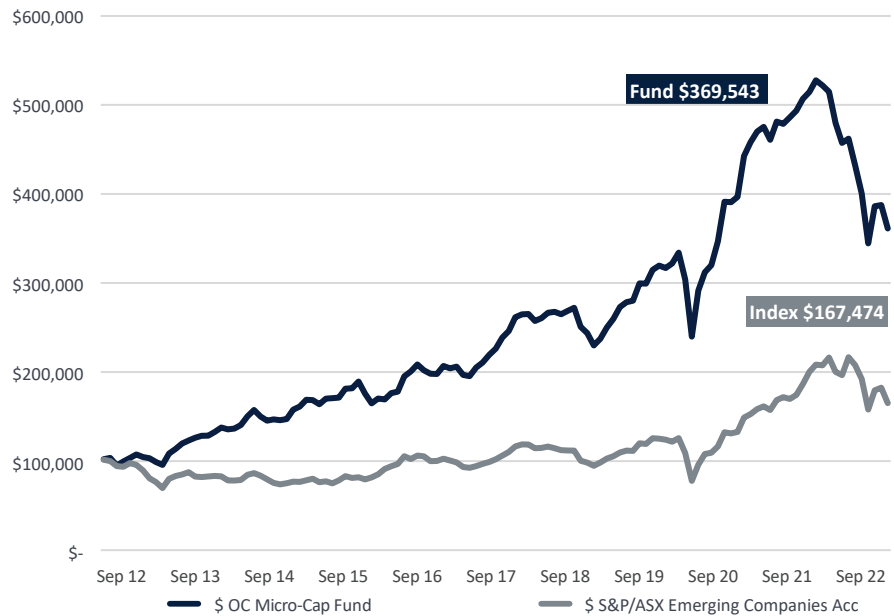


 Fund up 4.9% for the quarter
4.9%

 Returned 10.0% p.a. for the past 5 years
10.0%

 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 Sep 2022 ¹	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.	Incep. % p.a. (Nov 2003)
OC Micro-Cap	-6.9	4.9	-30.2	4.8	10.0	14.0	12.6
S&P/ASX Emerging Comp. Accum	-9.8	4.8	-18.2	10.1	10.8	5.3	5.9
Outperformance	2.9	0.1	-12.0	-5.3	-0.7	8.7	6.8

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 soft-close mid-prices and do not allow for the effects of income tax or inflation.

Performance review

Hawkish central banks, ructions in global currency markets, sticky core inflation in the US and concerns about a global economic slow-down weighed heavily on equity markets during the September quarter. Several key stock indices across the globe re-tested their lows of June and a number ended the quarter in bear market territory including the US S&P 500, the US Nasdaq Index, the Hong Kong Hang Seng Index and the German DAX Index. The sell-off gathered pace in the month of September with the US Federal Reserve (the Fed) increasing the Fed funds rate by a further 75 basis points following another elevated inflation print with subsequent commentary from the Fed leaving no doubt as to the near-term trajectory of interest rates in the world's largest economy. The ensuing strength in the US dollar has created dislocations in bond markets including in the UK where the Bank of England had to intervene to stabilise the GBP pound after new Prime Minister Liz Truss' mini budget of growth measures drove the sterling to its lowest level against the greenback in 37 years.

The domestic micro-cap index had a roller-coaster ride during the September quarter. The S&P/ASX Emerging Companies Index bounced strongly in July (+14.3%) when a short covering rally and optimism about a potential dovish pivot from key central banks drove a sharp bear market rally. Optimism, however, faded as the quarter progressed and central banks became even more hawkish, although the micro-cap index still finished the quarter up a healthy +4.8%. The OC Micro-Cap Fund finished the quarter up +4.9%, just ahead of the Index which was a credible result.

The share price of **PTB Group Limited (PTB, +43.2%)** took off during the quarter after announcing it had entered into a scheme implementation deed to be acquired by Precision Aviation Group (PAG) which is a portfolio company of mid-market private equity firm, GenNx360 Capital Partners. Under the scheme, PTB shareholders will receive \$1.595 cash plus a fully franked \$0.03c per share fully franked dividend. The cash consideration represents

a 40% premium to both last close and one month VWAP of PTB share price. To recap, PTB services turbo-prop aircraft engines, via workshops in Brisbane and across four locations in the USA. PTB enters into contracts with customers which provide contracted amounts of engine maintenance for a specified level of customer flying hours. PTB specialises in turbo-prop engines which power narrow body planes that have capacity up to a maximum of approximately 25 seats. These planes are used to transport a small number of passengers to remote locations such as islands in the Indian and Pacific Oceans and smaller regional centres.

The OC Micro-Cap Fund has been an investor in PTB since it raised \$22M at \$0.69 per share in February 2020 in order to fund the acquisition of the US operations just as the COVID-19 pandemic began. Despite the following 12-18 months of flying directly into pandemic headwinds, PTB has generally hit its forecasts, and has grown its pro-forma EBITDA from A\$16M to A\$23M over the past two years. Arguably PTB is being acquired at an attractive multiple (9x FY22 EBITDA) despite its track record of execution and its continued growth prospects (particularly in its larger USA operations). We view the premium offered by the bidder as attractive given the increasing likelihood of a material economic slowdown and the low level of liquidity in the stock.

