OC Concentrated Equity Fund
Monthly Fund Update

31 August 2015

FUNDS MANAGEMENT

OC Concentrated Equity Fund

Global equity markets endured a volatile August driven largely by fears around the slowing growth trajectory of Australia's biggest trading partner, China, and concerns around the timing of interest rate rises in the United States. Against this backdrop, the OC Concentrated Equity Fund enjoyed a relatively strong reporting season during which most of our holdings released results in line or ahead of market expectations.

The Fund finished August up 0.3%, well ahead of the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX All Ordinaries Accumulation Index which were down 4.9% and 7.3%, respectively. The Fund has returned 20.6% p.a. for the past three years, significantly ahead of both indices which are up 0.4% p.a. and 11.0% p.a., respectively, over the same time period.

We have written in the past about our positive view on the outdoor advertising space and **APN Outdoor Group (APO)** (+19.4%) and **QMS Media Limited (QMS)** (+7.1%) each delivered excellent results which helped to reinforce our investment thesis. These businesses are benefiting from dual tailwinds, namely an increasing audience driven by a rising population that is increasingly 'out and about' (while competing advertising mediums such as television and print face structural decline) and a strong revenue and margin uplift that comes from converting static billboards to digital billboards. APO materially upgraded its profit forecasts for CY15 and QMS reported a solid inaugural result as a listed company. We have met with the management of these companies in recent weeks and believe they will continue to re-rate over the coming 12 months.

M2 Telecommunications (MTU) delivered a result which was modestly ahead of consensus expectations and the stock was surprisingly sold down 17.0% during the month. Pleasingly, organic growth remains solid, operating cash conversion is strong and the balance sheet remains well positioned at about 2x net debt/EBITDA. The MTU board guided to 30-35% reported profit growth in FY16 driven by continued organic growth and a full-year contribution from recent CallPlus acquisition in NZ. There is no doubt some small-cap managers have reduced their positions in MTU during August in anticipation the company would exit the Small Cap Index and be elevated to the S&P/ASX 100 Index. Although this did not eventuate, it remains a possible candidate for promotion at the next index rebalance. We believe MTU looks inexpensive (trading on 12.8x FY16 earnings) and we remain confident the high quality management team will continue to deliver strong results for shareholders.

Emerging Leaders holding, **National Veterinary Care, (NVL)** (+38%), performed strongly following its IPO during the month. NVL is an early stage 'roll up' of vet practices with an initial focus on 35 clinics in several clusters across the east coast of Australia. We expect NVL to rapidly grow its business and expand its practice footprint over the coming years through acquisitions of established clinics and organic growth. The key management personnel, who we are familiar with through our prior investment in larger listed peer, Greencross Limited, appeal to us as being conservative in nature and have assured us they will not be pursuing a capital hungry retail strategy (which could lead to undue management distraction).

Alpha Plus holding, **1-Page Limited (1PG)** (+66.7%), was a stand-out performer in August. 1PG provides a cloud-based human resources software as a services (SaaS) platform to global corporates and has grown its client base substantially since its launch around 12 months ago. While we believe 1PG will continue to deliver against key milestones over the coming months, we exited the balance of our position during the month as the stock continued to push through new highs. We found it hard to resist taking profits in this holding given its share price is some 15 times higher than our entry price less than 12 months ago and management still has much work to do to justify its present valuation. We will continue to follow 1PG

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	0.3%	1.4%	8.5%	8.8%	20.6%	12.7%	13.4%
S&P/ASX All Ords Accum	-7.3%	-8.6%	-9.4%	-3.0%	11.0%	7.9%	8.7%
Added Value	**7.6%**	**10.0%**	**17.9%**	**11.8%**	**9.6%**	**4.8%**	**4.7%**
S&P/ASX Small Ords Accum	-4.9%	-10.9%	-9.1%	-9.6%	0.4%	-0.7%	4.2%
Added Value	**5.2%**	**12.3%**	**17.6%**	**18.4%**	**20.2%**	**13.4%**	**9.2%**

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

over the coming months, indeed we are meeting with management this week, with a view to re-establishing a position should a consolidation in the share price allow.

Outlook

The Australian equity market pulled back sharply in August as a confluence of global and domestic events sapped investor risk appetite and ignited fears the domestic economy is slowing further. The catalyst for the market pullback centred on concerns emanating out of China where a raft of softer economic data points foreshadowed a sharp retreat in local equity markets and simultaneously the Beijing central government moved to devalue the Yuan; these events taken together spooked global markets.

As many investors know, Australia, being a commodity based economy, is particularly susceptible to a slowing Chinese economy given this is where large quantities of our coal and iron ore exports are destined. In recent years, the Chinese economy has been rebalancing away from a production-led economy (which is commodity intensive) to a consumption-based economy, and this transition has not been smooth. From an Australian perspective, slowing Chinese growth continues to weigh heavily on commodity prices and as capital expenditure from the mining boom continues to taper off, the east coast economy has not picked up the slack, despite the RBA cash rate sitting at a record low of 2.00%.

In terms of our portfolio positioning, we continue to largely avoid stocks exposed to the commodity cycle and have limited exposure to domestic cyclical stocksthat rely on a robust Australian economy to generate earnings growth. The August reporting season saw continued underperformance from these types of companies and regular readers of our investment updates will know we have been cautious on them for some time.

Results and company commentary from the August reporting season and recent weak economic data, including the weak domestic GDP print of 0.2% for the June quarter, have served to strengthen our conviction in our preferred investment thematics. These include:

- Stocks with structural tailwinds underpinning their earnings growth (e.g. **APN Outdoor**, **QMS Media**, **REA Group**)
- Quality companies that can grow their earnings outside of the economic cycle (e.g. **Fisher & Paykel Healthcare**)
- Companies with solid exposure to the US economy which continues to grow steadily (e.g. **Aconex**, **Ardent Leisure**)
- Stocks with currency tailwinds given the continued fall in the AUD against most of our trading partners (e.g. **Treasury Group**).

The beauty of investing in small to mid-cap companies is that, despite the structural and macro issues facing the Australian economy, it is often possible to find sectors and stocks that are performing well. The investment team has met with most of our investment holdings over the past month, as well as some of their competitors and many potential portfolio additions. Despite the near-term economic headwinds, we remain confident the portfolio is well positioned and that we will continue to deliver strong long-term investment performance for our 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 August 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.