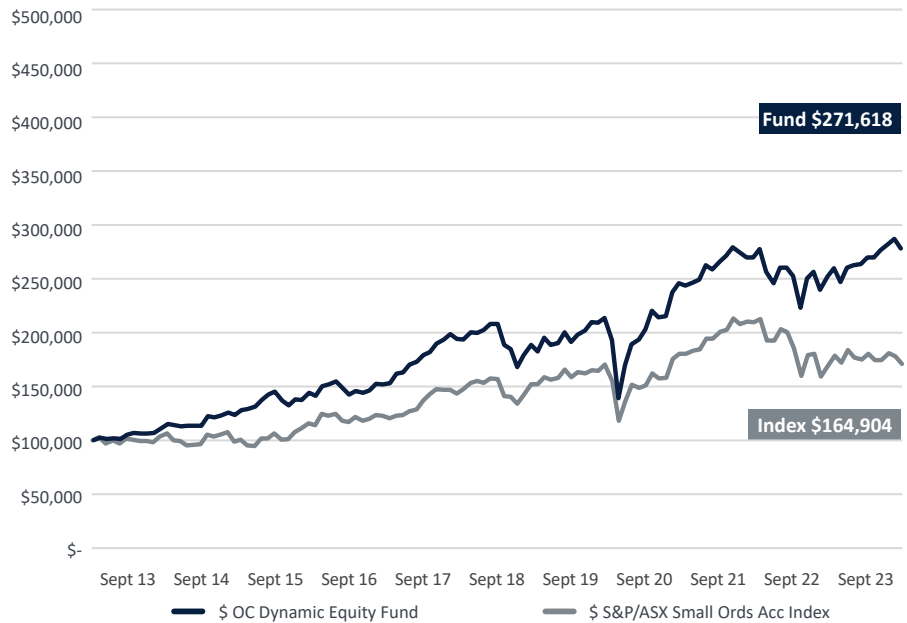


**0.6%** Fund up 0.6% for the quarter

**9.0%** Returned 9.0% p.a. for the past 3 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 30 September 2023 <sup>1</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	-3.0	0.6	15.7	9.0	5.9	10.5	11.8
S&P/ASX Small Ords Accum	-4.0	-1.9	6.8	2.6	1.6	5.1	5.4
<b>Outperformance</b>	<b>1.0</b>	<b>2.6</b>	<b>8.9</b>	<b>6.5</b>	<b>4.3</b>	<b>5.4</b>	<b>6.4</b>
S&P/ASX Small Ind Accum	-5.0	-1.9	8.4	0.5	0.7	5.1	5.5
<b>Outperformance</b>	<b>2.0</b>	<b>2.6</b>	<b>7.3</b>	<b>8.5</b>	<b>5.2</b>	<b>5.4</b>	<b>6.3</b>

The total return performance figures quoted are historical, calculated using end-of-month hard-close mid-prices and do not allow for the effects of income tax or inflation.

**Performance review**

The OC Dynamic Equity Fund returned +0.6% for the September quarter, underpinned by a strong August reporting season for many of our key portfolio holdings. This was comfortably ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which were each down -1.9% for the quarter. Whilst the trajectory of consensus earnings revisions was generally negative across the Australian small-cap market in the August reporting season, we were pleased with the results of the Fund’s holdings overall and remain optimistic about their prospects for the year ahead, notwithstanding the current global macro-economic challenges.

The OC Dynamic Equity Fund continues to comfortably navigate the challenging small-cap market of the past few years, with the Fund up +9.0% per annum over the past three years. This is well ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which have returned just +2.6% and +0.5% per annum, respectively over the same

period. The OC Funds’ investment team has a strong track record of delivering meaningful alpha to clients when sentiment in the small-cap market turns positive, and we remain confident and focused on continuing to do so in the future.

Hotel operator technology provider **Siteminder (SDR, +58.6%)** rallied strongly over the quarter following significant on market director buying in late June. The quarterly cashflow report and earnings guidance, issued in late July, and the August result were delivered in line with market expectations. These positively received results were largely driven by SDR demonstrating lower customer acquisition costs (CAC) and higher customer lifetime value. Increasing customer numbers are also an incremental positive, with the additions weighted toward the end of the year, providing a strong base for the period ahead. Investors are eagerly anticipating the company moving onto a cashflow generative footing, which SDR management continued to guide toward for the second half of the new financial year. Pleasingly the

move to positive free cash flow generation is not coming at the expense of product development with the company outlining new product extensions which are likely to lead to incremental revenues. We remain optimistic for our holding in the stock and continue to anticipate ongoing growth to deliver operating leverage over the years ahead.

**GUD Holdings (GUD, +35.9%)** was a strong performer for the Fund after posting a solid FY23 result in the context of overall low market expectations and the stock trading 'cheap' on a relative basis going into the result. Of particular note was the core GUD aftermarket parts business which reduced inventory levels as supply chains normalised. This helped GUD reduce leverage from 2.5x net debt/normalised EBITDA in December 2022 to a more manageable 2.0x as at June 2023. Furthermore, the APG towbar manufacturing business delivered to expectations despite ongoing new vehicle supply constraints. Whilst APG has been affected by supply constraints from automotive OEMs over the period of GUD ownership, supply is gradually improving, and new car demand backlogs are not reducing. Over the medium term, a further recovery in APG volumes will augment ongoing organic growth at GUD, which now has a solid balance sheet and a reasonable valuation. Hence GUD remains a core position for the Fund.

