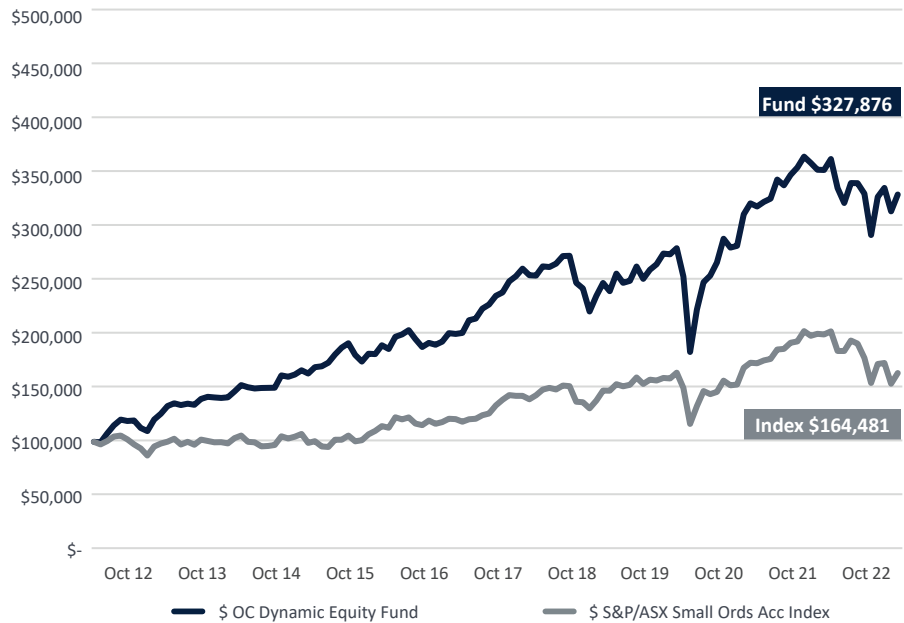


**5.0%**  
Fund up 5.0% for the month

**12.6%**  
Returned 12.6% 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 Oct 2022 <sup>†</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	5.0	0.7	-6.5	7.6	6.9	12.6	11.8
S&P/ASX Small Ords Accum	6.5	-4.9	-18.3	1.5	4.2	5.1	5.6
<b>Outperformance</b>	<b>-1.5</b>	<b>5.6</b>	<b>11.8</b>	<b>6.1</b>	<b>2.8</b>	<b>7.5</b>	<b>6.2</b>
S&P/ASX Small Ind Accum	7.4	-4.9	-21.7	-1.3	2.9	7.1	5.7
<b>Outperformance</b>	<b>-2.4</b>	<b>5.6</b>	<b>15.2</b>	<b>8.8</b>	<b>4.0</b>	<b>5.5</b>	<b>6.1</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

Global equity markets bounced in October following a challenging calendar year to date as optimism grew that the US Federal Reserve may soon start to moderate the pace of interest rate hikes following a further 75 basis point rise in the federal funds rate in early November. Several other leading global central banks, including Australia and Canada, also hinted that the pace of interest rate increases could begin to slow to allow monetary authorities time to properly assess the impact on the economy of the rapid fire monetary tightening that has been undertaken over the past six months. The markets seem to be in that counter-intuitive paradigm where bad economic news (aside from inflation) is taken as a risk on signal by equity markets participants on that basis that the emerging economic headwinds are likely bringing us closer to the point where central banks cease raising rates. This is a difficult time to invest because sentiment remains extremely fragile, and volatility remains heightened.

The OC Dynamic Equity Fund bounced strongly in October finishing the month up 5.0%. Whilst this was behind both

the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrial Accumulation Index, which were up 6.5% and 7.4% respectively, it was a nevertheless a credible result given our relatively conservative portfolio positioning and strong recent outperformance. We did use the aggressive sell-off in the September quarter to add some quality names to the portfolio which had been sold down to attractive entry points, including Domino's Pizza Enterprises and Johns Lyng Group. Our overriding focus at present remains on investing in quality business models at reasonable valuations that ought to have resilient earnings in a slowing economy. As a team, we remain attuned to the opportunity to add high quality stocks to the portfolio at valuations not seen for many years and we are pleased to report that we are making solid progress on that front.

