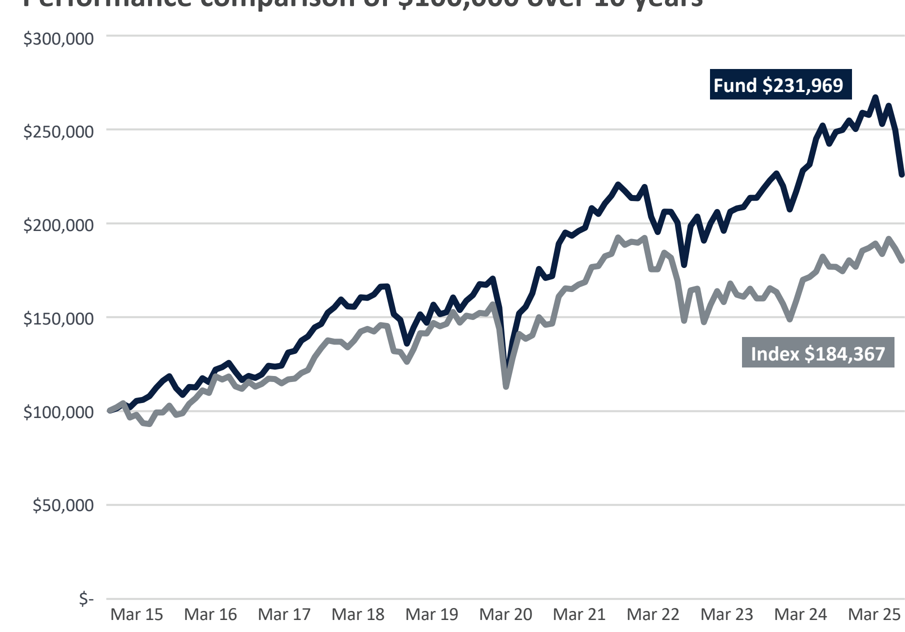
OC Dynamic Equity Fund
Fund Update | 31 March 2025



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. (Dec 2000)
OC Dynamic	-9.8	-10.9	-10.6	3.2	15.3	8.8	11.1
S&P/ASX Small Ords Accum	-3.6	-2.0	-1.3	-0.8	10.2	6.3	5.7
Outperformance	**-6.2**	**-8.9**	**-9.4**	**4.0**	**5.0**	**2.5**	**5.5**
S&P/ASX Small Ind Accum	-6.7	-6.0	-3.8	0.4	8.6	5.4	5.8
Outperformance	**-3.1**	**-4.9**	**-6.8**	**2.8**	**6.6**	**3.4**	**5.3**

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 10.5%, 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 Dynamic Equity Fund had a disappointing quarter falling 10.9%. This was well behind both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which fell 2.0% and 6.0%, respectively, for the quarter. The Fund nevertheless remains well ahead of both benchmarks over the medium and longer-term.

The recent underperformance of the OC Dynamic Equity 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 screened out of the OC Funds investment universe;
iii. stock specific issues which have impacted short-term performance; and
iv. M&A activity from stocks in the index including takeover approaches for Insignia Group (IFL, +18.3%), Mayne Pharma Group (MYX, +45.5%), Domain Group (DHG, +69.2%) (which also materially benefited Nine Entertainment Co (NEC, +24.7%)), Spartan Resources (SPR, +34.4%) and Gold Road (GOR, +41.7%) all of which drove the small-cap indices higher during the quarter.

Thematic Positioning

The Trump team, which campaigned on a pro-US growth platform, appear to see a "transitory slowdown" in the US economy as necessary to shift the economy from one reliant on inefficient government spending to stoke GDP growth to one powered by the private sector. The transitionary effect of the Trump administration's reforms, coupled with extreme uncertainty associated with trade policies, has resulted in a rapid deterioration in US economic data in the past month including consumer spending and confidence, and business indicators such as the ISM manufacturing index.

