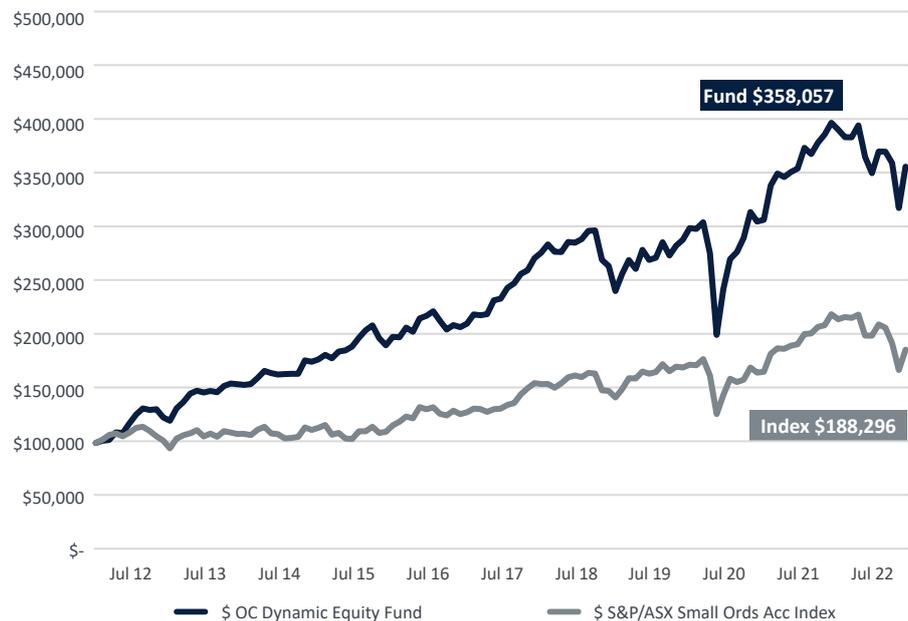


**12.1%**  
Fund up 12.1% for the month

**13.6%**  
Returned 13.6% p.a. for the past 10 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 31 Jul 2022*          | 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               | 12.1       | -3.7       | -7.7       | 7.6          | 8.8          | 13.6          | 11.9                     |
| S&P/ASX Small Ords Accum | 11.4       | -9.9       | -10.9      | 2.5          | 7.3          | 6.5           | 5.9                      |
| <b>Outperformance</b>    | <b>0.7</b> | <b>6.2</b> | <b>3.2</b> | <b>5.0</b>   | <b>1.5</b>   | <b>7.1</b>    | <b>6.0</b>               |
| S&P/ASX Small Ind Accum  | 11.8       | -6.8       | -14.2      | 0.3          | 5.7          | 8.3           | 6.0                      |
| <b>Outperformance</b>    | <b>0.3</b> | <b>3.1</b> | <b>6.5</b> | <b>7.3</b>   | <b>3.1</b>   | <b>5.3</b>    | <b>5.9</b>               |

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

### Performance review

Global equities rebounded in July following a very tough first half of CY23 on the back of a better than anticipated US reporting season and optimism that the US Federal Reserve could soon reduce the pace of interest rate increases as economic conditions tighten. The market shrugged off earnings downgrades and negative commentary from economic proxies like Walmart and United Parcel Service and instead focussed on the broader results period which exceeded expectations with about 75% of the S&P 500 firms reporting results that exceeded analyst estimates. It was a stark contrast to recent months with even bad news seemingly being good news with above consensus inflation in the US and large rate rises taken as signalling that the end of the interest rate tightening cycle may be nearer as long-term bond yields fell sharply.

The domestic small cap market again took its lead from the US with both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index bouncing strongly from a poor start to the calendar year, up +11.4% and +11.8% respectively

for the month. Despite our conservative cash and sector positioning, the OC Dynamic Equity Fund enjoyed a strong rebound, up +12.1% for the month. It was pleasing to see the Fund keep pace with the red hot small-cap market this month after materially outperforming the small cap indices in the downturn in the six months to June 2022. This can be attributed to some strong stock specific updates from several investments during the month.

