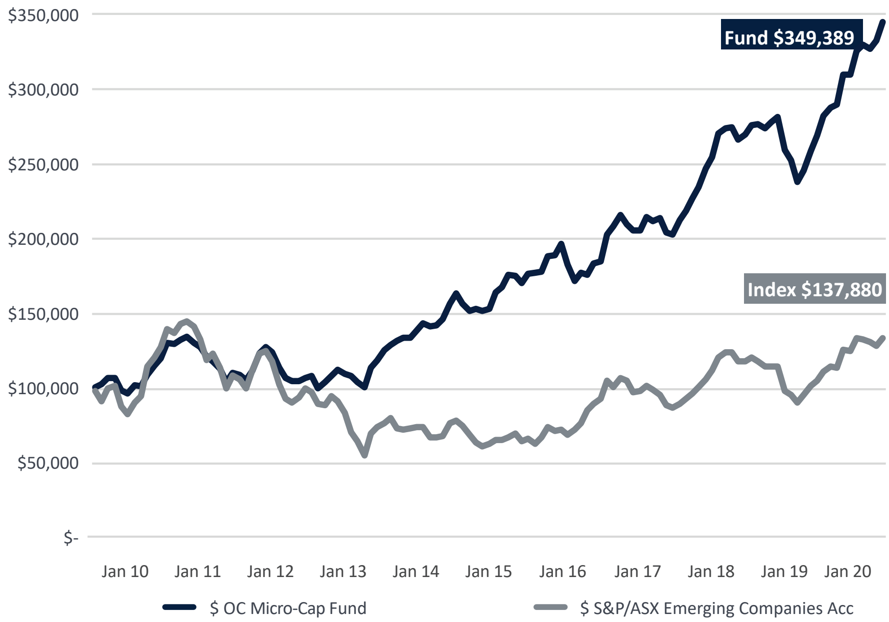
OC Micro-Cap Fund
Fund Update | 31 January 2020

3.8% Fund up 3.8% for the month

18.4% Returned 18.4% p.a. for the past 5 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 2020†	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. (Mar 2003)
OC Micro-Cap	3.8	4.6	41.8	17.8	18.4	19.0	13.8	14.3
S&P/ASX Emerging Comp. Accum	3.5	0.4	30.1	7.5	11.8	3.9	2.5	NA
Outperformance	**0.3**	**4.2**	**11.8**	**10.3**	**6.6**	**15.1**	**11.4**	**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. The total return performance figures quoted are historical, calculated using end-of-month mid-prices and do not allow for the effects of income tax or inflation.

Performance review

The new calendar year kicked off with a bang in January as domestic equity markets surged ahead on renewed optimism about the economic outlook and ongoing enthusiasm for Australian equities. The S&P/ASX 200 Index (+5.0%), a good indicator of the health for the broader equity market, hit an all-time high of 7,132 points during January and closed the month above the 7,000 points mark for the first time. The OC Micro-Cap Fund remained relatively cautiously positioned during the month but still delivered +3.8%, a result that was ahead of the S&P/ASX Emerging Companies Index (+3.5%). Over the past 3 years, the Fund has delivered +17.8% per annum after all fees whilst the Index over the same period has delivered +7.5% per annum.

Cann Group (CAN, +104.8%) bounced hard during the month from what we considered were over sold levels. The medicinal cannabis sector remains in its infancy in Australia, and globally (although to a lesser degree), and during this earlier phase of an industry's evolution, participants can be subject to wild swings in valuation as the equity market comes to terms with the myriad moving parts. CAN is now well positioned to be the leading producer of domestically grown medicinal cannabis product, with its planned facility in Mildura presently under construction. The company has had its recent challenges with funding plans for the facility side-tracked during the past six months by delays caused by the debt providers, which precipitated a steep fall in the share price. The falling share price caused large turnover in the share register, caused some irrational selling and knocked the confidence of ongoing investors. Now that the share price has stabilised, and CAN's board and management are proactively managing the company's future capital requirements, we remain confident the business can deliver on the very large medicinal cannabis opportunity that lies in front of it as one of the more credible players in the space. We remain investors in the business.