**Telix Pharmaceuticals (TLX, +46.5%)** was an outstanding performer during the month after its second quarter of commercial sales for Illuccix, its PET imaging agent, surprised on the upside in the critical US market. TLX

reported Illuccix sales in the US of US\$36.4m in Q3 CY22 versus US\$13.6m in Q2 CY22, which was around 10% ahead of consensus market expectations. We estimate that Illuccix captured ~20% market share in its second quarter on the market and looks well placed to achieve at least 30% market share in the medium term. TLX also significantly reduced its cash burn during the quarter with quarterly net operating cash outflows of A\$5.3m, a material improvement on A\$25.8m in the previous quarter and the company looks to be controlling costs well. We now expect TLX to be EBITDA positive in FY23 and profitable in FY24. The company also announced several other positive milestones during the month including:

- Regulatory approval for Illuccix in the Canadian market for prostate cancer imaging, the first PET imaging agent to be granted regulatory approval in that market; and
- The approval by the Chinese Regulator of an application to commence a pivotal phase 3 study for Illuccix in China for the imaging of recurrent prostate cancer. The trial will be conducted by TLX's partner Grand Pharma, with enrolment of the 110 patients expected to commence in 1Q23. Successful completion of the study will support a future marketing authorisation in a very large market for prostate cancer.

The positive news flow from TLX was a welcome relief after the short-term regulatory set back in Europe in late August after the company withdrew its Marketing Authorisation Application (MAA) for Illuccix after being unable to satisfy unforeseen, last minute data requests within the statutory review timeframe. This will likely delay the commercial launch of Illuccix in Europe until CY25. Following a capital raising of \$175m in January 2022, TLX remains well funded to execute on its robust pipeline of additional material opportunities in the growing field of radiopharmaceuticals which is attracting far greater attention from investors and regulators.

**Life360, Inc. (360, +39.6%)** delivered another strong month of performance following on from the September quarter where its share price was up +74.3%. This rebound in the first four months of the new financial year has been a welcome relief following a disappointing share price performance in the June quarter (-51.9%). The main catalyst for 360's move was its formal announcement of well anticipated pricing increases for its core US offerings and also an apparent willingness of the market to re-examine beaten up, high growth, tech stocks with the prospect of interest rate increases slowing and a slew of takeover bids landing in the sector. The pricing increases that 360 will implement point to ongoing revenue tailwinds as the company enters its key end of year selling

period (including the critical Christmas gifting period) and should continue into CY23. Furthermore, whilst 360 tempered expectations somewhat of any immediate positive revenue impacts from this price change, investors continued to focus on the earlier August company update which showed strong growth in users, subscribers and average revenue per user, and where the company also reiterated it expects to generate positive adjusted EBITDA and operating cash flow on a consistent basis later in 2023. Overall, we believe 360 has adequate liquidity to achieve cash flow breakeven and its impressive growth rate will eventually be more fully appreciated by the market. The Fund remains underweight the information technology space, although we continue to hold 360 as a modest position in the 'Innovator' sleeve of the portfolio.

We have been looking for high quality businesses with structural growth and economic resilience to add to the portfolio. An example of this is our recently established position in **Johns Lyng Group (JLG, +3.5%) (14.0% since entry)**, where share price weakness during the month afforded us an attractive entry point. JLG is an integrated building services group, which specialises in building and restoration services to property and contents after damage by insurable events. Culture and employee alignment have been a hallmark of the company's strong track record. JLG is led by CEO and Managing Director, Scott Didier, who acquired the business in 2003, and has since grown it from what was a small local operator in Victoria to the largest national operator in its space. Scott and his team continue to have significant 'skin in the game' continuing to own ~30% of the company. In JLG's core Insurance Building and Restoration Services (IBRS) division, which accounts for ~90% of the company's earnings, JLG runs a capital light business model, where its role is as a project manager, sitting between the insurance companies it receives work from, and the ~7,000 sub-contractors. It has a defensive revenue profile largely comprised of ~40,000 discrete 'Business as Usual (BAU)' related claims which occur over the course of any given year, typically awarded to JLG via a panel structure with the insurers, with JLG well represented on most panels across Australia.

