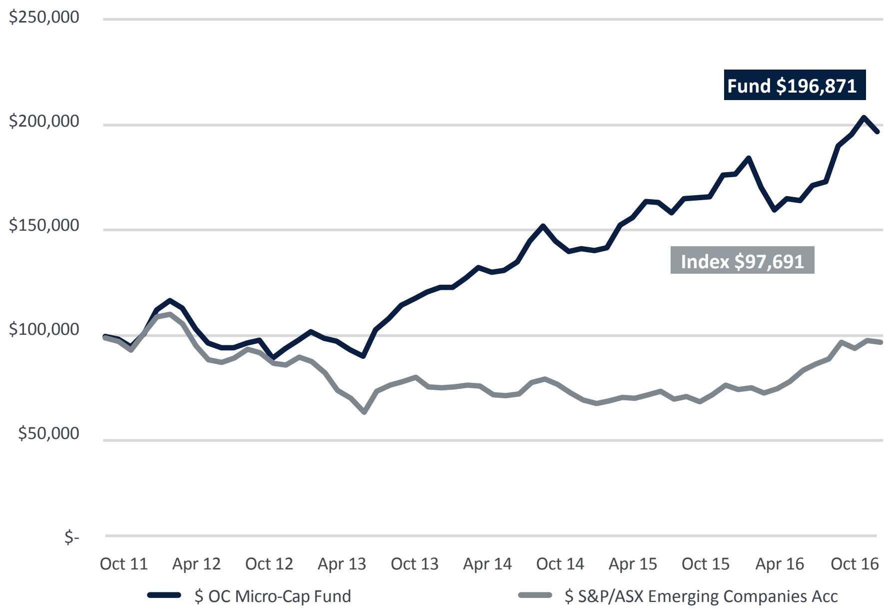
3.2% Fund down 3.2% for October

18.8% Returned 18.8% p.a. for the past three years

We remain cautiously optimistic the Fund is well positioned

Performance comparison of $100,000 over 5 years*



In October 2016, the OC Concentrated Equity Fund became the OC Micro-Cap Fund. The Fund previously comprised three underlying investment strategies, one of which, the Emerging Leaders strategy, is now the primary underlying investment strategy of the OC Micro-Cap Fund.

Total returns

At 31 October 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. (Nov 2003)
OC Micro-Cap	-3.2	3.6	11.8	18.8	14.6	13.5	11.0	13.6
S&P/ASX Emerging Comp. Accum	-0.9	0.0	29.3	7.0	-0.5	0.5	0.7	N/A
Outperformance	**-2.4**	**3.7**	**-17.5**	**11.8**	**15.0**	**13.0**	**10.3**	**N/A**

The Fund was established in November 2003. The performance reflects the performance of the OC Micro-Cap Fund since the change of strategy on 30 September 2016 and the performance of the OC Concentrated Equity Fund prior to that date. Performance is after fees applicable at the time.

Performance review

Global and local markets have been in 'risk-off' mode in the run-up to the US presidential election and OC was not immune to the sell-off with the OC Micro-Cap Fund finishing the month down 3.2%. Due to some stock-specific news, including the second largest stock in the S&P/ASX Emerging Companies Index, Bradken, being taken over and providing a material boost to the index's performance, the Fund finished behind the S&P/ASX Emerging Companies Accumulation Index which returned -0.9%.

We remain confident of the Fund's ability to outperform the S&P/ASX Emerging Companies Accumulation Index over the longer term, with Robert Frost and Stephen Evans from the investment team both materially increasing their personal investment in the Fund during the month.

Millennium Services (MIL, +30.3%) – after a disappointing ASX debut late last year, MIL finally started to deliver for investors with the announcement of a major acquisition and revised earnings guidance for the combined group. MIL is a cleaning and security service provider that also performs hygiene, maintenance and concierge services for a broad range of corporate customers across east coast Australia and NZ. Late in October, MIL entered into a binding agreement to acquire 100% of Airlite for $25m funded entirely by a consolidated debt facility. Airlite is a Western Australia-based MIL 'look-a-like' providing cleaning, maintenance and integrated services to a blue-chip customer base in WA. Airlite gives MIL a national footprint, a broader service offering and increased competitiveness with clients that have national portfolios. Financially, this transaction makes sense to us as investors as these businesses are highly cash generative (and so can sustain reasonable debt levels) and the multiple paid was sensible with no additional equity raised. The transaction is highly earnings-per-share accretive on a normalised basis for existing shareholders and MIL had cash available from the IPO earmarked for just such a transaction.

