

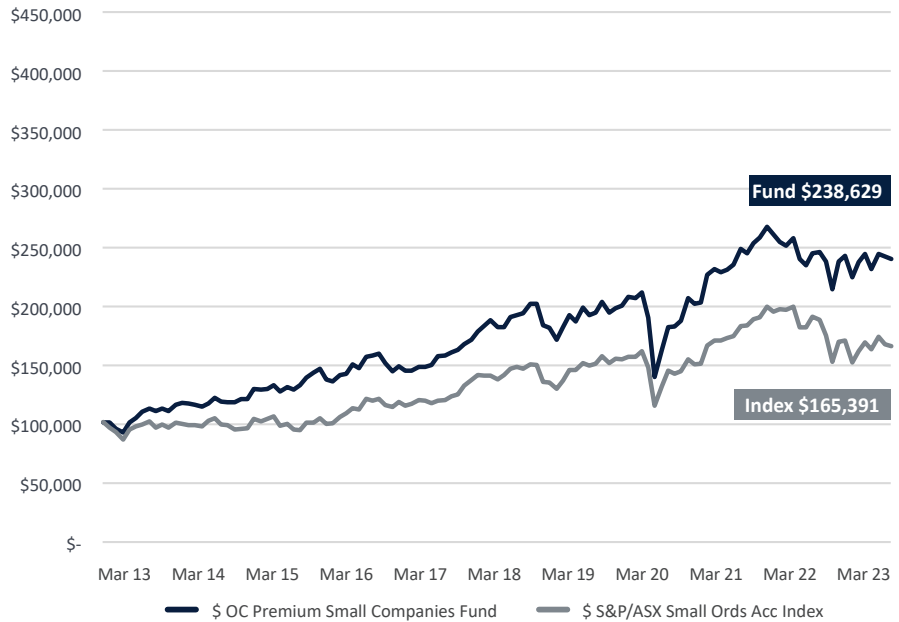
 Fund up 3.7% for the quarter
3.7%

 Returned 9.1% p.a. for the past 10 years
9.1%

 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 Mar 2023 [†]	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.	Incep % . p.a. (Dec 2000)
OC Premium	-0.9	3.7	-2.1	20.0	5.7	9.1	10.3
S&P/ASX Small Ords Accum	-0.7	1.9	-13.2	13.1	3.9	5.2	5.5
Outperformance	-0.2	1.8	11.1	6.8	1.8	4.0	4.7
S&P/ASX Small Ind Accum	-3.0	1.3	-12.8	9.3	2.6	5.7	5.5
Outperformance	2.1	2.3	10.6	10.7	3.1	3.4	4.8

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

Performance review

The March quarter was a volatile period across global markets with the ongoing battle between inflationary forces and central banks continuing to take centre stage. March itself was a particularly turbulent month for equities, with steep falls early in the month brought about by regional bank failures in the US that undermined confidence in the global banking system before US and European regulators and central banks steadied the ship with a series of guarantees and liquidity backstops which restored confidence across financial markets. This led to a sharp recovery late in the month as investor concerns about a full-blown solvency crisis from mark-to-market losses on banks' portfolios receded.

The domestic small-cap equities indices also seesawed around key macro-economic news flow with the February reporting season providing a welcome respite by giving investors some stock specific insights. Whilst the reporting season across small caps was overall mixed, the Fund's holdings, on balance, reported stronger results than the overall market which allowed us to

outperform our benchmark during the quarter. The OC Premium Small Companies Fund finished the quarter up 3.6% which was comfortably ahead of the S&P/ASX Small Companies Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which were up 1.9% and 1.3%, respectively, for the quarter.

The OC Premium Small Companies Fund has navigated the challenging macro-economic environment of the past three years well, posting a return of 20.0% p.a. This is ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which have returned 13.1% p.a. and 9.3% p.a., respectively, over the same time horizon.

Corporate Travel Management (CTD, +23.1%)

rallied strongly during the quarter after the Fund opportunistically added to its position back in late December 2022 when the share price dipped below \$15.00. CTD is a founder-led specialist provider of global corporate travel management solutions with a proven

business strategy that combines personalised service excellence with client facing technology solutions to deliver a return on investment to clients. CTD is the fourth largest corporate management participant globally (as measured by total transaction value (TTV)) and services clients in more than 70 countries. The management team, led by founder Jamie Pherous, has a strong track record of organic and acquisitive growth. Following the COVID-19 induced lockdown and border closures, the CTD business has bounced back strongly on the back of increasing travel activity and material new client wins. As a result of investment in technology in recent years (and rationalisation of systems), we expect it to emerge as a leaner, more competitive business in the coming years. Historically, CTD's revenue has grown organically at strong double digit growth rates annually as it wins market share in each of its markets. We are closely monitoring the global economy, particularly corporate travel spending in the key US and European markets, due to the risk that an economic slowdown impacts demand for CTD's services. That said, we expect material client wins ought to help the company achieve its guidance for FY23 and, once travel patterns normalise, we expect CTD to go back to targeting organic growth of 10-15% pa, with bolt on acquisitions adding further potential upside.

