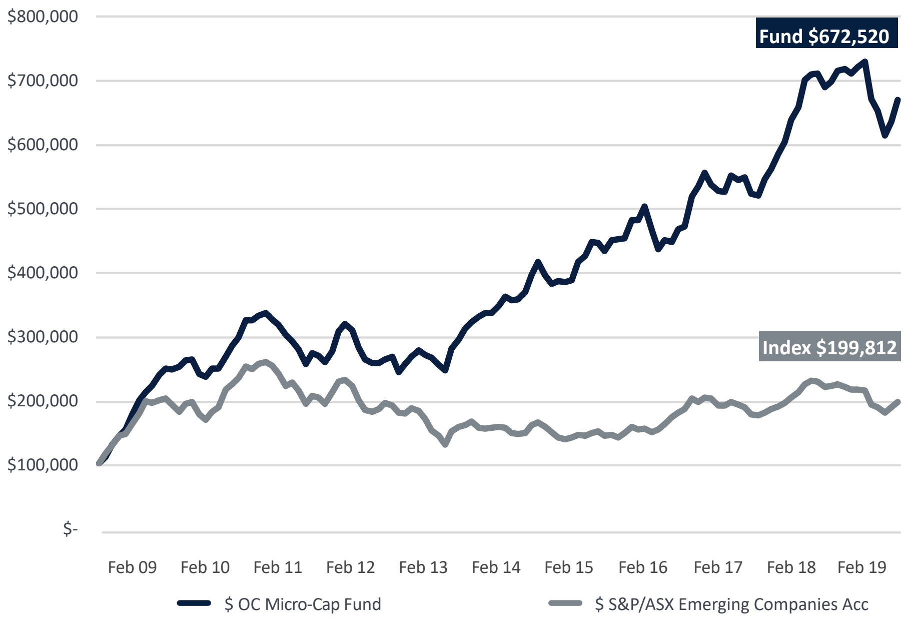
5.5% Fund up 5.5% for the month

21.0% Returned 21.0% 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 28 February 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. (Feb 2003)
OC Micro-Cap	5.5	2.7	-5.8	15.4	14.0	11.8	21.0	13.0
S&P/ASX Emerging Comp. Accum	4.8	5.0	-14.2	8.7	4.6	-2.2	7.2	NA
Outperformance	**0.6**	**-2.3**	**8.4**	**6.7**	**9.4**	**14.0**	**13.9**	**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 strong recovery in January, equity markets moved higher again in February and the micro-cap cap indices has recovered a solid portion of the ground lost in the final quarter of CY18. The February reporting season threw up a mixed bag of results across the Australian micro-cap universe. Overall results were solid, with notable exceptions from stocks exposed to the Australian consumer and housing markets which, in most instances, are facing mounting headwinds.

The strong performance of the S&P/ASX Emerging Companies Accumulation Index, up 4.8%, had more to do with subdued earnings expectations following the December quarter sell off and the US Federal Reserve's pivot back towards a dovish stance rather than any exceptional earnings delivery across the small-cap space. Indeed, the strength of the rally surprised us, given that little has changed from a macro stand-point other than the US Fed's about face. The OC Micro-Cap Fund returned +5.5% for the month, which was a good result given that the Fund was conservatively positioned during the month with an average cash holding balance at around 10% of the portfolio.

Think Childcare (TNK, +27.3%) performed strongly during month after it delivered an encouraging CY2019 outlook statement and a result in line with our expectations. TNK is a national childcare operator, with a focus in Victoria, which grows predominantly by start-up "greenfield sites" as well as through an incubation program where it acquires sites from third parties after they are delivering at, or above, pre-determined key metric levels. TNK is transitioning its centres to a curriculum focussed model which delivers better outcomes for its students/parents and in turn drives better occupancy levels for its centres. This is known as the 'Nido model' and the majority of TNKs 74 owned/managed sites will be converted to Nido by the end of this calendar year. During the prior six months, TNK had been sold down by the market as investors became concerned by the transition of its business model and broader oversupply concerns in the childcare industry. We see TNK as well positioned to continue to outperform as it trades at a sizeable discount to its larger listed peer and is also growing at a faster rate.

Windlab (WND, +22.8%) rallied off its oversold levels on an announcement that it had agreed a $10m investment from Eurus Energy for a 25% stake in Windlab's African development projects. Windlab designs, develops and operates windfarms, using sophisticated proprietary wind mapping software. The African projects are in several East African nations and still require financial backers and, as such, the market had previously attributed nil value to these projects, with a sole focus on only the Australian projects closest to completion. WND had been trading at depressed levels after the company advised in November that financial close on its Australian based Lakeland windfarm project would be delayed in order to find a new equity investor after the prior off-shore backer of the project withdrew.