Veem Ltd (VEE, +30%) – was an IPO we participated in during the month which performed well. VEE is an innovative marine technology company specialising in propulsion and stabilisation systems, as well as manufacturing bespoke products for the marine defence and mining industries through its foundry, machining, fitting and balance services. As a recently considered IPO candidate, VEE has many characteristics we look for in a micro-cap investment, including:

- Profitability – the business can demonstrate strong, consistent cash flow and profitability over many years. It is not coming to market with the hope of being profitable in the future.
- Track record – VEE was founded in the 1970s by the parents of the current management team, brothers Brad and Mark Miocevich. Brad and Mark have been in the business virtually their entire working lives.
- Capital raising for growth – VEE is looking to utilise funds raised through the IPO to launch the next generation of gyro-stabilisers, as well as a new propeller line (both products have global markets requiring some upfront investment capital). Very little money was taken off the table by the family at the IPO.

We like the VEE business model, its unique intellectual property and the experienced and committed management team and look forward to updating investors in the future about the progress of the business.

CleanTeq (CLQ, -29.5%) – we have held CLQ on and off now for a couple of years and have always been disciplined in exiting the position when the share price approaches our valuation. CLQ has patented systems and processes useful in air and water purification and minerals extraction. Part of CLQ's business model is to combine its minerals extraction technology with world-class resource projects which it has done with the recently acquired Syerston deposit in western NSW. Syerston is a shallow, high-grade deposit containing critical 'future economy' minerals, scandium (for use in light-weight alloy strengthening), and cobalt (for use in lithium batteries). CLQ released its Syerston Pre-Feasibility study at the start of October and while it was impressive at a project level, it also indicated high levels of capital would be required and long time frames to production. Anticipating a capital raise, the market sold the stock down until fresh capital was eventually raised at the start of November. With its war chest rebuilt, a world-class deposit and an excellent team led by co-chairmen Sam Riggall and Robert Friedland, we believe CLQ is well placed to be a strong performer for the Fund.

Apiam Animal Health (AHX, -14.9%) – traded lower during the month on no news. AHX is a vertically integrated business providing a range of products and services to support the health and wellbeing of production animals (i.e. beef and dairy cattle, sheep, poultry and pigs). AHX has strong presence on Australia's east coast, an outstanding management team and solid growth prospects, which we expect will lead the company to outperform over the medium to long term. AHX released its first annual result as a listed company in August this year and while disclosure was somewhat clumsy, the result was in line with expectations, albeit flagging some incremental integration costs inevitable when combining several businesses simultaneously upon IPO. This additional cost has spooked some investors and seen them exit their holdings which has likely contributed to the share price pull-back.

Outlook

The sell-off in the Australian share market in October was largely due to events across the Pacific with rising bond yields in the US and election uncertainty ahead of the November 8 Presidential election weighing heavily on our market. The victory by polarising Republican candidate Donald Trump caught the market by surprise leading to significant volatility in equity markets. Trump's economic policies have been somewhat vague and, at times, contradictory during election campaigning. But in the near term, we believe our portfolio is well positioned to perform strongly given his policies are overall supportive of markets and our current sector tilts and exposures.

In the US Congress, Republicans now control both the House of Representatives and the Senate, resulting in rare single-party control. Despite this, the election of a candidate that many senior members of the party failed to endorse means division within the ranks of the Republican Party may make implementing policy change more difficult than it would appear on face value.

To assess what a Republican Trump government with control of both houses of Congress means for our portfolio, we must first look at his key economic policies. To date, these include:

- Expansionary fiscal policy - corporate and personal tax cuts have been promised which ought to be stimulatory. Tax cuts typically get spent rather than saved which is a positive for business investment, labour and ultimately US consumption.
- Infrastructure spending – "We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals," Trump said. "We're going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it". This is obviously great for investment and employment growth, although details on specifics remain scant.

