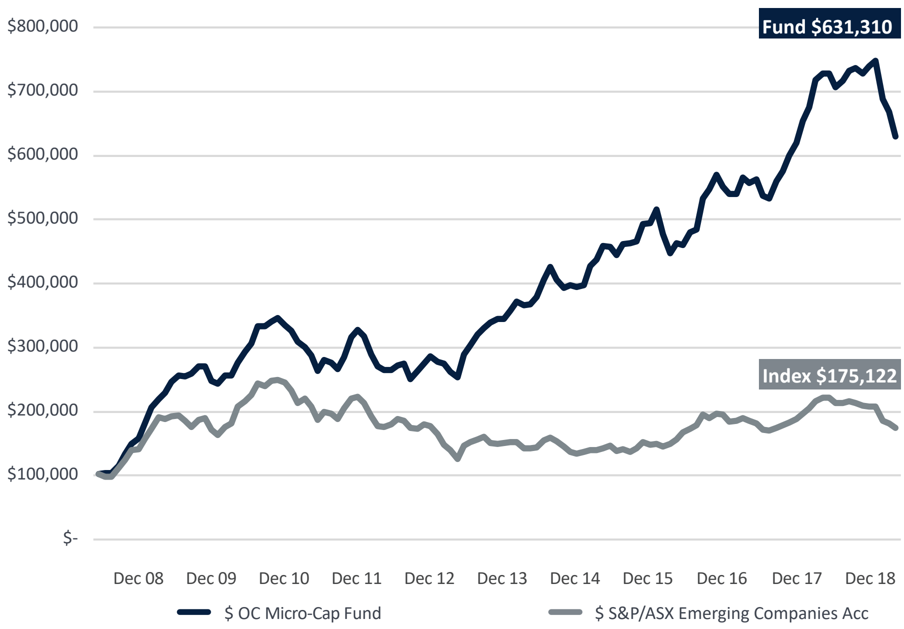
-5.8% Fund down -5.8% for the month

20.3% Returned 20.3% p.a. for the past ten 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 December 2018†	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Incep. % p.a. (Nov 2003)
OC Micro-Cap	-5.8	-15.9	-12.4	6.9	12.9	13.2	20.3	12.5
S&P/ASX Emerging Comp. Accum	-3.9	-16.4	-19.9	5.5	3.2	-1.1	5.8	N/A
Outperformance	**-1.9**	**0.5**	**7.5**	**1.5**	**9.7**	**14.3**	**14.5**	**N/A**

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 30 September 2016 and the performance of the OC Concentrated Equity Fund prior to that date. Performance is after fees applicable at the time.

Performance review

A very weak December quarter (-16.4%) drove the S&P/ASX Emerging Companies Accumulation Index to its worst annual performance since 2011, (down 19.9%), with the Index ending 2018 near its low.

The OC Micro-Cap Fund also endured a challenging December quarter with the Fund down 15.9%. This dragged the annual performance of the portfolio into negative territory with the Fund finishing the calendar year down 12.4%.

The December quarter sell off was broad based with most sectors of the Index recording a negative performance, although consumer discretionary (-22.7%) and financials (-22.1%) recorded the steepest falls. Liquidity was low across the micro-cap space during the quarter and in many instances share prices drifted on low volume despite no negative news.

Despite the challenging backdrop, there was a heightened level of M&A activity across the small cap space during the quarter with a number of stocks in the Index attracting corporate interest including Greencross (GXL, +28.3%), Trade Me Group (TME, +24.9%), Graincorp (GNC, +16.1%) , Navitas Limited (NVT, +13.2%), MYOB group (MYO, +11.7%), Sigma Healthcare (SIG, -9.5%) and Eclipx Group Limited (ECX, -5.5%). Activity was more muted at the micro-cap end of the spectrum, although the takeover of Fund holding Zenitas Health Ltd by a consortium comprising Adamantem Capital and Liverpool Partners did complete during the quarter.

