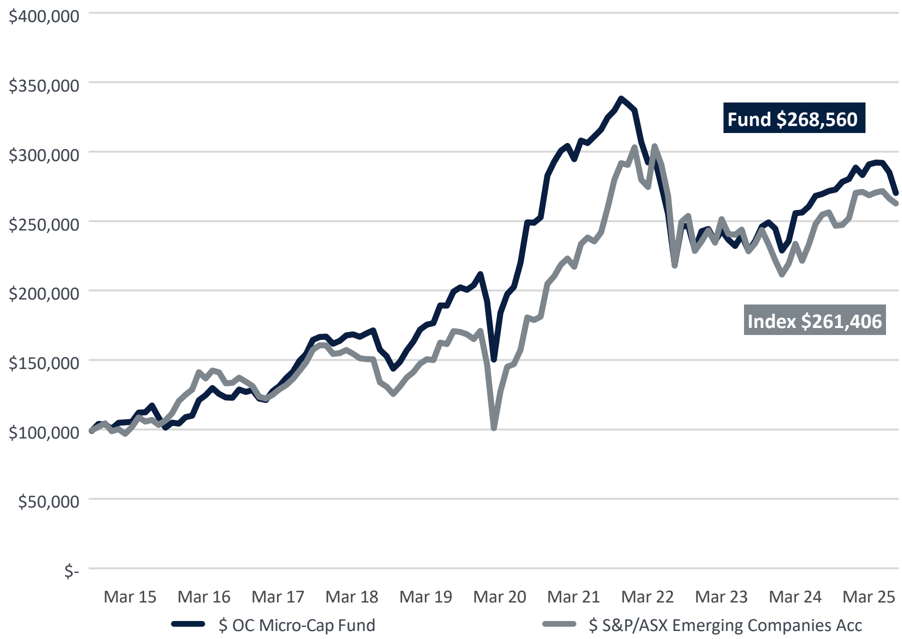
OC Micro-Cap Fund
Fund Update | 31 March 2025

-7.5% Fund down -7.5% for the quarter

12.3% Returned 12.3% over the past 5 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 March 2025†	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	-5.2	-7.5	0.8	-2.9	12.3	10.4	11.9
S&P/ASX Emerging Comp. Accum	-1.3	-2.9	6.0	-4.7	20.8	10.1	5.8
Outperformance	**-3.9**	**-4.6**	**-5.2**	**1.8**	**-8.5**	**0.3**	**6.1**

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 net asset value per unit after fees and do not allow for the effects of income tax or inflation

Performance review

The March quarter was a challenging one in the broader Australian equity market with the S&P/ASX 200 Index recording a 3.9% decline, marking its worst first quarter performance since the COVID-19 pandemic in 2020. Major US stock indices also experienced sharp declines including the S&P 500 which fell by 4.6%, marking its worst quarterly performance since Q3 2022, and the tech-heavy Nasdaq Index declined by 10.4%, its largest quarterly loss since Q2 2022. Investor sentiment was dampened late in the quarter by extreme uncertainty surrounding US President Donald Trump's trade policies which had heightened fears of a global trade war which could lead to stagflation in the US and other countries.

The OC Micro-Cap Fund had a challenging quarter falling -7.5%. This was behind the S&P/ASX Emerging Companies Accumulation Index which was down -2.9% for the quarter. The Fund has, however, delivered a +0.8% return over the 12 months to 31 March.

The recent underperformance of the Fund has largely been the result of several key factors, namely:

i. being wrong-footed from a thematic perspective following the Trump Administration's pivot toward aggressive tariff policies and shifting economic priorities;
ii. the strong outperformance of single commodity/single mine gold stocks which are not a core focus of the Fund and many of which are above the market cap limit for the Fund (eg Catalyst Metals +$1.2b market cap);
iii. stock specific issues which have impacted short-term performance (detailed below); and
iv. M&A activity from stocks in the Index but not held by the Fund (including takeover approaches for Dropsuite Group (DSE, +24.1%) and Mayne Pharma Group (MYX, +45.5%)).

Stock Specific

Webjet Group (WJL, -35.1%) finished lower for the quarter after downgrading FY26 earnings growth expectations at a recent investor and strategy update against a backdrop of soft updates from the listed travel sector more broadly due to a tougher consumer environment. Whilst guidance for the 2025 financial year ('EBITDA in line with FY24') was left unchanged, WJL management have elected to embark upon a strategy to double TTV over the next five years by growing expenses in the short term to deliver greater medium term earnings. The extent of this pivot was not fully anticipated by the market after the outlook statement at the November 1H25 result was stated to "accelerate growth in FY26". Furthermore, the opportunity for an update on capital allocation strategy and the potential for buybacks was delayed until the FY25 result (due next month). Investor messaging aside, WJL remains well capitalised and attractively valued with more than $100M of net cash (representing approximately 50% of the current market capitalisation) and hence we retain a position.

