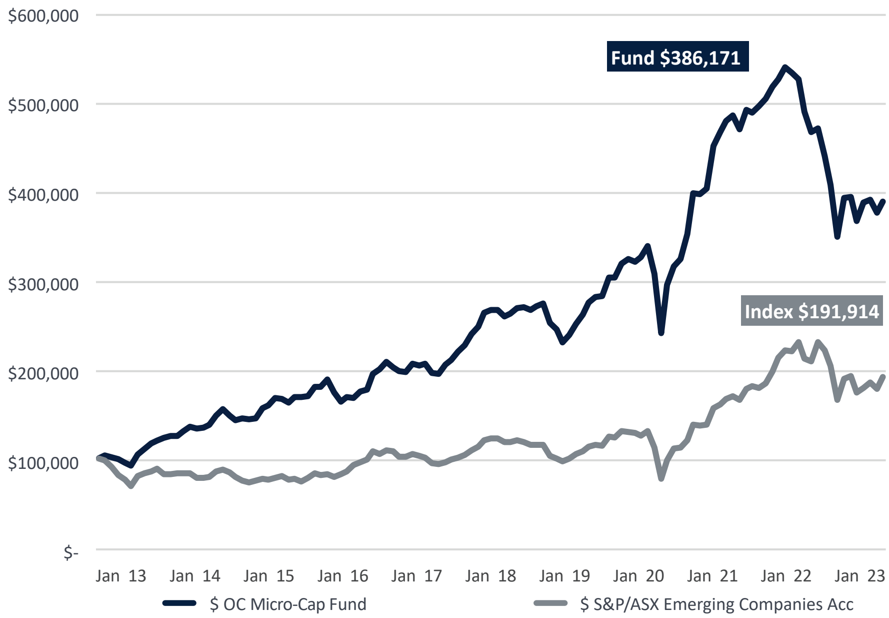
3.2% Fund up 3.2% for the month

14.5% Returned 14.5% p.a. for the past 10 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 31 Jan 2023†	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	3.2	0.2	-20.6	4.7	7.8	14.5	12.7
S&P/ASX Emerging Comp. Accum	7.2	6.8	-10.0	13.6	9.3	6.7	6.3
Outperformance	**-4.0**	**-6.6**	**-10.6**	**-8.9**	**-1.5**	**7.8**	**6.4**

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

Global equity markets had a strong start to the year with a growing view that inflation has peaked and that central bank tightening is nearing an end, as well as positive sentiment around China's reopening, stirring the 'animal spirits' of market participants. Many investors, OC Funds included, entered the new year cautious on the global economic outlook with the impact of dramatic monetary tightening in 2022 yet to flow through to the broader economy and inflation still elevated. Whether this turns out to be a bear market rally remains to be seen. But many investors, nervous about being too conservatively positioned, have gone 'risk on' in recent weeks and, in many instances, last year's biggest stock losers have started the year with the steepest rallies. The stock bourses that endured the steepest falls last year too were amongst the best performers in January including the US Nasdaq +10.7%, the Hong Kong Hang Seng +10.4%, and China H-Shares +10.7%.

Our own small and micro-cap indices bounced back strongly from their annus horribilis in 2022, with the S&P/ASX Small Ordinaries Accumulation Index +6.6% (-18.4% in CY22), the S&P/ASX Small Industrials Accumulation Index +6.3% (-21.8% in CY22) and the S&P/ASX Emerging Companies Accumulation Index +7.2% (-22.5% in CY22) in January. Across the domestic micro cap universe, many of the best performing stocks during January were last year's laggards including Sezzle Inc +55.4% (down 86.3% last year), Cettire Limited +49.8% (down 64.2% last year), and Fund holding Chrysos Corporation +42.0% (down 49.6% last year). The OC Micro-Cap Fund had a solid month delivering +3.2%, but it lagged the small and micro-cap indices. Clearly, we were not positioned for the sharp rally that left many investors, ourselves included, too conservatively positioned to keep pace.

