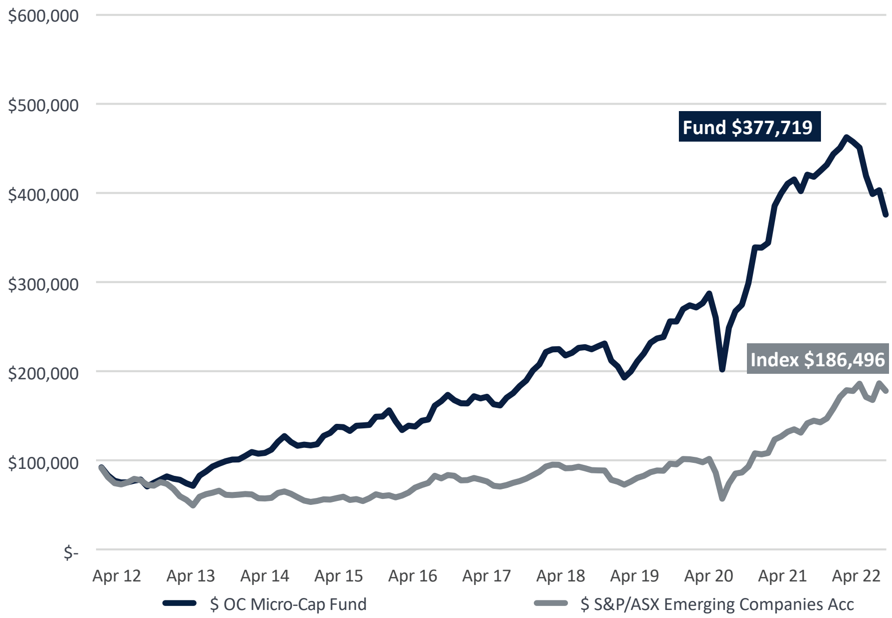
-6.6% Fund down -6.6% for the month

17.4% Returned 17.4% 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 30 April 2022†	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	-6.6	-10.1	-10.4	16.8	17.4	14.2	14.1
S&P/ASX Emerging Comp. Accum	-4.3	3.9	24.3	25.1	18.5	6.4	7.4
Outperformance	**-2.3**	**-14.0**	**-34.7**	**-8.3**	**-1.0**	**7.8**	**6.7**

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 micro-cap industrial space, our predominant investment universe, remained under significant pressure during the month as investors continued to favour commodity stocks and more liquid larger cap industrial companies. The Fund was not immune from these pressures and finished the month down 6.6%. This was behind the S&P/ASX Emerging Companies Accumulation Index which was down 4.3%, with micro-cap resource stocks once again outperforming their industrial counterparts.

Aroa Biosurgery (ARX, +14.8%) traded higher during April as its quarterly update, released toward the end of the month, reminded investors of the value that is on offer in this high growth company. ARX is a soft tissue regeneration company that develops, manufactures, sells and distributes medical and surgical products to improve healing in complex wounds and soft tissue reconstruction. New Zealand based, ARX's main target market is the US where its core Myriad product is FDA approved and has been used in more than 4.5 million procedures to date, and it also has various other products (including Endoform and Symphony) in late stage approvals or early stage sales. The ARX Q4 update (March year-end) demonstrated impressive top line revenue growth of +80% for FY22 (NZ$37.7m), which was comfortably ahead of the top end of management guidance which had been set at NZ$34-37m. Since its IPO at the beginning of the COIVD-19 pandemic (July 2020), ARX and its distribution partners in the US have been severely hampered in accessing hospitals and clinicians to introduce its product suite in order to drive sales and market penetration. These headwinds are now abating and with further products coming to market, and new jurisdictions to sell into, we now forecast ARX top line revenue growth at +25% in FY23 and growing further in later years. ARX is well capitalised, with +NZ$55m of available cash (no debt) and is expected to achieve run rate breakeven next year. We continue to view ARX as an excellent concept stock with a clear runway for profitability in the coming years.

EROAD Limited (ERD, -31.2%) was down heavily during the month after the CEO and founder Steven Newman announced that he would immediately resign, including stepping down from the board of ERD. This abrupt resignation comes just two months after the resignation of the respected CFO (Alex Ball) after just two years of tenure. The CEO search is underway with a short list of US based candidates identified. ERD also released a quarterly update which, management turnover aside, showed reasonable operating performance for the core ERD business. The quarterly indicated that connected unit customers grew at a 10% annualised run rate and importantly this metric had not deteriorated in the US with a number of potential customers in pilot and expected to become paying customers in the coming quarters.

