-1.5%

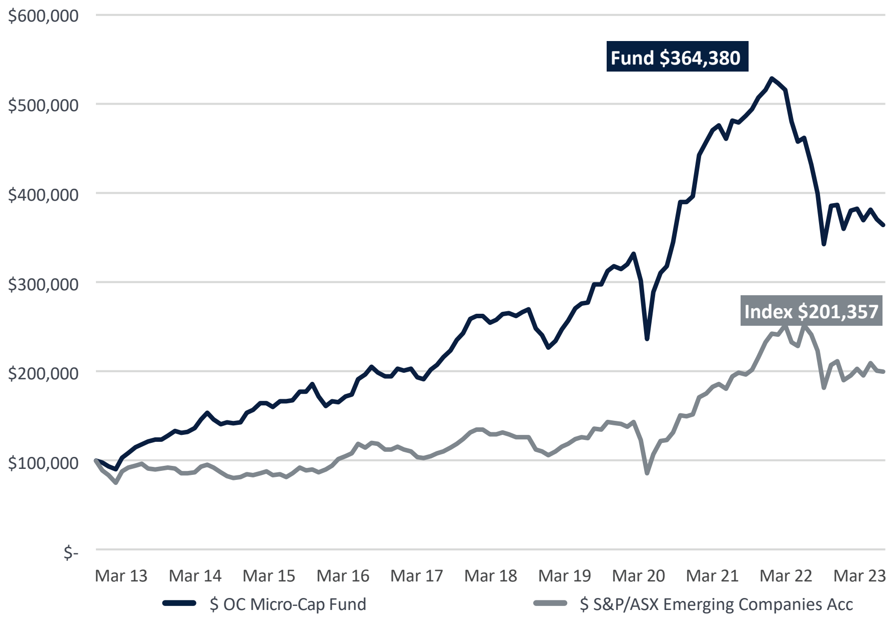
Fund down -1.5% for the quarter

13.8%

Returned 13.8% 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 Mar 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	-1.9	-1.5	-21.3	15.4	7.4	13.8	12.4
S&P/ASX Emerging Comp. Accum	-0.3	2.4	-20.9	33.0	9.1	7.2	6.0
Outperformance	**-1.7**	**-3.8**	**-0.4**	**-17.6**	**-1.7**	**6.6**	**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 soft-close mid-prices and do not allow for the effects of income tax or inflation.

Performance review

The March quarter was a volatile period across global markets with the ongoing battle between inflationary forces and central banks continuing to take centre stage. March itself was a particularly turbulent month for equities, with steep falls early in the month brought about by regional bank failures in the US that undermined confidence in the global banking system before US and European regulators and central banks steadied the ship with a series of guarantees and liquidity backstops which restored confidence across financial markets. This led to a sharp recovery late in the month as investor concerns about a full-blown solvency crisis from mark-to-market losses on banks' portfolios receded.

The OC Micro-Cap Fund finished the quarter down 1.5% which was behind the S&P/ASX Emerging Companies Accumulation Index which finished the quarter up 2.4%. Several of the larger stocks in the Emerging Companies Index performed spectacularly well during the quarter before they exited the Index at the March 20 rebalance. The stocks which drove the indexes quarterly gain included Weebit Nano Ltd (WBT +132.6%) which is an early-stage developer of a next-generation memory semiconductor IP, biotech Neuren Pharmaceuticals (NEU, +66.5%), and gold producer Resolute Mining (RSG, +70.0%). These stocks added a combined 3.9% to the Index during quarter and all had market capitalisations well above our threshold of $500m for initial inclusion in the Fund.

Chrysos Corporation (C79, +53.2%) traded higher during the quarter as the stock recaptured the attention of investors, helped along no doubt by delivering a solid quarterly report in February and confirmation that the company was on track to deliver its Prospectus FY23 forecasts. 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, produce lead contaminated waste output and which also has a larger carbon footprint 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). It is becoming increasingly evident that customers, both labs and miners, are adopting C79's innovative technology. 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 applications 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 has recently secured a $30m debt facility with the CBA. This funding capacity ought to underpin manufacturing expansion increases beyond 18 units per year. With an enterprise value of approximately $390m, we remain upbeat on the prospects of C79 given the long runway of organic growth ahead.

