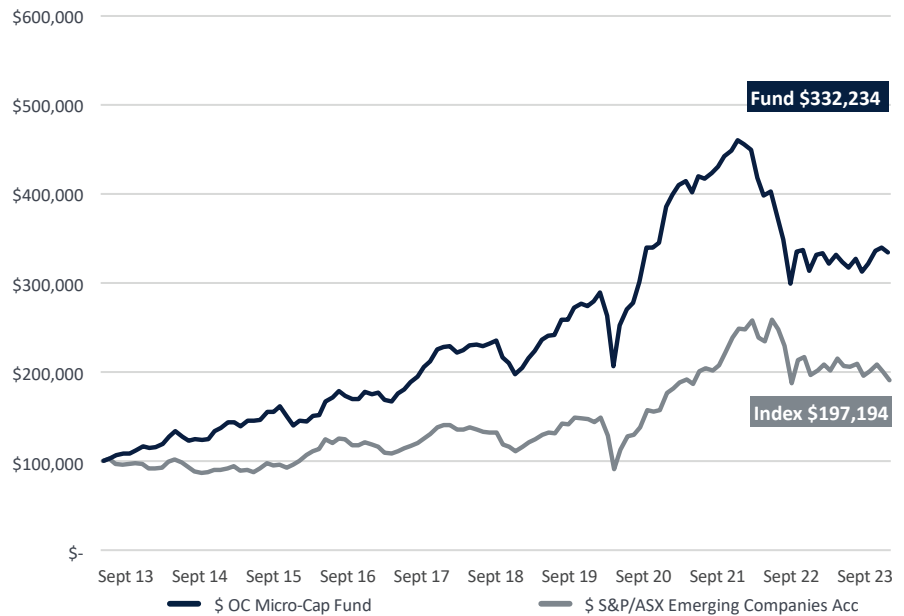


**3.7%**  
Fund up 3.7% for the quarter

**6.5%**  
Returned 6.5% p.a. for the past 12 months

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 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. (Nov 2003)
OC Micro-Cap	-1.8	3.7	6.5	-0.6	7.3	12.8	12.3
S&P/ASX Emerging Comp. Accum	-4.9	-5.3	-3.0	7.4	8.0	7.0	5.4
<b>Outperformance</b>	<b>3.2</b>	<b>9.0</b>	<b>9.5</b>	<b>-7.9</b>	<b>-0.7</b>	<b>5.8</b>	<b>6.9</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 end-of-month hard-close mid-prices and do not allow for the effects of income tax or inflation.

### Performance review

The OC Micro-Cap Fund had a strong September quarter, up +3.7%, underpinned by an excellent August reporting season for many of our key portfolio holdings. This was well ahead of the S&P/ASX Emerging Companies Accumulation Index which was down -5.3% for the quarter. Whilst the trajectory of consensus earnings revisions was generally negative across the Australian micro-cap and 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.

After a protracted period when speculative resource stocks and unprofitable early-stage biotechnology and technology start-ups performed strongly, driving the S&P/ASX Emerging Companies Accumulation Index to elevated levels, we are starting to see this unwind. In the June 2022 Micro-Cap Quarterly Investment Review, in the middle of this speculative bubble in unprofitable early-stage businesses, we told investors we would stay true to label

and persist with our investment strategy of owning quality, profitable and well managed micro-cap companies, notwithstanding this was heavily out of vogue at the time. As a reminder, our focus on capital preservation and risk management leads us to exclude most unprofitable biotechnology and resources stocks from the portfolio, other than for short-term 'event driven' trades. This has proven to be a prudent strategy with the OC Micro-Cap Fund having returned +6.5% over the past 12 months, which is well ahead of the S&P/ASX Emerging Companies Accumulation Index which is down -3.0% over the same period. Whilst this most recent 12 month performance number is nothing spectacular, we would remind our investors that micro-cap valuations remain depressed, and overall liquidity remains low. The investment team remains optimistic that we have a portfolio of quality names and that the Fund will bounce back strongly once confidence and liquidity returns to the emerging companies space.

