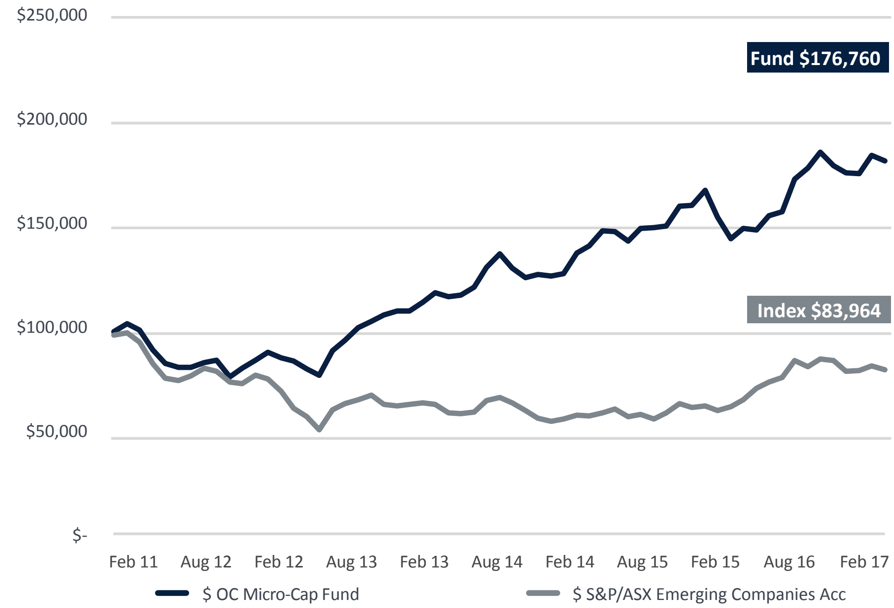
1.3% Fund down 1.3% for the month

12.1% Returned 12.1% p.a. for the past five years

We remain confident the Fund is well placed to deliver strong long-term returns

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 28 February 2017	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	-1.3	3.2	24.8	16.1	12.1	11.6	9.3	13.3
S&P/ASX Emerging Comp. Accum	-2.1	0.8	25.6	7.1	-3.4	0.9	-1.1	N/A
Outperformance	**0.8**	**2.4**	**-0.8**	**9.0**	**15.6**	**10.8**	**10.4**	**N/A**

Inception date for the Fund is 21/11/2003. Inception date for the Index is 31/12/2003. 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

The OC Micro-Cap Fund returned -1.3% for the month of February in a challenging market for emerging companies stocks. This was ahead of the S&P/ASX Emerging Companies Accumulation Index which returned -2.1%. Over the past the three months, the Fund has returned +3.2% versus the index at +0.8%.

During February, most ASX-listed companies released their interim results (or year-end results for those with a December 31 balance date) and it turned out to be a somewhat atypical reporting season. It was not simply a case that companies delivering on or exceeding market earnings expectations traded flat or went up, and companies that missed market expectations fell in share price. It seems recent investor bias towards lower multiple value stocks has continued to play out over the month and many of these stocks consequently performed better from a share price perspective during the month. For example, high growth, high multiple **Baby Bunting (BBN, -10.8%)** fell sharply despite confirming its full year earnings guidance whereas low multiple value stock, **McMillan Shakespheare Ltd (MMS, +16.4%)**, performed in-line with its moderate earnings expectations and re-rated in the days after the result.

One explanation for this rotation is that, with interest rates tipped to rise further in the US in the coming months, long duration growth assets have continued to de-rate due to the impact a higher discount rate has on their discounted cash-flow valuation. On the other hand, previously unloved and out of favour value stocks are re-rating as investors refocus their attention on this segment of the market where the re-emergence of signs of inflation in the global economy may even reinvigorate some top-line growth.

OC is a style neutral investor. We have no particular bias to either growth or value stocks, preferring to assess an investment on its individual merits. We focus on buying good quality businesses that are easy to understand and forecast, at a share price that leaves a reasonable margin of safety to our valuation target.

Clean Teq Holdings (CLQ, +46.7%) again performed well during the month and has gone on to trade better still in the early part of this current month as it begins to attract the attention of larger brokers and investors (both domestically and offshore). CLQ owns a world-class, shallow, high-grade scandium/nickel/cobalt deposit west of Parkes in outback NSW. The core elements within this deposit are critical 'future economy' minerals including:

- cobalt (for use in lithium-ion batteries) for which the world's rapidly evolving battery manufacturing industry has no reliable western world supplier, and
- scandium (for use in light-weight alloy strengthening such as in jet aircraft), with CLQ recently signing a collaboration agreement with French giant, Airbus.

The cobalt price continued to soar during the month and has been a key driver of the share price. While we have a high degree of confidence in management's ability to get the project financed and into production in the coming years, the valuation equation is starting to look less compelling in light of the various risks that still lie ahead and we have been reducing our position into the share price strength.

Axsesstoday (AXL, +15.7%) – the equipment funding solutions business reported its maiden interim result as a listed company and upgraded its prospectus profit forecast by 10%. The company delivered strong organic growth across both the hospitality and transport segments of the business with loan receivables increasing by 215% over the previous year to $88.4m. New origination growth coincided with growth in the referral network which increased from 140 at the end of H2 FY16 to 190 at the end H1 FY16. Importantly, credit quality looks sound with total credit losses stable at 1.3% of net receivables. The company has extended its senior debt facility with the CBA and is also looking to establish a new $35m subordinated senior note with a 3.5-year term. The balance sheet will obviously need to continue to expand to fund its growth but AXL is well placed to raise equity on the back of a very solid result.