Despite several of the portfolio holdings upgrading their profit forecasts during the quarter (Jumbo Interactive, Baby Bunting Group and NRW Holdings), only a handful of companies in the Fund finished in the black. We will therefore focus our commentary on some of the poorer performers in the portfolio during the quarter and share our thoughts on them with investors.

NRW Holdings Limited (NWH, -22.7%) fell heavily during the quarter despite a raft of positive announcements which paint a healthy picture for the business and its future growth prospects. These included several material contract wins and extensions across the civil, mining and drill & blast divisions, the securing of bank funding to repay corporate notes which will reduce the company's cost of debt and, not least, a material profit upgrade with H1 FY19 earnings now expected to be $45m, up over 100% on the same period last year and well ahead of consensus expectation. Whilst the share price initially rallied on each positive announcement, it was short-lived with the stock progressively sold off over the quarter as the storm clouds gathered around the outlook for global growth, largely due to the ongoing trade war.

NWH is strongly positioned to deliver an excellent FY19 result but the market is obviously worried about the earnings outlook for the sector. NWH has a strong forward order book (currently in excess of $2b) and ought to be debt free by the end of the financial year. The NWH civil business is well positioned to win a significant amount of work in the coming years on the iron ore replacement and sustaining tonnes projects from BHP, RIO and FMG which have approval to begin construction and are critical to the iron ore majors maintaining their production levels in the coming years. It is, therefore, unlikely that these projects would be cancelled regardless of what transpires in the global economy because this would result in the iron ore majors having significantly smaller businesses going forward. In a promising sign, NWH has already been awarded some early works on BHP's South Flank and FMG's Eliwana projects.

Pivotal Systems (PVS, -43.9%) disappointed the market during the quarter when it updated investors regarding delays in product delivery schedules requested by some of its key customers. The stock was discussed in the December Monthly Review but for those who missed it PVS provides best-in-class gas flow monitoring and control technology equipment for the global semiconductor industry. Whilst PVS is considered a market leader in its sector, this is a double edged sword for the business model as there are only a half dozen large semi-conductor manufacturers globally which creates an inherent degree of customer concentration risk for suppliers, such as PVS. PVS customer orders are non-cancellable, however, revenue is recognised only when the product is shipped and customers requesting delays to shipping have caused the earnings deferrals in CY18. To have a downgrade to earnings so soon after IPO (July) is always disappointing but in this instance the downgrade was totally out of managements control and would appear to be a "pushout of earnings" into CY19, rather than "lost earnings", so we are giving PVS a second chance. To its credit, the PVS management team visited institutional investors to personally explain the earnings miss and have undertaken to engage in a more detailed and consultative manner with investors going forward, which we consider critical for businesses in the first year or two post IPO.

QMS Media Limited (QMS, -17.5%) was weak during the quarter and was sold down in-line with other media stocks exposed to advertising spend as investors became increasingly bearish on the consumer. Management was busy during the quarter negotiating two deals which have the potential to unlock significant shareholder value and affirmed solid earnings guidance at the company's AGM. In December, QMS announced that it has entered into a Heads of Agreement for the proposed merger of its NZ out-of-home, digital media and production business with the Oaktree Capital owned Media Works, NZ's leading independent radio, TV and digital business. This announcement was followed later in the quarter by news that QMS was looking to acquire talent representation and sports management group, TLA Australia, to bring critical mass to the emerging QMS sports division. QMS is aiming to simplify its business by creating three distinct segments:

- QMS Media - pure play out-of-home digital media business;
- MediaWorks - largest multi-media business in NZ; and
- QMS Sport - an emerging global digital sports technology, infrastructure and media rights business.

The rational for the restructure is to allow each business unit to prosper in a structure that can best unlock its future growth potential. It makes sense that MediaWorks and QMS Sports will ultimately be either divested or spun-out of the holding company leaving a pure play outdoor media business which may attract strategic interest. Whilst the share price performance for the quarter was disappointing, we remain comfortable with the outlook for the business.

