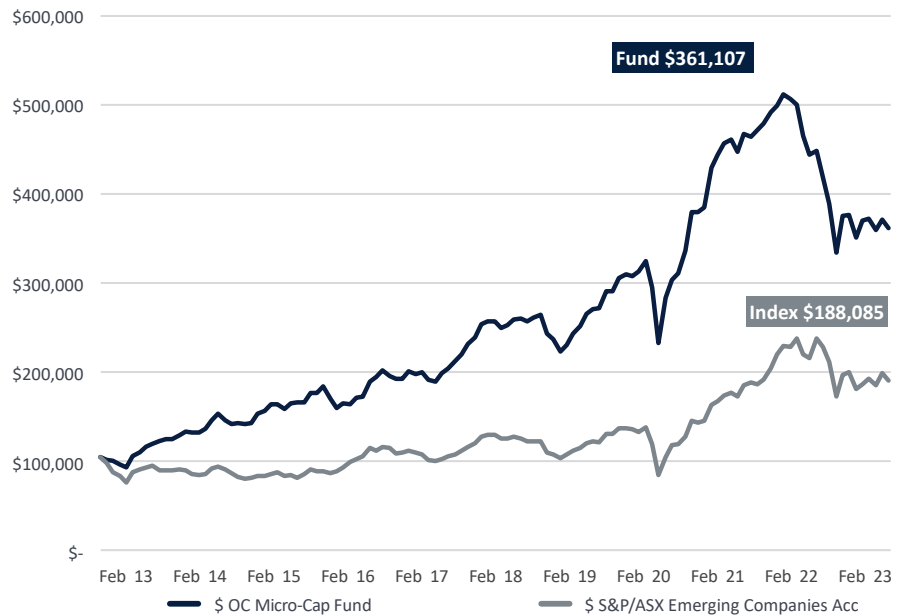


 Fund down -2.6% for the month  
**-2.6%**

 Returned 13.7% p.a. for the past 10 years  
**13.7%**

 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 28 Feb 2023 <sup>†</sup>	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	-2.6	-3.1	-18.9	7.1	7.2	13.7	12.5
S&P/ASX Emerging Comp. Accum	-4.2	-1.0	-12.2	17.8	8.4	6.5	6.0
<b>Outperformance</b>	<b>1.6</b>	<b>-2.1</b>	<b>-6.7</b>	<b>-10.7</b>	<b>-1.2</b>	<b>7.2</b>	<b>6.5</b>

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

After a strong start to the calendar year, global equity markets retraced in February driven largely by fears that inflation will prove to be stickier and more persistent than had previously been contemplated by many investors. Increasingly hawkish central banks drove up real bond yields and most key global indices ended the month lower including the US DOW (-4.2%) and S&P 500 (-2.6%), the Hong Kong Hang Seng (-9.4%) and the MSCI All Country World Index (-1.9%).

The February reporting period was a mixed bag across the market, with divergent performance across the board from companies, often in the same sector, and few unequivocal macro-call outs. As expected, few management teams and boards were prepared to give numerical forward guidance, and most were guarded in their commentary on the economic outlook. The S&P/ASX Emerging Companies Accumulation Index finished February down -4.2%. The OC Micro-Cap Fund performed slightly better (-2.6%) with most of our core holdings

producing solid results indicating that our investment theses remain intact.

The **Viva Leisure Limited (VVA, +19.4%)** share price strengthened over the month after reporting first half numbers which were ahead of market expectations and underpinned by healthy member growth and better yield. Whilst broader reporting season data points indicated that H1 23 discretionary spend was softening at the edges, this trend has not yet flowed into the VVA corporate owned gym network where memberships have lifted to more than 177K members across 166 corporate locations at 20 February. Whilst a gym membership is ultimately a discretionary purchase, it is relatively low cost (with an average VVA membership costing little more than \$15 per week) and member surveys (conducted by Roy Morgan Research) indicating 67% of Club Lime members consider their health membership a wellness necessity. FY23 earnings guidance of \$28-30M EBITDA is in sight given VVA hit half the bottom

end of the guidance range in 1H23 and the top end of guidance was predicated on 178K members by June 30. Furthermore, whilst VVA has grown via equity raisings in its short listed history, management has outlined that as the business has recovered from lockdowns it is now generating enough free cash flow to organically open +20 new greenfield sites per annum which would achieve strong returns on capital. Whilst macro conditions are undoubtedly a concern for the business, this is reflected in the low valuation ascribed to VVA by the market (5x FY23 EV/EBITDA and 4x FY24 EV/EBITDA). With COVID-19 now in the rear view mirror, the VVA business is performing strongly and we remain comfortable holders of the stock.

