

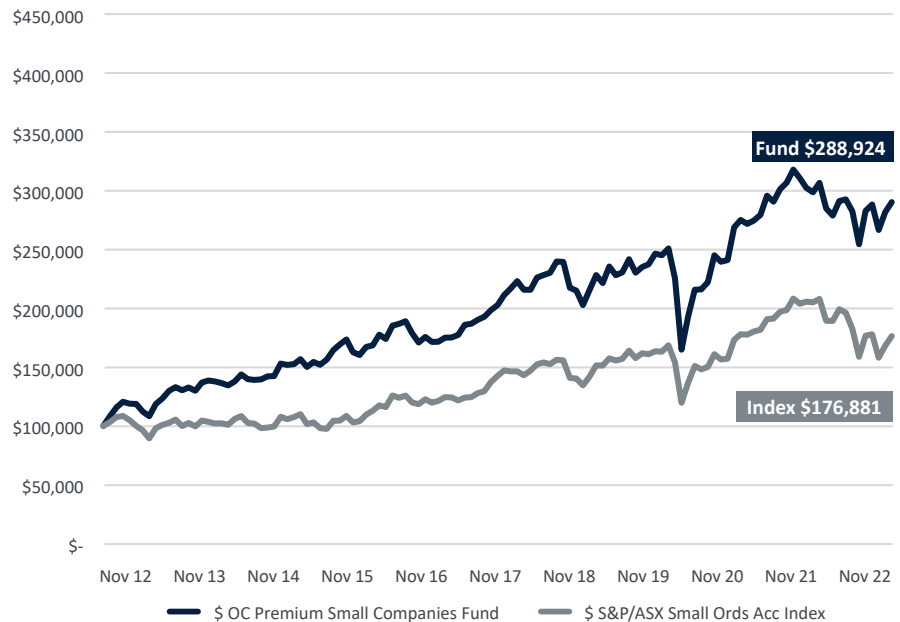
 Fund up 3.0% for the month  
**3.0%**

 Returned 11.2% p.a. for the past 10 years  
**11.2%**

 We remain confident the Fund will continue to deliver attractive long-term returns

### Performance comparison of \$100,000 over 10 years\*



### Total returns

At 30 Nov 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 Premium	3.0	0.7	-2.8	5.6	7.4	11.2	10.5
S&P/ASX Small Ords Accum	4.9	-0.8	-14.0	2.6	4.4	5.9	5.7
<b>Outperformance</b>	<b>-1.9</b>	<b>1.5</b>	<b>11.2</b>	<b>3.0</b>	<b>3.1</b>	<b>5.4</b>	<b>4.8</b>
S&P/ASX Small Ind Accum	2.7	-1.3	-18.3	-1.3	2.9	7.5	5.7
<b>Outperformance</b>	<b>0.3</b>	<b>2.0</b>	<b>15.5</b>	<b>6.9</b>	<b>4.6</b>	<b>3.7</b>	<b>4.8</b>

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

Equity markets continued to recover in November after a softer than expected US CPI print and a dovish speech from Federal Reserve (the Fed) Chair Jerome Powell fuelled optimism that interest rates in the US may soon peak and that a protracted recession in the world's biggest economy can be avoided. The domestic small cap market cruised through a relatively benign AGM season with a resurgent resources sector (S&P/ASX Small Resources Accumulation Index up 11.6%) helping to drive the S&P/ASX Small Ordinaries Accumulation Index up 4.9% for the month. The OC Premium Small Companies Fund had a solid month, up 3.0%, which was just ahead of the S&P/ASX Small Industrials Accumulation Index which finished November up 2.7%.

The Fund has clawed back a large portion of its drawdown over the past year and has now fallen by 2.8% over the past 12-months. This is a credible performance against a backdrop of sticky inflation and rising interest rates and is well ahead of the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials

Accumulation Index which are down 14.0% and 18.3%, respectively, over the same time horizon.

**Kelsian Group (KLS, +17.3%)** bounced back strongly from oversold levels after a solid AGM update in late October, a strategically sensible bolt-on acquisition in education transportation, and the renewal of key Gladstone/Curtis Island marine services contracts which served to refocus investor attention on the stock. KLS provides public transport services in Australia, Singapore and the UK, as well as some tourism services in Australia. KLS typically has infrastructure-like contracts with government or quasi-government bodies whereby the company is paid a fixed monthly fee to deliver a set service, with no leverage to passenger volume or fares. Fuel is often passed through the government contracts and wage increases are typically tied to revenue indexation in the contract. KLS has a strong pipeline of tender opportunities across its bus operations over the next six months including in metropolitan Sydney, Auckland, Singapore and Manchester. Furthermore, the return of international

tourism ought to be a material positive for the company's ferries businesses into CY23, including Captain Cook Cruises on Sydney harbour where the company has a very strong competitive position following a recent acquisition. KLS is a defensive, well managed business with strong organic and acquisition driven growth opportunities. The stock remains a core portfolio holding.