During the quarter, several of our core portfolio holdings suffered material share price corrections despite delivering no negative news flow. Some of these names included:

McPhersons (MCP, -19.3%) retreated during the quarter without any material news flow from the company. The drop in the consumer products wholesaler's share price comes as investors are concerned about the retail market that their domestic brands are sold into as well as the longer-term implications of a lower Australian dollar. As McPhersons has hedging in place, we are less concerned on near term moves in the AUD and remain comfortable that the valuation of the company adequately reflects these risks.

AMA Group (AMA, -22.1%) was lower during the quarter despite no material negative news being released to the market. In fact, the company announced incrementally positive news in October which included the extension of banking facilities and changes to the executive management team with the highly regarded Andy

Hopkins being promoted to the role of Group CEO. There has been growing speculation in the market with respect to a large potential acquisition and an associated equity raising which may have driven the performance of AMA during the month. We would see such an acquisition, at a sensible price, as an outright positive for the company and the stock.

Clover Corporation (CLV, -11.4%) the producer of powdered Omega3, used in top quality infant formula, was a negative contributor to portfolio returns for the quarter. After reporting a solid result at the end of September, the share price drifted lower during the quarter despite the recent positive news that new Chinese draft standard for infant formula will require a minimum of 15mg DHA/100Kca. DHA (an Omega3) is not currently a mandatory inclusion in Chinese infant formula so if the draft becomes legislation, CLV would be a significant beneficiary given the size and importance of the Chinese infant formula market.

Johns Lyng Group (JLG, +20.5%) bounced back during the quarter after a messy FY18 result. JLG is an integrated building services group delivering building and restoration services across Australia. The Group's core business is its ability to rebuild and restore a variety of property and contents after damage by insurable events (e.g. impact, weather and fire events). JLG delivered positive news flow during the quarter including affirmation of FY19 earnings expectations, the formalisation of its partnership with Suncorp (by way of an exclusive master services agreement) and the consolidation of its WA market position through an agreement with a major WA insurer for the provision of domestic property insurance repair on up to 1,000 properties per quarter. On top of this, JLG is positively exposed to catastrophes and natural disasters (CAT events) such cyclones, storms, flooding and other major weather events. During the last quarter, Australia's insurers called out several CAT events that were likely to negatively impact their earnings (East Coast Low Pressure System weather event, NSW and South East Queensland hailstorms) which are in turn positive earnings drivers for JLG. With its core business well positioned to deliver FY19 earnings guidance, and upside from existing and potential CAT events, we believe 2019 should be a solid reboot for JLG and we continue to hold a core portfolio position in the name.

Outlook

Whilst there have been several high-profile factors contributing to the risk off environment that has gripped global markets in recent months they all ultimately relate back to underlying concerns about the prospects for economic growth and earnings growth. Entering the new year, many of these uncertainties remain unresolved with ongoing trade and geopolitical tension between the US and China, Britain (still) attempting to negotiate a palatable deal for "Brexit" and the Chinese economic outlook deteriorating. Combined, this has created a mood of extreme caution amongst investors which has seen global equity markets and, indeed, most liquid asset classes sell off materially in the December quarter.

Although Trump has recently alluded to making significant progress toward reaching a trade deal with his counterpart, Xi Jinping, recent economic data out of China is a reality check that the trade war is starting to impact on its economy. China remains on track to hit its growth target of around 6.5% in 2018, but the economy is losing momentum heading into 2019. The recently released December Purchasing Managers' Index (PMI) showed that activity in China's manufacturing sector contracted for the first time in two years amid an economic slowdown which can be largely attributed to the Sino-US trade war. As headwinds to growth and confidence gather, Chinese policymakers continue to show flexibility in offering dovish economic policy in attempting to buffer any slowdown.