Whilst less predictable, an increasing prevalence of natural disaster driven catastrophe events (CAT) in recent years has also provided additional work for JLG; a recent example of this being the storms which have ravaged South-East Qld and Northern NSW. Scale and breadth of its network is a key advantage for JLG, assisting the company in building relationships with insurer partners and in procuring a local workforce. We see this as particularly evident during CAT events, where JLG is depended on by its customers to procure a workforce in a timely and cost-effective manner. Acquisitions have been a key part of the company's growth strategy, with

the company expanding into adjacent areas such as Strata Management, and more recently offshore in the US, through the acquisition of Denver, Colorado based business, Reconstruction Experts (RE) in December 2021. JLG has an attractive growth profile (15%+ CAGR over the medium term), driven by further consolidation of the industry in Australia, and over time in the US, where we see significant opportunity to accelerate growth in RE given its greater access to capital under JLG ownership and as JLG's culture and incentive structures are gradually embedded into the local team.

During the month we exited long-term holding **Baby Bunting (BBN, -25.9%)**. We had owned BBN since its IPO in 2015 and have successfully trimmed our weighting when it moved up and topped up on share price pullbacks making it a very successful investment over the seven years. Unfortunately, the surprise downgrade at their AGM indicated a number of issues which we did not think were reflected in the premium rating of the stock. Our general rule when faced with an unexpected downgrade is to sell and we don't let our past affinity for a stock weigh in on the fundamentals of the situation. The company's Q1 trading indicated significantly lower than expected margins arising from several factors including a new loyalty program, increased fuel surcharges on freight, the declining Australian Dollar, competition in the play gear category and additional costs more broadly. The company's hopes to recover to a flat margin for FY23 seem optimistic to us with many of the impacts ongoing in nature and limited ability to offset with higher prices due to an "everyday low prices" strategy. Ordinarily BBN should, in our view, be in a position to show price leadership in increasing prices however BBN is in a difficult position as their Price Promise (will beat any competitors price by 5%) strategy forces them to meet aggressive competitor promotions in various lines and categories. While we have exited for now, as new facts emerge, we may look for an opportunity to return in future should the risk reward trade-off be better balanced in our view.

## Outlook

There has been a plethora of economic data and central bank commentary released over recent weeks which overwhelmingly indicates that core inflation remains stubbornly high in most regions and that monetary authorities remain laser focussed on returning their economy back to a period of price stability. The lagging nature of rate hikes means that the economic data in both Australia and the US remains robust and unemployment levels hover near multi-decade lows despite the jumbo-sized rate hikes we have seen over recent months. Europe and the UK remain much more challenging from an economic perspective with rampant commodity price pressures and an energy crisis brought

about by the war in Ukraine meaning that stagflation appears to have already set in.

In the US, the CPI printed at 8.2% in September, despite a moderation in energy prices with shelter, food and medical care amongst the key drivers of price growth. Core inflation (excluding volatile food and energy items) – remains elevated at 6.6% over the 12 months and is proving 'stickier' than the Fed would have hoped suggesting that more rate pain lies ahead. The core PCE price index, a key inflation metric, rose in line with expectations and showed a decline from the second quarter.

The US economy remains resilient, albeit the impact of rate increases is yet to have been felt at the coalface of the economy. According to the US Department of Commerce, real GDP for the last quarter increased at a 2.6% annualised rate, coming in ahead of expectations of a 2.4% increase. Furthermore, the report showed an end to two straight quarterly decreases in output, erasing previous concerns of a recession in the US. Manufacturing also appears to be robust, with the ISM new orders index coming in above expectations, rising to 49.2 in October from 47.1, whilst the labour market continues to remain strong, with the JOLTS data coming in ahead of expectations with a large 437k increase in job openings to 10.7m.

