OC Concentrated Equity Fund

PERFORMANCE REPORT

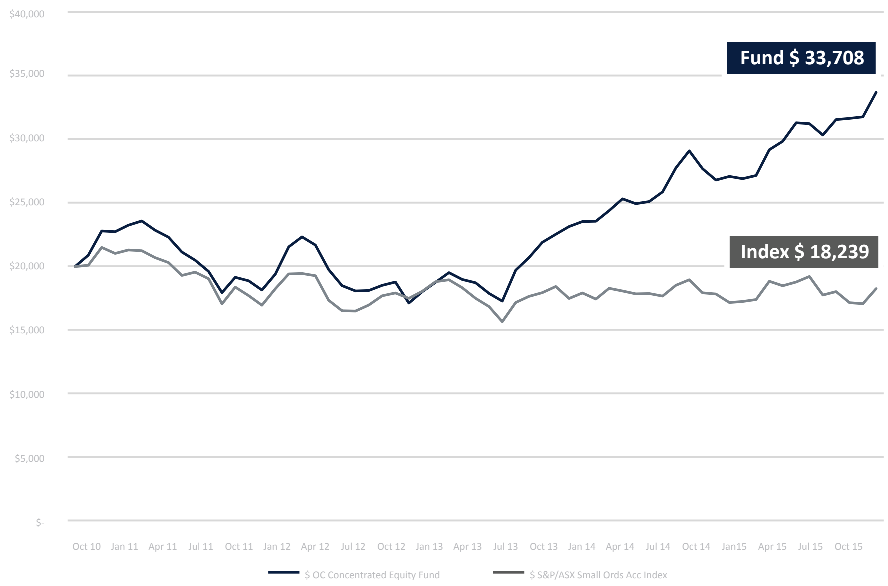
Month to 31 October 2015

6.1% Fund up 6.1% in October in a very strong market

21.7% Returned 21.7% p.a. for the past three years

Portfolio holdings have had solid start to FY16

Performance comparison of $20,000 over 5 years*



Total returns

At 31 October 2015	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	Inception % p.a. (Nov 2003)
Fund	6.1%	6.8%	7.7%	25.9%	21.7%	11.1%	13.8%
S&P/ASX All Ords Accum	4.6%	-5.5%	-6.2%	0.4%	9.9%	6.8%	8.8%
Outperformance	**1.5%**	**12.3%**	**13.9%**	**25.5%**	**11.8%**	**4.3%**	**5.0%**
S&P/ASX Small Ords Accum	7.1%	1.4%	-2.8%	2.4%	0.6%	-1.8%	4.7%
Outperformance	**-1.0%**	**5.4%**	**10.5%**	**23.5%**	**21.1%**	**12.9%**	**9.1%**

Performance review

In a very strong market, the OC Concentrated Equity Fund returned 6.1% for the month of October. Although the Fund underperformed the S&P/ ASX Small Ordinaries Accumulation Index (+7.1%), it outperformed the S&P/ASX All Ordinaries Accumulation Index, which was up 4.6% for the month, it was a credible performance given the Fund's strong outperformance over the previous quarter. For the past three years, the Fund has returned 21.7% p.a., well ahead of both the S&P/ASX Small Ordinaries Accumulation and the S&P/ ASX All Ordinaries Accumulation Indices, which were up 0.6% and 9.9% respectively over the same period.

Portfolio attribution

APN Outdoor (APO) (+24.4%) - the outdoor media sector has continued its strong momentum in recent months with year-to-date revenue up 17.1% versus the prior corresponding period. Late in the month, APO upgraded its prospectus forecasts for a second time following its upgrade at the half-year result in August. The company's pro forma EBITDA is now forecast to be between $68.0m and $69.5m for CY15, well ahead of the forecast it issued at its IPO in November 2014 ($53.7m). We have been extremely bullish on the out-of-home advertising space over the past 12 months and along with APO we also own another key competitor in the sector, **QMS Media Limited**. One of the drivers behind the industry's growth is the conversion of static billboards to digital (which typically generates a revenue uplift of three to five times) and attracting advertising dollars that have previously been directed toward other mediums. We remain upbeat on both these stocks which each have management teams we hold in high regard. We expect the earnings upgrade cycle to continue into the medium term which ought to underpin strong share price performance.

The Fund's wealth management exposure performed strongly during the month with **Magellan Financial Group (MFG) up 18.6%** and **Pacific Current** (formerly Treasury Group) **(PAC) up 10.6%**. MFG reported further strong fund inflows at both institutional and retail levels and PAC recovered from what we believe was an oversold level in September. Both of these companies have qualities we consider essential to any successful asset management company: brand names that are recognised and trusted, credible asset managers with excellent long-term track records and high quality distribution teams that are capitalising on the strong performance of the managers. MFG and PAC are well positioned to continue to grow funds under management strongly in the coming year and remain core holdings of the Fund.