Global mining software business **RPMGlobal (RUL, +31.0%)** performed well during the month. RUL is a business in which we took a position during the last six months and is now up almost 50% since first added the stock to the portfolio. RUL was a traditional mining consultancy business which struggled through the mining bust of 2012 but has since been transformed by tech entrepreneur and CEO, Richard Matthews. During the past 6 years the business has expensed approximately A$100m investing in the development of market leading mining software which assists clients, including many of the global majors, in mine scheduling and simulation, financial budgeting and asset management. Recent operational updates and renewed investor interest have validated this strategy. During January, RUL announced annual recurring revenue (ARR) grew to $10m from $8m at the last update in November 2019. This impressive growth was off a base level ARR of $3m, just under 12 months ago, and has more than justified the pivot to a Software-as-a- Service (SaaS) model some 3 years earlier. RUL also has $20m of maintenance revenue which should ensure the business is strongly cash flow generative looking forward. We continue to hold RUL and see it as a prime example of a micro-cap stock we have added to the portfolio at an important inflection point in its evolution which has the potential to be a much larger company is the coming years.

Imricor Medical Systems (IMR, +20.1%) was added to the portfolio at its IPO in August 2019 and is now +72.5% since that time. IMR is a US based medical device company that seeks to address the current issues with traditional x-ray-guided ablation procedures through the development of MRI-guided technology. An attraction for OC participating in the IPO was the imminent European regulatory approval for the product which we expected would be a positive share price catalyst. Whilst the approval ultimately took longer than expected, IMR received CE mark approval for its Vision-MR Ablation Catheter and Vision-MR Dispersive Electrode in the latter part of January and the stock re-rated over the balance of the month. With the catalyst now realised and the stock re-rated, OC has exited the position with a view to recycling this capital into other opportunities.

Windlab (WND, +31.0%) traded better during the month on the back of an indicative bid from a substantial holder, Federation Asset Management (18.7% stake), to take the company private via a scheme of arrangement at an offer price of $1.00 per share. Since its IPO in August 2017, WND has struggled to achieve an appropriate valuation multiple in the listed equity market. In light of this, the board of WND recently undertook a strategic review in order to better address and improve shareholder value. The resultant bid, whilst lower than our entry price is not an unreasonable outcome for holders who were otherwise stuck in a stock that became relatively illiquid and was trading well below its intrinsic value. Federation Asset Management is conducting due diligence and is likely to affirm its bid and progress the scheme later in February.

Outlook

The new decade is just a month old, but it has certainly been an eventful one, giving us, as investors, plenty of food for thought. In no particular order we have seen Iran and the US exchanging missiles in the Middle East, the US president impeached (and now acquitted), the US and China signing a Phase 1 trade deal, an outbreak of the Coronavirus in mainland China which is threatening to become a global pandemic, the achievement of Brexit (though with plenty of detail yet to come) and ongoing bushfires across the east coast of Australia. Each of these events carry with them their own potential impacts on our domestic and/or our global economies and we have been constantly considering the portfolio implications accordingly. These ‘macro-economic’ machinations, along with the usual economic datapoints, are accompanied by myriad ‘micro-economic’ updates that we also have to filter into our portfolio construction; trading updates (mostly downgrades) from ASX listed companies and a seemingly unending litany of bricks and mortar retailers falling into the warm embrace of administrators and receivers.

The Coronavirus is perhaps the main near-term area of focus for us as investors. Apart from the obvious human toll, the uncertainty of the unknown is what is most unsettling for markets. The Coronavirus is a moving feast, with the prognosis changing by the day, but the impacts on certain sectors is undeniable. Travel related stocks have been hammered, education stocks exposed to Chinese students are under pressure, and the resources and energy sectors have declined as market begin to factor in reduced demand for raw materials from the usually insatiable Chinese economy which is the engine room of global manufacturing. Uncertainty about potential impacts is less well understood in other sectors such as retail, where supply chain disruption could become an issue, or there could be broader impact such as a further slow-down in consumer confidence. We are following updates on key data points such as infection rates, death rates and geographic spread closely. But at this stage, the market wants to factor in a near term containment of the virus, followed by an enormous stimulus package out of Beijing in order to reboot the stalling Chinese economy. We remain vigilant on this constantly evolving scenario and stand ready to take action, from a portfolio perspective, as required.