As expected, Fed Chairman Jerome Powell continued the unprecedented pace of interest rate tightening seen in recent months, increasing the target range for the federal funds rate by 75bps to 3.75% to 4.00% at the November FOMC meeting. Whilst some in the market were hopeful of signs of a potential 'pivot' in the Fed's expectations, the messaging from Mr Powell at the November meeting put these rumours to bed and served to remind investors of the Fed's mandate to bring inflation back to its target of 2%. Despite seeing signs of softening in the economy in areas such as growth in consumer spending, as well as a significant weakening in housing activity, the Fed continued to express concern that inflation remains elevated, and that the labour market 'continues to be out of balance', and thereby contributing to an elevated level of wages growth. Interestingly, the Fed has made efforts to shift the focus away from the size of the next rate hike, and more onto the peak and the length of time of elevated interest rates. Whilst acknowledging that the pace of future rate hikes may slow, taking '*into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation*', in the subsequent press conference, Mr Powell noted this was not a change in the hawkish stance, commenting, "*incoming data since our last meeting suggests that the ultimate level of interest rates will be higher than previously expected*" and that "*The question of when to moderate the pace of increases is now much less important than the question of how high to raise rates and*

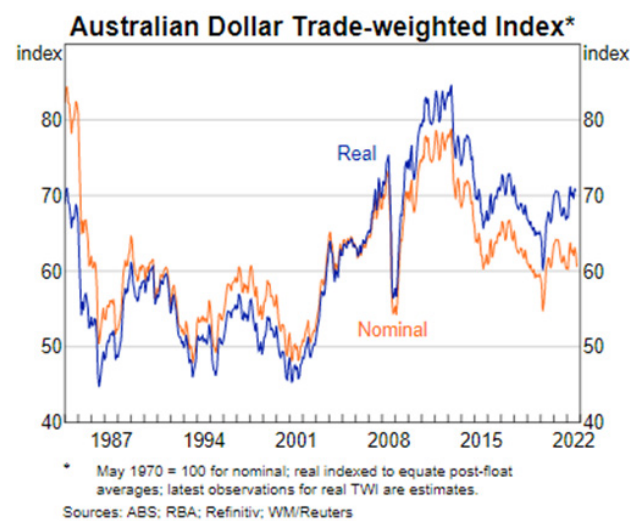
*how long to keep monetary policy restrictive*". Following the meeting, there is now an expectation from the market that the Federal Funds Rate will peak around 5.1%, above the Fed's official forecasts of 4.6% from September.

Inflation remains front of mind in Australia with the CPI increasing 1.8% in the September quarter as the annual inflation rate rose to 7.3%, well ahead of the consensus expectation of 7.0%. The trimmed mean, the central bank's preferred measure of inflation also advanced 1.8% in the quarter, taking the annual rate to 6.1%. This is the highest reading since the Australian Bureau of Statistics series started in 2003.

Despite this, the RBA has maintained its relatively dovish stance, increasing the official cash rate by 25bps to 2.85%. The higher-than-expected inflation print in September is a cause for concern for the RBA, which lifted its expectations for inflation to peak at 8.0% in late 2022 and warned it is likely to remain at a higher level, around 4.75% over 2023 and a little above 3% over 2024. Comments from RBA Governor Lowe, however, continue to suggest that it would require a persistently higher level of inflation to reverse its relatively more dovish pivot from the previous October meeting, noting the material increase in rates since May and the lag with which monetary policy operates. In the RBA's release, Governor Lowe also pointed out the impact which higher rates and inflation have already had on consumer confidence and house prices – both factors which are clearly being taken into consideration in setting the pace of rate hikes. Whilst the RBA noted that the economy continues to grow solidly, it revised down its growth forecasts to around 3% this year, and 1.5% in 2023 and 2024, reflecting the impact of a slowdown in the global economy, the bounce-back in spending on services having run its course, and slowing household consumption due to tighter financial conditions. On the labour market, the RBA continued to expect the current tight conditions to persist over the months ahead, and unemployment to increase to a little above 4% in 2024. Notwithstanding this, inflation remains the key focus, with the RBA reiterating its priority to return inflation to its target band of 2% to 3% range over time and noted that the *'size and timing of future interest rate increases will continue to be determined by the incoming data and the Board's assessment of the outlook for inflation and the labour market'*. Following the outcome of the RBA's November meeting, there is an expectation that the current pace of rate hikes will continue until mid-2023, with expectations of the RBA cash rate peaking around 4.0%.