Takeover target **Silk Logistics (SLH, -33.2%)** finished the quarter well below the Scheme Implementation Deed price ($2.14) that it had agreed with DP World in November. The trigger for the share price fall was the Australian Competition and Consumer Commission (ACCC) releasing a statement of issues that it would seek submissions in relation to the proposed transaction reducing competition in the transport and logistics sector. Whilst the share price reaction has been severe, we understand both parties are highly motivated to complete the transaction and together are looking to solutions offered to the ACCC in prior comparable transactions (eg. Qube/Patrick transaction) in order to ensure this deal completes. With SLH now trading back at 'pre takeover levels' we see it as offering good value with the prospect of material upside should the parties satisfy the ACCC on competition grounds.

Paragon Care (PGC, -21.9%) was down for the month after reporting a result which was in line with expectations. Importantly, this result was delivered without removing a host of (likely non-recurring) costs which were incurred during a wide ranging acquisition integration programme. PGC reiterated that it is on track for annual synergies of $5M in FY25 and $12M in FY26. The solvency of the private equity owned hospital group Healthscope emerged as a key concern for the market in March but we don't consider this a material exposure for PGC. We believe that PGC management are well aligned and have a strong track record of execution and will continue to grow their retail pharmacy distribution business given its appeal as a second line distributor to value focussed community pharmacies.

Several core portfolio holdings finished lower during the quarter as a degree of caution entered the market on concerns around geo-political events, including the potential impacts of US trade policy. Longterm holdings such as **Monash IVF (MVF, -8.6%)**, **Propel Funeral Partners (PFP, -8.3%)** and **SRG Global (SRG, -13.0%)** each delivered encouraging updates at the interim reporting period in February and each have domestic facing businesses with defensive characteristics which should see them well positioned to ride out the current turmoil. Importantly, we are very comfortable with the experienced management teams of each of these businesses and their balance sheets are in good shape.

Outlook

The Trump administration's implementation of tariffs has set in motion an unprecedented re-ordering of US trade relationships with the rest of the world in a severe blow to globalisation. The US risks igniting a mutually destructive global trade war with limited beneficiaries, as steep equity market declines leave investors with few places to hide. Until the unveiling of 'reciprocal tariffs' at the news conference in the Rose Garden on April 3 (the so called 'Liberation Day'), most investors were thinking of tariffs as a negotiating tool, not a fundamental tenet of US trade policy. This has been upended with blanket tariffs imposed on most imports from all countries. The rhetoric out of Trump's administration, in the past week, suggests that tariffs are in fact a key policy instrument designed to reshape perceived historical trade and economic imbalances, to rein in America's burgeoning trade deficit and restore the US as a global manufacturing powerhouse.

Trump's proposed tariff policies, in essence, are set to raise the weighted average tariff on US imports from 2.5% at the end of 2024 to around 24%, a level not seen since the 1920s. The breadth and severity of the reciprocal tariffs, both in terms of rates and the range of countries affected, have vastly surpassed expectations and equity markets have plummeted. The widespread view is that if implemented in their current form, these trade policies are likely to be stagflationary leading to a deterioration in economic growth and an increase in inflation in both the US and across much of the global economy in the months ahead.

The eventual economic consequences of course still hinge on several unknown factors including the ultimate size and scope of the tariffs, their duration, and any reductions through diplomatic negotiations. Additional variables - such as retaliatory measures (for example China's 34% tariff on US goods), pricing adjustments, currency fluctuations, and demand elasticity – will further shape economic outcomes. Nevertheless, the scale of the proposed measures indicates significant downside risks to the global economy.

Federal Reserve (the Fed) Chair Jerome Powell, in a much-anticipated speech late last week, did little to calm markets, with the central bank leader emphasising it remains "premature" to alter monetary policy amid challenges in evaluating the economic consequences of the Trump administration's agenda. Powell cited significant uncertainty around policies expected to simultaneously curb growth and drive inflation higher. He emphasised that the inflation side of the Fed's mandate will require keeping inflation expectations in check, something that might not be easy to do with Trump lobbing tariffs at US trading partners, some of whom already have announced retaliatory measures. The 10-year US Treasury yield has dropped sharply to 3.97%, signalling lower growth expectations amid escalating trade tensions. While Powell was circumspect about how the Fed will react to the changes, markets are pricing in four interest rate cuts in the US this year starting in June.