Chrysos Corporation (C79, +42.0%) traded higher during the month as the stock recaptured the attention of investors, helped along no doubt by delivering a solid quarterly report. We initially passed on participating in the C79 IPO earlier last year, despite our attraction to the company's world-class technology. This was due to the elevated valuation at which the float was priced. We opportunistically purchased the stock shortly after it listed at a price that was some 40% below issue price and the stock has performed well since. C79's highly disruptive photon assay technology delivers faster, safer and more accurate gold sample data which has the potential to revolutionise the way both miners and explorers approach drill core analysis. Originally developed by the CSIRO (22% shareholder), the C79 photon assay technology involves the use of high energy x-rays to excite the atomic nuclei of specific minerals in the sample to analyse metal (and moisture) content. This is a step change from traditional destructive, fire-based assay analysis which involves higher labour and consumables costs and also has a larger carbon footprint and higher lead contaminated waste output than C79's photon assay process. The business model is underpinned by long term, infrastructure like annuity revenue streams from blue chip gold miners (such as Barrick) and global laboratory services clients (such as ALS and SGS). C79 has 49 units currently contracted to customers and its manufacturing capacity is expanding to 18 units per annum. The total addressable market for C79 is potentially +500 units with the ability to expand unit application into other commodities such as copper, silver, lead and uranium. C79 has $81m of cash on hand to support the company's growth strategy, which is focused on deploying further units globally, and is actively pursuing a debt financing deal to fund further growth (in lieu of a potential equity raise). With an enterprise value of approximately $350m, we see C79 offering good value for the many years of organic growth it has ahead of it.

Smartpay (SMP, +22.5%) was added to the portfolio just before Christmas. The stock traded higher during January in anticipation of a strong December quarterly trading update which came through late in the month. SMP provides card payment solutions to SME merchants in Australia and NZ, with growth coming predominantly through the Australian business. Australian SMEs are gravitating toward the simple, zero cost 'Smartcharge' solution which does not charge terminal rental or transaction fees to merchants. This product has strong appeal as it saves SMEs terminal rental and transaction fees for no outlay on their part. This proposition is gaining traction with customers as Australian SMP terminals have organically grown +60% over the last year, albeit cycling a period which was heavily impacted by COVID-19 lockdowns. Whilst December is a seasonally strong period, the company added 1950 new terminals in Australia over the quarter, which was a solid acceleration over the 1600 added in the September quarter. It is important to note that new Australian customers payback terminal capex and customer acquisition costs over a short period of just nine months. We remain attracted to SMP despite the strong short-term share price performance. We expect this strong customer growth can continue given SMP has only 14K terminals in Australia and the low payback on customer acquisition appears to be sustainable.

Capitol Health (CAJ, -9.4%) traded lower during the month on no stock specific news, albeit recent Medicare data suggests that the diagnostic imaging industry overall has been experiencing some ongoing post COVID-19 impacts. These impacts include, but are not limited to, bottle necks in the ramp up of elective surgery, patient cancellations due to illness and CAJ staff absenteeism (again due to illness). As a reminder, the OC investment team identified CAJ as a quality business which was experiencing government imposed difficulties during the depths of the COVID-19 lockdowns (particularly in Victoria). We participated in a discounted capital raising in April 2020 at 16cps (closed January 2023 at 29cps). CAJ has a network of 63 diagnostic imaging clinics, predominantly in Victoria (but also with a presence in WA, Tasmania and SA), providing services such X-ray, Ultra-Sound, Magnetic Resonance Imaging (MRI) and Computerised Tomography (CT) to a predominantly 'bulk billed' client base. CAJ managed the difficult COVID-19 conditions admirably. During the course of CY22, the company emerged from the lockdowns in solid shape with margins improved, market share gains achieved and ready to work through a backlog of GP imaging referrals which were, in many cases, put on hold during the COVID-19 lock downs. We see CAJ as well positioned to continue to execute on its strategy, with a strong balance sheet giving line of sight on further selective acquisitions and greenfield site openings. We continue to hold the stock as a core position in the portfolio. OC Fund's believes that CAJ, and the broader diagnostic imaging industry, offers an essential health service with excellent long term growth prospects, as well as the potential for CAJ to further participate in the ongoing sector consolidation.

During the month, the OC Micro-Cap Fund initiated a new position in **Select Harvests (SHV, +2.6% or +0.0% since average entry price)** and we opportunistically increased our weightings in several existing portfolio holdings at lower share price levels including **Praemium Limited (PPS, -4.4%)** and **Monash IVF (MVF, +8.9%)**. SHV, an almond orchard owner and processor, was added to the portfolio after it downgraded earnings expectations earlier in January on the back of crop quality issues and a falling almond price. SHV is a stock well known to the investment team and is now trading at a decade low share price (and at around net tangible asset backing). The SHV share price ought to recover with the almond price which has suffered as a result of the COVID-19 pandemic. Existing holdings in PPS and MVF were topped up on recent share price weakness and are trading well below our internal valuations.

We expect further opportunities to add to the OC Funds portfolio across the February reporting period and have a short-list of quality stocks that we will be paying close attention to during the month.

Outlook

Entering the new year, the prevailing wisdom from most market pundits, OC Funds included, was that the market faced mounting headwinds in the form of steep rises in the cost of money, stubbornly high inflation which likely necessitated further interest rate pain, geo-political uncertainty and company earnings that were likely to come under pressure in 2023 as the global economy slowed in the face of these challenges. We enter the February reporting season with a very different narrative gaining some currency. There is an alternate view that inflation has now peaked and is coming down, central banks are nearing the end of their steep tightening cycle, China has re-emerged from its COVID-19 induced slumber and will fuel the growth of the global economy, and that there is now a pathway to a soft landing across key Western economies, including the US, the Eurozone and the UK.

