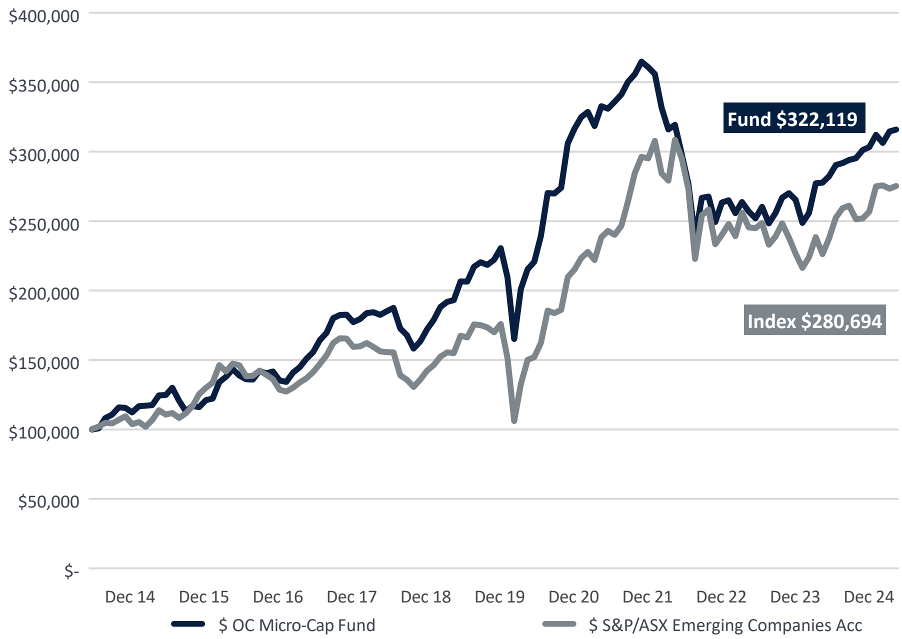
1.2% Fund up 1.2% for the quarter

14.1% Returned 14.1% over the past 12 months

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 2024[†]	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.	Incep. % p.a. (Nov 2003)
OC Micro-Cap	0.4	1.2	14.1	-3.9	7.4	12.4	12.5
S&P/ASX Emerging Comp. Accum	0.7	0.1	15.7	-3.7	10.3	10.9	6.1
Outperformance	**-0.3**	**1.1**	**-1.6**	**-0.2**	**-2.9**	**1.6**	**6.4**

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 31 October 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 net asset value per unit after fees and do not allow for the effects of income tax or inflation

Performance review

The Australian equity market softened into the year end, with stimulus out of China falling short of investor expectations and a more hawkish US Federal Reserve hosing down expectations on the pace and quantum of interest rate cuts in the world's biggest economy in 2025 due to lingering inflationary concerns. Nevertheless, it was another solid year for global equity markets, particularly the bellwether US indices, with the Nasdaq Composite surging +28.6%, the S&P 500 up +23.3%, and the Dow Jones Industrial Average rising by +12.9%. The so-called "Magnificent 7" stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) were the key drivers of performance in both the S&P 500 and Nasdaq indices. The broader Australian market also enjoyed a solid year with the ASX/S&P 200 Accumulation Index returning +11.2% for the year.

The OC Micro-Cap Fund gained +1.2% in the December quarter which was ahead of the S&P/ASX Emerging companies Accumulation Index (+0.1% for the quarter). Whilst the fund returned a credible +14.1% across the 2024 calendar year we were shaded slightly by the S&P/ASX Emerging companies Accumulation Index (+15.7%), which was aided by the strong performance from technology constituents trading above our $500M market cap limit. The Fund maintains a strong long-term track record and the OC Funds investment team remains confident that the Fund is well positioned to generate strong returns for investors in the new calendar year.