**Telix Pharmaceuticals (TLX, +63.1%)** was an outstanding performer during the month after its first quarter of commercial sales for Illuccix, its PET imaging agent, surprised on the upside in the critical US market. With Illuccix HCPCS reimbursement code and pass-through payment status in place since 1 July, expanded radiopharmacy coverage (which increased from 117 to 140 radiopharmacies over the quarter), and a fully deployed and motivated sales force, we expect sales to ramp up significantly in the coming quarters.

As a reminder to investors, Telix is a late-stage biotechnology company specialising in cancer imaging and treatment via molecular targeted radiation (MTR). MTR is on the cusp of revolutionising treatment of certain cancers, thereby avoiding the deleterious effect of chemotherapy and radiation therapy on healthy tissue surrounding certain tumours. Whilst commercial launch of Illuccix only occurred in mid-April (following FDA approval in November 2021) the company looks on track to capture an estimated 30% market share of the total addressable market (TAM) in the US which is forecast to be approximately US\$725M. Channel partner Cardinal Health is highly motivated to grow market share and has incentivised its sales force accordingly. Illuccix looks set to win significant market share due to the accessibility of its radioisotope Gallium-68 and the ease of use and accuracy of its imaging product versus key competitor Lantheus (Pylarify) which may be constrained by the limited availability of cyclotrons. Illuccix was also approved by Australia's TGA in early November and is progressing marketing authorisation applications in 14 European countries, Canada and other jurisdictions. Following a capital raising of \$175m in January 2022, TLX is well funded to execute on its robust pipeline of additional material opportunities in the growing field of radiopharmaceuticals which is attracting far greater attention from investors and regulators.

**Austal Limited (ASB, +48.9%)** traded higher over the course of the month after it announced the award of a large contract which will keep its Mobile, Alabama facility at a high level of utilisation in coming years. The contract was awarded by the US Coast Guard for the detailed design and construction of up to 11 Offshore Patrol Cutters (OPC) and has a total potential contract value of US\$3.3billion. Construction of the 110 metre OPCs will commence in 2023 and will be undertaken at ASB's new US\$100m steel shipbuilding facility (which was co-funded by the US government). This contract adds to ASB's existing programs at its Mobile facility, including the aluminium Independence variant Littoral Combat Ship (LCS), Spearhead-class Expeditionary Fast Transport (T-EPF) programs, the steel hulled Navajo-class Towing, Salvage and Rescue (T-ATS) ships and Auxiliary Floating Drydock Medium under contract for the United States Navy. More importantly, the award fills what was a looming hole in ASB's Mobile order book that the market had become quite focussed on. Due to the contract award impacting ASB's future cost assumptions, the OPC program will have a positive impact on ASB's FY22 EBIT despite not commencing until FY23. Perth headquartered, ASB is a leading global shipbuilder and defence prime contractor, designing, constructing and sustaining some of the world's most advanced commercial and defence vessels and has constructed more than 300 vessels for delivery to 54 different countries over the past 30 years.

With this share price re-rate, ASB is now trading at a more reasonable valuation given it was previously priced by the market at a deep discount to our own assessment of fair value for a company. We have consequently lightened our holding in the stock.

It wasn't all good news for the Fund during the month. E-signing and PDF productivity software provider **Nitro Software (NTO, -14.2%)** fell sharply after an underwhelming quarterly sales update. While the company reiterated its guidance for revenue and operating EBITDA for the current calendar year, it reduced the guidance for ending Annualised Recurring Revenue (ARR) which typically sets the foundation for revenues in the following year (CY23). The lower ARR is a factor of deferred new customer wins, lower cross sell of the acquired Connective enterprise e-signing business and a restructure of the so called "Go to Market" team. The sales team restructure is stated to reduce the complexity of the sales model but also to achieve the company's targeted cost savings as part of the plan to bring the cashflow break-even point forward to 2HCY23. This restructure is the second in as many years so the investor community may well wonder if a lack of effectiveness of the prior structure in signing new clients was also a driver of the changes. While we reduced our overall holding slightly on the day of the quarterly sales update, we remain satisfied with the overall growth rate, even at the reduced level of 24-30%, given the strength of the prior year base. NTO's client retention remains strong, as does the growth within the existing client base. The appeal of the largely subscription-based revenue stream is not lost on us and, with the stock trading on two-year lows, we would not rule out the potential for a corporate suitor to emerge.

