Quarterly Investment Review
OC Premium Small Companies Fund

30 September 2015

FUNDS MANAGEMENT

Market Report

In volatile market conditions, the OC Premium Small Companies Fund enjoyed an excellent quarter, returning +4.2%. The majority of our holdings reported solid FY15 results against a backdrop of challenging economic conditions and global uncertainty. This was well ahead of both the S&P/ASX Small Ordinaries Accumulation Index which was down 3.9%, and the S&P/ASX Small Industrials Accumulation Index which eked out a 0.3% gain, in the September quarter. The Fund's long-term performance continues to be strong with the five-year return tracking at +13.8% p.a., well ahead of both the S&P/ASX Small Ordinaries Accumulation Index (-2.5% p.a.) and the S&P/ASX Small Industrials Accumulation Index (+7.2% p.a.).

Slater & Gordon (SGH) (-17.2%) - we retain a holding in SGH which has been heavily short sold by hedge funds that have been highly critical of the company's accounting policies, cash conversion and ability to execute the recent UK-based, Quindell, acquisition. Pleasingly, management has taken pro-active measures to address some of these market concerns including providing increased disclosure in the company's accounts and bringing in Ernst & Young to conduct an audit of its UK business, as well as commencing a tender process to bring in a top tier firm to conduct the company audit going forward. While the ASIC review remains outstanding, the release of SGH's unqualified audited FY15 financial statements was a major positive for the company, despite some restatements of the accounts which were not overly material. We remain of the opinion that the company's accounting policies are appropriate given the nature of the operations. While the stock has bounced off its lows, it is likely that the delivery of the FY16 operating cash-flow guidance will be a key catalyst to re-rate the stock. If the ASIC inquiry doesn't raise any major issues (unlikely in our opinion) and the company delivers on its financial projections for FY16, we would expect the stock to be a very strong performer on a 12-month view.

M2 Telecommunications (MTU) (-11.3%) - late in the quarter, long-term portfolio stalwart, MTU, announced its intention to merge with listed peer, Vocus Communications (VOC), to create a full service, vertically integrated trans-Tasman telecommunications company. Having discussed the deal with MTU management, we think the strategic rationale for the deal is sensible and that combining MTU's strength in the small business and consumer space with VOC's strength in the corporate and government space will leave the combined business well positioned to capitalise on the NBN in Australia and UFB in New Zealand. The merged entity will combine extensive infrastructure in Australia and New Zealand with established brands and be commercially relevant to every individual, business and government department in Australia and New Zealand. The companies have flagged significant synergy potential, including cost synergies of around $40m p.a., which is expected to be fully realised by the end of FY18. The combined entity will be a powerful player capable of competing with industry heavy-weights Telstra, Optus and TPG. Our only concern centres around the timing of the merger so soon after VOC's merger with Amcom Telecommunications and MTU's acquisition of CallPlus. We acknowledge that both companies have excellent M&A track records and that the integration will not commence until after the scheme is approved, likely to be February 2016, which provides some comfort.

Costa Group (CGC) (+1.7%) - during the quarter we participated in the IPO of one of Australia's leading horticultural businesses, Costa Group. Costa is a well-established integrated farming, packaging and marketing business and is the number one supplier in Australia of blueberries, raspberries, mushrooms, tomatoes and citrus (including oranges, lemons/limes and mandarins). Costa also supplies bananas, avocados and table grapes into the Australian retail market, manages a vast logistics operation and has international partnerships in China and Morocco. We like the long-term growth prospects of Costa given

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 Premium Small Co Fund	2.9%	4.2%	3.0%	11.9%	18.1%	13.8%	11.3%
S&P/ASX Small Ords Accum	-0.5%	-3.9%	-7.8%	-4.9%	-1.2%	-2.5%	4.3%
Added Value	**3.4%**	**8.1%**	**10.8%**	**16.8%**	**19.3%**	**16.3%**	**7.0%**
S&P/ASX Small Inds Accum	1.0%	0.3%	-4.4%	3.1%	10.5%	7.2%	5.3%
Added Value	**1.9%**	**3.9%**	**7.4%**	**8.8%**	**7.6%**	**6.6%**	**6.0%**

*Performance figures are based on the soft close unit prices as at 30/09/2015 (cumulative of the 30 June distribution).

favourable industry conditions, barriers to entry, leading market position and its ability to manage agricultural risk meaning the business also has strong defensive qualities.