Silk Logistics (SLH, +57.1%) leapt higher in November when it entered into a Scheme Implementation Deed with global logistics heavy weight DP World to acquire the company at $2.14 per share, representing a 46% premium to its last traded share price (and a 60% premium to the 1 month volume weighted average SLH share price). A founder led business, SLH provides port-to-door landside logistics and supply chain services across most major ports in Australia. The company offers port logistics services, including wharf cartage and contract logistics services, such as warehousing, e-commerce fulfillment, and distribution across multiple sectors including retail, fast moving consumer goods, light industrial and food services. Despite the challenges of COVID-19, SLH has doubled its earnings in recent years through a combination of organic growth and complementary business acquisitions. Despite this, the company had failed to capture a broad institutional investor base, and the stock was languishing well below its IPO price at the time the transaction was announced. As substantial shareholders in SLH, we consider the deal represents reasonable value for the stock which had been largely underappreciated by the market since its IPO in mid 2021. Whilst the transaction remains subject to an Independent Expert Report and FIRB and shareholder approvals, we believe it has a high likelihood of completion toward the end of first quarter of CY25 and we expect to hold the position through to close.

Pointsbet Holdings (PBH, +42.9%) delivered its second consecutive quarter of strong share price gains as investors became more comfortable with the 'slimmed down' business model following the company's exit from the potentially lucrative, but expensive to fund, US market. PBH is now focused solely on the Australian and Canadian sports betting markets. It also retains significant option value through its presence in the Canadian iGaming market (online casino). At its quarterly report released in late October, PBH demonstrated ongoing improvements against the prior comparative period across all key metrics in sports betting, including turnover (+3%) and net win margin (+70 basis points), and the Canadian iGaming business delivered a net win rate up +50%. PBH maintained its FY25 guidance for $11-16m EBITDA, free cash flow breakeven and remains well funded through to profitability. We see the experienced and focused management team at PBH as well positioned to challenge the major players for increased market share in the core Australian sports betting market.

Appen Limited (APX, +34.7%) was added to the portfolio in early October when the company raised capital at $1.92 per share to provide additional liquidity to fund working capital and to pursue generative Artificial Intelligence ('AI') related opportunities. It's been a rollercoaster ride for shareholders since APX listed on the ASX nearly 10 years ago at $0.50 cents per share (as it traded toward $40.00 per share at its peak in 2020). Following the recapitalisation of its balance sheet, APX is well placed to benefit from the burgeoning spend in the AI development 'arms race' being fought out by global tech majors such as Alphabet, Meta and Microsoft; APX also has exposure to China's AI development spend. APX is a recognised leader in data sourcing, annotation and model evaluation which enables its customers to develop and commercialise their AI products. APX has a 'crowd' of more than a million skilled contractors speaking over 500 languages (across 200 countries). APX is now well funded, with net cash on its balance sheet, and trades on an undemanding multiple relative to peers.

DUG Technology Limited (DUG, -26.6%) fell after raising $30 million at $1.90 per share, which is where the Fund initiated a position. DUG is a global geosciences services provider which enables energy explorers to interpret large volumes of seismic data. The stock has subsequently retraced below our entry price due to market concerns around the timing of the conversion of its order pipeline into signed contracts and revenue. Management is planning on using the proceeds of the capital raising to expand computing capacity to support future growth from these anticipated contract wins. DUG is also funding the expansion of its Abu Dhabi office which opened in January 2024 where the company services clients in the Middle East. DUG has several exciting growth opportunities including the monetisation of new seismic interpretation technologies such as elastic MP-FWI, in addition to NOMAD modular data centres, and DUG immersion cooling technology which has applications in conventional data centres. Despite the share price weakness, we remain comfortable holders of the stock.

Lotus Resources (LOT, -24.5%) traded lower during the quarter post the company raising capital to fund the restart of its flagship Kayelekera uranium project in Malawi. Additionally, waning sentiment in the global uranium sector further weighed on the stock as the market struggled to digest the relatively large $130m share placement (representing approximately 25% of LOT's existing issued capital base). The company is now fully funded for the ongoing refurbishment and restart of Kayelekera which is expected to lead to first uranium production in Q3 CY25. With positive sentiment more recently returning to the uranium sector, and the long-term thematic of nuclear generation providing a low carbon footprint and reliable energy production still firmly intact, we are comfortable with our position in LOT.