Whilst corporate profitability and the general economic conditions in the US remain solid, they are being undermined by political instability and uncertainly around the regulatory environment. There are growing concerns that the trade war will ultimately lead to a significant economic slow-down in 2019 and drive the economy into recession, which will obviously have negative connotations for corporate earnings. In early January the market was spooked when tech bellwether Apple downgraded earnings estimates citing weakness in the Chinese market and a gauge of US manufacturing (ISM) plunged by the most since 2008, raising concerns that the trade war with China is taking a bigger toll than expected on economic growth. Offsetting these concerns, US December jobs data (non-farm payroll employment) far exceeded consensus expectations and indicates that whilst business confidence may be softening, the US consumer remains on solid ground underpinned by a strong jobs market and wage gains.

Compounding investor angst in December were the actions of the US Federal Reserve ("the Fed") which hiked rates and guided to two further increases in 2019. In December, the Fed ignored the market volatility and increased rates for a fourth time for 2018 and talked to further rate rises in 2019 which unnerved investors who were hoping for more "dovish" commentary from Fed Chairman Jerome Powell. Since the GFC, investors have become accustomed to the so called "Fed Put", the widespread belief that the Fed can rescue the economy with accommodative monetary policy. As such, with confidence in the "Fed Put" now wavering, market watchers are becoming more concerned about a shrinking of the size of the Fed's balance sheet and, as such, more skittish about future economic conditions. Not helping matters, Trump further shook the market when he blamed the central bank for December's steep equity market sell-off and reportedly inquired about firing the Fed chairman, a claim later allayed by Treasury Secretary Steve Mnuchin.

Whilst the Fed's updated economic assessment is somewhat less upbeat than in prior months, and included a slight downward revision to next year's GDP forecast, there appeared to be a gulf between the economic expectations of the central bank and those of the market, with the latter pricing in a much more bearish outlook. In early January, Fed Chairman Powell used an appearance at an economic conference to appease the market by backing down from earlier comments relating to the Fed's balance sheet policy where he had said that the Fed's balance sheet wind down was on "autopilot". He softened that position considerably on the weekend and reassured investors that the Fed was listening carefully to the market and would be flexible with all its policy tools.

On the domestic front, the Mid-Year Economic and Fiscal Outlook (MYEFO) was released in December and confirmed that the annual deficit is tracking at $5.2b, a little over $9.0b better than the forecast delivered at the Federal Budget in May, mostly due to stronger than anticipated tax receipts. Whilst this leaves the government well positioned to cushion any economic downturn, we would expect most of this money to be committed to either tax cuts or government spending by the major political parties coming into the 2019 election. Any tax relief would no doubt be well received by the domestic consumer who continues to struggle under the increasing pressure of falling house prices and record-low wages growth. Indeed, household spending fell to its lowest level in six years during the quarter and our anecdotal feedback suggests that Aussie retailers overall endured a challenging Christmas season.

The good news for investors is that the steep sell-off has seen valuations on equities starting to price in a material slowdown in the global economy including a likely sharp sell-off in China and a strong probability of the US entering a recession in the back half of 2019. Absent a policy mistake by the US Federal Reserve (hiking rates too quickly in 2019) and/or a re-escalation of the trade war, we view this as an unlikely scenario based on the current economic data and believe there is valuation support now emerging in the market.

The month of January is usually very quiet from an information perspective with most ASX listed companies in "blackout" ahead of mid-year results due in February and company management typically on their summer holidays. The investment team is looking forward to the upcoming February reporting season when the market will once again focus on fundamentals as we believe that our portfolio is well positioned to deliver strong operating results and solid outlook statements despite the current macro-economic conditions and political uncertainty.

We wish our investors all the best for a safe and prosperous new year and thank you all for your ongoing support of the team.

Top 5 holdings[#]

Company	ASX code
Jumbo Interactive	JIN
Johns Lyng Group	JLG
Money3 Corporation	MNY
Pacific Current Group Ltd	PAC
Bravura Solutions Ltd	BVS

[#] 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 5 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 25, 360 Collins Street, Melbourne Vic 3000, by visiting ocfunds.com.au, by calling 1800 442 129 (free call) or by emailing 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.