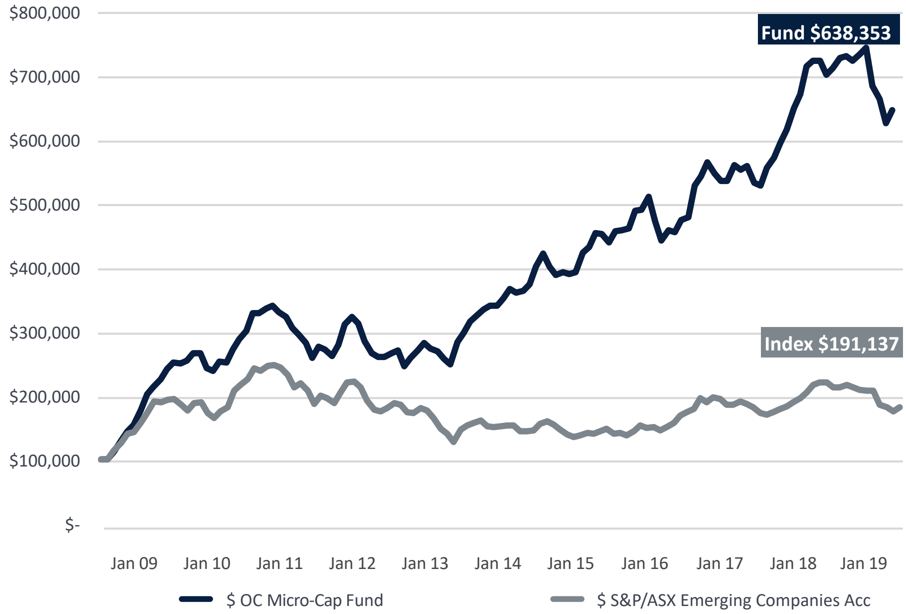
3.4% Fund up 3.4% for the month

20.4% Returned 20.4% 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 January 2019†	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. (Jan 2003)
OC Micro-Cap	3.4	-5.4	-10.6	10.9	13.6	12.7	20.4	12.7
S&P/ASX Emerging Comp. Accum	4.2	-2.2	-18.2	8.1	3.9	-1.7	6.7	NA
Outperformance	**-0.9**	**-3.3**	**7.7**	**2.8**	**9.7**	**14.4**	**13.7**	**NA**

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

Following a challenging quarter across global equity markets, equities bounced strongly in January and the OC Micro-Cap Fund returned a solid 3.4% for the month. This was behind the S&P/ASX Emerging Companies Accumulation Index which returned 4.2% over the month of January.

Company specific news flow (earnings updates aside) was relatively muted in January ahead of the February reporting season, with many market participants on holidays during the month and companies in "black-out" ahead of releasing their results. Reporting season has now kicked off and we are comfortable that our holdings will deliver solid results over the course of the month.

Despite the turmoil of the December quarter, the investment team stuck to its process through this period and, indeed, took advantage of some opportunities that arose as a result of the broad-based market sell off.

We topped up our position in early stage medicinal cannabis business, **Althea (AGH; +26.5%)**, which traded back to its IPO issue price during the December quarter. Whilst we saw the AGH IPO stag as a little too hot for us at +300%, and subsequently took some profits, we likewise looked on the pullback as being overdone and were comfortable increasing our holding back at the IPO issue price. We believe AGH is well positioned to service the emerging Australian and UK medicinal cannabis markets.

We judiciously added to longer term core positions in businesses such as **Johns Lyng Group (JLG, -0.9%)** and **Money3 (MNY, +7.6%)** which had traded to what we consider oversold levels during the prior quarter. JLG has now bounced nicely off its lows and is currently experiencing the tailwinds of record rainfalls in the Townsville region where it will be a major beneficiary of the extensive residential restoration activity which will inevitably take place over the coming 1-2 years. MNY is well placed to perform better in CY19, particularly if it executes on its long-stated intention of exiting its Small Amount Credit Contract business and redeploys this capital into its core motor vehicle finance operations.

In company specific news, **NRW Holdings (NWH; +19.2%)** bounced back in January after being down 22.7% during the December quarter. We called out NRW's negative performance in our December quarterly newsletter but we remained steadfast in our conviction that the business was well placed going into the new year. Pleasingly, the market has seemingly now agreed with us. NRW's share price recovery was boosted by the contract award of Koodaideri Mine Plant Bulk Earthworks by Rio Tinto. Although this contract is not, in itself, material to NRW's order book, (being $85m of work over 11 months), the award is seen as a signal that NRW is a preferred contractor to Rio for the broader Koodaideri Project. The Project is Rio's flagship iron ore development where it will spend A$3.5b bringing the most technologically advanced mine in Australia into production by 2021. Koodaideri will supply an incremental 43 million tonnes of iron ore into the seaborne market, underpinning Rio's Pilbara Blend. The Koodaideri contract award follows on from several recent positive announcements at the back end of 2018 that included material contract wins and extensions across the civil, mining and drill & blast divisions of NWH, the securing of bank funding to repay corporate notes and, not least, a material profit upgrade with H1 FY19 earnings.

Pacific Current Group (PAC, +4.8%) announced that it had invested US$34.3m in Carlisle Management Company (Carlisle), a Luxembourg based Life Settlement asset manager with US $1.4b of funds under management. PAC will receive securities entitling it to 16% of Carlisle's revenues and 40% of the proceeds in the event of an asset sale and the purchase price implies an attractive 8.7x multiple on management fees and 5.7x including PAC's share of performance fees. Carlisle invests in "in-force" life insurance policies sourced via a network of intermediaries from policy holders who no longer want or need their policies. It uses third parties to assess policy risk, buys attractively priced policies at a premium to what the policy issuer would pay the holder, continues to pay the policy premiums and then collects the policy benefits at maturity. The company's flagship Long-Term Growth Fund has delivered over 90 consecutive months of performance and averaged returns of ~20% p.a. over the past five years. The business provides PAC with a further income stream un-correlated to equity markets and replaces the lost earnings from the recently divested Aperio stake at an enhanced rate of return. PAC remains attractively priced, trading on an "ex-cash" PE multiple of just over 8x and a 6.0% fully franked yield and with a remaining cash balance of $40m for further investments.