To be clear, we do not currently subscribe to the latter more bullish view, although we are heartened that inflation does seem to have topped out and signs of disinflation (a situation where the inflation rate is falling) in the US augurs well for peak rates being lower than we had previously forecast. The latter outcome would certainly be a material positive for asset values, should it eventuate, and would mean that any recession ought to be a lot shallower than if inflation had proven to be much stickier. We nevertheless remain concerned that the steep rate hikes of the past year are yet to fully hit the broader economy. Indeed, the US 10-year minus 3-month bond yield spread, historically viewed as a window into the outlook for the economy, is steeply and stubbornly inverted (the spread is currently -1.17%); at this level it is flashing a stark recessionary warning. Jeremy Grantham from Boston based asset management firm GMO succinctly pointed out, with regards to the US economy, that *"[t]his spread has gone negative only 8 times in the past 50 years and all 8 times have been followed by recessions. To rub it in, there have been no other recessions. That is, every one of them was preceded by a negative reading."* We acknowledge that Mr Grantham is a noted 'permabear', albeit one with an impressive track record. We also note that we are in unprecedented times coming out of the COVID-19 pandemic and there have been many distortions including central bank intervention (quantitative easing/tightening) and supply chain dislocations which make predicting the future particularly challenging. But we are reluctant to ignore history and the fact that there are now increasing indicators that the economy is indeed slowing, rates are still rising and that inflation remains well above the target range for our central banks, despite positive signs. While we have added some risk to the portfolio on a more upbeat inflationary outlook, we remain relatively conservatively positioned overall from a portfolio perspective.

The key source of market optimism in January was undoubtedly the US inflation data which printed mid-month and showed that the consumer price index (CPI), a measurement of what consumers pay for goods and services, rose 6.5% last month from a year earlier, down from 7.1% in November and well below a 9.1% peak in June. It was the sixth straight month that inflation had declined and in the words of Federal Reserve (The Fed) chairman Jerome Powell: *"We can now say, for the first time, the disinflationary process has started."* US GDP, adjusted for inflation, printed at annualised rate of +2.9% in Q4 2022 which, although below the +3.2% rate in the third quarter, was a strong end to the year.

Nevertheless, the economic headwinds in the US are starting to mount, particularly in interest rate sensitive areas of the economy, with home sales and construction activity under pressure and manufacturing output declining in both November and December. In recent weeks, there have been growing lay-offs from high profile US firms including Amazon, Goldman Sachs, Alphabet (Google's parent company), Microsoft and Salesforce. This trend is expected to continue as interest rates rise and the economy slows. Notwithstanding these well published job losses, January employment data out of the US surprised on the upside. The US economy added 517,000 jobs in January, comfortably beating consensus expectations of growth of only 188,000 jobs. Remarkably, the US unemployment rate is back at 3.4%, a 53-year low, which leave the Fed plenty of scope for further rate hikes in the coming months. Although we still expect the US to enter a recession this year, it is now more likely to be a shallow one.

In early February, the Fed affirmed market expectations by increasing the target range for the Fed funds rate by 25 basis points to 4.50-4.75%. Powell's proceeding press conference had plenty to latch onto for both the bulls and the bears. On the hawkish side, he reiterated the committee's prior view that there remains work to be done to curb inflation and was still expecting a "couple" more rate increases and is prepared to raise its policy rate by another 25 basis points at the next two meetings. The bulls, however, were emboldened by Powell's acknowledgement that the US economy has entered a period of "disinflation" with price pressures cooling. Further, he left scope for a policy pivot in the future by conceding that officials are open to adjusting their plans if price pressures cool faster than expected. Long duration growth stocks, including technology names, rallied sharply in the following days as bond markets and money markets priced in lower peak interest rates than had previously been anticipated.

The inflationary trajectory in our own backyard is less clear, with the Australian CPI hitting a 33-year high of 7.8% in the December quarter. Whilst this was below the RBA's 8.0% forecast, it was above consensus market expectations of around 7.5%. Significantly, trimmed mean inflation, the RBA's preferred measure that smooths out large price movements, rose 1.7% over the quarter to 6.9% annually, suggesting strong momentum in prices. This number was well above the RBA's expectations of 6.5% and remains too high. It made the early February 25 basis points rate hike by the Reserve Bank of Australia (RBA) a near certainty. The stronger-than-anticipated acceleration in annual inflation was driven by a near 9% jump in household power bills and a 13% leap in domestic travel and accommodation. The market is hopeful that inflation has now peaked in Australia, and we are simply lagging the US on the path towards disinflation; it certainly seems to be pricing in this outcome. The hawkish policy statement by RBA governor Philip Lowe following the February board meeting suggests that the RBA is unlikely to take any chances in its fight against inflation and has flagged at least two more rate hikes over the months ahead.