Over the past quarter, the Fund has selectively added a number of high quality companies to the portfolio which have been sold down to attractive entry levels. Our overriding focus at present remains on investing in quality business models at reasonable valuations that ought to have resilient earnings in a slowing economy. There are several quality growth stocks that the Fund has bought at what we consider to be attractive valuations and we expect these businesses ought to continue to grow irrespective of a slowing overall economy. These include:

- **IDP Education (IEL)** – IEL is a high quality provider of English language testing (IELTS) and student placement services for international students looking to study in English-speaking countries and is well placed to perform strongly with international borders reopening post COVID-19;
- **Domain Holdings Group (DHG)** – DHG provides online advertising services to real estate agents and property developers in Australia predominantly through the domain.com.au portal. The company has sold off heavily, given the material fall in property listing volumes, which provided an attractive entry point for the Fund given the quality of the business franchise which ought to see it recover strongly once listing volumes inevitably recover.
- **HUB24 Limited (HUB)** - HUB owns one of Australia's leading platforms which provides advisers, stockbrokers and direct investors with a portfolio administration and reporting tool. HUB continues to

attract significant net inflows and has a strong long-term growth outlook.

The Fund also added to its holdings in **Ventia Services Group (VNT)** in a discounted block trade following a strong first half result and **Kelsian Group Limited (KLS)** which raised capital to fund the earnings accretive acquisition of All Aboard America! Holdings which provides the company an exciting growth platform in the large US market. Both these companies have resilient earnings characteristics and ought to perform well in any cyclical downturn.

Aged care provider **Estia Health (EHE, +29.8%)** surged higher on a takeover offer received during March. The residential aged care industry had been hard hit by COVID-19 related weakness which impacted occupancy and caused staff shortages. It also imposed additional costs and restrictions which were aimed at reducing COVID-19 infection risk. Like its peers, EHE was heavily impacted by the pandemic but is now well on the path to recovery with growth in its sights from newly acquired and newly opened homes and a refreshed government funding model that is meant to better reflect the current costs of operating aged care facilities. EHE received better than average star ratings for all its facilities in the initial round of quality reviews which is clearly a positive from a competitive standpoint. The \$3.00 per share cash proposal from private equity fund Bain Capital comes at an opportunistic time. The business is starting to emerge from the COVID related downturn and the new funding model ought to improve the industry dynamics including quality of care and profitability once it is enacted. But the lack of certainty around the new funding model means that EHE's share price is still yet to fully recover. While we see the Bain bid as falling short of full value, it does appear a credible opening offer. EHE board has granted limited non-exclusive due diligence which we view as a sensible approach and we expect that further bidders could be flushed out for this highly strategic asset. Private equity companies are likely to be attracted to the potential to own a scalable platform with a credible management team to consolidate an industry which should emerge stronger from a period of significant disruption.

Temple and Webster (TPW, -25.4%) was an underperformer during the quarter following the release of a softer trading update at its interim result in February and subsequent deferral of the company's target of returning to double digit revenue growth (as previously detailed in February monthly). Looking ahead, we have retained a small position in TPW; we note the near-term outlook remains uncertain which is reflective of the broader retail sector. Nevertheless, given the decline in the share price, we view the risk-reward over a longer-

term time frame as compelling. We see the business as resilient should broader conditions worsen given its strong balance sheet and potential earnings offsets in the form of an easing cost environment. Our long-term thesis on TPW remains predicated on growth in e-commerce penetration, with Australia continuing to lag global peers, and with TPW growing its share within this market. Following the disappointing performance of its share price, TPW has since put its balance sheet to work, announcing a \$30mn on market buyback in mid-March to be conducted over the next 12 months, which we see as a positive signal reflecting management's view in relation to the TPW share price currently being undervalued. With TPW having c.\$100mn of net cash, we also see further opportunity for the company to make selective acquisitions in adjacent areas such as trade and B2B, which would have the potential to be immediately earnings accretive.

Outlook

The collapse of Silicon Valley Bank and Signature Bank and a government orchestrated merger of the ailing Credit Suisse with UBS has heightened concerns that the unprecedented pace of rate hikes will 'break' something in the financial system. Markets have since dramatically recalibrated the shape of the yield curve with money markets now pricing several interest rate cuts in the back half of 2023, at least in the US and Australia. Core inflation remains elevated in most regions and monetary authorities remain focussed on returning their economies back to price stability. The challenge for central banks now is how to prioritise inflation that is still far too high with growing financial stability risks. Inflation, at least in Australia and the US, appears to have peaked with the annual CPI, core inflation and wage inflation rates having declined from their respective cycle highs in recent months. Whether inflation will persist at its current unacceptable level and require more aggressive policy action remains the critical question for markets and the overall economy.