The Fund entered CY25 positioned for US exceptionalism on the expectation the Trump administration would implement the pro-business policies favouring deregulation and tax reductions that underpinned its campaign. Instead, portfolio holdings, including Zip Co Limited and Life 360 Inc., have been sold off aggressively on slowing US economic data and the announcement of reciprocal tariffs.

Another key thematic for the Fund has been investing in companies that are poised to benefit from the widespread adoption of Generative Artificial Intelligence (GenAI) such as leading data centre operators NEXTDC (NXT, -25.0%), Infratil Limited (IFT, -19.4%) and Macquarie Technology Group (MAQ, -28.8%). These stocks have materially underperformed the market during the quarter, coinciding with the steep retracement in the US Nasdaq Index, particularly the so called "magnificent 7" US mega-tech stocks. The market correction followed a broader pullback in tech and infrastructure names, as investors reassessed high-growth valuations amid elevated interest rates. Contributing to this was Microsoft's pausing of several data centre leases and capacity plans, while the surprise emergence of DeepSeek - a low-cost, high-performing Chinese AI model - fuelled fears of compressed margins and slower returns on massive AI infrastructure investment.

Despite the near-term downturn in sentiment, the long-term outlook for these companies remains strong. Demand for digital infrastructure continues to grow rapidly, driven by cloud computing, AI adoption, cybersecurity needs, and Australia's data sovereignty laws. Key players like NextDC and Macquarie Technology are expanding strategically and reporting healthy growth in capacity utilisation and forward orders, while Infratil's stake in CDC Data Centres has increased significantly in value, even as its share price lags. We continue to see upside based on recurring revenue models, long-term contracts, and substantial investment tailwinds underpinned by long dated structural trends. We believe the data centre story is still early in its innings and that patient capital will be handsomely rewarded.

Gold Stocks

The Fund underperformance has been exacerbated by the outstanding performance of the gold sector (not owned, +3.2% contribution to the benchmark for the quarter). In broader terms, the materials sector has contributed -3.7% to the Fund's performance over the past 12 months (-7.0% relative attribution). The gold price has increased more than +40% in Australian dollar terms in the past 12 months which has driven exceptional performance in the small-cap gold sector. As a reminder to investors, we do not own single mine/single commodity resources stocks which are typically volatile and difficult to forecast. Clearly in the past 12 months, this has hurt the Fund's relative performance. That said, in the Fund's 24-year history we have bounced back strongly following these periods of 'strong materials sector related' underperformance.

Stock Specific

Mineral Resources (MIN, -30.0%) share price has been under significant pressure due to increased costs for its flagship Onslow Iron project caused by severe weather conditions which also reduced FY25 production forecasts. Leverage for MIN is elevated following a major period of capital spend and the company has endured some well publicised governance issues. We remain constructive on the outlook for MIN noting it has some world class assets, no material near term debt repayments, and the company ought to de-lever as Onslow Iron ramps up to full production in the coming 12 months. We expect that the appointment of a new Chairperson within the next month or so will also boost confidence in the governance framework which has been tightened up materially.

HMC Capital (HMC, -36.2%) has experienced a material pull-back in its share price in the past three months as macro uncertainty and the poor performance of two of its listed vehicles; **Digico Infrastructure REIT (DGT, -32.6%)** and **Healthco Health and Wellness REIT (HCW, 13.2%)**, has put pressure on the headstock. We are comfortable with HMC's strategy to unlock value in these two REITs and expect to see material progress over the course of the June quarter.

HMC has morphed into a profitable and diversified alternative asset manager, with around A$19bn in AUM across five growth platforms including private credit, real estate, private equity, energy transition and digital infrastructure. It has a strong reputation for orchestrating complex transactions in structural growth sectors, for example the Chemist Warehouse backdoor listing into Sigma Pharmaceuticals. It is important to note that unlike prior listed alternative asset managers which came unstuck (such as Babcock and Brown and Allco Finance Group), the HMC balance sheet remains ungeared.