RCR Tomlinson (RCR, +11.7%) – the diversified engineering, construction and infrastructure business re-rated on the back of a very strong outlook underpinned by a $1.0b order book and preferred status on a further $0.8b of projects. RCR has strong prospects in the renewable energy and rail sectors where it has developed a strong reputation as a contractor. We also expect a big improvement in the resources division where we expect revenue and margins to expand given the strong outlook for the sector and the solid pipeline of mid-cap and large-cap EPC work that ought to convert to projects in the coming 18 months.

Veris Limited (VRS, -31.9%) - delivered a disappointing update at its interim result with the wind down of its large Nauru contract clouding the otherwise in line performance of its rapidly growing surveying business. Through its national surveying strategy, VRS has created a diversified professional services business with over 400 employees and annualised revenue of approximately $65m. VRS offers desirable exposure to growth in the east coast civil infrastructure and property markets which serves to mitigate its exposure to lumpy resources contracts in its traditional WA business. We believe VRS is well positioned to continue to consolidate the highly fragmented surveying sector nationally and this will lead to ongoing strong growth and market leadership in the coming years.

Outlook

The domestic economy bounced back from an unexpected half-a-percent contraction in the previous quarter with GDP printing at 1.1% in the fourth quarter, taking 12-month rolling GDP to a respectable 2.4%. Strong increases in export prices, particularly coal and iron ore, helped drive a record trade surplus in December and the terms of trade surged 9.1% in the quarter. Consumption growth also spiked 0.9% during the quarter, but it appears to have been driven by households dipping into their savings given wage growth was again weak. Australians, it seems, are spending more on purchases but saving less.

We would caution investors about reading too much into the quarterly data which can be lumpy, as evidenced by the remarkable turnaround from the third-quarter negative print. That said, the domestic economy appears to be on a solid footing and the RBA still expects growth of around 3% this year.

The dual-speed economy seen in the mining boom has reversed with NSW and Victoria continuing to do the heavy lifting fuelled by a housing construction boom, while the mining states are still adjusting to lower levels of mining investment despite recent increases in commodity prices.

Much has been written of late about strength in the Australian property market and the sustainability of recent price rises with the OECD joining the chorus of warnings last week in stating that the biggest threat to the Australian economy is from a hard landing in the property market. This echoes recent testimony from RBA Governor Philip Lowe to a parliamentary economic committee in late February where he warned household debt was rising much faster than income and that cutting rates could further fuel the housing boom. Until rates rise materially (for which we see no immediate catalyst), we cannot see a circuit breaker to trigger a property collapse. Notwithstanding this, the Fund currently has limited direct exposure to the domestic housing market.

From a global perspective, little changed during the month. China remains on a solid growth trajectory with President Li Keqiang recently announcing that the government aims to deliver economic growth of 6.5% in 2017, down from the 2016 target of 6.5-7.0%. The Chinese government is tolerating slightly lower economic growth to give it scope to push through reforms to deal with the recent build-up in debt, particularly within the infrastructure investment and property development sectors. A solid Chinese economy is obviously a positive for the Australian economy and has helped to support commodity price strength over the past year. We nevertheless caution that any moves by the Chinese central government to rein in credit growth could have negative implications for the resources sector.

In the US, the economy remains on a solid footing with recent economic data suggesting the Federal Reserve is closing in on its two policy goals: stable inflation near 2% and full employment. The Fed's preferred inflation measure has moved up to 1.9% and unemployment has fallen to 4.8%, approaching the level the Fed views as sustainable over the longer term. A rate rise is all but assured on the March 15 meeting in Washington with Federal Reserve Chair, Janet Yellen, explicitly supporting a hike, barring any unanticipated developments, at a speech she made in early March.

Our observation on the economic outlook from reporting season was mixed with strengths and weaknesses tending to be company specific rather than being driven by underlying macro-economic trends. Take, for example, the retail space where **Super Retail Group**, **Nick Scali** and **Premier Investments** all reported buoyant results ahead of market expectations in contrast to **Adairs**, **RCG Corporation** and **The Reject Shop** which fell well short of investor expectations. Indeed, a cursory analysis of the 10 best and worst performers in the S&P/ASX Small Ordinaries Index for the month of February is supportive of this thesis with no industry sector outside of materials (mining) standing out on either side of the positive/negative ledger.

We believe our process of investing in well-managed businesses where the key drivers are relatively simple and easy to forecast and where there is a sensible margin of safety between the current share price and our underlying valuation, remains a prudent approach that we believe will continue to deliver solid longer term returns for our investors.

The investment team will be out on the road for much of March assessing new investment opportunities and meeting with the management of current holdings and their competitors. The Fund is conservatively positioned with a cash weighting of around 10%, however we are in the process of adding several new holdings to the portfolio.

Top 5 holdings#

Company	ASX code
Catapult Group International Ltd	CAT
Ive Group Ltd	IGL
National Veterinary Care Ltd	NVL
RCR Tomlinson Limited	RCR
Updater Inc	UPD

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.