During the quarter we added online classifieds business **Carsales.com (CAR, +18.7%)** to the portfolio. The business operates a number of classifieds platforms in Australia, South Korea, Brazil, Chile and USA, with offerings spanning new and used vehicles, motorbikes, trucks, caravans, construction equipment and boats. We see the business as having fantastic growth options globally, which should deliver growth in excess of 15% per annum over our investment horizon. While the new and used car markets in Australia and overseas have been disrupted by supply chain issues, adoption of electric vehicles and strong demand, CAR is more exposed to second hand volumes, particularly those through the dealer channel. Dealers pay per lead on used vehicles, so the low stock of dealer used vehicles in recent years has been a headwind to the automotive classifieds industry. In addition, the excess demand for new vehicles has reduced the need for carmakers to buy advertising on the site. As the market normalises, we expect both these headwinds to swing into tailwinds over time. On the corporate front, CAR has also been busy with potential listing for a minority interest in its Korean business unit and in more recent years, CAR has been focussed on the acquisition of Trader Interactive in the USA and has also increased its stake in Brazil's Webmotors. While the Trader Interactive acquisition was seen as a big bite for CAR at the time, as we approach the one-year anniversary of the deal, it looks to be well conceived and significantly expands CAR's addressable markets.

As flagged in the August monthly, digital property exchange business **PEXA Group's (PXA, -16.1%)** share price retreated despite its Australian business reporting a solid result against the backdrop of a weak property transactions market. Instead, investors focussed on a lack of transparency into progress in the nascent UK market which in turn raised questions about delays and cost overruns. Several 'one-off' tax and non-operating items also drove a consensus NPATA miss and that, coupled with an underwhelming conference call by company management at the release of the FY23 result, rattled investors and led to a sharp sell-off in the stock. The core Australian business performed well in FY23 against the backdrop of weak listing volumes with EBITDA margins near the top end of management's 50-55% guidance range. The reiteration of this guidance range into FY24 for the Australian exchange business has proven to be a source of disappointment in the market. But we are of the view that this range was more a result of management conservatism in a subdued listings environment, and a desire to avoid regulatory scrutiny that may jeopardise the regulated annual price increases PXA receives each year, rather than anything more sinister like more costs needing to be added to this business.

Progress in the UK market is more of a concern with mixed messaging, a reduction in the UK total addressable market (driven by a fall property prices), and a reluctance by management to confirm prior targets becoming a source of frustration. We believe there is now little in the PXA share price for the future performance of the UK business, or indeed any future offshore expansion, with the Australian business alone justifying the current market capitalisation. Management did name three banks, namely Metrobank, Virgin Money and Nottingham Building Society as parties that could soon be transacting with PXA in the UK. The company expects to give a more comprehensive UK update following its November AGM and will hold an investor day on the international operations shortly thereafter. With investor sentiment at low levels, any material signs of progress in the UK will likely be a significant catalyst for the share price.

## Outlook

Domestic small-cap equities rallied early in the quarter as slowing growth and a continued moderation in inflation raised hopes that a soft landing could still be achieved in both the Australian and the US economies. But the market's momentum stalled in the August reporting season which was a challenging one for many Australian small-cap companies. Indeed, 65% of stocks in the S&P/ASX Small Ordinaries Index missed consensus analyst estimates and only 29% beat, which was a disappointing result overall. Somewhat surprisingly, we did not see any significant slowdown in overall demand in the FY23

results, with sales generally holding up well in the second half of the year despite the rapid succession of interest rate increases. Nevertheless, operating cost pressures and a rising cost of debt were frequent callouts from management in result briefings and this weighed on the bottom line of many companies.

The OC Investment team met with over 150 companies during the results period and there were some key themes that emerged from our discussions. These can be summarised as follows:

- The consumer outlook is getting tougher – despite a resilient end to the year for the consumer, several companies flagged challenges ahead (including Super Retail Group and Universal Store), particularly those exposed to the youth demographic;
- Cost of debt is rising – this has been poorly modelled by many sell-side analysts and with fixed price hedging continuing to roll-off, we expect it to impact the earnings of companies with significantly leveraged balance sheets into FY24;
- Insurance premiums continue to rise rapidly – double digit increases remain the norm across most lines (Directors & Officers insurance is the exception), with little respite expected near term;
- Supply chain pressures are easing, and freight costs are falling – although logistics costs remain well above pre-COVID-19 levels;
- Cost pressures remain persistent – whilst they are abating across some commodity inputs and in international freight costs, they are still expected to remain elevated in other important areas such as labour and rents, as well as energy, with the oil price back near a 10-month high.