Simonds Group (SIO) (-13.5%) - the portfolio was negatively impacted by the performance of mass market home builder, SIO, which fell on the back of increasing concerns the Australian housing market is "topping out" and the exit of their well-regarded Managing Director, Paul McMahon. SIO is one of Australia's largest home builders (2,400 housing starts in 2015) and also runs its own nationally accredited training academy, but since its IPO just over 12 months ago its share price performance has been disappointing (-30%). SIO is pushing its building business into new markets in NSW and Queensland and is rapidly expanding its Builders Academy business which we see as highly complementary to its core business. We continue to believe SIO represents good value at 7.5x FY16 earnings and that the depth of management within the company is strong enough to effectively transition the Managing Director role. The SIO board has also recognised the compelling valuation opportunity and has recently launched a share buy-back which has been active and will be earnings per share accretive at levels significantly higher than the current share price.

Freelancer (FLN) (+26.4%) - online marketplace for freelance work, FLN, released a quarterly report in October which reflected the strong ongoing operational environment the business has been experiencing. The company reported a 42% increase in cash receipts and similarly strong growth in users and projects, including a partnership with NASA. We see the company continuing to grow its user base and project volumes leading to a strong increase in revenues for a number of years. FLN has also been successful in finding additional avenues to monetise its audience base, such as skills testing and escrow services and has been an outstanding Emerging Leaders holding since its inclusion in the portfolio almost 18 months ago.

Outlook

The domestic economic environment remains subdued with little changing during the month to influence our portfolio positioning. Economic growth in Australia remains below longer-term averages, despite record low interest rates. The consumer environment remains challenging and the RBA's decision to leave rates on hold at 2.00% at the November meeting means retailers did not get a 'sugar hit' ahead of the important Christmas trading period. Business investment continues to be subdued and infrastructure spending outside of NSW continues to be delayed by political in-fighting. The housing market, which has been an area of strength, remains robust but is showing early signs it may have peaked. As a result of these factors, we remain underweight stocks that require a strong domestic economy to grow their earnings. Notably, however, the RBA moved to a clear easing bias in its November statement and we expect a cut may come as soon as its next meeting in early December.

In the US, the Federal Reserve is expected to start raising interest rates in the coming months. The US economy is now on a solid footing, with strong job creation in recent years seeing the unemployment rate fall to 5.1% by September. The slack in the US economy created during the GFC has now diminished to a point where inflationary pressures ought to start to build in the economy in the coming years. We expect the Federal Reserve to gradually raise interest rates in the coming months to prevent speculative forces in financial markets from flaring up which could lead to inappropriate risk-taking that might undermine financial stability.

The OC portfolio retains a healthy exposure to the US economy including **Fisher & Paykel Healthcare**, **Ardent Leisure** and **Aconex**. While the Australian dollar has stabilised at around US$0.70c, these companies continue to be beneficiaries of the translational impact of a lower Australian dollar.

After a sustained period of underperformance versus their larger-cap peers, it is pleasing to see Australian small-cap stocks have begun to outperform their large-cap peers. While the large-cap index is being weighed down by the major banks and resource heavyweights, BHP and RIO, the small-companies universe includes a wide variety of companies exposed to many different investment thematics. Given the prevailing macro influences, we expect small caps are well positioned to outperform in the medium term.

One of the advantages of investing in small to mid-cap companies in Australia is that despite the structural and macro issues facing the economy, it is always possible to find sectors and stocks that are performing well. Our portfolio continues to be underpinned by companies that can grow their earnings largely outside of the economic cycle including **Fisher & Paykel Healthcare** as well as companies exposed to the resilient US economy such as **Ardent Leisure** and **Pacific Current** (formerly Treasury Group). There is also a raft of stocks that have structural factors underpinning their earnings growth such as outdoor media companies **APN Outdoor** and **QMS Media Limited** and companies with innovative business models, such as **Freelancer**.

During November, many of the companies in our stock universe hold their Annual General Meetings (AGMs) during which they often provide commentary on trading to date in the current financial year, as well as the outlook for the balance of the financial year. We are confident our portfolio holdings have had a solid start to FY16 and we will update our investors on material news that comes out of the AGMs in our next performance report.

Top 5 holdings#

Company	ASX code
APN Outdoor Group Limited	APO
Capilano Honey Limited	CZZ
Fisher & Paykel Healthcare Corp Ltd	FPH
G8 Education Limited	GEM
Pacific Current Group Limited	PAC

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* The performance comparison of $20,000 over 5 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 Small Ordinaries 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. There is no guarantee these objectives will be met.

The top 5 portfolio holdings are in alphabetical order and may not be representative of current or future investments. The securities listed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

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