With the financial markets pricing in a comparatively slower pace of rate increases in Australia compared to major trading partners such as the US, there is a potential risk that this could further reduce the attractiveness

of the AUD. Whilst the AUD has fallen sharply against the USD to ~US\$0.64 which risks exacerbating inflation pressures, it is largely a USD strength story. As illustrated in the chart below, the Australian dollar trade-weighted index (TWI) or the price of the Australian dollar in terms of a basket of foreign currencies based on their share of trade with Australia, is much more balanced, suggesting this risk may be overstated.



In spite of rampant inflation and steep rate hikes, the domestic economy remains relatively robust. Late October marks the start of AGM trading updates and so far, for the most part, they have been better than expected. In particular, trading updates from retailers such as Adairs (ADH) and Super Retail Group (SUL) suggest that consumer confidence appears to be holding up better than expected. This strength is a continuation of the activity we saw during the August reporting season where a tight labour market and elevated energy costs are flowing through into higher domestic freight prices. As expected, there remains a mood of cautiousness over the next 12 months, with companies continuing to refrain from providing definitive financial guidance.

The Australian 'Mini-Budget' dominated headlines late in the month and the Federal Treasurer Jim Chalmers framed the budget as "solid, sensible and suitable to the times". The budget itself was well telegraphed to the market and was relatively benign in terms of material policy changes, as was widely expected given the short tenure of the new Labor government. There were some positives from an OC Funds portfolio perspective including:

- The Government announced \$9.6b of additional infrastructure spending which ought to be beneficial for portfolio holdings Ventia Services, Seven Group Holdings (Coates Hire, Boral and WesTrac subsidiaries) and Maas Group Holdings; and

- APM Human Services International (APM) was a beneficiary of the Disability Employment Services (“DES”) program being extended a further two years whilst work is undertaken to build a future model for disability employment. DES is APM’s largest contract and the certainty the program extension brings is a great outcome for the company.

Pleasingly, there were no obvious material negative outcomes from the ‘Mini-Budget’ for the portfolio.

Whilst the market finished the month solidly in the black in October, we remain cautiously positioned and of the view that this is likely a bear market rally. Core inflation remains stubbornly high meaning that central banks will forge ahead with further rate increases until such time that the inflation genie is back in the bottle. The economic damage that will result from these rate hikes will inevitably lead to demand destruction across the economy that will likely precipitate a wave of company earnings downgrades across the market throughout calendar year 2023. In the short-term, that should make any near-term equity rallies short lived. Nevertheless, there are some quality stocks that are getting sold off and the OC investment team has a shopping list of desirable companies that we will selectively purchase once they reach our valuation targets. As a team, we have been on the road with an extensive visitation program, making trips to NSW, Qld and WA in the last few months, meeting with the management teams of our portfolio companies, prospective investments and other industry participants. In person visitations form an important part of our investment process, and we have a number of trips planned before the end of the year as we continue to build on our list of potential ideas for the fund. The Fund has typically bounced back strongly following equity market downturns and we are using the current volatility as an opportunity to cherry pick attractive new opportunities which ought to help drive attractive returns for our investors in the coming years.

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

Company	ASX code
APM Human Services	APM
Eagers Automotive	APE
GQG Partners	GQG
Mineral Resources	MIN
Seven Group Holdings	SVW

<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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\*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 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.