In terms of Australia, we had expected to fare relatively well on "Liberation Day" given that Australia runs a trade deficit with the US meaning that we import more from the US than we export to them. Prima facie, the 10% tariff from the US is not a game changer from Australia's trade perspective given that our exports to the US comprise only 4% of our total exports. But working against Australia is the reality that our key Asian trade partners, where we send almost 60% of our exports, copped some of the highest tariffs – China (54%), Cambodia (49%), Vietnam (46%), Thailand (36%), Indonesia (32%), South Korea (25%), Japan (24%) and Malaysia (24%). Australia will therefore not be immune to these negative international economic forces and some of our key exports to Asian markets, including commodities, are important inputs that end up ultimately being exported to the US. The potential contagion to the Australian economy is high and money markets are now pricing in four rate cuts from the RBA over the balance of CY25. Sensibly, Prime Minister Anthony Albanese has so far resisted the urge to retaliate with reciprocal tariffs, with diplomacy and negotiation seemingly a more pragmatic approach at this juncture. Ultimately, Australia is likely to step-up efforts to develop deeper trade and diplomatic relations with Japan, Korea and South east Asia to ensure closer cooperation within this increasingly important region.

The Australian dollar (AUD) has fallen sharply against the US dollar (USD) in the past week, flirting with US$0.60 which is a five-year low against the greenback. The AUD often acts as an economic stabiliser in periods of global economic turmoil which can serve as an offset against economic shocks, such as falling commodity prices. Since the tariff announcement, risk-off sentiment amplified by trade uncertainty has pressured the AUD as a risk-sensitive currency and futures markets are now pricing aggressive policy easing in Australia over the balance of the year. This is in stark contrast to the US where the direction of interest rates is less clear given that tariffs could be inflationary for the US economy.

We take some solace from the relatively robust position of the Australian economy with December quarter GDP expanding at +0.6% (lifting annual economic growth to +1.3%). The Australian economy seems to have passed its cyclical low point with household disposable income showing signs of improvement and cost of living pressures showing signs of abatement. Inflation is moderating but core inflation, the RBA's preferred measure, remains above the RBA's comfort level at 2.8% in February. The domestic labour market remains remarkably resilient, with unemployment steady at 4.1% in February.

Perversely, US tariffs could potentially prove to be disinflationary for Australia with Asian trading partners, and even some European countries, slammed by punitive US tariffs seeking more trade friendly markets in which to sell their goods at lower prices. Certainly, Australia is likely to be viewed as a more trade friendly country for our Asian neighbours looking to redirect consumer goods away from the US market. Moreover, domestic price pressures are likely to continue to moderate given the uncertain global backdrop. The recent Federal budget announced new fiscal policy stimulus worth an additional A$35 billion, spread over several years, which also ought to be supportive of the economy and the consumer.

We have seen a steep sell-off in the Australian equity market particularly in high PE multiple stocks, which has been as indiscriminate as it has been brutal. Fear in the market is palpable at the moment and investors have gone decidedly 'risk off'. The OC Funds Micro-Cap portfolio has been impacted by our overweight positions in cyclical and technology stocks, having been amongst the most heavily hit sectors resulting in relative underperformance from the Fund in the near-term.

Make no mistake, reporting negative returns to our investors is incredibly difficult for the investment team. Unfortunately, it happens from time to time as a long only investor in treacherous equity markets.

Once markets settle, the sell-off will no doubt provide an opportunity for disciplined investors to cherry pick high quality businesses that have been sold down to attractive levels. This is something OC Funds has done well at, as a manager, over a long time horizon. Indeed, we were wrong footed heading into the GFC when we owned too many financially leveraged businesses; we were particularly poorly positioned when the more recent COVID-19 pandemic struck, holding a raft of global growth and travel stocks which plummeted overnight. In these instances, we worked diligently, we didn't panic, and we didn't make short-term, or emotional decisions.

In closing, the OC investment team is working diligently to capitalise on the many opportunities that will arise when markets bottom, and valuations in the micro-cap space look compelling. We would like to thank our investors for the support in navigating these challenging times and we look forward to prospering with you all again into the future.

Top 5 holdings#

Company	ASX code
Alliance Aviation Services Limited	AQZ
Aspen Group	APZ
Genusplus Group Ltd	GNP
Monash IVF Group Limited	MVF
Silk Logistics Holdings Limited	SLH

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.