Veda Group (VED) (+20.2%) - late in the quarter, Veda received a non-binding expression of interest from its US-based peer, Equifax Inc., for 100% of the equity of Veda at a 35% premium to its last traded price. Veda is a data analytics company and a leading provider of credit information and analysis in Australia and New Zealand. Since its IPO in December 2013, Veda has performed strongly (+60% pre Equifax bid), and we have liked the stock for its industry leading position and the long-term structural tailwinds it enjoys from a shift toward "Comprehensive Credit Reporting". We viewed the bid from Equifax as not much more than an opening shot in what could have become a heated takeover battle with other offshore parties likely to show interest. Indeed, Equifax seems to have acknowledged this also and increased its bid in early October (+4.6%) in return for exclusive due diligence access and a VED board recommendation. The bid is subject to standard conditions and will take three to four months to complete. We will continue to monitor the situation but now view the entry of competing bidders as less likely and may redeploy this capital should the opportunity arise.

APN Outdoor Group (APO) (+22.6%), **QMS Media Limited (QMS) (+19.5%)** and **oOh!Media Limited (OML) (+21.0%)** - we have written in the past about our positive view on the outdoor advertising space and APO, QMS and OML all delivered strong market updates in August which helped to reinforce our investment thesis. All three companies 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. Both APO and OML materially upgraded their profit forecasts for CY15 and QMS reported a solid inaugural result as a listed company. We have met with the management of all three companies during the quarter and believe each will continue to re-rate over the coming 12 months.

Outlook

There is heightened concern that the Australian economy may be heading for its first recession since the early 1990s breaking a 24-year stretch of economic expansion. Real GDP growth in the June 15 quarter was a modest 0.2% and the gloomy outlook for the Asian region, continued weak commodity prices and sluggish business investment has led some to question whether we will end our extended run of economic expansion.

As we mentioned in our August report, Australia, being a commodity country, is particularly susceptible to a slowing Chinese economy given we export large quantities of our coal and iron ore to China. 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%.

While our 'bear case' economic forecast does include a domestic recession, we believe the Fund is well positioned to weather anaemic growth in the Australia economy. We continue to largely avoid stocks exposed to the commodity cycle and have limited exposure to domestic cyclical stocks that 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.

During the quarter, Malcolm Turnbull deposed Tony Abbott to become Australia's fifth Prime Minister in as many years. In terms of material policy changes, Mr Turnbull has indicated there are unlikely to be any major changes in the near term. But more broadly, the change in the leadership team and style is likely to give the government added impetus to drive progress in the Australian economy. There was an immediate spike in consumer and business confidence on the change in leader and Mr Turnbull has indicated a willingness to offer concessions to technology incubators and be more pragmatic about state-based infrastructure programs, both which should drive medium-to-long-term economic growth.

In the US, the market remains heavily focused on the timing of the Federal Reserve's decision to raise interest rates from the current 0% to 0.25% target range. The decision to hold rates steady in September was widely criticised by many and in late September, the Federal Reserve Chairwoman, Janet Yellen, foreshadowed a likely increase in the federal funds target rate later this year in a speech at the University of Massachusetts though these expectations have been tempered somewhat following a weak US jobs report in early October.

Economic activity continues to expand at a solid pace in the US with household spending and business investment continuing to track positively. The labour market continues its recent trend of improvement, albeit the data points can be patchy (per above), and inflation continues to run below the Fed's longer-run objective of 2%. The Fund retains solid exposure to the US economy including Ardent Leisure (AAD), Fisher & Paykel Healthcare (FPH) and Aconex (ACX).

The IPO window remains firmly open which is somewhat unusual given the recent volatility in the Australian share market which usually tempers investors' appetites for new listings. To this point, there have been a few notable IPOs that have been delayed, repriced lower or shelved altogether including I-Med (delayed), Aventus (repriced) and Global Traffic Network (shelved). However, there are still quality opportunities being offered including names we have recently reviewed such as Baby Bunting, Link Group and Integral Diagnostics.

Of the current crop of IPOs, we are particularly drawn to specialty baby goods retailer, Baby Bunting. With 33 stores across a national footprint, Baby Bunting has an ambitious store roll-out strategy that could double its store numbers over the next five to six years. Baby Bunting is the largest retailer of its type in Australia, has strong organic growth prospects and an excellent management team and we would expect it to do well in the after-market.

In October, the team will be busy on the road conducting due diligence on new investment opportunities and meeting with existing holdings. The recent pull-back in the share price of many small company stocks has thrown up some interesting opportunities and we will be meeting a host of potential new investments that we previously considered too expensive or poor risk/return.