Aussie Broadband (ABB, +19.5%) was added to the Fund in the December 22 quarter and the stock performed strongly over the March 23 quarter. ABB posted a solid 1H23 result which included a minor upgrade to EBITDA guidance for FY23. ABB disclosed that 1H23 customer churn was in line with the previous 18 months and subscriber additions in 1H23 had been solid without heavy promotion which led to a lower cost to acquire customers. Furthermore, ABB margins benefited from an investment in its own fibre infrastructure and lower NBN service provider fees (CVC costs). The Over the Wire (OTW) integration also appears to be on track with $6M of annualised synergies captured to date and a total of $8-12M forecast by FY25. ABB had been a successful organic growth focussed company in its relatively short ASX listed history until a period of consecutive downgrades through FY22 which had been brought about by increased spending in both the residential and business strategies. These downgrades came shortly after a $114M placement at $4 per share in 2021 to fund the acquisition of listed business telco OTW and led to a sharp de-rate of the stock. ABB is an NBN reseller which provides telecommunication services to both retail and business customers. Whilst NBN reselling is largely commoditised, ABB provides a premium service offering with all call centre staff based in Australia and hence has reasonably high customer retention. We have been looking for quality businesses with organic growth and economic resilience to add to the portfolio and have watched ABB closely since its 2020 IPO and the share price weakness late in CY22 was a compelling entry point for the Fund. We believe ABB is an attractive telco reseller business with organic growth and it should benefit from lower NBN wholesale costs in FY24.

Diversified industrial services company **SRG Global (SRG, +11.6%)** completed a highly strategic acquisition and associated capital raising during the quarter. The business is now well positioned to organically grow its earnings over the medium to long term through its ongoing focus on servicing Australia's extensive existing (and aging) infrastructure base. An engineering firm at its core, SRG was formed in Australia more than 60 years ago, employing 2600 people across multiple divisions including asset maintenance, mining services and engineering and construction. The $80m acquisition of ALS Asset Care is expected to be earnings accretive in the current financial year before the realisation of revenue or cost synergies, which are expected to be material. ALS Asset Care is an asset light, highly cash generative business that is recognised as a market leader in asset integrity and reliability services. This business capability, combined with SRG's existing asset maintenance expertise, should lead to significant cross selling opportunities with existing and complementary customers. The acquisition will also accelerate SRG's long stated goal to transition toward higher quality recurring, annuity style earnings. Post the ALS Asset Care acquisition, SRG has a market capitalisation of $400m, carries minimal debt, and is trading on less than 4x EV/EBITDA offering a 6% full franked yield. OC participated in the capital raise to fund the ALS Asset Care acquisition and the company remains a core portfolio holding for the Fund.

Top Shelf International Holdings (TSI, -46.6%) continued to trade lower during the month of March following the placement of 12.5m shares to raise $10m at $0.80. Whilst the company has been growing its revenue rapidly, the market had become concerned that there was a funding gap that needed to be filled to see the company through to being cash generative. Whilst the market seems concerned about ongoing capital requirements, TSI has 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. We also expect further positive news flow in the near-term in terms of a potential distribution agreement with Endeavour Group which ought to be a positive catalyst for the TSI share price. Whilst the share price performance has been disappointing since its late 2020 IPO, we believe TSI's quality stable of brands leaves it well positioned to attract the attention of global majors in the coming years. OC participated in the placement, along with other existing institutional shareholders.

Outlook

The collapse of Silicon Valley Bank and Signature Bank and a government orchestrated merger of the ailing Credit Suisse with UBS has heightened concerns that the unprecedented pace of rate hikes will 'break' something in the financial system. Markets have since dramatically recalibrated the shape of the yield curve with money markets now pricing several interest rate cuts in the back half of 2023, at least in the US and Australia. Core inflation remains elevated in most regions and monetary authorities remain focussed on returning their economies back to price stability. The challenge for central banks now is how to prioritise inflation that is still far too high with growing financial stability risks. Inflation, at least in Australia and the US, appears to have peaked with the annual CPI, core inflation and wage inflation rates having declined from their respective cycle highs in recent months. Whether inflation will persist at its current unacceptable level and require more aggressive policy action remains the critical question for markets and the overall economy.