Press reports on the progress of one of the potential backers of the Lakeland project had surfaced during February, with the company quick to add that negotiations were still ongoing and no exclusive arrangement had yet been reached. While the earnings of the company remain inherently lumpy, we continue to believe wind projects will be developed in Australia, and overseas, in future with potential for a single mega-scale project to reap more than the company's entire present market cap ($71m). WND retains ongoing earnings streams from its projects by way of equity investments and maintenance contracts so, over time, a base level of earnings should build to reduce the impact of development earnings volatility.

Money3 Corporation (MNY, 15.5%) is a non-prime auto lender which re-rated during the month when it delivered a solid 1H19 result and announced a significant pivot to its business model. The MNY board has decided to divest its contentious payday lending or small amount credit contract (SACC) business ($46m consideration) and is re investing the proceeds into the acquisition of GoCar Finance, an auto lending business in New Zealand, which is similar to MNY. The exit of pay day lending likely broadens MNY's investment appeal to some of our funds management peers who previously had concerns in relation to the payday lending space which is inherently a lower multiple business due to regulatory and default risks. More importantly, the SACC exit should allow MNY to refinance its current Fortress debt facility with cheaper bank funding over the medium term. The acquisition of GoCar Finance provides a new geography for MNY to grow into. GoCar Finance is based in Auckland and has the potential to grow outside of this region into other parts of NZ.

Despite these above structural changes to the business, MNY has maintained its guidance within the prior range (albeit at the bottom end of that range) which is an excellent outcome as the lower quality SACC business does deliver material earnings versus the higher quality auto-lending business. MNY remains well capitalised and we believe it is poised to grow strongly over the medium term.

The **Citadel Group (CGL, -19.4%)** was sold off during the month after reporting a first half result that was below analyst expectations. CGL is a leading software and services company that specialises in secure information management in complex environments. The company has a raft of long-term contracts in the fields of defence, national security, health, education and government with high quality counterparties such as the Queensland government, Brisbane City Council, the Department of Defence and Royal Adelaide Hospital. CGL's clients place a premium on security, integrity and experience, with price often a secondary consideration, which has resulted in an offering with strong barriers to entry, that is difficult to replace, and with margins that are at a premium to peers.

Whilst the half yearly numbers were slightly behind analyst expectations, we believe that the market has underappreciated the quality of the CGL business model with the recent pivot towards higher quality recurring software-as a-a-service (SaaS) revenues gaining serious traction, up 39.1% year-on-year to $16.8m. This will result in a margin hit near term, as evidenced by the half yearly result, as the company forgoes short-term licence fees on some contracts in favour of higher quality, stickier long term recurring SaaS revenues and wears some upfront implementation costs during the transition period. But ultimately, margins ought to track materially higher in the medium term and we would expect the stock to re-rate due to the higher quality earnings stream. CGL has a very strong pipeline of SaaS opportunities, particularly from its flagship Citadel-IX platform, its stock valuation remains compelling versus peers and the company remains a core Fund holding.

Outlook

While a dovish pivot from the Federal Reserve over the past two months and low expectations leading into reporting season helped the market stage a solid rally in February, the global economy is now facing a low growth backdrop. On the heels of the Fed's dovish rhetoric, the European Central Bank pushed out a planned rate hike, slashed its growth and inflation forecasts and surprised the market with a new round of policy stimulus to address continued weakness and widespread uncertainty. The reversal came in the same week that Canada's Central Bank took a sudden dovish turn and disappointing data points from Australia and China instilled a sense of caution in markets. Mounting evidence of a world slipping back to a norm of benign inflation and a murky growth outlook has forced the recent dovish tilt of central banks across the region, reflecting a coordinated pause in tightening and more supportive macroeconomic policies to be expected in the short to medium term.

Investors breathed a sigh of relief as the White House delayed tariff increases on Chinese goods beyond the end of February deadline, citing substantial progress being made in trade talks between US and Chinese negotiators. The confirmed extension was accompanied by positive news flow on significant breakthroughs, such as discussions involving China buying more US goods in the agriculture, energy and semi-conductor sectors, market access, technology transfers and mutual respect for monetary policy autonomy. Markets also appeared to have priced in the optimism arising from various news reports outlining the possible scenario for both sides to iron out the final details of a formal agreement at a potential meeting in early April.

To throw in another element of optimism, there are tentative signs of a turnaround in Chinese growth momentum as policymakers seek to pull off a gradual deceleration while grappling with a debt legacy and the trade standoff with the US. The Chinese 2019 GDP growth target was set at a range of 6.0 to 6.5% and this shift to a band gives policymakers room to move given other pressing concerns regarding poverty alleviation and systematic deleveraging.

