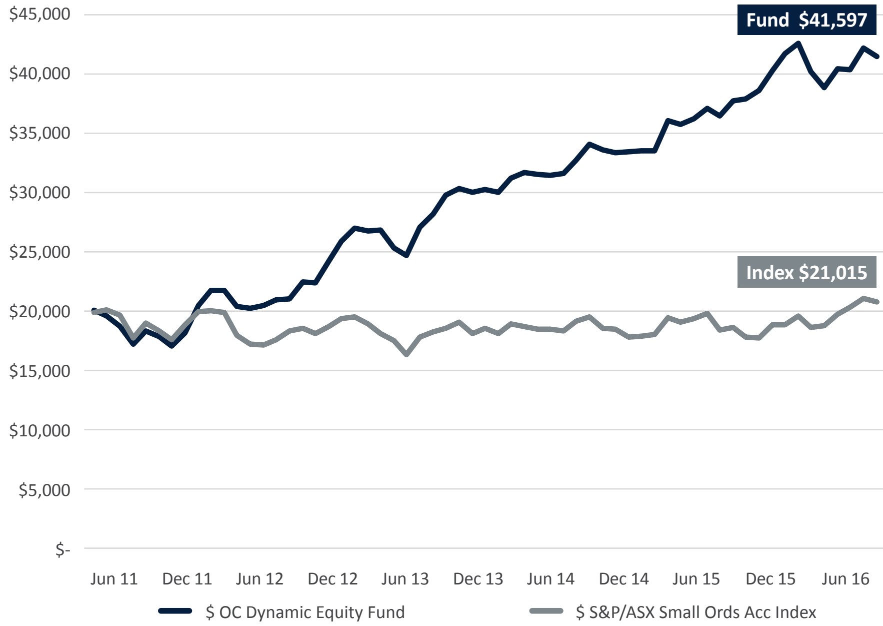
2.4%
Fund up 2.4% after a volatile June quarter

19.1%
Returned 19.1% p.a. for the past three years

Optimistic about the companies in the current portfolio

Performance comparison of $20,000 over 5 years*



Total returns

At 30 June 2016	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Incep. % p.a. (Dec 2000)
OC Dynamic	-1.8	2.4	-2.8	13.9	19.1	15.8	19.7	6.3	12.8
S&P/ASX Small Ords Accum	-1.3	5.8	6.9	14.4	9.1	1.0	4.5	1.1	5.4
Outperformance	**-0.5**	**-3.4**	**-9.7**	**-0.5**	**10.0**	**14.8**	**15.2**	**5.2**	**7.3**
S&P/ASX Small Ind Accum	-3.5	1.6	0.5	12.8	11.0	9.2	10.3	3.1	6.0
Outperformance	**1.7**	**0.8**	**-3.3**	**1.1**	**8.2**	**6.7**	**9.4**	**3.2**	**6.7**

Performance review

The OC Dynamic Equity Fund was up 2.4% for the June quarter in a volatile period during which small-cap resource stocks continued to outperform, particularly over the last week of the financial year when the gold price spiked significantly following the UK's vote to exit the European Union (EU). The performance of the Fund was slightly ahead of the S&P/ASX Small Industrials Accumulation Index which was up 1.6% for the quarter, but behind the S&P/ASX Small Ordinaries Accumulation Index which was up 5.8% over the same period due to the continued strong performance from small-cap resource stocks.

Despite the Fund's pull-back in the month of June, it finished the financial year with a credible return of 13.9%. This was slightly ahead of the S&P/ASX Small Industrials Accumulation Index which was up 12.8% for the financial year but marginally behind the S&P/ASX Small Ordinaries Accumulation Index which was up 14.4% for the financial year.

The Fund has an outstanding long term track record in the seven years since the GFC having returned 19.7% p.a. During this time, the investment team comprising Robert Frost, Stephen Evans and Robert Calnon has remained unchanged with all three team members continuing to be committed equity holders in the business.

There was a raft of positive announcements from Fund holdings during June that were welcomed ahead of the upcoming August reporting season.