**Seven Group Holdings (SVW, +14.3%)** also bounced following a solid AGM update which highlighted strong performance across the operating businesses in the first quarter of FY23 and management also reiterated the outlook for high-single digit to low double-digit EBIT growth in FY23. SVW's Caterpillar dealership business, WesTrac, continues to experience buoyant trading conditions across its mining products and services which will underpin guidance for low-teens underlying EBIT growth. Customer activity at Coates Hire remains solid with infrastructure investment picking up and asset utilisation improving. The company's investment in Boral remains a work in progress, although recent management changes appear positive and the renewed focus on financial discipline including goals to deliver low-teens EBIT margins and mid-teens ROCE within five years are a sensible development. SVW's stake in Beach Energy Limited (~30%) looks particularly interesting given the heightened interest in onshore gas assets following the Full Court of the Federal Court's recent decision to uphold a landmark ruling against Santos in the Timor Sea. This decision is expected to delay major upcoming offshore drilling programs and leave major players scrambling for supply. BPT's assets in the highly prospective onshore Perth Basin, consisting of the Waitsia project (non-operated) and Beharra Springs (operated) project, are likely to draw particular attention. BPT is currently engaged in a takeover battle for Perth basin junior Warrego Energy (WGO), although Gina Rinehart's Hancock Prospecting is currently the preferred bidder for the company. We expect further takeover activity in the Perth basin in the coming months and would not be surprised if BPT itself became a target. Whilst this would clearly have positive implications for the SVW share price, we believe the company remains fundamentally undervalued irrespective of any corporate interest in Beach Energy.

**AUB Group (AUB, +11.6%)** was a strong performer during the month after announcing an upgrade to its FY23 guidance at its AGM following a strong Q1 FY23. AUB upgraded FY23 guidance for Underlying NPAT of \$90m to \$92mn (vs \$86m to \$91m previously) which largely reflects an assumption for continued strong rate rises in insurance premiums in Australia, and moderate but accelerating rate rises in New Zealand. Additionally, AUB also provided guidance for the recently acquired UK based wholesale broking business, Tysers, which

completed on 30 September 2022, noting that it was performing ahead of expectations compared to when the transaction was announced in May 2022. AUB Group is an intermediary in the general insurance space, operating a network of insurance broking and underwriting agencies, across 520 locations in Australia. Through the acquisition of Tysers, it has more recently entered into the Lloyds wholesale insurance broking market, where it acts as an intermediary between policy holders and underwriters, typically catering to more specialised lines of insurance. We initiated a position in AUB earlier this year after a sell-off in its share price following the announcement of the acquisition of Tysers, which presented us with an opportunity to invest in a defensive growth business at an attractive valuation. We remain positive on the earnings outlook for AUB over the medium term driven by: (1) growth in insurance commissions driven by leverage to an increasing insurance premium rate environment, (2) margin improvements through streamlining operations and investment in technology, (3) inorganic opportunities through the acquisition of independent broking businesses or buying out minority stakes in partly owned brokers within AUB's network. Despite the strong performance in share price, valuation remains attractive with AUB trading on 17x FY24 PE for low teens earnings growth (in comparison, its competitors, Steadfast and PSC Insurance are both trading on 21x FY24 PE).

Rural conglomerate **Elders (ELD, -18.5%)** reported a solid result for their year ended September 2022, at the upper end of their 30-40% growth range as expected by the market. This news was overshadowed, however, by the announcement of the upcoming retirement of their popular CEO, Mark Allison. With rural conditions particularly strong in 2022, the market was already weary that this may not be repeated in 2023. Additionally, the change in CEO further compounded on concerns for the earnings outlook, igniting a fear of a lack of near term acquisitions and perhaps approaching the end of the road for the company's successful 'self help' programs, both of which have been an integral part of the company's growth story. We see these concerns as overdone, however, as the company has given us assurances that these processes are already deeply embedded and the criteria for bolt on acquisitions are already well understood by the teams working on these deals with or without Mr. Allison. The opportunities for further vertical integration and for continued geographic expansion remain and seasonal conditions to date have set up the potential for strong trading for the year ahead. At the same time, the 2022 result did have challenges which we expect to revert. These include, the mixed blessings of rain creating localised challenges in flood impacted areas plus the increased feed growth on-farm leading to fewer farmers trading their young livestock through ELD agencies. Around the edges, it is expected that the

wet conditions will increase weed growth and therefore herbicide sales in the new financial year, plus potentially crop rotation into more input intensive summer crops. Overall, we were sad to see the departure of a well-regarded CEO, but remain confident that there is a strong operational team in place below the CEO level to continue to drive the business in the future. We materially reduced our holding in ELD but remain a small shareholder.