Company management teams were generally reluctant to provide forward earnings guidance given the uncertain macro-economic outlook. But sell-side analysts reacted to the results period with more decisiveness and overall cut earnings forecasts into FY24 with interest costs and margin pressures often cited as the culprit. Specifically:

- 46% of companies in the ASX/S&P Small Ordinaries Index saw consensus earnings downwards revisions of greater than 2.5% for FY24, which was higher than the historical average of 40%, whereas,
- 23% of stocks in the ASX/S&P Small Ordinaries Index had consensus analyst upgrades of greater than 2.5%, which was in-line with the long-run average.

Domestic economic growth continues to moderate with GDP expanding by a modest 0.4% in the June quarter, or 2.1% on an annualised basis. But strong population growth, driven largely by net migration, has cushioned the economic slowdown. If we were to adjust for annual

population growth which is running at 2.2%, the Australian economy is now in a ‘per capita recession’. The squeeze from higher interest rates on household incomes and discretionary spending is clearly delivering the economic slowdown we had to have to cool inflation. Against this backdrop, the Reserve Bank of the Australia (RBA) has become more dovish after 12 interest rate rises in just over 12 months and it now expects the economy to experience “a period of below trend growth”.

Whilst the near-term domestic economic outlook looks challenging, other factors, including a near 50-year low unemployment rate of 3.7%, a robust housing market and an inflation rate that is moderating, combine to give us optimism that the economic downturn will not be severe or protracted. Furthermore, Australia remains the beneficiary of high commodity prices and a budget surplus, which leaves the Federal government well positioned to stimulate the economy should the necessity arise, with inflation returning to the target range a necessary precondition for this to occur.

From a portfolio perspective, we remain broadly underweight domestic cyclical exposure which has served us well given the trajectory of the economy. We expect that the November AGM season will be tough for companies that are heavily exposed to the domestic consumer, with cost-of-living pressures elevated and savings buffers falling. That said, we remain opportunistic and have selectively been adding to consumer discretionary stocks that we believe have been oversold including Lovisa Holdings, a global fast fashion women’s jewellery and accessories business that is well managed and has a proven track record.

On a global front, growth has continued to moderate, although falling inflation has provided some respite from further central bank rate hikes. Core inflation nevertheless remains elevated in most regions and monetary authorities remain focussed on returning their economies back to price stability. The US economy remains a beacon in the Western world, having weathered aggressive monetary tightening by the Federal Reserve (the Fed) since March 2022 to record GDP growth of 2.4% in the June quarter of 2023, underpinned by a resilient jobs market and solid consumer spending. The Federal Open Market Committee voted unanimously to keep rates unchanged at its September meeting (as expected) at a range of 5.25 to 5.50%, a 22 year high. The Fed is now forecasting considerably higher rates over 2024 and 2025 because of a resilient US economy, a strong labour market and sticky inflation. The nirvana of a soft landing in the world’s biggest economy is looking increasingly possible and is not something most economists, nor OC Funds, forecast just six months ago. There are few small cap Australian companies with material US exposure, although

current portfolio holdings with material US operations include travel exposure Corporate Travel Management, as well as retailers Breville Group and Lovisa Holdings, and passenger transport company Kelsian. The continued downwards trajectory of the Australia dollar versus the greenback during the September quarter means that these companies will all receive a foreign exchange benefit when they repatriate their US dollar earnings back home given that they are all largely unhedged.

Eurozone and UK growth remains anaemic, with economic powerhouse Germany in recession, and inflation across the region still too high. The Bank of England and the European Central Bank each face the dilemma of how to bring down inflation that is still too high against the backdrop of a stagnating economy. China's growth too is starting to flounder, with government stimulus not yet effective in reviving the property market, nor addressing soaring youth unemployment. A protracted slowdown in the Chinese economy remains a material risk to our domestic economy, not only through falling demand for key commodity exports such as iron ore and coal, but also our services exports would likely suffer from a fall in international students and inbound tourism. At present, the OC portfolios have limited direct exposure to either the UK, European or Chinese economies.

Post our reporting season management catch ups, we have an extensive company visitation program planned in the coming weeks to meet with companies who have piqued our interest over the last few weeks. We have already undertaken a number of site visits in late September including Silk Logistics, Probiotec and Genuine Parts Company (Repcos) as part of our ongoing due diligence program.

Whilst the corporate pipeline remains subdued, we have nevertheless commenced early-stage due diligence on several IPO candidates that may list in the back end of CY23 or early CY24. In the small-cap space this includes including mining consumables business Molycop which has conducted an early look Non-Deal Roadshow for select funds. The micro-cap IPO pipeline is a little broader and includes Tasma Limited, an essential maintenance, engineering and specialised project services business, as well as Cuscal Limited, an innovative payments solutions business with near-term ASX listing aspirations which we have met with several times already.

We would like to thank our investors for their ongoing support, and we remain committed to our goal of generating strong long-term risk-adjusted returns for our clients.

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

Company	ASX code
Estia Health Ltd	EHE
GQG Partners	GQG
G.U.D. Holdings	GUD
Kelsian Group Ltd	KLS
Mineral Resources	MIN

<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 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 47, 80 Collins Street (North Tower), 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.