FUNDS MANAGEMENT

Monthly Fund Update
31 January 2010

Boutique Equities Funds Management
Vision to see opportunity. Freedom to swoop.

Markets start 2010 weaker

Monthly Report

After a strong start to the month of January, equity markets deteriorated markedly with the ASX 200 finishing the month down 6.1%. With little domestic news flow due to the summer holiday period, it was offshore factors which spooked the markets. Sovereign debt issues in Greece, a shift in Chinese monetary policy towards a more restrictive stance and concerns about increased US banking regulations all conspired to drive global equity markets lower.

China's shift away from the extremely stimulative stance adopted in late 2008 was of particular relevance to domestic equity markets given that China remains one of our biggest trading partners and a major driver of our buoyant resources market. Some monetary tightening in China was not unexpected and while it is likely to moderate Chinese growth going forward, we do not believe that a "hard landing" in China is likely.

As is customary during the January pre-reporting "confession season", a number of companies updated the market on their profit expectations. Positive and negative surprises were finely balanced. Upgraded guidance came from Commonwealth Bank, Computershare, Flight Centre, Specialty Fashion and GUD Limited whilst Worley Parsons, Nomad, AJ Lucas, Neptune Marine and Photon Group all disappointed the market with downgrades.

There was very little corporate activity during the month with Bright Food's "highly conditional, non-binding expression of interest" to acquire CSR's sugar unit the only noteworthy announcement on this front.

New domestic economic data was also thin on the ground, although the RBA surprised many on 2nd February by keeping the cash rate on hold. This was a clear signal that policymakers will not be relentlessly tightening policy on a monthly basis, despite strengthening economic conditions. It should be noted, however, that the RBA's policy statement indicated that a tightening bias remains.

The smaller cap OC Premium and OC Dynamic Funds held up relatively well and were down 3.7% and 3.3% respectively versus the Small Industrials Index which was down 5.5%. Pleasingly, the Funds avoided the earnings downgrades that plagued the small industrials universe in January including Nomad, Southern Cross Electrical, Neptune Marine, AJ Lucas and Photon Group.

There was little in the way of stock specific news that impacted our core holdings. Talent2 announced the earnings per share accretive acquisition of Sugar International, a provider of education and training services to organisations across Australia and New Zealand. VMG Group, a Dynamic Fund holding, announced that its first half profit was tracking ahead of analyst forecasts and that it

Performance to 31 January 10*	1 Month	3 Months	6 Months	1 Year	5 Years (p.a.)	Since incep (p.a.)
OC Concentrated	-1.4%	10.5%	39.7%	147.3%	9.7%	10.9%
All Ordinaries Accum	-5.8%	-0.5%	10.3%	38.3%	6.7%	10.5%
OC Dynamic	-3.3%	5.8%	33.2%	82.7%	-1.4%	11.3%
Small Industrials Accum	-5.4%	-2.4%	12.7%	44.8%	-0.3%	4.7%
OC Premium	-3.7%	3.5%	27.1%	73.5%	-1.8%	9.7%
Small Industrials Accum	-5.4%	-2.4%	12.7%	44.8%	-0.3%	4.5%
OC200 Fund	-6.3%	-0.7%	11.3%	37.1%		10.9%
S&P/ASX 200 Accum	-6.2%	-0.9%	9.8%	35.2%		7.4%

had appointed Ken Perry, formerly Chief Executive Officer (CEO) of Brandrill Limited, as its new CEO.

We used the intra month volatility to make a number of changes to our core positions. Navitas was sold towards the end of the month after the share price exceeded our valuation. Navitas has been a stellar performer for the Fund's over the past year but we could not justify the current multiple of 25 x FY11 earnings. McMillan Shakespeare was sold ahead of the release of the Henry Review into the Australian Tax System which may impact significant parts of their business.

New positions were added in Ausenco, Adelaide Brighton and SMS Management. These stocks are high quality mid cap stocks with strong competitive positions and clean balance sheets which had been sold down to attractive entry prices. .