## Outlook

The positive momentum of July has continued into August with the market continuing to climb a wall of worry that includes white hot inflation, outsized central bank rate hikes, slowing lead economic indicators and mounting geopolitical concerns. The Fund nonetheless remains conservatively positioned ahead of reporting season and we remain unconvinced that the current market rally will continue unabated given that strong recent employment data out of the US and Australia suggests that monetary tightening may still have some way to play out and that inflation may not be so easily tamed.

Whilst the markets have bounced from arguably oversold levels, the headwinds in the global economy continue to gather momentum and are reflected in the recent revisions to global growth expectations from the International Monetary Fund (IMF). The IMF has again sharply revised down its global growth forecast to just

3.2% for this year and 2.9% for next year, pointing to broad based slowdowns in the United States, China and in the Eurozone. It marks the second time in just three months that the IMF has materially downgraded its outlook for the global economy as inflation and rapidly rising interest rates temper the economic outlook. Rising food and energy prices also prompted an upward revision to the global inflation outlook, with price growth expected to reach 6.6% in advanced economies, up almost a full percentage point.

In late July, the US entered a 'technical recession' after experiencing the second consecutive quarter of negative economic growth. Gross domestic product fell at an annualised pace of 0.9% for the period and the negative trend came from a broad swath of factors, including decreases in inventories, residential and non-residential investment, and government spending. The technical dip came earlier than most had forecast, with the consensus market view increasingly leaning toward a US recession in calendar year 2023. In recent weeks, rising recession concerns have seen the US yield curve invert again, with the current US 10-year government bond yield of 2.7% materially below the peak cash rate of 3.3% that money markets are currently pricing in. The 2-year/10-year US Treasury curve is also heavily inverted to the tune of 42 basis points. Inverted yield curves can be tricky to interpret, particularly more recently given the unprecedented amount of central bank intervention in money markets in the COVID recovery phase, but history suggests that the deeper they are and the longer they persist, the higher recession odds rise. Officially, the National Bureau of Economic Research declares recessions and expansions, and likely won't make a judgment on the period in question for some months if not longer.

Despite the negative recent GDP print, a significant beat in non-farm payrolls late last week and an even more unexpected drop in the unemployment rate (3.5%) is unequivocally good news for the US economy. It suggests talk of an 'official' US recession is perhaps premature and supports the US Federal Reserve (the Fed) Chairman Jerome Powell's assertion that the US economy is not currently in recession: "I don't think the US is currently in recession," he recently told reporters in Washington. "There are too many areas of the economy that are performing too well". The strong jobs data will likely add impetus for the Fed to again raise rates by 75 basis points when it meets in September, matching the moves it made in June and July, as it seeks to stamp out inflation that is running at 40-year highs. Following the July rate hike, the Fed had suggested that the rate of future interest rate increases would be "data dependent". But the strength of the July jobs report undoubtedly increases the likelihood of further aggressive rate increases to curb demand and inflation.