Fiscal stimulus and tax reform are the new agenda items as the Chinese Premier Li Keqiang presented the government's Work Report in the 2019 Nation People's Congress and announced two trillion RMB cut (roughly 0.6% of GDP) in total VAT and social security contributions to support the manufacturing, transport and construction sectors. In addition, for government-led spending, the predominant focus remains on off-budget infrastructure investment. As the annual window for issuance of special bonds to support local municipal infrastructure spending was opened in late January, well ahead of the usual summer timing, the additional liquidity should contribute to an easing in the broad fiscal stance in the coming months. Over the next few weeks, the release of economic data on retail sales, investment, credit and industrial production should provide fresh clues on the impact of its easing policy and extent of Chinese growth stabilisation.

On the domestic front, the RBA is following the global trend, dropping the previous tightening bias to take an "evenly balanced" stance on the direction of interest rates in response to disappointing domestic macroeconomic performance and the uncertain impact of falling house prices on consumption growth. December quarter GDP growth was just 0.2% quarter on quarter, with a fall in housing investment, weaker consumer spending and business investment and a detraction from trade only partly offset by solid public demand.

In our view, a slowdown in household consumption growth is a key domestic macro risk. While the RBA research found that the wealth effect is highest for spending on motor vehicles and household furnishings, recent weakness in January retail trade (with a bounce of just 0.1%) and February car sales data (down 9.3% on the level of a year earlier) is pointing to a near-term slowdown and perhaps, more importantly, providing more concrete evidence of spill-over from the cooling housing market.

Observations from reporting season also suggested that the impact of a slowing housing market was felt far and wide. While property developers such as AVJennings (AVJ) on average reported sluggish sales momentum, building materials, construction and housing related companies including Boral Limited (BLD) missed on what were already low expectations given the well-flagged decline in multi-dwelling and residential construction activity as well as delays to key infrastructure projects. In the retail space, the results were mixed with Super Retail Group (SUL), Lovisa Holdings (LOV) and Nick Scali (NCK) delivering buoyant results ahead of market expectations in contrast to retailers closely linked to housing cycle and automotive slowdown such as Automotive Holdings Group (AHG), which materially underperformed profit expectations due to negative wealth sentiment and regulatory changes to automotive finance and insurance.

Results from reporting season have heightened our conviction that the key themes underpinning our portfolio will continue to outperform over the medium-term.

- **Resources and mining services sectors are an area of relative strength**: Mining stocks have re-rated on the back of a commodity price rally, partly driven by supply disruptions, and the sector is the only pocket of the market, aside from technology stocks (mentioned earlier), offering strong earnings momentum and considerable EPS upside. Strong capex expectations announced by the miners appear to show that the mining construction downturn has bottomed out. Mining services companies are the key beneficiaries of production and those with strong competitive advantages, robust balance sheets and well-regarded management remain as preferred exposures for the Fund.

- **Offshore earners outperformed**: As we have now become more circumspect about the domestic economy, the portfolio remains skewed towards companies with robust earnings growth which ought to generate a premium rating in a slowing growth environment, or companies that can grow their earnings outside of the economic cycle or offshore earners. Given the recent dovish shift by central banks and anticipation of further supportive macro policies, global growth is expected to stabilise at a lower level. Broader risk appetite has also been supported by increased Chinese stimulus and easing US-China trade tensions in the near-term. The Fund's holdings in offshore earners include Bravura Solutions (BVS, +21.9%), Pacific Current Group (PAC, -1.6%) and EML Payments (EML, +12.9%).

The investment team will be out on the road for much of March, including interstate and offshore, assessing new investment opportunities and meeting with the management of current holdings and their competitors. In contrast to the market turbulence during the December quarter, where investor sentiment swung wildly on perceived progress or setbacks, the influx of news related to sector's and company's underlying performance from the reporting season have provided higher quality and more transparent indicators on how the economy is tracking and propelled the market participants to focus on fundamentals once again. We have a strong understanding of the key business drivers of companies within our portfolio and a firm belief that the market will reward their earnings and cashflow generation over the medium-long term.

Top 5 holdings#

Company	ASX code
Citadel Group Ltd	CGL
Jumbo Interactive Ltd	JIN
Netcomm Wireless Ltd	NTC
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.

CONTACT COPIA

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

John Clothier	General Manager, Distribution	0408 488 549 | jclothier@copiapartners.com.au
Iain Mason	Director, Institutional Business	0412 137 424 | imason@copiapartners.com.au
Mani Papakonstantinos	Distribution Manager	0439 207 869 | epapakonstantinos@copiapartners.com.au
Matthew Roberts	Distribution Manager	0438 297 616 | mroberts@copiapartners.com.au
Jude Fernandez	Distribution Manager	0414 604 772 | jfernandez@copiapartners.com.au

† 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.