**MMA Offshore (MRM, +21.2%)** share price moved higher during the month as it provided a buoyant trading update at its interim result that further illustrated that this once highly distressed capital equipment provider is now firmly back on track and highly leveraged to offshore energy market tailwinds. MRM contracts out vessels and provides marine and subsea services to the offshore energy, renewables, and wider maritime industries in Australia and internationally. MRM operates a modern, world leading fleet of 24 vessels and has 1,100 employees operating out of six facilities globally. MRM also carries a number of non-core vessels held for sale and recent transactions suggest asset values in the sector are only strengthening with the company recently taking the hitherto unprecedented step of 'writing up' the value of previously written down vessels. MRM has traditionally been seen as a service provider to the offshore oil and gas sector and leveraged to hydro-carbon market conditions. In recent years, MRM has expanded its offering into the burgeoning offshore wind turbine market and is also increasingly servicing the government and defence sectors through offshore surveys and infrastructure work. MRM is beginning to reap the benefits of this diversification strategy whilst also retaining exposure to its traditional hydrocarbon market. MRM's HY23 result and trading update showed earnings for the first half up +70% on the prior corresponding period with vessel utilisation above 80% (and up to 90% in some divisions) being the primary contributor to the uplift. MRM is now trading above its NTA for the first time in many years, is net debt free, and generating strong cash flows. Whilst we have reduced our position, MRM remains a core portfolio holding offering unique exposure to offshore energy market investment.

**Top Shelf International Holdings (TSI, -25.8%)** traded lower during the month as its quarterly update, issued at the end of January, illustrated that, whilst the company was continuing to deliver on its longer-term strategy, there was an impending funding gap that needed to be filled. The stock sold off in February ahead of an

anticipated capital raising. TSI has a three-pronged spirits strategy led by its flagship NED Whisky brand which is building its sales velocity; indeed the NED 700ml is now the 8th largest selling American/Australian whisky SKU at the Coles Liquor Group. NED Whisky has a slower path to market as (by law) Australian whisky needs to be matured in oak barrels for 24 months before it can be sold as whisky and this requires substantial investment, including in liquid manufacture, oak barrelling and warehousing. Nonetheless, this period of investment is beginning to bear fruit and NED Whisky is now available in many leading bottle shops nationally and we believe the brand is close to inking a deal that will see it distributed at the market leading Endeavour Liquor Group, which includes the Dan Murphy and BWS liquor outlets. TSI's 'fast to market' Grainshaker Australian vodka brand is predominantly sold in hotels and other Coles owned venues. It also has large exposure to the spring/summer events schedule (including the Australian Open tennis) where it has sold more than 1,200,000 ready to drink cans so far in FY23 and is the fastest growing Australian vodka in the Coles liquor range. Arguably the jewel in the crown of the TSI spirits range is its Agave product (Australian tequila) which remains 'pre-launch' but will be processed from the company's Agave plantation in north Queensland (which is the largest such plantation outside Mexico). At the end of February, the company conceded it needed additional funding and placed 12.5m shares to raise \$10m at \$0.80c. At the capital raise, TSI also flagged the sale and lease back of its Whitsundays based agave plantation which could yield a further \$30m of liquidity to fund the ongoing working capital needs of the broader business. Whilst the TSI share price performance has been disappointing since its late 2020 IPO, we believe the company's quality stable of brands leaves it well positioned to attract the attention of global majors in the coming years. We participated in the placement, along with other existing institutional shareholders.