- Trade – Trump has promised to end "unfair trade policies". He is likely to re-evaluate trade agreements (Trans-Pacific Partnership is unlikely to be advanced and North American Free Trade Agreement renegotiated) and toughen the US's stance on Chinese and Mexican imports, among others. Overall, these protectionist trade policies could lead to a US-led trade war which could have significant negative implications for global growth.
- Healthcare reform – Trump has promised to make sweeping changes to the 'Affordable Care Act' (Obamacare) to relieve the American people of the "tremendous economic burden". Details remain fluid with Trump softening his stance on a promised total repeal of Obamacare in recent days, post meeting with President Obama at the White House.

Overall, the policies laid down by Trump are market friendly and ought to be supportive on growth in the US economy. From the perspective of the OC Micro-Cap portfolio **Netcomm Wireless** and **Spookfish** may be direct beneficiaries of an increase in US infrastructure spending, while other stocks such as **Appen Limited**, **Catapult Group International** and **Emerchants Ltd** may benefit from the improved consumer and business spending environment which several proposed policies seem to imply.

On balance, Trump's economic policies look to be inflationary and this has had a dramatic impact on global bond markets over the past week. Yields on US 30-year bonds, which are more sensitive than shorter maturities to the outlook for inflation, jumped the most this week since January 2009. With the US's economic recovery seemingly on track, it seems likely the US Federal Reserve will raise interest rates sooner rather than later, with a December rate increase a real possibility.

The portfolio is likely to be a relative beneficiary of rising US rates as we have limited exposure to interest-rate sensitive sectors such as REITs, Telecommunications and Utilities. We are also underweight the gold sector which has a high weighting in the S&P/ASX Emerging Companies Accumulation Index and which has been sold off heavily since the election as bond yields rise.

Base metals, bulk commodities (iron ore and coal) and oil have all rallied on the back of Trump's pro-growth strategies and as markets overall become more optimistic. While we do not have significant exposure to these commodities in our portfolio, we have several positions that will indirectly benefit from strength in these commodities including **NRW Holdings**, **RCR Tomlinson**, **Pacific Energy** and **SRG Limited**.

Given the lack of political experience of the President-elect and his sometimes ambiguous and often contradictory proposals on the campaign trail, there remains a significant amount of uncertainty which will likely lead to heightened volatility in markets in the coming weeks. Over the next six weeks, Trump's key political appointments will be watched carefully because they will show whether he can create some unity across the country and whether he has a team capable of delivering on his lofty ideas. To date, we have seen a far more pragmatic and conciliatory side to the President-elect who has even gone so far as to be generous in his praise of Hillary Clinton and deeply respectful of President Obama whom he has said he intends to use as counsel.

The market has thus far focused on the elements of a Trump presidency that bodes well for economic growth, like tax reform and infrastructure spend, as opposed to dwelling on potentially detrimental outcomes such as trade wars or protectionism and limits on immigration. The next few weeks will give us greater clarity as policies are fleshed out and as senior advisors are appointed. For now, we remain cautiously optimistic the Fund is well positioned to perform strongly during the first phase of a Trump presidency.

Top 5 holdings#

Company	ASX code
Emerchants Ltd	EML
NRW Holdings Limited	NWH
QMS Media Ltd	QMS
Updater Inc	UPD
VEEM Ltd	VEE

Fund overview

Long only and benchmark unaware, the OC Micro-Cap Fund, previously the OC Concentrated Equity Fund, is predominantly invested in 25 to 60 micro-cap stocks listed, or about to list, on the Australian Securities Exchange (ASX) or the New Zealand Stock Exchange.

The Fund aims to provide investors strong long-term capital growth by investing in companies with:

- a market capitalisation of less than $350 million at the time of initial acquisition
- sustainable business models, and
- attractive investment qualities.

Over a rolling five-year period, the Fund aims to provide a total return of 5%+ in excess of the S&P/ASX Emerging Companies Accumulation Index.

Strategic asset allocation	
Listed securities (including hybrid securities such as convertible notes, redeemable preference shares and partly paid shares)	70 - 100%
Cash	0 - 20%
S&P/ASX 300 Index	0 - 20%
Unlisted securities*	0 - 10%
New Zealand listed securities	0 - 10%
Derivatives	0%

**Must have a pathway to IPO within six months.*

Number of stocks	25 - 60
Maximum ownership of any company	7.5%
Maximum absolute stock position	8%

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* The performance comparison of $100,000 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 Emerging Companies 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.