Specialist wealth management platform provider **Praemium (PPS, +55.4%)** was a strong performer during the quarter, following a better than expected FY22 result. Cost containment was a standout feature of the result, driving an improvement in EBITDA margins for the company's continuing Australian operations which reporting a result ahead of consensus expectations. This was particularly noteworthy given costs were an area of disappointment for the company at its 1H22 result. The result also showed positive trends in PPS revenue margin, particularly evident in the last two months of FY22, largely reflecting a change in strategy by PPS to charge its clients a fee on the interest earned on cash holdings on the platform (rather than passing on the full benefit of rate hikes). We see as in line with general convention on similar fees charged by other specialty platform peers such as **Netwealth (NWL)** and **HUB24 (HUB)** and should continue to benefit PPS in FY23. From a volume perspective, the company continues to remain positive on the opportunities across its existing and prospective client base providing a target for FUA growth from flows of around 15% in FY23. With a solid outlook for platform volumes and pricing, and a greater level of confidence that the cost base has now been largely reset, we expect that as the platform continues to build in scale this should drive EBITDA margin expansion and a positive outlook for earnings over the next 12 months.

Following the release of its FY22 result, PPS also commenced on its previously announced plans for an on-market share buyback of up to 10% of issued capital, (equivalent to \$23.6m). Despite the strong share price performance during the quarter, PPS continues to offer compelling value compared with other listed wealth management platform providers. Furthermore, we see the obvious strategic value that PPS would provide as an acquisition target to one of its competitors given the scale benefits and strong operating leverage that the company would offer in an acquisition scenario.

Genusplus Group Limited (GNP, -24.4%) was sold off during the quarter after management guided the market that FY23 will be a year of consolidation for the business, contrary to prior market expectations of mid-teens percentage earnings per share growth. The disconnect with prior market expectation is due to the slower than expected ramp-up of the smaller telecommunications business, as well as a temporary lull in major project work in the core power infrastructure division. The business has also seen some impact from supply chain issues and expects these issues to continue into FY23.

GNP is a specialist provider in power and telecommunications transmission and distribution infrastructure in Western Australia, with a growing presence in Queensland and NSW. GNP has a blue-chip client base including governments, utility providers and tier one miners and is a low capital intensity, high margin business. Whilst we have reduced our weighting following the disappointing FY23 earnings outlook, we remain attracted to the business which has strong structural tailwinds from investment in transmission and distribution infrastructure to support the transition to renewable energy. The increasing focus on the network issues around Australia should see significant opportunities present during the coming decade as the Australian power network goes through a substantial transition from traditional energy sources such as coal to generation more from renewable energy sources. In fact, the long-term outlook for GNP's core business looks incredibly robust, strengthened recently by the Labor government's commitment to spend \$20b to roll-out electricity transmission assets in the coming years which are critical if Australia is to accelerate the development of zero emission generation and meet its 'net zero by 2050' commitment. GNP is one of few specialist providers with the track record and skilled workforce to undertake this important work. Management is prudently scaling back the smaller and more competitive communications business in FY23 and will refocus on the substantial growth opportunities in the power business which has been the engine room of growth for the business over many years.

Evolve Education (EVO, -20.0%) was sold off during the quarter after its occupancy suffered in New Zealand as a result of government mandated COVID-19 restrictions and staff shortages brought about by enhanced border controls which caused the business to report an underlying EBITDA loss in the six months to June 30. EVO owns 107 early education centres in New Zealand (NZ) and 24 centres in Australia and is run by childcare industry stalwart Chris Scott, who the OC team has known for almost two decades and whom we successfully backed at G8 Education (GEM) where he was founder and Managing Director. In late August, EVO announced that its wholly owned subsidiary, Lollipops Educare Holdings Limited, had entered into an agreement to sell its NZ centres to private equity firm Anchorage Capital Partners for an enterprise value of NZ\$46m, less net debt (inclusive of a capex adjustment of NZ\$2.5m). The deal completed and settled in early October and leaves EVO well capitalised to pursue the expansion of its Australian based business which is highly profitable (underlying centre EBITDA of \$12m in CY21), has strong occupancy (80%) and has had a solid post pandemic growth trajectory. The EVO management team believes the current Australian market conditions are ripe for centre acquisitions and market consolidation with supply dynamics favourable and competition more limited than in the past. Managing Director Chris Scott has a strong track record of executing in the Australian market and we will continue to hold our position in the company.