The loss of the CEO was an unexpected turn of events which has come just under a year after ERD raised capital to fund the acquisition of Coretex to accelerate a platform upgrade, and also give the company enhanced scale in the US market and access to new verticals. ERD has a recurring revenue base which typically forms the basis of the valuation the market ascribes to the company due to the loss-making nature of the business as a software as a service (SaaS) enterprise. As mentioned in recent reports, stocks of this nature have borne the brunt of the recent market sell off due to the shift toward a higher interest rate environment. Whilst nothing untoward emerged in the recent quarterly update, we have elected to exit our ERD position on the basis of uncertainty given the lack of management at both CEO and CFO levels.

Silk Laser Australia (SLA, -14.6%) shares traded lower in April into an update which indicated COVID-19 related staff absenteeism issues were likely to have impacted SLA's operations. SLA has experienced greater COVID-19 related impacts more recently due to the concentration of its corporate clinics in SA and WA where the spread of the omicron variant has been delayed (relative to the east coast). Despite these temporary staff shortages, SLA was able to provide solid earnings guidance for FY22 EBITDA of $20m in a demonstration of disciplined cost control. SLA has a network of 61 corporate owned clinics nationwide which provide beauty treatments such as laser hair removal, cosmetic injectables, skin treatments, body sculpting and skincare. SLA has been growing through the roll-out of additional clinics (both wholly owned and in partnership with nurse operators), and has also experienced organic growth from existing clinics, many of which are yet to achieve full revenue maturity. Given cosmetic injection treatments are usually required to be ongoing, nurse injectors often form enduring customer relationships and injection revenue is reasonably sticky. We added to our SLA position during the month given the disruption to the business should be short term in nature and the current valuation looks undemanding for the quality of this injectables revenue which makes up 45% of network cash sales.

Outlook

The outlook for global growth deteriorated sharply during April as the reality of rapidly rising interest rates to tame runaway inflation hit home with key central banks becoming increasingly hawkish in their commentary in response to above consensus inflation prints in the US, Europe and Australia. During the month the International Monetary Fund (IMF) sharply revised downward its forecast for global economic growth from 4.4% to 3.6%, with growth forecasts in the US, the Euro Area, the UK and China all pared back as the war in the Ukraine added further fuel to inflationary pressures brought about by COVID-19 induced supply chain disruptions, with recent lockdowns in key manufacturing and trade hubs in China likely to further compound supply disruptions elsewhere.

The US Federal Reserve (the Fed) is facing mounting criticism, including from a raft of former central bank colleagues, that it has waited too long to commence its battle against inflation and now faces a difficult challenge to tame runaway prices without bringing about a US recession. The US CPI rose at 8.5% in March, the fastest annual pace in 40 years after food and gasoline prices drove a further steep rise in the CPI. So-called core inflation – which strips out volatile food and energy items – rose 6.5% over the 12 months to March, the highest annual pace since August 1982, up from 6.4% a month earlier and more than three times the rate of inflation the Fed is supposed to ensure. The Fed has now entered what is likely to be a very aggressive tightening cycle with rates increasing by 50 basis points in May, following the 25 basis point rate increase in April, and two further 50 basis point rises are widely anticipated for both the June and July Fed meetings. The US 10-year Treasury yield has surged to 3.1% in early May and traders of rate futures are currently pricing in a Fed funds rate of 3.00% to 3.25% by year end. Despite recent economic data suggesting that the US economy continues to perform strongly and renewed assurances that the outlook remains robust from Fed Governor Jerome Powell, history suggests that it will be a difficult task to orchestrate a soft landing for the US economy against a backdrop of rapidly escalating inflation. In the words of the Fed: "The labo[u]r market is extremely tight, and inflation is much too high". In our view, the risks of a US recession in 2023 have increased materially and we have repositioned the portfolio accordingly.

Sentiment toward China is also becoming incrementally bearish with President Xi Jinping's COVID-zero policy and widespread hard lockdowns raising serious doubts over the country's 5.5% economic growth target. At a meeting last week led by President Xi, the Politburo's seven-member Standing Committee said China will "exhaust all means and efforts" to eradicate COVID-19. The spreading lockdowns have brought the most populous city Shanghai to a standstill and Beijing is heading in the same direction. This approach indicates that Xi is prepared to jeopardise the Communist Party's reputation for sound economic management in order to defend a political narrative that portrays him as protector of the people and the world's most successful virus fighter. The timing is unfortunate given that global supply chains are already frayed by earlier COVID-19 disruption and the war in Ukraine and will only serve to add to logistical challenges and fuel to the inflationary bonfire that is threatening to send several key economic regions into recession.

Britain and continental Europe look particularly vulnerable to stagflation with the region a large importer of commodities which have skyrocketed in price since the start of the war in the Ukraine. Households across Europe are grappling with higher energy costs, rising grocery bills and a decline in real incomes. Businesses too are under margin pressure with energy, labour and other commodity inputs weighing on profitability. The Bank of England (BOE) is now forecasting a contraction in GDP of 0.25% in 2023 and inflation above 10% by the end of this year. The BOE began tightening monetary policy in an effort to tame inflation and the European Central Bank is highly likely to follow suit shortly. But a recession in the Eurozone in 2023 seems the most likely scenario.