In mid-January, the US and China formally signed a ‘Phase I’ trade deal which is an undeniably positive for not only the two global super-powers that are party to the pact, but more broadly for the global economic outlook. Most importantly, the pact signals the economic powerhouses of the US and China are willing to work together for mutually beneficial economic outcomes that co-operative trade agreements deliver, which removes a significant degree of uncertainty for the balance of the global economy. Key points of the deal include China agreeing to increase imports of US goods and beef up intellectual property protections whilst the US has halved its tariff rate on US$112b of Chinese imports from 15% to 7.5%. Importantly, the two have agreed to a framework for top trade officials to work together with an aim of delivering a 'Phase II' trade deal, addressing longer term structural issues, over the medium term. We will consider the positive impacts of this trade pact through a cautious lens, clouded by the Coronavirus.

Large scale bushfires across the eastern seaboard of Australia over the recent summer months are expected to have a not only a human cost, but an economic cost also. Estimates suggest the bushfires will result in around a 0.4% hit to GDP, mainly in the current March quarter. Along with indirect impacts of the Coronavirus, this has resulted in the RBA reducing GDP growth forecasts for the year to June 2020 to 2% (from 2.5%). This drag on economic activity has increased the pressure for more monetary and fiscal stimulus, and to this end federal and state governments have promised significant infrastructure and reconstruction packages for affected areas. Whether the RBA is forced to take further action and cut already record low interest rates is still up in the air. The parts of the economy hardest hit by the bushfires include the tourism/travel sector, the consumer discretionary space, and to a lesser degree agriculture. We are closely watching developments in bushfire regions, with recent welcome rain seeming to at least extinguish any ongoing fires, and the response of government which should have a stimulatory impact.

The US/Iran flashpoint seems to have calmed down as quickly as it flared up – with the protagonists seemingly wanting to settle for a tit-for-tat one all draw. An unsettled Middle East region is clearly a positive for higher oil prices and military spending but a net negative for the balance of the equity market where we deploy our capital. As investors, we take comfort in the relative calm of the Middle East but are constantly wary of the next excuse for this volatile region to ignite again.

Trump was impeached by the House of Representatives but the trial in the Republican controlled Senate turned into a fizzer when the home team refused to allow any new witnesses or evidence introduced into proceedings. The acquittal was undoubtedly frustrating for the Democrats but settling for markets. Whether you like Trump or not, there is little doubt that the equity markets applaud having a brash New York businessman in charge of the White House and his first three years in office have been aligned with a slew of market records and positive economic data. Removing the uncertainty of a potential change in presidency mid-stream is unambiguously positive for the markets' outlook.

More than three and a half years since the original referendum (June 2016), and at the cost of two prime ministerships, Brexit was finally achieved on 31 January 2020. It was a muddled and at times murky process, but the snap election victory by Boris Johnson's conservatives in December 2019 made the January exit by Britain from the EU a certainty. Now its just the details of the divorce that need to be sorted. Yet again, the removal of uncertainty is a positive for markets generally, and the UK in particular, and potentially for our portfolio too as we hold a number of companies with operations in the UK, but there remains a period of negotiation where the exact terms on which the two bodies will separate, are to be finalised. After years of uncertainty, and underperformance, we see the UK as an economy that should outperform over the near to medium term and we will factor this view into our portfolio construction moving forward.

On balance, we remain positively disposed to the equity market outlook, with interest rates across the developed world near record lows, inflation remaining well contained and the global economy tracking solidly. Nonetheless, we remain vigilant on some of the fast-moving scenarios described above, particularly the Coronavirus. For this reason, the Fund remains on a cautious footing but with a keen eye on the critical mid-year reporting season that visits us each February; and the inevitable opportunities that present themselves to us as small cap equity investors. We look forward to reporting back to you next month with what we anticipate will be an active period of results delivery from our stock universe.

Top 5 holdings#

Company	ASX code
Probiotec Limited	PBP
Propel Funeral	PFP
RPMGlobal Holdings	RUL
Viva Leisure Limited	VVA
Zenith Energy	ZEN

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

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Sam Harris	Distribution Manager	0429 982 159 | sharris@copiapartners.com.au

[†]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. 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 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 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.