Noni B (NBL; +0.4%) the NBL management team has spent the last few years turning around mature female fashion brands after acquiring control of the Noni B business, in conjunction with private equity firm Alceon, in November 2014. In May 2018, NBL acquired a further 750 former Specialty Fashion stores and is now the market leader in the mature female apparel market with plans to expand margins by reducing discounting in the sector and also removing costs. To this end, NBL recently announced that its cost out program was tracking ahead of expectations. During the month, NBL pre-announced its first half EBITDA result of A$29m which was at the upper end of consensus expectations whilst also reiterating forecast FY19 EBITDA of around A$45m. We remain attracted to NBL given the ability of the management team to remove costs and rationalise discounting which together should be able to mitigate any softness experienced by the domestic consumer.

We opportunistically added a position in childcare operator, **Think Childcare (TNK; +7.9%)**, to the portfolio which traded at 2-year lows during the last quarter. We view TNK as a quality niche operator in the space dominated by larger players, such as G8 Education and Affinity, and preliminary data points are indicating the industry over supply issues, which had previously been front of mind for investors, are beginning to abate.

Outlook

As the market rounded out calendar year 2018, a mood of extreme caution had driven equity markets valuations to the point where some dire outcomes were being priced into stocks, including arguably a material global economic slow-down and a potential US recession in the back half of 2019. Whilst a number of key economic and geopolitical concerns remain unresolved including ongoing trade and geopolitical tension between the US and China, Brexit negotiations still in limbo and the Chinese economic outlook continuing to deteriorate, market sentiment has turned more positive and equities have rallied in response.

Clearly, when the overwhelming majority of investors become extremely bearish it does not take a lot of positive news to spark a sharp rally in equity prices. Valuation aside, there seems to have been two key catalysts for the improved risk appetite in January:

- Firstly, in an abrupt turnaround, the US Federal Reserve signalled that it was done raising interest rates in the near term and would be 'patient' about any future decisions on reducing its bond holdings. This was a marked change from the tighter monetary policy of just one month earlier that had spooked the market. The return of the so called "Fed Put" has no doubt emboldened investor risk appetite and alleviated concerns that the Fed was hiking too quickly and would drive the US economy into recession.
- Secondly, renewed optimism around a Sino-US trade deal in the near future and a pause from the

escalating hostilities between the two nations further calmed the nerves of investors during the month. Aside from optimistic rhetoric from both sides during the month, including talk of good spirit and intent on both sides, nothing has yet been formalised between the two countries. Late in the month President Trump hosted the Chinese Vice Premier Liu He and a high-ranking Chinese trade envoy at the White House to engage in wide ranging discussions around the economic relationship between the two countries. Whilst Chinese President Xi Jinping remains hopeful that the two countries can 'meet halfway', the March 1st deadline for tariff escalation is approaching and a failure of the two countries to reach a compromise would likely result steep market sell-off due to the negative implications of further trade tariff on global economic growth.

Heading into February reporting season we remain concerned that the Australian economy is softening and our policy makers have limited tools at their disposal to address any protracted economic downturn given that interest rates are already at historic low levels. The risks to the economy are mounting and include:

- falling house prices with the key Sydney and Melbourne markets showing no sign of bottoming and credit conditions tightening;
- building approvals slumping, down a further 8.4% in December taking the fall in new residential approvals to 22.5% for 2018;
- weak retail sales which deteriorated further over the Christmas trading period, especially discretionary items such as clothing, footwear and household goods;
- new car sales in the doldrums with new vehicle sales down a further 7.4% in January;
- business conditions deteriorating with the influential NAB survey indicating business conditions in Australia have recorded their steepest monthly fall since the GFC in December;
- the economy of our major trading partner, China, continues to deteriorate.
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The RBA remains relatively upbeat about the prospects for our economy, although it has modestly downgraded its GDP forecasts for 2019 and 2020 to 3.0% and 2.75%, down from its prior forecast of 3.25% and 3.0%. Clearly the RBA remains heartened by the strong labour market (unemployment is forecast to be 4.75% over the next few years) and the benign level of inflation with the bank recently downgrading inflationary expectations to 2.25% by the end of 2020. Interest rates are clearly on hold for some time and RBA governor Philip Lowes' dovish shift to an "evenly balanced" stance on the direction of rates.

We are a little more circumspect about the domestic economy and the portfolio remains skewed towards either companies with either robust earnings growth which ought to generate a premium rating in a slowing growth environment, companies that can grow their earnings outside of the economic cycle or offshore earners.

We are approaching the earnings season with cautious optimism and are confident that we have a strong understanding of the fundamentals of the companies within our portfolio and a firm belief that the market will reward their earnings and cashflow generation over the long-term. Over the coming six weeks our four 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.

Top 5 holdings#

Company	ASX code
Citadel Group Ltd	CGL
Jumbo Interactive	JIN
Money3 Corporation	MNY
Pacific Current Group Ltd	PAC
Propel Funeral Partners Ltd	PFP

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 soft 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. Soft close unit prices are interim unit prices struck at month end before all transactions for the month have been completed. Performance data available on the OC website, ocfunds.com.au, however, is based on hard close unit prices which are struck after all transactions for the month have been completed.

* 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.