The US Federal Reserve's (the Fed) preferred inflation indicator, Core PCE inflation, rose by 0.3% in February, taking its 12-month gain to 4.6%. Whilst it is off recent highs, inflation is nevertheless proving 'stickier' than the Fed would have hoped suggesting that more rate pain could still lie ahead. In late-March, the Fed hiked the benchmark federal-funds rate to a target range of 4.75% to 5.0%, signifying that the financial system was "sound and resilient" enough to withstand further tightening despite troubling ructions in the banking system. The US economy has remained resilient with the unemployment rate near record lows (3.5% in February), although signs of consumer softness and a moderation in housing activity suggest that economic activity is likely to cool rapidly. The recent banking crisis has dramatically shifted the yield curve and traders are now pricing 0.75% of rate cuts in the second half of the year, although Fed chairman Jerome Powell said rate cuts this year were "not our baseline expectation". A heavily inverted yield curve, historically a strong predictor of a coming recession, suggests that it will be a difficult task for the Fed to orchestrate a soft landing for the US economy against a backdrop of rapid rate hikes, elevated and sticky core inflation and a slowing economy.

We continue to maintain that the Australian landscape remains slightly more positive than the US and Europe in terms of avoiding a recession with the aggressive hiking cycle and elevated inflation starting to impact at the coalface of the economy. As we near the end of the tightening cycle, the RBA made it clear that its April rates decision would be "data dependent" with the ultimate decision hinging on four key indicators, namely the unemployment rate, retail spending, monthly inflation and business conditions. The recent data on these measures has been mixed with the labour market unexpectedly bouncing back in February with the unemployment rate falling to 3.5%. February retail sales came in line with expectations and remain well above the pre-COVID-19 trend, albeit our recent company contact suggests the consumer environment is beginning to soften. The February CPI came in below expectations at 6.8% year-on-year, down from 7.4% in January, which suggests that inflation continues to moderate, although it remains well above the RBA's comfort range of 2-3%. Australian business conditions remained resilient in February with sales and employment strong, even as business confidence deteriorated slightly amid high inflation and rising interest rates.

On Tuesday 4th April, after 10 consecutive rate rises, the RBA opted to put rates on hold and maintained the cash rate at 3.6%. The RBA was explicitly cautious on the lag effects of monetary policy and noted that "[t]he decision to hold interest rates steady this month provides the board more time to assess the state of the economy and the outlook, in an environment of considerable uncertainty". The decision will be welcomed by consumers and mortgage holders, although the RBA made it clear that "[s]ome further tightening of monetary policy may well be required to ensure that inflation returns to target". Whether or not this is the peak of interest rates or just a pause in the cycle will depend to a large extent on the inflation and unemployment data going forward. We expect the domestic economy to slow considerably in the coming months meaning 3.6% could be the peak or terminal cash rate of the domestic interest rate cycle.

The potent cocktail of rising inflation, hawkish central banks and war in Ukraine has seen the S&P/ASX Emerging Companies Accumulation Index sell-off materially (~20.9%) over the past year. Whilst the Fund has been relatively defensively positioned over much of this time, it has missed the rally in speculative battery metals stocks which have been strong performers within the Index. We have long been of the view that if the economy slows, as we expect, as interest rate rises put the brakes on demand, then a time will come to rotate back into quality high growth companies that can continue to increase their earnings against the backdrop of slowing economy. We feel that this time is approaching. Over the past four months, we have been increasing our exposure to quality growth businesses, with good levels of liquidity, with the interest rate cycle likely nearing a peak (e.g. Chrysos Corporation and Smartpay). We feel that the market is now shifting its attention from inflation and central bank rate hikes to recessionary fears. We believe that the OC Micro-Cap portfolio is well positioned to outperform against this backdrop.

Top 5 holdings#

Company	ASX code
Cedar Woods Properties	CWP
Probiotec Limited	PBP
Peter Warren	PWR
SRG Global Limited	SRG
Telix Pharmaceutical	TLX

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.