OC Concentrated Equity Fund
Monthly Fund Update

31 July 2015

FUNDS MANAGEMENT

OC Concentrated Equity Fund

The Fund had a strong start to the new financial year, finishing July up 4.1%. This was ahead of the S&P/ASX Small Ordinaries Accumulation Index which was up 1.6%, and roughly in line with the S&P/ASX All Ordinaries Accumulation Index which was up 4.2%. The Fund has returned 20.5% p.a. for the past three years, significantly ahead of both indices which were up 3.1% p.a. and 14.7% p.a., respectively, over the same time period.

As is typical for July, listed companies were in 'black-out' ahead of the August reporting season, which limited news flow.

Aconex Limited (ACX) (+14.1), a market-leading cloud collaboration platform for the global construction industry, was a key portfolio outperformer for the month. The Aconex platform streamlines and standardises documentation, process management and communication across all project participants, tracking and capturing critical information on a single integrated platform for the life of a construction project. ACX operates a subscription-based revenue model with the price based on project size and complexity, which is charged as a percentage of total construction value. Customers subscribe to ACX for the duration of a project. With average construction project length of around three years and high renewal rates, revenue visibility is high. ACX has established a dominant and highly profitable position in the Australian and New Zealand market and is now replicating this success in larger international markets. We expect ACX to grow earnings rapidly in the coming years and believe that the company has high calibre management with a strong strategic vision.

1-Page Limited (1PG) was a stand-out performer in July, finishing the month up 37.6%. 1PG provides cloud-based human resources software as a services (SaaS) platform to global corporates and has grown its client base substantially since its launch less than 12 months ago. During the month, 1PG announced the signing of two US Fortune 100 companies (employing 250,000 and 70,000 staff respectively) to its *sourcing* platform. Additionally, 1PG renewed six existing contracts earlier in the month for its *innovation* and *assessment* platforms. Re-signing existing customers is seen as a critical indicator of the success for the platform and its growing acceptance by corporates. While we believe 1PG will continue to deliver against key milestones over the coming months, we've been taking some profits into ongoing share price strength.

The key detractor from the portfolio during the month was **Treasury Group (TRG)** (-14.8%) who announced the proposed divestment of 75% of one of its fund managers, RARE Infrastructure. Although the divestment realises significant value on TRG's initial investment in RARE, the deal valued the stake at less than the markets (and our own) perceived value of the investment and the stock was consequently sold off. In addition, TRG announced its FUM at 30 June 2015 was A$49.0b, a decline of 5.2% over the quarter due to outflows from US-based Trilogy and WHV funds management businesses and negative market movements during the quarter. Despite this negative news flow, the company now has a considerable 'war chest' to fund future acquisitions or capital management. We've retained our holding as we believe the company is well managed and remains attractively valued.

Outlook

From an economic perspective, little changed during the month to temper our bearish stance on the domestic economy. There appears to be little evidence that the east coast economy is picking up the slack as the mining boom tapers off, despite the RBA cash rate sitting at a record low of 2.00%.

On a positive note, the ongoing depreciation of the Australian dollar, which is continuing to adjust to significant falls in commodity prices, will improve

OC Performance* (Net of Fees)	1 Mth	3 Mths	6 Mths	1 Yr	3 Yrs (p.a)	5 Yrs (p.a)	Since Incep (p.a)+
OC Concentrated Equity Fund	4.1%	**0.8%**	16.3%	13.8%	20.5%	12.6%	13.4%
S&P/ASX All Ords Accum	4.2%	-0.8%	4.5%	5.4%	14.7%	9.4%	9.6%
Added Value	**-0.1%**	**1.6%**	**11.8%**	**8.4%**	**5.8%**	**3.2%**	**3.8%**
S&P/ASX Small Ords Accum	1.6%	-4.1%	3.6%	-2.8%	3.1%	0.6%	4.7%
Added Value	**2.5%**	**4.9%**	**12.7%**	**16.6%**	**17.4%**	**12.0%**	**8.7%**

+Fund Inception Date: OC Concentrated Equity Fund 30/11/2003.

the profitability of domestic export sectors such as mining and manufacturing. This is likely to result in consumer shifts to non-trade exposed goods and services which ought to be a longer-term positive for the domestic economy. We expect further falls in the Australian dollar as the economy rebalances which should stimulate domestic economic growth, although we don't expect to see a broad-based economic recovery until mid-2016 calendar year at the earliest.