**Pacific Current Group (PAC; +39.4%)** rallied during the quarter on the back of a non-binding indicative takeover proposal from Sydney based fund manager, Regal Partners (RPL), which immediately drew out the promise of a competing proposal for PAC from GQG Partners (GQG). The scheme of arrangement proposal from the ASX-listed fund manager, RPL (existing 12.1% PAC shareholder), was made in conjunction with Melbourne based private funds management outfit, River Capital (existing 19.8% PAC shareholder), and comprised a combination of cash and scrip consideration pitched at a significant 50% premium to the 30-day volume weighted average share price of PAC. The interest from multiple suitors in this long term Fund holding was welcome news to the investment team as we have believed for some time that the market was incorrectly discounting the PAC share price as it built a valuable stable of (predominantly) minority interests in international asset managers across multiple asset classes. Indeed, before the RPL proposal was made public, the PAC board had already formed an Independent Board Committee for the purpose of identifying and executing on options to realise the underlying value of the business for shareholders reflecting inbound interest the board had received in the business. In developments late in the quarter, RPL and River Capital withdrew their indicative proposal citing lack of engagement from the PAC board and its lack of confidence in the process being conducted. Furthermore, 10 weeks after its initial statement of interest in bidding for PAC, GQG has yet to publicly declare the nature of its proposal for the company although we believe it remains engaged in the process. Despite these developments, OC will continue to hold its PAC position as we are confident the process being conducted by PAC will result in a preferred bidder emerging for the company at a significant premium to current share price levels and likely closer to PAC's stated internal view of value which is around \$12.00 per share.

**Embark Education (EVO, +23.3%)** was a strong performer for the Fund during the quarter following its delisting from the New Zealand stock exchange, the catalyst for which was the divestment in FY22 of its New Zealand operations to an entity associated with Anchorage Capital Partners. EVO is now a 'pure play' Australian provider of early childhood education and care with 24 centres, strong occupancy levels and a robust balance sheet. The EVO management team is headed by industry stalwart Chris Scott who has an enviable listed track record including as the founder and Managing Director of G8 Education (GEM) where he grew GEM's portfolio from 38 centres to over 500 pre-school education centres in Australia. EVO is experiencing some sector tailwinds including better government funding outcomes, with recent changes to the Child Care Subsidy expected to boost demand for childcare and drive occupancy, as well as strong expected net migration in the coming years which ought to boost demand for EVO's services. EVO has a net cash balance

sheet of \$25m and a further \$25m of debt capacity and is actively pursuing acquisitions which will materially increase the scale of the business. For instance, if EVO acquired centres on a multiple of around 4.2x EBITDA, this could add \$12m EBITDA to the business which would boost the current earnings base (CY23F) by approximately 75%. Given Chris Scott's prior track record, the execution of these acquisitions would leave the company well placed to undertake an acquisition lead roll-up strategy in the coming years which could see a material re-rate of the EVO share price.

Domestic gold producer and project developer, **Genesis Minerals (GMD, +6.1%)**, traded strongly over the quarter (share price hitting +33.3%) before closing September well off its highs. WA focussed, GMD is led by highly regarded CEO Raleigh Finlayson, who grew and sold Saracen Minerals to Northern Star for A\$5billion in 2021, and it is currently consolidating assets around the historic gold producing district of Leonora. GMD completed the acquisition of Saint Barbara's (SBM) Leonora assets (being the Gwalia mine and mill and the Tower Hill project) early in the September quarter to add to its existing asset base of underground and open pit projects, and its interest in the high capacity Dacian Gold (DCN) mill (80% owned). The consolidation of these assets, after a protracted takeover process, put GMD on the radar for domestic and international index inclusion (and by extension, ETFs) and together this drove significant buying interest in the stock during September. Whilst we still like GMD as our preferred gold exposure, we took advantage of this heightened interest in the name (and the higher share price) and significantly reduced our position at or near all time highs. GMD remains a core position for the Fund and we would look to add to our holding on any further pull back in share price.

**Silk Logistics (SLH, -9.6%)** was a detractor from Fund performance during the quarter as tightening economic conditions drove a softer 2H23 result which was slightly disappointing relative to market expectations. Of particular interest to the market was reduced container volumes across all domestic Australian ports which consequently saw SLH's handled container volumes decline by 4% in FY23. The market pushed SLH shares lower on the back of this, despite the contraction in volumes being offset by strong revenue per container numbers (which overall led to a flat EBITDA margin inside the Port Logistics segment). The Contract Logistics business grew strongly at the top line, however, margins were down on FY22 as SLH was compelled to grow the cost base of this segment in anticipation of new warehouse capacity coming online. Whilst volumes softened into 1Q24, SLH expects an improvement in new customer wins and port volumes from September ahead of Christmas. Furthermore, SLH recently acquired port logistics provider Secon Freight Logistics in Melbourne

which provides SLH with opportunities for further organic growth, particularly in the bulk logistics segment. SLH trades on an undemanding 9x FY24 P/E multiple with organic growth expected to come from new business wins and growth in warehouse capacity.

## Outlook

Domestic small and micro-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 and micro-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.

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 micro cap Australian companies with material US exposure, although current portfolio holdings with material US operations include alternative fund managers Pacific Current and Navigator Global Investments as well as mining technology companies Chrycos and RPMGlobal. 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
Pacific Current	PAC
Peter Warren	PWR
Probiotec Limited	PBP
Silk Logistics	SLH
SRG Global	SRG

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