IPD Group Limited (IPG, -23.8%) was sold off after announcing a disappointing trading update at its AGM in late November where it pared back market expectations for 1H25 earnings. The tempering of guidance was driven by timing delays on larger, more complex contracts in addition to overall weakness in the commercial construction sector. The company has experienced growth in large contract signings, and this has resulted in the order backlog blowing out by +50% from October 2023 levels which has required significant cost investment and resultant working capital build. This has had the effect of crimping margins given the slower than expected delivery of revenue growth. As this margin pressure is expected to be short term in nature and the stock has subsequently retraced to attractive levels we remain holders. IPG is a value-added distributor of electrical components which is generating solid organic growth due to the ongoing Australian energy sector transition and the accelerating local market share growth of key supplier ABB. The IPG management team has a good track record of executing on accretive acquisitions and we are confident margins should normalise as the contracts and revenues come through in CY25.

Outlook

The outcome of the US presidential election in November led to bullish sentiment in US markets with many investors believing that the new administration can be a positive catalyst for growth. At the same time, it has created a complex environment globally as investors reassessed their strategies in light of potential policy changes under a Trump administration. Analysts anticipate that Trump's administration will implement pro-business policies favouring deregulation and tax reductions, which are expected to benefit the profitability of small-cap firms with US exposure. However, there are concerns about increased tariffs potentially leading to trade tensions and renewed inflationary pressures, the later concern clearly shared by the US Federal Reserve (the Fed) given the pivot on the expected pace of rate cuts at the December Federal Open Market Committee (FOMC) meeting.

Just two days after Trump's re-election, the Fed cut rates 25 basis points whilst also noting that the US economy had been stronger than expected. The Fed followed this up with a further 25 basis point rate cut in December which was also expected by the market. The market, however, was blind-sided when the Fed signaled a slower pace of policy easing into 2025. The Fed's confidence in the US economy prompted a significant revision to its well-known dot plot of interest rate projections with just two 25 basis point cuts now anticipated, as opposed to four previously. Whilst one could be glass half full and assert that this reflects the Fed's confidence in the strength of the underlying economy and employment markets, the bond market is telling us that it fears inflation is coming back. The benchmark 10-year US treasury yield has surged from 3.6% in September and currently sits at 4.7%. Equity markets, to date, have largely ignored the bond market sell-off, although should the 10-year US treasury yield head towards 5.0%, President-elect Trump may be forced to re-evaluate his fiscal spending plans. A further surge in treasury yields would also cause us to re-evaluate our exposure to long-duration growth companies held in the portfolio which would likely come under pressure if further interest rates cuts are taken off the table.

The Australian economy remains mired in a per capital recession, with private demand continuing to fall into the second half of 2024 and GDP being propped up by public sector spending. Economic growth has significantly slowed since the Reserve Bank of Australia (RBA) began raising interest rates in May 2022 to tackle the most severe inflation in decades. The central bank has increased the cash rate 13 times, from 0.10% to 4.35%, driving up loan repayments for millions of borrowers and reducing disposable income for discretionary spending. The RBA board's final meeting of the year came after the release of national accounts data, revealing that annual GDP growth had unexpectedly fallen to 0.80% in September, confirming that Australia is enduring its longest economic downturn since the early 1990s recession.

The RBA noted that parts of the economy have been softer than expected, notably consumer spending and wages growth, which opens the prospect of rate cuts in the early part of 2025. The quarterly inflation figures due on January 29 are crucial as to whether the cash rate will be cut as soon as February. Bond market investors have dramatically repriced their forecasts for interest rates following the December RBA meeting. Markets are fully priced for a rate cut by the RBA's April 1 meeting and ascribe a greater than 50 per cent chance of a move lower at the central bank's February 18 meeting.

Retail activity anecdotally seemed to have been stronger in pre-Christmas sales period including Black Friday and Cyber Monday, but the quantum of discounting makes forecasting profitability levels in the sector difficult. Whether the strength in this period represented a 'pull forward' of sales from later in the quarter is also difficult to decipher, at least until the retail spending data is released. Valuations of quality retail names remain elevated and we remain underweight consumer discretionary names into the H1 FY25 results.

We wish all our investors and their families good health and good spirits as we enter the new year. We remain upbeat on the prospects for the OC Funds portfolio heading into the new calendar year and remain confident in our ability to achieve consistent strong long-term returns for our investors.

Top 5 holdings#

Company	ASX code
Genusplus Group Ltd	GNP
Lotus Resources Limited	LOT
Monash IVF Group Limited	MVF
Silk Logistics Holdings Limited	SLH
Viva Leisure Limited	VVA

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 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.