On the domestic front, Australia's second-quarter inflation rate came in a little under expectations in July at 6.1%, providing some hope that consumer prices might be leveling out. While forward indicators across certain sectors are suggesting inflation may be moderating, we are yet to be convinced that inflation can be tamed without impacting company earnings later in the financial year. The Reserve Bank of Australia's (RBA) preferred measure of inflation, so called core inflation, which strips out big one-off price moves in the CPI each quarter, was 4.9% in the second quarter. This was its highest rate since 1991, accelerating from 3.7% in the first quarter. Core inflation is the cornerstone of the RBA's policy making. It therefore came as little surprise that the central bank lifted the overnight cash rate by half a percentage point, or 50 basis points, for a third consecutive month in early August, taking the cash rate to 1.85%. In the RBA's August meeting statement, officials inserted a new comment that further monetary policy normalisation is likely, but that it is not on "a pre-set path", echoing the sentiment of the US Fed. The RBA expects inflation to peak around 7.75% over 2022, the same estimate that the Federal Treasurer released a week earlier, before it's expected to only gradually slow to "a little above 4 per cent over 2023 and around 3 per cent over 2024." This suggests peak inflation is still ahead of us and the upward revisions to 2023 and 2024 forecasts suggest that interest rates may need to remain higher for longer. Financial markets are now pricing in a cash rate at 3% by December and a peak at 3.2% by Easter next year before edging lower in late 2023 and beyond as higher borrowing costs moderate demand and stamp out cost pressures.

The August reporting season has arrived and we expect to see broad based earnings revisions from the street over the coming weeks. Sell-side analysts have been far too slow to adjust to the realities of a higher interest rate, higher cost and a slower growth environment that we will likely see in FY23. Somewhat incredulously, sell-side (Bloomberg consensus) earnings expectations for FY23 were still increasing up until six weeks ago, despite the more challenging macro-economic environment that lies ahead. By way of example, the consensus of sell-side analysts forecast margin expansion across the ASX 200 Industrials for FY23 despite the backdrop of rising cost pressures, labour shortages and slowing demand. Specifically, consensus earnings forecasts currently imply that during FY23 the Net Profit margin on the ASX 200 Industrials will expand to 7%. This would be the highest level since prior to the GFC. If we instead assume that profit margins for industrial firms were to settle at around mid-cycle levels, the FY23 consensus earnings forecasts (NPAT) would need to be cut by around 10%. If we get a sharp slowdown, then these revisions will need to be a much higher than that. Fortunately, we believe that buy-side fund managers and the street, overall, seems to have

discounted these numbers and are cognisant they are too high. It will nonetheless make for an interesting reporting season, especially given the wave of quantitative fund money that tends to follow consensus earnings revisions.

It is likely that most company boards will be reticent to give much in the way of forward earnings guidance at this early stage of the financial year given the economic uncertainty. Against this backdrop, investors are likely to put a premium on earnings certainty and companies that are resilient to the economic cycle. As such, the Fund currently has relatively limited exposure to consumer facing stocks or economically sensitive businesses, albeit we acknowledge that expectations for these companies have rebased downwards in recent months.

The upcoming reporting season is a critical time for the Fund as it gives us an opportunity to assess the financial performance of our stock universe from their published results, as well as the chance to meet with management and glean key insights into their strategy and outlook. This year, there will be a heavy focus from our team on how companies are dealing with cost pressures and the extent to which they are able to pass these on, and the impact (if any) on profit margins. In particular, supply chain pressures are front of mind, as well as labour shortages and wage pressures. We will also be assessing how our companies are seeing the demand environment, particularly as interest rates rise and customers are impacted by other cost of living pressures and a cooling housing market.

Over the coming weeks, our analysts will meet with around 200 ASX listed companies with a view to refining our portfolio so that we can continue to generate strong investment outcomes for our clients over the coming years. Notwithstanding the current volatility in markets, we believe the Fund is well positioned going into the results period and we are conservatively positioned with a cash holding above 10%. Our team remains confident in our ability to generate strong investment outcomes for our investors over the long-term and we look forward to reporting back with key learnings from our company meetings early next month.

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

| Company                   | ASX code |
|---------------------------|----------|
| APM Human Services        | APM      |
| Bapcor Limited            | BAP      |
| GQG Partners Inc          | GQG      |
| Mineral Resources Limited | MIN      |
| Steadfast Group Limited   | SDF      |

<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 25, 360 Collins Street, 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.