## Outlook

Global equity markets have shrugged aside aggressive central bank tightening and staged a remarkable recovery in recent months with the US Dow Jones Industrial Index briefly re-entering bull market territory (20% increase off its late September lows) in late November. The catalyst has been a growing view that inflationary pressures have now peaked in key economies and that central banks will soon cease their aggressive monetary tightening as the global economy slows and pricing pressures subside. Supporting this view, the US CPI printed at 7.7% in October, cooler than had been expected, although household staples such as shelter, food and energy remained among the largest contributors to consumer prices and are still rising at a historically fast pace. Whilst this optimistic scenario cannot be outright dismissed given that we are in uncharted territory, it is not one which we consider likely given that inflation is proving to be sticky, economic activity and job markets remain robust, and key central banks including the Fed and RBA continue to reiterate that rates need to rise further to bring inflation back to their respective target ranges. The lag effect of monetary policy means that both the US and the Australian economies, along with much of the Western world, are likely to slow considerably into calendar year 2023, with at least a shallow recession in the US still our base case assumption.

Earlier this month, the RBA delivered its eighth consecutive increase in the official cash rate at its final meeting of 2022. Interest rates in Australia have now gone from just 0.1% in early April to 3.1% in short order. On the inflation front, the headline CPI fell to 6.9% in October, well below market expectations (7.4%), although the relief is likely to prove temporary given that the October result is yet to fully reflect the impact of the recent floods on grocery prices, nor the latest surge in energy bills. Despite the rapid increase in rates this year, the RBA will likely continue hiking rates into the new year, a position reinforced by Philip Lowe in his post board meeting policy statement. Unemployment remains stubbornly low at 3.4%, a near 50-year low, and a solid household savings buffer leaves domestic consumers well positioned even allowing for near-term inflationary pressures, rising interest rates and a softening housing market. We are retaining a domestic bias in our portfolio,

as we view the domestic economy as being better placed to avoid recession than key offshore economies including the US, UK and Europe.

The November AGM season offered plenty of insights into the strength of the domestic consumer, which seems to be holding up relatively well, although management were much more guarded in providing forward guidance into the new year with the mood perhaps best described as cautious. Domestic retail was an area of unexpected strength in AGM commentary with a number of companies including Nick Scali, Harvey Norman, Accent Group and Super Retail Group all still reporting buoyant trading and limited impacts, as yet, from rising rates or falling house prices. The Black Friday sales period was reported as being strong across the board and expectations for the critical Christmas trading period is broadly upbeat. It was significantly more difficult to garner optimism on the outlook with very few companies offering forward guidance and most agreeing that it is very difficult to know what the trading environment will look like once the full force of mortgage rate increases hit the consumer hip pocket and as the negative implications of a falling housing market (wealth effect) flow through. The OC portfolio has limited direct exposure to the consumer given our expectation that the economy will soften materially into the new year as interest rate pain hits the main street.

Other key callouts observed by the OC Investment team during the month include:

- Labour availability and wage inflation remain a key issue for many companies, with some relief expected as migration returns to our shores and as international travel resumes;
- Supply chain pressures are still an area of concern, although container freight costs have fallen sharply and are back to pre-pandemic levels. Lead times on production are also moderating meaning that inventory reduction is becoming a key focus for those companies who have built 'just in case' inventory buffers;
- Input cost pressures are creating margin headwinds for companies unable to offset them through price rises (e.g Collins Foods);
- Australian dollar weakness versus the US dollar (USD) means that importers (who pay for goods in USD) will need to further increase prices into a softening consumer environment or suffer margin pressure;
- Rate hikes have materially raised interest cost for companies with floating rate debt and, in many instances, we feel the sell-side is behind the curve in factoring this into their forward earnings forecasts.

Back in early October we added some risk to the portfolio, predominantly in the form of oversold growth stocks,

which has helped the portfolio to rebound over the past few months. In particular, we have been selectively adding quality stocks (e.g. Dominos Pizza Enterprises and Johns Lyng Group) with long-term growth prospects as they are sold down to attractive entry levels. That said, we are cautious on the outlook for equity market following the sharp rally as we enter the new year with rate hikes likely still to come and with the economy likely to start to slow. The Fund remains cashed up (10%+ cash) and is well positioned to capitalise on the opportunity to purchase quality businesses at compelling prices in the coming months as the opportunities arise.

### 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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<sup>†</sup>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. 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 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 Premium Small Companies Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns. A performance fee of 20.5% is payable annually on any excess performance (after deducting the management fee) above the benchmark, S&P/ASX Small Ordinaries Accumulation Index, to 30 June. A performance fee is only payable where the Fund has returned 5% or more since the last performance fee was paid. 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 Premium Small Companies Fund (ARSN 098 644 976). 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.