Ahead of the August reporting season, we thought it would be helpful to provide investors a snapshot of the themes we're watching and avoiding.

Preferred

- Given the near-term challenges faced by the domestic economy, we retain material exposure to quality companies that can grow earnings outside of the economic cycle (eg. **Freelancer**, **Pioneer Credit**, **Future Fibre Technology**).
- The Fund has significant exposure to stocks that have structural tail-winds underpinning their earnings growth (eg. **APN Outdoor**, **REA Group**).
- The US economy remains on-track and the Fund has solid exposure to a robust US economy (eg. **Fisher & Paykel Healthcare**, **Ardent Leisure**, **Aconex**).
- The portfolio is a net beneficiary of a weaker Australian dollar, largely through the translational impact of companies' offshore earnings (eg. **Aconex**, **Treasury Group**).

Cautious

- We remain cautious on the domestic economy near term, and therefore remain reluctant to pay for mid-cycle stocks that may still have near-term earnings risk (eg. **GWA Group**, **United Group**, **Qube Logistics**).
- Despite record low interest rates, the retail sector remains challenging. We have selective exposureto consumer discretionary stocks (eg. **Lovisa**, **Burson Group**), although we remain cautious, as recent feedback suggests trading remains patchy with margins remaining under pressure (eg. **Kathmandu**, **Specialty Fashion Group**).
- We are cautious on 'fallen angels' with company-specific issues, which are unlikely to be remedied any time soon, and remain vulnerable to further profit warnings (eg. **Cardno**, **The Reject Shop**, **Transfield Services**).

Avoid

- Companies with elevated debt levels and deteriorating earnings profiles (eg. **Ausdrill**, **Mermaid Marine**).
- Structurally challenged industries where business models are under threat including 'old-world' media stocks (eg. **Seven West Media**, **APN News & Media**) and traditional 'bricks-and-mortar' apparel retailers (eg. **Myer**, **Oroton Group**).
- Mining services companies dependent on either exploration or project-based work (eg. **NRW Holdings**, **Ausenco**, **Lycopodium**), as mining capex spend continues to run off.
- Unprofitable or cash-flow negative companies and concept stocks that don't have earnings.

We look forward to reporting back to our investors in early September on our thoughts and observations following financial-year-end reporting in August. During this time, we will be meeting with most of our core portfolio holdings, as well as many other competitors and potential investment opportunities. We believe the Fund is well positioned going into the results period and we remain confident in our ability to generate strong long-term investment outcomes for investors.

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* Past performance is not a reliable indicator of future performance. The Total Returns of the OC Concentrated Equity Fund over specified periods are shown in the above table. This table contains information regarding Total Returns to 31 July 2015. Total Returns are calculated after taking into account performance fees. Where OC Funds generates a return on the Concentrated Fund over and above the performance hurdle of 0% in any financial year (subject to a high water mark) , a performance fee of 10.25% of all profits above this level is charged to the Fund directly. Between 1 July 2004 and 30 June 2009 where OC Funds generated a return on the Concentrated Fund over and above the performance hurdle of 0% in any financial year (subject to a high water mark), a performance fee of 20.5% of all profits above this level was charged to the Fund directly. Before 1 July 2004, performance fees were not paid out of the Funds but billed by OC Funds directly to investors. In this table, the Total Returns for the period prior to 1 July 2004 have been adjusted to reflect the paid performance fees as if the fees were paid out by the Funds.

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