The US Federal Reserve's (the Fed) preferred inflation indicator, Core PCE inflation, rose by 0.3% in February, taking its 12-month gain to 4.6%. Whilst it is off recent highs, inflation is nevertheless proving 'stickier' than the Fed would have hoped suggesting that more rate pain could still lie ahead. In late-March, the Fed hiked the benchmark federal-funds rate to a target range of 4.75% to 5.0%, signifying that the financial system was "sound and resilient" enough to withstand further tightening despite troubling ructions in the banking system. The US economy has remained resilient with the unemployment rate near record lows (3.5% in February), although signs of consumer softness and a moderation in housing activity suggest that economic activity is likely to cool

rapidly. The recent banking crisis has dramatically shifted the yield curve and traders are now pricing 0.75% of rate cuts in the second half of the year, although Fed chairman Jerome Powell said rate cuts this year were "not our baseline expectation". A heavily inverted yield curve, historically a strong predictor of a coming recession, suggests that it will be a difficult task for the Fed to orchestrate a soft landing for the US economy against a backdrop of rapid rate hikes, elevated and sticky core inflation and a slowing economy.

We continue to maintain that the Australian landscape remains slightly more positive than the US and Europe in terms of avoiding a recession with the aggressive hiking cycle and elevated inflation starting to impact at the coalface of the economy. As we near the end of the tightening cycle, the RBA made it clear that its April rates decision would be "data dependent" with the ultimate decision hinging on four key indicators, namely the unemployment rate, retail spending, monthly inflation and business conditions. The recent data on these measures has been mixed with the labour market unexpectedly bouncing back in February with the unemployment rate falling to 3.5%. February retail sales came in line with expectations and remain well above the pre-COVID-19 trend, albeit our recent company contact suggests the consumer environment is beginning to soften. The February CPI came in below expectations at 6.8% year-on-year, down from 7.4% in January, which suggests that inflation continues to moderate, although it remains well above the RBA's comfort range of 2-3%. Australian business conditions remained resilient in February with sales and employment strong, even as business confidence deteriorated slightly amid high inflation and rising interest rates.

On Tuesday 4th April, after 10 consecutive rate rises, the RBA opted to put rates on hold and maintained the cash rate at 3.6%. The RBA was explicitly cautious on the lag effects of monetary policy and noted that "[t]he decision to hold interest rates steady this month provides the board more time to assess the state of the economy and the outlook, in an environment of considerable uncertainty". The decision will be welcomed by consumers and mortgage holders, although the RBA made it clear that "[s]ome further tightening of monetary policy may well be required to ensure that inflation returns to target". Whether or not this is the peak of interest rates or just a pause in the cycle will depend to a large extent on the inflation and unemployment data going forward. We expect the domestic economy to slow considerably in the coming months meaning 3.6% could be the peak cash rate of the domestic interest rate cycle.

The potent cocktail of rising inflation, hawkish central banks and war in Ukraine has seen the S&P/ASX Small

Ordinaries Accumulation Index sell-off materially (-16.8%) since the start of CY22. The Fund has been relatively defensively positioned over much of this time, particularly with regards to long duration growth stocks which have materially underperformed in the rising interest rate environment. We have long been of the view that if the economy slows, as we expect, as interest rate rises put the brakes on demand, then a time will come to rotate back into quality growth companies that can continue to increase their earnings against the backdrop of slowing economy. We feel that this time is approaching. Over the past four months, we have been increasing our exposure to high quality growth businesses, with good levels of liquidity, with the interest rate cycle likely nearing a peak (e.g. HUB24 Limited, Domain Holdings Group and Xero Limited). We feel that the market is now shifting its attention from inflation and central bank rate hikes to recessionary fears. We believe that the OC portfolio is well positioned to continue to outperform against this backdrop.

Top 5 holdings[#]

Company	ASX code
APM Human Services	APM
Kelsian Group	KLS
Mineral Resources	MIN
PEXA Group	PXA
Seven Group Holdings	SVW

[#]The top 5 portfolio holdings are in alphabetical order and may not be representative of current or future investments.

CONTACT COPIA

1800 442 129 | clientservices@copiapartners.com.au | copiapartners.com.au



John Clothier	General Manager, Distribution	0408 488 549 jclothier@copiapartners.com.au
Mani Papakonstantinos	Distribution Manager	0439 207 869 epapakonstantinos@copiapartners.com.au
Jude Fernandez	Distribution Manager	0414 604 772 jfernandez@copiapartners.com.au
Sam Harris	Distribution Manager	0429 982 159 sharris@copiapartners.com.au
Greg Black	Distribution Manager	0407 063 433 gblack@copiapartners.com.au
Justin Cilmi	Distribution Manager	0428 153 431 jcilmi@copiapartners.com.au

[†]The total return performance figures quoted are historical, calculated using cum-distribution end-of-month soft-close 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 Premium Small Companies Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns. A performance fee of 20.5% is payable annually on any excess performance (after deducting the management fee) above the benchmark, S&P/ASX Small Ordinaries Accumulation Index, to 30 June. A performance fee is only payable where the Fund has returned 5% or more since the last performance fee was paid. 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 Premium Small Companies Fund (ARSN 098 644 976). 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.