We have selectively repositioned parts of the portfolio

in recent weeks including exiting Iress Limited ahead of a disappointing result and adding some more defensive positions to the portfolio. We recently purchased health insurer NIB Holdings, a quality exposure which has returned to the S&P/ASX Small Ordinaries Index (from the S&P/ASX 100 Index) and we have increased our position in essential healthcare and animal care business EBOS Group in response to the more challenging global macro-economic outlook.

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 eventual 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 much more sensible approach at this juncture. Ultimately, Australia is likely to step-up efforts to develop deeper trade and diplomatic relations with Japan, Korea and Southeast 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.

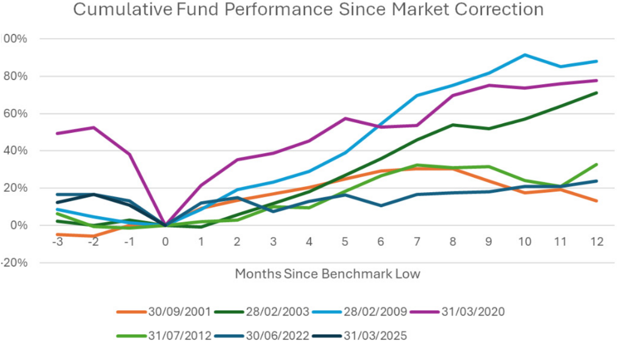
Perversely, US tariffs could potentially prove to be disinflationary for Australia with Asian trading partners, and even some European countries, slammed by punitive US tariffs seeking more trade friendly markets in which to sell their goods at lower prices. Certainly, Australia is likely to be viewed 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.

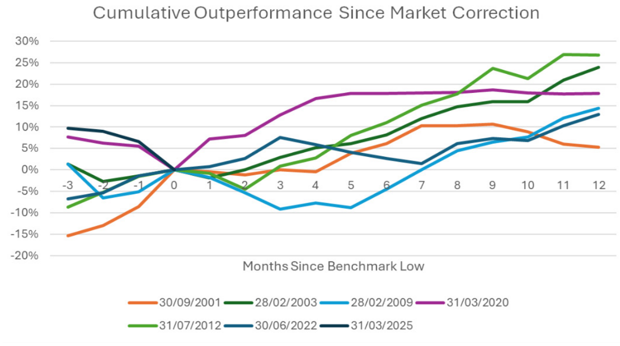
We have seen a steep sell-off in the Australian equity market particularly in high PE multiple stocks, which has been as indiscriminate as it has been brutal. Fear in the market is palpable at the moment and investors have gone risk off. The OC Funds portfolio has been hit hard with our overweight positions in financial and technology stocks having been amongst the most heavily impacted 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. Clearly, we should have pivoted the portfolio earlier from growth based companies, particularly those who stood to benefit from US exceptionalism, towards more defensive industries. But hindsight is 20-20 and perhaps unhelpful in uncertain times. We have added more defensive stocks to the portfolio over the weeks including health insurer NIB Holdings, and we have added more cash to the portfolio, while reducing our exposure to high growth beta stocks such as Netwealth. But investors should recall that one of Trump's motivations is to raise vast amounts of revenue from tariffs to fund the extension of large tax cuts which would be supportive of the US economy. Therefore, totally abandoning companies exposed to the US comes with meaningful risk: *"It's our turn to prosper, and in so doing, use trillions and trillions of dollars to reduce our taxes and pay down our national debt, and it will all happen very quickly,"* Trump has said. Indeed, over the weekend US Senate Republicans took a significant step toward enacting Trump's tax cut agenda and increasing the debt ceiling that helped inject a small amount of confidence into financial 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.

The charts below shows that our strategy tends to bounce back strongly from both an absolute and relative perspective from a crisis. Since inception, we have been particularly adept at repositioning the portfolio to take advantage of the many mis-pricing opportunities that arise during steep, broad-based equity market sell-offs.





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 small-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
Auckland International Airport Limited	AIA
GQG Partners Inc.	GQG
HMC Capital Limited	HMC
Telix Pharmaceuticals Limited	TLX
Ventia Services Group Limited	VNT

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 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.