Outlook

There has been a notable shift in messaging from the US Federal Reserve over the past few weeks with a seemingly tacit acknowledgement from the central bank that a recession is an undesirable but acceptable price to pay to tame runaway inflation. Fed Chairman Jerome Powell has spoken repeatedly in recent weeks of the Fed's strong resolve to bring inflation down to the 2% target range adding that they "will keep at it until the job is done". Mr Powell said: "We have to get inflation behind us. I wish there was a painless way to do that. There isn't," Mr Powell told a press conference after lifting the target for the benchmark rate a further 75 basis points to a range of 3.00% to 3.25%. Fed officials also revised higher their inflation forecasts over the next year. They projected so-called core inflation, which excludes volatile food and energy prices, at 4.5% by the end of this year, above their prior projection of 4.1% in March; this compares to the Fed's inflation target of 2% over the longer run. The following statement should leave investors in no doubt as to the intentions of the US central bank: "Inflation is running too hot. You don't need to know much more than that", said Mr Powell. "If that's the one thing you know... it's that this committee is committed to getting a meaningful, restrictive stance of policy and staying there

until we feel confident that inflation is coming down". Fed officials now expect the funds rate to reach a high of 4.6% in 2023 before stepping down to 3.9% in 2024. Notably, the Fed does not expect to cut rates at all next year. This marked a material change in stance from the Fed and was at odds with consensus market expectations which were still pricing in rate cuts in the back half of 2023, as well as a lower peak Fed funds rate. The OC team had been more bearish than the overall market on the Fed's ability to cool sticky core inflation without further material monetary pain. Regular readers will be aware that a US recession has been our base case for some months, and we have positioned the portfolio accordingly.

We had for some time been more optimistic about the economic outlook for Australia, particularly compared to the US and the UK and the Eurozone, largely due to our status as a major exporter of commodities. Whilst much of the world has been buffered by commodity price inflation, Australia, as a major exporter of commodities such as coal, iron ore, grains and oil and gas, has benefitted from a significant strengthening of our national accounts which leaves the government well placed to stimulate the economy as it inevitably slows into 2023. However, Australia does not live in a vacuum against the rest of the world and the global economic slowdown will likely weigh on commodity prices at the same time financial markets have sharply lifted their expectations for Reserve Bank interest rate increases following recent developments globally. The market-implied 'terminal rate' of RBA cash rose sharply to a 14-year high of 4.2%, before moderating to 3.6% after the RBA surprised the market in early October by announcing a 25-basis point rate cut, below the consensus 50-basis point cut the market had been expecting. The RBA bucked the global trend of double-barrelled rate increases in October and has instead taken a more cautious approach to monetary policy, preferring to wait to see the impact of the now six consecutive rate rises it has announced since commencing the tightening cycle in early May. The pain of the 2.5% increase in the cash rate (from 0.1% low) will be particularly acute for those who locked in accommodating fixed rate mortgages during the pandemic when the cash rate was near zero, with 80% of these mortgages set to run off by the end of 2023.

The Australian dollar too has fallen sharply to US\$0.65 against the US greenback which will increase the cost of US dollar imports which will further add to domestic inflationary pressures. The higher the US dollar goes, the greater the need for other countries to raise interest rates to defend their currencies. In a world of high inflation, driven by soaring import costs, non-US dollar countries, including Australia, are importing more and more inflation via weak exchange rates. Even the RBA recently conceded to the House of Representatives economic committee: "It will be difficult for Australia to stay on that

narrow path to a soft landing if there is further material bad news on the global economy". With the outlook for the Australian economy having deteriorated in recent weeks we are reviewing the portfolio accordingly, particularly in relation to domestic cyclical stocks which will come under earnings pressure as the economy slows.

The next key data point from companies in our stock universe is likely to come during the AGM period which for June Financial Year end companies (most of our portfolio holdings) tends to be between mid-October and late November. The lagged impact of rate hikes and the ongoing strength in the domestic employment market means that we are not expecting to see widespread earnings downgrades during this period, although clearly recent trading and outlook statements from management will be heavily scrutinised by our team.

At times like this, when the market is selling off aggressively, it is easy for investors to get disgruntled and capitulate when they read negative news headlines and see stock indices falling sharply. As active managers, we see this time as a tremendous opportunity to set up our portfolio with high quality stocks that are falling towards attractive entry levels. It is these opportunities which ought to help underpin the performance of the Fund in the next upswing. It is important to remember that equity markets almost always bottom out well before the economy reaches its nadir, although timing the market is always difficult. We think the low point in this cycle could well come once it becomes clear that the US Federal Reserve has inflation under control and signals that it will cease hiking interest rates.

The OC Fund's team has a raft of quality stocks on our watch list, and many are now trading at levels not seen for several years. We have selectively deployed capital into some of these names already and will continue to do so when they reach attractive entry levels on a risk versus return basis. The good news for investors is that the OC Funds investment team is highly experienced and together we have successfully navigated the various bear markets over the past 20 years. We have a track record of outperformance when markets rebound. The Fund is cashed up (10%+ cash) and remains well positioned to capitalise on the opportunity to purchase quality small-cap names at compelling prices in the coming months.

Top 5 holdings[#]

Company	ASX code
Cedar Woods Property	CWP
Monash IVF Group Limited	MVF
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.

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*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.

* 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, by calling 1800 442 129 (free call) or by emailing 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.