Fund Holdings

Largest Holdings*

- APN Outdoor Group
- Ardent Leisure
- Fisher & Paykel Healthcare
- Lovisa Holdings
- The Citadel Group

** Listed alphabetically*

Company Contact

1-Page Limited	Breville Group Limited	GWA Group Limited	Orica Limited	Skilled Group Limited
3P Learning Limited	BT Investment Management	Hansen Technologies Limited	Orora Limited	Sky Network Television Ltd
Aconex Limited	Bulletproof Group Limited	Healthscope Limited	OzForex Group Limited	Skycity Entertainment Group
Adelaide Brighton Limited	Burson Group Limited	Henderson Group PLC	Pacific Energy Limited	Skydive The Beach Group
AGL Energy Limited	Caltex Australia Limited	iCar Asia Limited	Pact Group Holdings Ltd	Slater & Gordon Limited
Altium Limited	Capilano Honey Limited	Incitec Pivot Limited	Paragon Care Limited	Sonic Healthcare Limited
AMA Group Limited	Capitol Health Limited	Indoor Skydive Australia Grp	Pioneer Credit Limited	Steadfast Group Limited
Amalgamated Holdings Ltd	Carsales.Com Limited	Ingenia Communities Group	Primary Health Care Limited	Suncorp Group Limited
Amcor Limited	Catapult Group Intl Group	Invigor Group Limited	Programmed Maintenance	Super Retail Group Limited
Ansell Limited	CBL Corporation Limited	IPH Limited	Pureprofile Ltd	Tassal Group Limited
AP Eagers Limited	Costa Group Holdings	IRESS Limited	QBE Insurance Group Limited	Tech Mpire Limited
APA Group	Cover-More Group Limited	iSelect Limited	QMS Media Limited	Technology One Limited
APN News & Media Limited	Dexus Property Group	iSentia Group Limited	Qube Holdings Limited	The Citadel Group Limited
APN Outdoor Group Limited	Dicker Data Limited	Japara Healthcare Limited	Ramelius Resources Limited	The Reject Shop Limited
Appen Limited	Doray Minerals Limited	JB Hi-Fi Limited	RCR Tomlinson Limited	Think Childcare Limited
Ardent Leisure Group	DWS Limited	Lovisa Holdings Limited	REA Group Ltd	TPG Telecom Limited
Asaleo Care Limited	eBet Limited	M2 Group Ltd	Recall Holdings Limited	Trade Me Group Limited
Asciano Limited	Echo Entertainment Group	MACA Limited	Redhill Education Limited	Transpacific Industries Grp
ASG Group Limited	Elders Limited	Magellan Financial Group	Reffind Limited	Treasury Group Limited
Atlas Iron Limited	Emerchants Limited	MainstreamBPO Limited	ResMed Inc	Treasury Wine Estates Ltd
Austbrokers Holdings Ltd	Estia Health Limited	Mantra Group Limited	Retail Food Group Limited	TZ Limited
Australian Finance Group	Fisher & Paykel Healthcare	McMillan Shakespeare Ltd	Rhipe Limited	Urbanise.com Limited
Automotive Holdings Group	Fletcher Building Limited	Medibank Private Limited	Ridley Corporation Limited	UXC Limited
AWE Limited	Freelancer Limited	Metals X Limited	Rio Tinto Limited	Veda Group Limited
Beacon Lighting Group Ltd	Future Fibre Technologies	Mitula Group Limited	Royal Wolf Holdings Limited	Village Roadshow Limited
Bega Cheese Limited	G.U.D. Holdings Limited	Monadelphous Group Ltd	SAI Global Limited	Virtus Health Limited
Bellamy's Australia Limited	G8 Education Limited	Monash IVF Group Limited	Sealink Travel Group Limited	Webjet Limited
Billabong International Ltd	Gateway Lifestyle Group	National Veterinary Care Ltd	Sedgman Limited	Wesfarmers Limited
Blackham Resources Ltd	GBST Holdings Limited	Navitas Limited	Select Harvests Limited	Whitehaven Coal Limited
Blackmores Limited	Gentrack Group Limited	Nufarm Limited	Servcorp Limited	Woodside Petroleum Ltd
Blue Sky Alternative Invest.	Global Construction Serv.	OBJ Limited	SG Fleet Group Limited	Woolworths Limited
BlueScope Steel Limited	Godfreys Group Limited	Oil Search Limited	Shriro Holdings Limited	
Bradken Limited	Grays Ecommerce Group	Omni Market Tide Ltd	Silver Chef Limited	
Brambles Limited Brierty	Greencross Limited	oOh!Media Limited	Simonds Group Limited	

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* Past performance is not a reliable indicator of future performance. The Total Returns of the OC Funds over specified periods are shown in the above table. This table contains information regarding Total Returns to 30 September 2015. Total Returns are calculated gross of all fees.