**Pacific Smiles (PSQ, -22.3%)** was lower for the month after releasing a soft result for 1H23 but reiterating FY23 guidance, albeit at the bottom of the previous range. The first half was a period where cancellation rates, patient attendance and revenue recovered but each at a softer rate than expected which resulted in labour inefficiencies and lower than expected margins. By pointing to the lower end of the guidance range, PSQ has indicated an expected improvement in margins in 2H23 which ought to be driven by more optimised staff to practitioner ratios and tighter cost controls. Furthermore, PSQ expects higher return rates of insured patients and an increase in fees per appointment due to an increase in restorative treatments. PSQ does not expect cancellation rates or margins to further decline, and we welcome more cost discipline and focus on margins. We expect PSQ will pause from opening new clinics beyond the two already

committed to in the near term which will further restore margins as clinics typically lose \$100,000 in the first 12 months post opening. This will focus attention on the cohort of recently opened clinics which should experience improved utilisation and relatively fixed operating costs which will generate earnings. Ultimately, PSQ should be able to deliver material near term EBITDA growth and is trading on a relatively attractive 5-6x EBITDA multiple with a clean balance sheet and minimal maintenance capex requirements given the immaturity of the network. The key risk is the 30% of patient fees which are not funded by private health insurance which could come under pressure in a softening macro environment, although we believe that is currently priced into the stock. The dental clinic space has attracted considerable corporate interest in the past and PSQ could come onto radars should it be able to demonstrate better returns across its under-earning network.

## Outlook

The strength in markets in January had been driven by a growing narrative that inflation had peaked and that central bank tightening was nearing an end, with many investors, nervous about being too conservatively positioned, having gone 'risk on'. This optimism unwound over the course of February with key inflation read outs printing hotter than expected, real bond yields pushing higher, and central banks overall becoming more hawkish in their tone. Whilst we remain attuned to the overall macro-economic environment, we try to distance ourselves somewhat from the short-term market 'noise' which can lead to hasty or premature decisions on portfolio positioning. As we mentioned in the January Monthly review, we *"did not...subscribe to th[is]...more bullish view"* on a near-term dovish central bank pivot and we remain positioned for an economic slowdown that must inevitably come as central banks try to rein in inflation.

The US Federal Reserve's (the Fed) preferred inflation indicator, Core PCE inflation, which excludes volatile food and energy prices, unexpectedly accelerated in January increasing 0.6% from a month earlier to 4.7%. After a slow down into the end of CY22, consumer spending accelerated +1.1% from the previous month, the most in nearly two years after consecutive monthly declines. The stronger than expected labour market has reignited the debate about the trajectory of monetary policy in the world's biggest economy with some economic commentators now pushing for a return to double-barrelled 50 basis point rate increases to get the Fed back ahead of the curve on inflation. Indeed, at least three Fed officials have publicly signalled their openness to a 50 basis point increase after they all opted for a downshift to 25 basis points on February 1. This view was reinforced by Atlanta Fed President Raphael Bostic, who told reporters:

*"I want to be completely clear: there is a case to be made that we need to go higher," Bostic said, "Jobs have come in stronger than we expected. Inflation is remaining stubborn at elevated levels. Consumer spending is strong. Labor markets remain quite tight."* Whilst Mr Bostic told reporters that he is still favouring raising rates by 25 basis points in March, it highlights a willingness from some of the Fed board to lift borrowing costs higher than we envisaged if the economy remains strong. Should this approach play out, it obviously narrows further the already challenging pathway to a soft landing for the US economy.

The picture domestically seems a little more positive in terms of avoiding a recession with the aggressive hiking cycle and elevated inflation starting to impact at the coalface of the economy. The December quarter national accounts data showed that economic growth or GDP growth slowed to 0.5% which was below consensus expectations of 0.8%. Annual growth slowed to 2.7%, from 5.9% in the previous quarter. The national accounts showed the weakest growth in household consumption since the COVID-19 induced lockdowns in the September quarter of 2021 and households are now spending 5.4% of disposable income on housing interest payments, the highest share since 2014. This figure will likely continue to increase as the Reserve Bank ratchets up interest rates further in the coming months. In a positive development, the monthly CPI decelerated sharply in January to 7.4% (from 8.4%) which was well below consensus expectations of 8.1%. The unemployment rate also unexpectedly jumped to 3.7% from 3.5%. Whilst the RBA will welcome the weaker inflationary print and the softening in the jobs market, we caution against reading too much into one month's data in terms of calling out a meaningful trend.

