

## Strong Performance Continues

Performance*	Premium Equity Fund	Dynamic Equity Fund	Small Ind Accum	All Ords Accum
Current Unit Price	1.1166	1.4593	4831.3	30640.2
1 Month	9.5%	11.0%	9.4%	6.5%
3 Months	22.2%	25.3%	23.6%	19.1%
6 Months	51.0%	54.4%	56.7%	39.5%
1 Year	-20.3%	-21.0%	-14.5%	-9.5%
3 Years (p.a.)	-14.8%	-14.5%	-7.7%	0.2%
5 Years (p.a.)	-0.8%	-0.7%	2.5%	9.3%
7 Years (p.a.)	4.3%	5.7%	6.5%	10.1%
Since inception (p.a.)	8.3%	9.5%	4.3%	8.0%
Fund Size	\$24.2m	\$38.3m		

### The Market

The August reporting season was the catalyst for another strong month for the Australian equities market with the All Ordinaries Accumulation Index up 6.5%. The key drivers of performance were better than expected earnings reported by most companies and a continued improvement in economic data. The Australian market has now rallied for six consecutive months to be up 39% from its lows.

It was particularly pleasing to see many ASX listed stocks report earnings above company guidance and analyst's consensus forecasts. What is now apparent is that most analysts became too bearish in late 2008 and early 2009 after credit markets froze and commentary about impending financial Armageddon was rife. Earnings were rebased to such a low level that most companies managed to exceed market expectations with their full year results, despite these results being significantly below the previous financial year.

Positive surprises were recorded across the board including stocks such as Leighton, Downer EDI, Qantas, United Group and Harvey Norman. At the other extreme, there were a few companies that fell short of expectations including Telstra, Billabong, APN News and IAG.

Capital raisings were again widespread with many companies using the strength in the market to recapitalise their balance sheets. Companies to rattle the tin included Amcor (\$1.6b), Boart Longyear (\$750m), Transpacific (\$730m), Bank of Queensland (\$340m), Virgin Blue (\$210m), Ramsay Health Care (\$220m) and Healthscope (\$140m). Further evidence of the strength in the market is the fact that most raisings were well supported and are now trading at a premium to their issue price.

\* Past performance is not a reliable indicator of future performance. The Total Returns of the OC Premium Equity Fund and the OC Dynamic Equity Fund over specified periods are shown in the following table. This table contains information regarding Total Returns to 31 August 2009. Total Returns are calculated after taking into account performance fees. Where OC Funds generates a return on a Fund over and above the performance hurdle of 15% in any financial year, a performance fee of 20.5% of all profits above this level is charged to the Fund directly. Before 1 July 2004, performance fees were not paid out of the Fund but billed by OC Funds directly to investors. In this table, the Total Returns for the period prior to 1 July 2004 have been adjusted to reflect the paid performance fees as if the fees were paid out by the Fund. The Total Return performance figures quoted are historical, calculated using end of month mid prices and do not allow the effects of income tax or inflation. Total Returns assume the reinvestment of all distributions. The performance is quoted net of all fees and expenses. The Small Industrials Index does not incur these costs. This information is provided for general comparative purposes. Positive returns, which the Funds are designed to provide, are different regarding risk and investment profile to index returns.

**The Funds**

The OC Funds enjoyed an excellent reporting season with most of our companies announcing solid results in a very difficult operating environment. The Premium and Dynamic Equity funds were up 9.5% and 11.0% respectively for the month, significantly outperforming the market.

It was particularly pleasing that the strong performance from our companies was across the board with almost every holding contributing to the positive performance. Most of the stocks held in the funds reported earnings in line with or in excess of market expectations and re-rated accordingly. From a performance point of view the biggest contributors were Hastie Group (+1.1%), Mineral Resources (+1.1%), Mac Services Limited (+0.8%) and Reckon (+0.6%). Importantly, there were few detractors with Boart Longyear the only material negative (-0.5%). This was driven by some significant stock digestion following a discounted equity raising rather than a poor operating result.

During August we added Navitas to the portfolio. Navitas is a provider of pre-university and university pathway programs for domestic and overseas students. It has an outstanding growth profile and generates very strong cashflow. We also subscribed for placements in Sedgman Limited (Dynamic only) and Skilled Group. We exited our investment in Mermaid Marine after a rampant share price drove the scrip past what we perceived was fair value.

Added/Increased	Removed/Decreased

**Outlook**

Equities markets have rebounded strongly in recent months begging the question “where to from here?” Market commentators are polarised on whether this has been a classic bear market rally or the early stages of the next sustained bull market.

Whilst we are not yet prepared to call this a return to the bull market there are several reasons why we are optimistic about the outlook for equities. These include:

The Australian economy continues to slowly strengthen with the latest economic numbers showing Australia’s GDP growing at 0.6% per annum to June quarter 2009

The Reserve Bank of Australia has recently indicated that we are nearing the commencement of an interest rate tightening cycle as the economy recovers.

Operating margins are now at the 1990 recession levels suggesting that the June period will be close to the bottom of the earnings cycle. This provides considerable support for valuations as earnings recover and we emerge from the economic downturn.

Most companies have now recapitalised their balance sheets and have scope to reinvest in growth as the operating environment improves.

Many investors and large industry superannuation funds remain cashed up and are likely to redeploy money into the market as further evidence of eco-

Performers Table	Return	Contrib

**Fund holdings only available to OPIS unitholders**

conomic recovery emerges.

For all these reasons, we believe that now is a good time to be investing in the OC investment funds with our mid cap industrial portfolio highly leveraged to an up-tick in economic activity.

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Approved

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