From an economic perspective, there are signs that rate hikes are beginning to slow the domestic economy. Whilst Corelogic data suggests that the pace of declines in the capital city housing market moderated slightly in January, employment declined in December marking the first decline since July 2022, notwithstanding the unemployment rate remained steady at an upwardly revised 3.5%. More surprisingly, retail sales fell 3.9% in the final month of last year, according to the Australian Bureau of Statistics (ABS), the first decline after 11 straight months of growth and eight straight months of record spending. We caution about reading too much into this single print, with ABS head of retail statistics Ben Dorber acknowledging that spending patterns continued to change around Black Friday and Cyber Monday sales, with consumers potentially having brought forward Christmas season spending into November.

Perhaps of greater relevance to the outlook for the consumer and the broader Australian economy is the sharp change in circumstances being faced by a great number of mortgage holders in the coming months, as the mortgages fixed at record low rates during the pandemic start to roll-off and homeowners face a mortgage cliff. It is widely reported that the 'fixed rate' share of mortgages will fall from a historically high proportion of 40% to a more normalised level of 15% by the end of 2023. Those borrowers with fixed rate mortgages maturing will clearly face significantly higher interest rates and monthly repayments. Most fixed rate mortgages will roll from around 2.5% rate to near 6% which, for an average 30yr $600k loan, implies a lift in monthly repayments of $1,226 a month. Therefore, whilst the RBA may be soon approaching peak rates, the rate pain for many mortgage holders is only just starting. We remain cautious on the domestic consumer ahead of this event, although the government remains well placed to stimulate the economy should a protracted downturn eventuate. The commodities boom continues unabated, and iron ore prices have recently strengthened into the Chinese economic reopening. This will provide the 'lucky country' with an additional trade windfall which could be used by the government to prop up the householder down the track should circumstances warrant it.

Much has been written about the Chinese reopening from strict COVID-19 lockdowns and it is certainly a welcomed development, particularly given it is the world's second largest economy, as well as Australia's largest trading partner. Communist Party officials are promising to use "full firepower" to re-ignite the Chinese economy and the immediate impact on commodity prices has bolstered our terms of trade. In the coming months, we anticipate benefits to the education and tourism sectors, as well as the flow of skilled migrants to help ease the employment bottlenecks. The reopening has certainly been taken as a major positive in equity markets and reduced the likelihood of a hard landing in the global economy. Certainly, it has the potential to add to inflationary pressures if one wanted to be glass-half-empty, but it is hard to view it as anything other than overwhelmingly positive for Australia.

The recent thaw in relations between Australia and China also offers cause for optimism. Prime Minister Anthony Albanese and Chinese President Xi Jinping met on the sidelines of the G20 summit in November, followed shortly after by a successful visit to Beijing by Foreign Minister Penny Wong in December. Top trade officials from both countries are scheduled to meet virtually in the coming days with China's punitive $20 billion trade sanctions on Australia products, including wine, barley and rock lobster, likely to be high on the priority list for the Australian delegation. China remains an economic powerhouse and successful bilateral trade with the Middle Kingdom can only further our nations prosperity into the future, despite the obvious ideological challenges.

Reporting season has kicked off in Australia and debt collector and payday lender Credit Corp and multi-affiliate investment management firm Pinnacle Investment Management were first out of the gate in the ex-100 space. Both results came in behind consensus expectations although, interestingly, both have rallied after initial sell offs as market participants choose to look through near term earnings weakness and instead focus of the medium-term growth outlook. This requires investors to have conviction in a strengthening economy (and stock market) into calendar year 2024. The Fund holds neither of these stocks, but it will be interesting to see if this trend continues for the remainder of February. Will the market continue looking through any near-term earnings weakness and reward those companies that ought to perform strongly once the economy breaks the shackles of inflation and rates come back down? Or will bearish sentiment take hold and drive us back into a bear market? Market sentiment remains fragile, so we are reluctant to forecast these early observations as a either a trend or sustainable; there are a great many unknowns about the months that lie ahead. The OC Funds team has many company meetings scheduled in reporting season and we look forward to sharing our key insights with investors in early March.

Top 5 holdings#

Company	ASX code
Cedar Woods Properties	CWP
Propel Funeral	PFP
Peter Warren	PWR
Silk Logistics	SLH
Universal Store	UNI

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
Justin Cilmi	Distribution Manager	0428 153 431| jcilmi@copiapartners.com.au