As expected, the RBA increased interest rates a further 25 basis points at the March board meeting, bringing the cash rate to 3.6%. It marks the tenth hike in the cash rate since it moved off near zero (0.10%) in May 2022. RBA governor Philip Lowe in his accompanying state tempered his language slightly from the previous month although he reiterated the need for *"further tightening of monetary policy...to ensure that inflation returns to target"*. The market is divided on when the RBA will pause its monetary tightening, although a further 25 basis points in April remains the consensus view. We will continue to closely monitor the pace of the domestic economic slowdown, with a view to portfolio positioning, although our domestic economy still looks better placed than the US and Europe and UK the UK to avoid a painful recession.

Reporting season has just wrapped up and it was a mixed bag across the domestic small cap market. Pleasingly, the Fund's holdings, on balance, reported stronger results

than the overall market which allowed us to outperform the small cap indices during the month. Indeed, several of our core holdings released updates that either upgraded prior company guidance (e.g. SRG Global, Monash IVF, Aspen Group, Trajan Scientific and Silk Logistics) or gave commentary that led to meaningful positive consensus earnings revisions from the sell-side analysts (e.g. Mermaid Marine and Viva Leisure). Wages inflation was probably the most broad-based call out across the listed stocks in company reporting season, which interestingly seems at odds with the recent wage inflation data in the national accounts and the soft read from the December quarter seasonally adjusted wage price index (WPI) (+0.8%) released by the ABS. Most companies we spoke with over the past month cited wages pressure as a key challenge and this was also widely called out in the media and by sell-side analysts in their reporting season commentary. Labour shortages too are still impacting many businesses, although border re-openings and an increase in skilled migrants and backpackers should help alleviate skills shortages in some areas going forward.

Other key trends observed by the OC Funds team in our reporting season meetings included:

- Muted guidance from companies on the economic outlook – most companies refrained from giving numerical earnings guidance with many citing an uncertain macro-economic outlook given the steep path of rate hikes over the past 10 months and the still elevated inflationary environment;
- Consumer outlook getting tougher – despite a resilient end to the year for the consumer, several companies have flagged challenges ahead and a more muted start to the new year including Nick Scali and Temple & Webster;
- Lingering COVID impacts in healthcare - staff absenteeism or patient cancellations (due to ill-health) impacting margins (e.g. radiology and IVF), and also health systems bottlenecks (elective surgery);
- Cost of debt is rising – interest expense has risen rapidly for indebted companies and will continue hit company earnings as rates go higher, or as fixed rate debt rolls off and is refinanced at higher interest rates;
- Insurance premiums continues to rise - particularly cyber insurance, with little respite expected in the near-term (with insurance brokers are the key beneficiaries);
- Supply chain pressures appear to be easing and freight costs and energy input costs are falling - logistic costs nevertheless remain well above pre-COVID-19 levels; and
- Cost pressures have peaked – many firms are suggesting that cost pressure have peaked (with

labour cost being the exception) and they may be starting to ease given improvements in the supply chain and key commodity inputs.

The Fund remains conservatively positioned at present, with a cash balance approaching 10%, providing ample flexibility to capitalise on macro-induced weakness in the market in the coming months. Whilst this level is well above our typical cash weighting of around 4-6%, we feel it is prudent in view of the elevated macro-economic risks. Post our reporting season management catchups, we will once again head out on the road with an extensive company visitation program planned in the coming two months. We thank our investors for their ongoing support and remain committed to our goal of generating strong long-term risk-adjusted returns for our clients.

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

Company	ASX code
Cedar Woods Properties	CWP
Propel Funeral Partners	PFP
Peter Warren Group	PWR
SRG Global Ltd	SRG
Telix Pharmaceuticals Limited	TLX

<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 hard-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](http://ocfunds.com.au), by calling 1800 442 129 (free call) or by emailing [clientservices@copiapartners.com.au](mailto: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.