In Australia inflation in April printed at an uncomfortably high 5.1%, a rate not seen in over 20 years, proving that Australia is not immune from the global price pressures that have emerged in the wake of the pandemic. We have long expressed our concern that the Reserve Bank of Australia (the RBA) was woefully behind the policy curve on inflation and the steep 2.1% jump in the CPI in the March quarter, taking inflation to an annualised rate of 5.1%, has forced the RBA into the uncomfortable realisation that price pressures are real, they are entrenched, and they require immediate policy action. The RBA responded in early May by raising the cash rate 25 basis points to 0.35%, which is the first time rates have risen in Australia since 2010. In uncharacteristically explicit terms, RBA Governor Philip Lowe indicated that rates were heading towards a neutral rate of 2.5%, where monetary policy is neither expansionary nor restrictive, although he did not confirm exactly when we will get to a 2.5% cash rate. Whilst the RBA has been slow to act, it must now move swiftly to avoid runaway inflation which is a threat to our future economic prosperity. Money market Interbank Cash Rate Futures are forecasting that the RBA cash rate will officially rise to around 2.5% by the year end, implying a rapid further 210 basis points of tightening over the remaining seven months of the year. Most economists expect that the domestic tightening cycle will be slightly more moderate than this in the near-term, although mortgage repayments will certainly be heading materially higher for homeowners who hold debt against their asset over the balance of the year.

Fortunately, the Australian economy looks better positioned than many of its global peers to achieve a soft economic landing and avoid recession. A low unemployment rate of 4.0% and a near doubling of the household savings rate to 19.8% during the December quarter, as well as recently announced budget handouts to low and middle income earners, leaves consumers well placed to continue to spend even allowing for near-term interest rate rises. Whilst there are risks on the horizon from the Russian/Ukraine conflict including higher energy prices, the near-term spike in grain, coal and iron ore prices will provide a material boost to Australia's national accounts and ought to leave the government well placed financially to cushion any deterioration in the economic outlook.

The recent focus of financial markets on inflation and central bank policy has meant that the upcoming Federal election has garnered relatively little attention in financial markets. The bookmakers have Labor leader Anthony Albanese at shortening odds to displace Scott Morrison in the Lodge come election day later this month, despite a growing series of slips or omissions from Albanese on the election campaign trail including failing to know either the unemployment rate or Australia's cash rate. Although the bookies have a poor track record on predicting recent election outcomes, it does seem more likely than not that we are in for a change of government as a result of the election. We do not expect that any of the stocks in the portfolio will be adversely impacted in a material way by a change in government, although aged care provider Regis Healthcare may ultimately end up being a beneficiary of a more favourable funding outcome under a Labor government.

In early May we attended the Macquarie Equities Conference in Sydney where the investment team met in person with more than 50 companies over three days. The tone of the conference overall was one of cautious optimism and none of the Fund's holdings released negative trading updates at the conference, despite several companies at the conference hosing down market expectations for the upcoming August reporting season.

Despite the volatile equity markets, investment bankers are still trying their hand with several IPO candidates pitching to the investment team in the coming weeks. These include burger and juice vendor Retail Zoo, chemical and ingredients distributor Redox and ESG friendly commodity marketplace Xpansiv. Quality and price will always be the ultimate determinant of whether we participate in a deal but the poor performance of last week's IPO, disruptive gold mining assay technology company Chrysos which closed down 36% on debut, suggests that any offering will have to be compelling to get us to open our chequebook in the current environment.

Markets continue to sell-off in early May and the Fund remains well positioned to outperform with a double-digit cash holding and few high multiple global growth exposures which are under increasing pressure. We have a long shopping list of quality businesses to buy once valuations reach attractive levels and we have greater clarity about the economic outlook.

Top 5 holdings#

Company	ASX code
Cedar Woods Property	CWP
Lotus Resources Limited	LOT
Probiotec Limited	PBP
Propel Funeral	PFP
Silk Logistics	SLH

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 | copiapartners.com.au

John Clothier	General Manager, Distribution	0408 488 549 | jclothier@copiapartners.com.au
Mani Papakonstantinos	Distribution Manager	0439 207 869 | epapakonstantinos@copiapartners.com.au
Jude Fernandez	Distribution Manager	0414 604 772 | jfernandez@copiapartners.com.au
Sam Harris	Distribution Manager	0429 982 159 | sharris@copiapartners.com.au
Greg Black	Distribution Manager	0407 063 433 | gblack@copiapartners.com.au