The **a2 Milk Company (A2M)** rebounded in June (+19.9% for the month versus +2.3% in the June quarter) after announcing a profit upgrade at a time when the market was becoming increasingly nervous about regulatory change in the key Chinese infant formula market. China represents a key growth market for A2M and, in recent months, the Chinese government has announced a raft of changes to the infant formula regulatory environment. These changes have included the taxation of Cross-Border E-Commerce (CBEC) traded commodities, publication of product lists for CBEC traded commodities through China's free-trade zones and, more recently, an Infant Formula Registration Rule for both domestic and imported infant formula products into China.

Management has confirmed it is well placed to respond to the changing regulatory environment in China and the company upgraded its full-year revenue and EBITDA forecast in mid-June. We remain upbeat on the global growth prospects of A2M and are attracted to its capital-light business model.

The Citadel Group (CGL) (+21.9%) - re-rated after providing a positive operational update which included new contract wins with law enforcement agencies and a sensible, earnings accretive acquisition. The acquired company, Kapish, is an Australian software and services company specialising in document and records management solutions, a complementary adjacency to CGL's existing core knowledge management offering. Although relatively small, we forecast that the acquisition is earnings-per-share accretive (+10%), strategically sensible and increases CGL's proportion of recurring revenue contracts. CGL has attractive long-term growth prospects underpinned by a robust pipeline of organic managed services opportunities and a balance sheet that would support further complementary M&A activity.

Webjet (WEB) (+13.8%) - continued its strong share price performance over the past year to finish the June quarter higher still. In May, WEB announced an operational update that confirmed strong performance from both its digital retail (B2C) and digital wholesale (B2B) divisions. It followed up a fortnight later by announcing the complementary acquisition of Online Republic, a global online travel group operating four key divisions: Car Rental Republic (#2 position in Aust and NZ), Motorhome Republic (#1 worldwide), Cruise Republic (#1 in Aust and NZ) and Search Republic (a digital marketing consultancy). The strategic rationale for the deal is sensible in that the business is highly complementary to WEB's existing portfolio, leveraging capabilities into new travel and leisure segments. Webjet is a capital-light business that continues to benefit from a structural shift as consumers increasingly book travel-related activities online with trusted operators and user-friendly services. We increased our holding in WEB during the quarter.

Our mining services companies, namely **Mineral Resources (MIN)** and **WorleyParsons (WOR)**, were among the best performing industrial stocks in the small-cap index during the quarter, up 38.3% and 33.8%, respectively. Both MIN and WOR are highly regarded operators and ought to benefit from increasing activity in the coming years as the commodity cycle bounces off the bottom.

The news wasn't all good and the Fund was caught off guard by the decision of UK voters to exit the EU. The Fund's major direct exposure to the "Brexit" was through asset management businesses, **Henderson Group (HGG) (-22.9%)** and **BT Investment Management (BTT) (-18.8%)**, both of which have a material exposure to the Eurozone. Both companies will be impacted in a number of ways including: a) likely weaker equity markets across the UK and the EU, b) likely negative net fund flows caused by outflows from products sold into the EU from UK managers and also from asset allocation decisions as investors avoid UK-exposed equity strategies, c) higher operating costs associated with increasing operational staff presence in the EU, and d) negative currency impact due to the AUD appreciating versus the GBP following the Brexit vote. We have exited our position in HGG but have retained our holding in BTT which, although impacted through its wholly owned JO Hambro business, has sufficient growth options outside the UK to justify continuing to hold the stock at the current price.

Following the Australian government's funding changes in residential aged care at the May Federal Budget, we made the decision to sell **Japara Healthcare (JHC)**. While the demographics of the sector remain highly attractive given Australia's aging population, the government seems intent on ensuring the funding cost to the taxpayer is kept in check as evidenced by a succession of negative revisions to residential aged care funding over the past 18 months. These changes appear to have bi-partisan support and will make it harder for the listed players to generate the earnings growth necessary to sustain their premium market ratings.

