated 93,000 returning patients which speaks to the degree of satisfaction and comfort patients have with the DOC telehealth system (recording a Net Promoter Score of 80+). With A\$40m in cash (and a market cap of less than \$100m), DOC is well capitalised to achieve its growth ambitions in the short to medium term and, in our view, offers excellent valuation upside.

PDF productivity and digital signature company **Nitro Software (NTO, -37.9%)** was sold off aggressively by the market after posting an inline result and forecasting a

slightly larger than expected CY22 cash burn forecast as it ramps up marketing efforts. Whilst NTO has US\$48m of cash and has guided to at least +39% organic growth in annualised recurring revenue (ARR) and 29% revenue growth, they also guided to EBITDA losses of US\$18-21m. 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 and signalled the beginning of a monetary tightening cycle. The company is ramping operating costs given the annualisation of the recently acquired e-signing business Connective and expansion of existing headcount in sales and technology roles in order to drive organic growth. NTO disclosed on its result call that moderating investment is likely in CY23 which should result in the company moving to cash flow breakeven. The Technology sector, including global peers Adobe and DocuSign, was sold off heavily across the board as the spectre of inflation raised the likelihood of further interest rate rises which saw long duration growth assets, (including tech stocks), de-rate materially. The quantum of the share price fall in NTO seems excessive as tech is very out of favour and we have consequently added to our position in the company.

## 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 Propel Funeral Partners and Silk Logistics;
- companies that ought to be beneficiaries of a reopening of the economy after the pandemic induced lockdowns, including Silk Laser Clinics and Viva Leisure Group;
- companies with exposure to Australia's infrastructure pipeline including GenusPlus Group and SRG Holdings.

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<sup>#</sup>

Company	ASX code
Cedar Woods Properties Limited	CWP
Money3 Corporation	MNY
Silk Logistics	SLH
Symbio Holdings	SYM
Universal Store	UNI

<sup>#</sup>The top 5 portfolio holdings are in alphabetical order and may not be representative of current or future investments.

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<sup>\*</sup>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.

<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 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.

Past performance is not a reliable indicator of future performance. Positive returns, which the OC Micro-Cap Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns. A performance fee of 20.5% is accrued daily on any excess performance (after deducting the management fee) above the performance benchmark within a performance period. Any accrued performance fee will become payable if the Fund's return is positive at the end of the performance period. If the Fund's return is negative, any performance fee accrual will continue to be carried forward. The performance benchmark is the return of the S&P/ASX Emerging Companies Accumulation Index. The inception date of the S&P/ASX Emerging Companies Accumulation Index is 31 December 2003. 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 suitability of the information for 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 Micro-Cap Fund (ARSN 126 537 424). A current PDS is available from Copia located at Level 25, 360 Collins Street, Melbourne Vic 3000, by visiting [ocfunds.com.au](http://ocfunds.com.au), by calling 1800 442 129 (free call) or by emailing [clientservices@copiapartners.com.au](mailto:clientservices@copiapartners.com.au). A person should consider the PDS before deciding whether to acquire or continue to hold an interest in the Fund. Any opinions contained in this document are based on information available to Copia at the time and may be subject to change without notice. Copia is under no obligation to update or keep any information contained in this document current.