OC Dynamic Equity Fund

PERFORMANCE REPORT

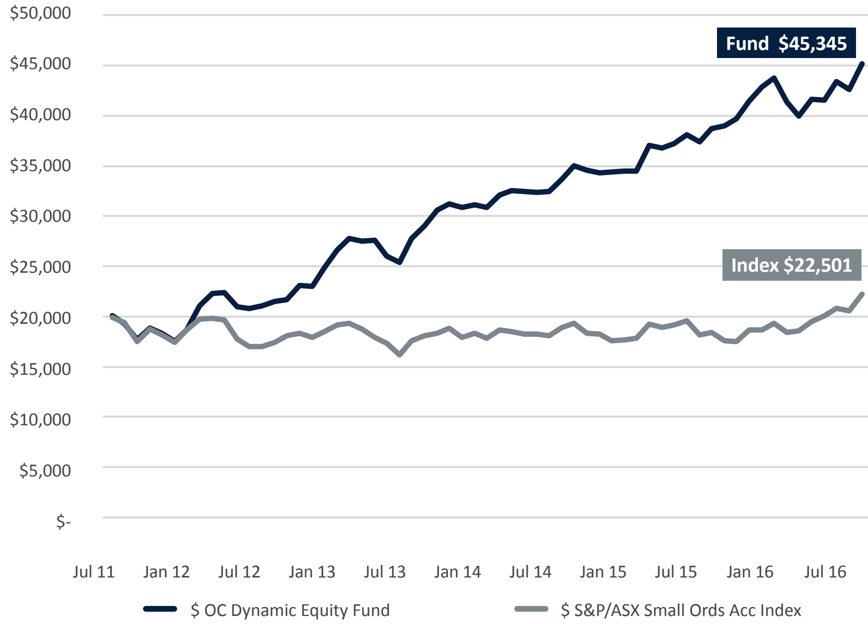
31 July 2016

6.1% Fund up 6.1% for the July period

17.8% Returned 17.8% 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 31 July 2016	1 mth %	3 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	6.1	8.8	16.7	17.8	17.9	19.4	7.1	13.1
S&P/ASX Small Ords Accum	8.6	11.5	22.3	8.7	2.4	4.4	2.0	6.0
Outperformance	**-2.5**	**-2.7**	**-5.6**	**9.1**	**15.5**	**15.0**	**5.1**	**7.2**
S&P/ASX Small Ind Accum	8.3	9.5	17.8	11.6	11.3	10.3	4.1	6.5
Outperformance	**-2.2**	**-0.6**	**-1.1**	**6.2**	**6.5**	**9.0**	**3.0**	**6.6**

Performance review

It was a strong month, on an absolute basis, for the OC Dynamic Equity Fund which finished July up 6.1%. This performance was not enough to keep up with the resources-driven S&P/ASX Small Ordinaries Accumulation Index (+8.6%) nor the S&P/ASX Small Industrials Accumulation Index (+8.3%). The Fund lags behind the S&P/ASX Small Industrials Accumulation Index over the past 12 months having returned 16.7% against the index return of 17.8%. The S&P/ASX Small Ordinaries Accumulation Index is +22.3% over the same period reflecting the sharp rally in speculative resource stocks over the course of the first seven months of calendar year 2016.

Our mining services companies, namely **Mineral Resources (MIN)** and **MACA Limited (MLD)**, were among the better performing industrial stocks in the small-cap index during the month, up 18.2% and 38.9%, respectively. Both MIN and MLD are highly regarded operators who ought to continue to benefit from increasing activity in the coming years as the commodity cycle rebounds. Both companies currently earn the majority of their profits from crushing, screening and processing ore for quality clients across a number of different commodities and mine sites. Both have a strong reputation among their clients and typically operate under long-term contracts. Importantly, both MIN and MLD have strong net cash balance sheets that position them well to weather any commodities downturn. Investors will be well aware that although OC doesn't invest directly in single commodity or single mine resource stocks, but at the right time in the cycle we do try to have exposure to the commodities thematic through quality mining services business such as MLD and MIN.