During June, we added speech and search technology services company, **Appen (APX) (+62.9%)**, to the portfolio. APX is a global leader across its two divisions: 1) Content Relevance, which provides smart data to improve the relevance and accuracy of search results, and 2) Language Resources, which provides data used in speech recognition technologies (e.g. Apple's Siri) and other machine-learning technologies with expertise in more than 150 languages. APX has strong structural tailwinds borne out of its leverage to rapidly growing core markets of e-commerce, digital media, artificial intelligence, where it has a strong competitive position, and unique intellectual property. Management's track record on execution has been outstanding since listing in January 2015 and the company now boasts nine of the top 10 global technology companies as customers.

Outlook

It has been a tumultuous few weeks in financial markets with voters in the UK unexpectedly voting to exit the EU - a result that had not been foreseen by many political and economic commentators and investors, us included. It is important to remember that Brexit is a political crisis not a financial crisis like the GFC, although it will likely have some adverse economic consequences particularly within the EU itself. The short-term impact on markets is likely to be fuelled by falling confidence from investors, consumers and businesses alike. This will likely lead to heightened volatility in investment markets and, most likely, a "risk-off" environment for investors.

The global economic environment is already somewhat subdued and a political shock such as this is likely to further reduce the confidence of businesses and investors leading to an even tougher economic environment. Nevertheless, we expect central banks to continue to stand behind markets by injecting liquidity and supporting bank funding which ought to lead to volatile but orderly markets.

The UK is no longer a large trading partner of Australia, so the UK exiting the EU (which in practice is at least two years away) is unlikely to have a material impact on our trade flows or a significant direct economic impact on the Australian economy. According to UBS, less than 4% of Australia's exports go to the UK and about a further 5% make it to Europe. Brexit could, however, impact the Australian economy if businesses and households react to the sudden uncertainty by cutting spending, which would ultimately impact the domestic growth rate.

The indirect impacts of Brexit are likely to be seen in interest rate markets given that there has been a clear shift towards further monetary policy easing and asset purchases by almost all central banks. The rally in the US dollar due to "safe haven" flows will make it much more difficult for the US Federal Reserve to raise rates and if the Fed delays its rates hike, this could keep the AUD higher than the RBA would like, thereby increasing the odds of further rate cuts domestically. Indeed, it is looking increasingly likely the RBA will cut rates again in either August or September, especially following the recent Federal Election which will only serve to further undermine domestic confidence.

The 2 July Federal Election has left Australia in the position of having a Liberal government likely returned by the slimmest of margins and, arguably, without a clear mandate from the Australian people. Furthermore, the senate voting reforms seem to have backfired on the government by delivering what appears to be a hostile senate filled with cross bench members. This is an unfortunate outcome for the broader economy, and indeed investment markets, at a time when Australia needs strong political stewardship and progressive policy-making to help us manage the transition away from the mining boom. A dysfunctional parliament may see Australia lose its coveted AAA credit rating due to increased fiscal costs as planned budget cuts are bartered away in return for political support from the cross bench MPs.

It is likely the election outcome won't be known with any certainty before Monday but it seems probable the Coalition will be able to form government in its own right but will need to invoke the support of some independents in order to have guarantees around motions of confidence and supply bills.

All of these events serve to reinforce our view that we are in a "lower-for-longer" environment, including lower inflation, lower growth and lower interest rates, both domestically and globally.

In such an environment, we believe the portfolio remains well served being underpinned by companies that can grow their earnings independent of the economic cycle. Quality stocks such as **Fisher & Paykel Healthcare**, **Healthscope**, **The Citadel Group** and **Hansen Technologies** are likely to continue to grow their earnings irrespective of the domestic or global economic environment and, importantly, investors are likely to continue to pay a premium for this earnings growth.

We have now entered the so-called "black-out" period between the end of the financial year and the August reporting season when company management goes into lock-down and avoids investor communication ahead of full-year results announcements. The investment team was very active in recent months, travelling widely and communicating directly with all our holdings to ensure our investment thesis remains intact and that the key assumptions underpinning our financial forecasts remain accurate.

We are optimistic about the prospects of the companies in our portfolio for the coming financial year and would like to thank our investors for their ongoing support.

Top 5 holdings#

Company	ASX code
APN Outdoor Group	APO
The Citadel Group	CGL
Fisher & Paykel Healthcare	FPH
Vocus Communications	VOC
Webjet Limited	WEB

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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.