The OC200 Fund performed slightly behind the benchmark ASX 200 index (-6.3% versus -6.2% respectively). Stocks which outperformed during the first month of the year and added to Fund performance included Macquarie Group, Toll Holdings and ASX Ltd. The aforementioned companies all have strong businesses and are benefiting from a rebound in economic conditions. During the month, the materials sector declined by 9.4%, compared with a market decline of 6.2%, and was the worst performing sector in the market. As such, the performance of the Fund was negatively impacted by our holdings in BHP and Rio Tinto and also our position in News Corporation. The OC Concentrated Fund performed solidly in the context of the market weakness falling 1.4% for the month. Both the core and incubation stocks in the portfolio held up well in the market pull-back. We profited from short selling AJ Lucas based on our concerns about the company's cash-flow. The stock fell sharply on the back of a profit downgrade and we have subsequently exited the position (NB: the OC Concentrated Fund is the only OC Fund Management product that may short sell stocks).

Outlook- Reporting season is once again upon us and we remain confident that we are positioned in stocks that will deliver on the markets earnings expectations. Whilst we believe that first half earnings for FY10 ought to represent the bottom of the earnings cycle for many companies, we have been careful to avoid stocks that have been flagging large first half / second half earnings skews. It is widely expected that FY10 earnings will be weighted to the second half of the year for many housing related stocks (eg Crane Group and Alesco), engineering and mining services companies (eg Sedgman and Monadelphous) and recruitment companies (eg Skilled Group and Candle). We have taken a cautious approach ahead of results announcements and would prefer to assess the first half performance and outlook statements of such businesses ahead of making a decision to invest.

The consumer sector has had a very strong second half of calendar year 2009 and we expect most companies in this space to report strong results. Nevertheless expectations are high for these companies going forward and we therefore believe that there is a risk of earnings disappointment into the future as interest rates continue to rise and government stimulus is wound back.

The corporate sector, on the other hand, is coming off a much lower base with earnings at cyclically low levels and analyst expectations subdued. Recent company contact suggests that corporate spending is increasing and we view the sector as a potential source of earnings upgrades going forward. We will be actively looking to add positions in this sector in the coming months.

The forward one year Price / Earnings multiple for the ASX 200 is now approaching historical average at 14.3 x one year forward consensus earnings. This suggests that company valuations, per se, are no longer cheap. Nevertheless we expect that the strong equity returns will be driven by earnings expansion as the global economy emerges from a protracted economic downturn. Analyst forecasts have been re-based at conservative levels and we therefore expect consensus earnings upgrades to drive the Australian equity market higher over the coming 12 to 18 months.

Investment Team	Marketing & Client Services	Contact us
Rob Frost	Sam Cole	P: (03) 9602 3199
Sam Baillieu	Natalie Karras	E: mail@ocfunds.com.au
Rob Calnon		W: www.ocfunds.com.au
James Casey		

* Past performance is not a reliable indicator of future performance. The Total Returns of the OC Funds over specified periods are shown in the above table. This table contains information regarding Total Returns to 31 January 2010. Total Returns are calculated after taking into account performance fees. Where OC Funds generates a return on the OC200 Fund over and above the performance hurdle (S&P/ASX200 Accumulation Index) in a quarter, a performance fee of 10.25% of all profits above this level is charged to the Fund directly. Where OC Funds generates a return on The Premium and Dynamic Funds 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 Funds directly. Where OC Funds generates a return on the Concentrated Fund over and above the performance hurdle of 0% in any financial year (subject to a high water mark) , a performance fee of 10.25% of all profits above this level is charged to the Fund directly. Between 1 July 2004 and 30 June 2009 where OC Funds generated a return on the Concentrated Fund over and above the performance hurdle of 0% in any financial year (subject to a high water mark), a performance fee of 20.5% of all profits above this level was charged to the Fund directly. Before 1 July 2004, performance fees were not paid out of the Funds 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 Funds. 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 Indices do 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.