BT Investment Management (BTT) (+14.1%) – clawed back much of its Brexit-related losses to finish the month higher than where it closed on the day of the vote in the UK in late June. This is a pleasing result, as we held BTT through the Brexit turmoil, though we remain cautious as it could be impacted in the medium term 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 taken some risk off the table in this space by exiting our position in Henderson Group (HGG) which has failed to recover to the same extent as BTT. Another fund manager, **Pacific Current (PAC) (+14.4%)**, which is largely isolated from Brexit-related issues, performed strongly during the month recovering from what we considered to be oversold levels.

NetComm Wireless (NTC) (+15.1%) – recovered nicely during the month after being beaten up in June due to uncertainty regarding the federal election outcome. NTC is well placed to win material hardware supply contracts for the federal government's NBN roll-out but the election was a major source of uncertainty for investors during June. NTC was sold off aggressively in the lead-up to the election (at one stage -23.8% from its closing price at the end of May) as investors fretted over the outcome of the election and the likely impact on NTC should the ALP win the election and the coalition's preferred model for the NBN be subject to review. History tells us the coalition got over the line (just) and calmer heads prevailed in subsequent weeks with NTC finishing the month some 30.6% off its lows.

Updater Inc. (UPD) (+57.7%) – Alpha Plus position, UPD, began to get some real traction in July after a false start with its IPO late last year. UPD has developed a technology to improve consumers' residential relocation experience. The firm listed with a 2016 goal of achieving 5% market penetration and then commercialising its technology with large advertising partners. In July, UPD achieved 5.35% market penetration, processing almost 80,000 residential moves in the US, well ahead of its calendar year target and has now reset the goal posts by ambitiously aiming for 15% market penetration by the end of 2017. Additionally, UPD has kicked off a pilot program with its first commercial partner, Liberty Mutual, (a Fortune 100 insurance company), and we believe there are exciting times ahead as UPD hits its market penetration goals and continues to sign pilot programs with commercial partners in other verticals.

Silver Chef (SIV) (-7.2%) – was a key disappointment for the portfolio (in a month of few disappointments) after management took steps to bring analysts' earnings forecasts for FY17 back into line with the company's expectations. The result was higher provisioning for potential future bad debts and a lower than anticipated ongoing benefit from a recent change in accounting policy. Overall, we believe the underlying growth of the company remains intact, which led us to hold our nerve through the initial sell-off, although we did reduce our position on this announcement. We had also been trimming our holding at much higher levels prior to the announcement as the share price was approaching our valuation target.

Outlook

Arguably the most important factor currently influencing equity markets is the interest rate environment with the RBA taking the unprecedented step on 2 August to cut rates a further 25 basis points to historically low levels of 1.5%. Despite our official interest rates plumbing new lows, the RBA rate remains relatively attractive on a global scale (with most major central banks around the world at or around zero percent cash rates), so the Australian dollar sits stubbornly above USD$0.75. Clearly the RBA is concerned about the low inflation rate, which has slowed dramatically in the past 12 months, with the board expecting the inflation rate to remain below the 2-3 percent target band until the middle of 2018. If the decline in inflation cannot be stemmed, Australia risks succumbing to the weak growth and inflation malaise that has gripped Japan, Europe and North America in recent years. In such an environment, our preference is to own stocks that can grow earnings outside of the economic cycle and/or stocks exposed to growing offshore earnings.

We are now a month past the tumultuous events that bookended the financial year end; those being the Brexit vote and the Australian federal election. While Brexit impacts will reverberate for many years to come, a clearer picture is emerging of the potential impacts of the UK/EU separation and the market seems to be adjusting accordingly. The market is also becoming more comfortable with the Australian election outcome as the coalition formed a majority government, albeit by the slimmest of margins. This is the first federal election to install a majority government since 2007, but unfortunately it also delivers a hostile senate which could see some policy compromise. A dysfunctional upper house 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 senate cross benches.

All of these events combine 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 now await the August reporting season to kick-off in earnest and look forward to meeting with each of our holdings, and many more potential investments, over the coming four weeks. We have met with all our existing investments in recent months and look forward to seeing their reported numbers and examining the other investment opportunities that reporting season invariably throws up. We will of course report to you the outcomes of our analysis in our next monthly report and I am sure we will be writing on some new investments we have made through August.

Top 5 holdings#

Company	ASX code
The Citadel Group	CGL
Fisher & Paykel Healthcare	FPH
Mineral Resources Limited	MIN
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.