Quarterly Investment Review
OC Concentrated Equity Fund

30 September 2015

FUNDS MANAGEMENT

Market Report

In volatile market conditions, the OC Concentrated Equity Fund enjoyed a solid quarter, returning +4.8%. 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 and the S&P/ASX All Ordinaries Accumulation Index which were down 3.9% and 5.8% respectively, in the September quarter. The Fund's long-term performance continues to be strong with the five-year return tracking at 11.1% p.a., well ahead of both the S&P/ASX Small Ordinaries Accumulation Index (-2.5% p.a.) and the S&P/ASX All Ordinaries Accumulation Index (+6.3% 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.

APN Outdoor Group (APO) (+22.6%) and **QMS Media Limited (QMS) (+19.5%)** - we have written in the past about our positive view on the outdoor advertising space and both APO and QMS delivered strong market updates in August which helped to reinforce our investment thesis. Both 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

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	0.4%	4.8%	6.5%	14.8%	19.9%	11.1%	13.3%
S&P/ASX All Ords Accum	-2.5%	-5.8%	-11.7%	-0.2%	9.3%	6.3%	8.5%
Added Value	**2.9%**	**10.6%**	**18.2%**	**15.0%**	**10.6%**	**4.8%**	**4.8%**
S&P/ASX Small Ords Accum	-0.5%	-3.9%	-7.8%	-4.9%	-1.2%	-2.5%	6.0%
Added Value	**0.9%**	**8.7%**	**14.3%**	**19.7%**	**21.1%**	**13.6%**	**7.3%**

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

margin uplift that comes from converting static billboards to digital billboards. APO materially upgraded its profit forecast for CY15 and QMS reported a solid inaugural result as a listed company. We have met with the management of both companies during the quarter and believe each will continue to re-rate over the coming 12 months.

1-Page Limited (1PG) (+137.1%) - an Alpha Plus holding, 1PG was a stand-out performer during the quarter. 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 quarter as the stock continued to push through new highs. We found it hard to resist taking profits in this holding given its share price was over 10 times 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 over the coming months with a view to re-establishing a position should a consolidation in the share price allow.

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*

- Ardent Leisure
- Capilano Honey
- Fisher & Paykel Healthcare
- Lovisa Holdings
- M2 Group

* *Listed alphabetically*

Company Contact

1-Page Limited
3P Learning Limited
Aconex Limited
Adelaide Brighton Limited
AGL Energy Limited
Altium Limited
AMA Group Limited
Amalgamated Holdings Ltd
Amcor Limited
Ansell Limited
AP Eagers Limited
APA Group
APN News & Media Limited
APN Outdoor Group Limited
Appen Limited
Ardent Leisure Group
Asaleo Care Limited
Asciano Limited
ASG Group Limited
Atlas Iron Limited
Austbrokers Holdings Ltd
Australian Finance Group
Automotive Holdings Group
AWE Limited
Beacon Lighting Group Ltd
Bega Cheese Limited
Bellamy's Australia Limited
Billabong International Ltd
Blackham Resources Ltd
Blackmores Limited
Blue Sky Alternative Invest.
BlueScope Steel Limited
Bradken Limited
Brambles Limited Brierty

Breville Group Limited
BT Investment Management
Bulletproof Group Limited
Burson Group Limited
Caltex Australia Limited
Capilano Honey Limited
Capitol Health Limited
Carsales.Com Limited
Catapult Group Intl Group
CBL Corporation Limited
Costa Group Holdings
Cover-More Group Limited
Dexus Property Group
Dicker Data Limited
Doray Minerals Limited
DWS Limited
eBet Limited
Echo Entertainment Group
Elders Limited
Emerchants Limited
Estia Health Limited
Fisher & Paykel Healthcare
Fletcher Building Limited
Freelancer Limited
Future Fibre Technologies
G.U.D. Holdings Limited
G8 Education Limited
Gateway Lifestyle Group
GBST Holdings Limited
Gentrack Group Limited
Global Construction Serv.
Godfreys Group Limited
Grays Ecommerce Group
Greencross Limited

GWA Group Limited
Hansen Technologies Limited
Healthscope Limited
Henderson Group PLC
iCar Asia Limited
Incitec Pivot Limited
Indoor Skydive Australia Grp
Ingenia Communities Group
Invigor Group Limited
IPH Limited
IRESS Limited
iSelect Limited
iSentia Group Limited
Japara Healthcare Limited
JB Hi-Fi Limited
Lovisa Holdings Limited
M2 Group Ltd
MACA Limited
Magellan Financial Group
MainstreamBPO Limited
Mantra Group Limited
McMillan Shakespeare Ltd
Medibank Private Limited
Metals X Limited
Mitula Group Limited
Monadelphous Group Ltd
Monash IVF Group Limited
National Veterinary Care Ltd
Navitas Limited
Nufarm Limited
OBJ Limited
Oil Search Limited
Omni Market Tide Ltd
oOh!Media Limited

Orica Limited
Orora Limited
OzForex Group Limited
Pacific Energy Limited
Pact Group Holdings Ltd
Paragon Care Limited
Pioneer Credit Limited
Primary Health Care Limited
Programmed Maintenance
Pureprofile Ltd
QBE Insurance Group Limited
QMS Media Limited
Qube Holdings Limited
Ramelius Resources Limited
RCR Tomlinson Limited
REA Group Ltd
Recall Holdings Limited
Redhill Education Limited
Reffind Limited
ResMed Inc
Retail Food Group Limited
Rhipe Limited
Ridley Corporation Limited
Rio Tinto Limited
Royal Wolf Holdings Limited
SAI Global Limited
Sealink Travel Group Limited
Sedgman Limited
Select Harvests Limited
Servcorp Limited
SG Fleet Group Limited
Shriro Holdings Limited
Silver Chef Limited
Simonds Group Limited

Skilled Group Limited
Sky Network Television Ltd
Skycity Entertainment Group
Skydive The Beach Group
Slater & Gordon Limited
Sonic Healthcare Limited
Steadfast Group Limited
Suncorp Group Limited
Super Retail Group Limited
Tassal Group Limited
Tech Mpire Limited
Technology One Limited
The Citadel Group Limited
The Reject Shop Limited
Think Childcare Limited
TPG Telecom Limited
Trade Me Group Limited
Transpacific Industries Grp
Treasury Group Limited
Treasury Wine Estates Ltd
TZ Limited
Urbanise.com Limited
UXC Limited
Veda Group Limited
Village Roadshow Limited
Virtus Health Limited
Webjet Limited
Wesfarmers Limited
Whitehaven Coal Limited
Woodside Petroleum Ltd
Woolworths Limited

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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 30 September 2015. Total Returns are calculated gross of all fees.

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