

Market Closes Higher After Reporting Season

Confidence in the global economy dropped during the month as concerns that worsening sovereign debt issues in some European countries coupled with a slowing Chinese economy would threaten the global recovery. Fortunately the onset of "reporting season" focused investors' attention back onto company fundamentals and, with results on average coming in marginally ahead of consensus forecasts, the All Ordinaries managed to eke out a gain of 1.8% for the month.

One of the key trends from reporting season were weaker sales numbers being offset by lower operating costs and lower net interest costs. Continuing the trend of recent times, company management were typically reticent about providing earnings forecasts or guidance. Nevertheless many noted that the domestic economy had strengthened in recent months and the tone was generally more optimistic than in either the AGM period in November 2009 or at the time of full year results in August 2009.

Consumer staples were the stand out for the month with Wesfarmers up 15.2% and Woolworths up 3.8% after reporting strong first half results. The Banks were mixed with both ANZ and Westpac providing positive trading updates whilst National Australia Bank disappointed, flagging revenue growth to be flat and commenting that several headwinds remained. Materials stocks rallied despite fears that policy tightening in China could weaken demand for raw materials. BHP and RIO rose 4.3% and 4.4% respectively after posting solid results and highlighting that the outlook for bulk commodities (coal and iron ore) remained positive. Toll Holdings posted results well below expectations and ended the month down 20.9%. Key economic indicators continued to improve in February and the RBA

surprised many by keeping rates on hold earlier in the month. Building approvals strengthened further and are now 58% above their lows; jobs growth continued to surprise on the upside with the unemployment rate dipping to 5.3% whilst consumer confidence moderated, although it remains well above the long term averages. The Australian dollar endured a roller-coaster ride, dipping below 86c early in the month as investors sought the safety of the US dollar on European debt concerns before recovering to finish the month higher at 89.6c.

The Funds

The small-mid cap OC Premium and OC Dynamic Funds continued their strong recent performance rising 1.8% and 1.5% for the month versus the Small Ordinaries Accumulation Index which fell 0.5% and the Small Industrials Accumulation Index which rose 0.9%.

Reporting season was positive overall for our core holdings with most companies reporting results in-line or in excess of market expectations. This was pleasing given that we had been careful to position the portfolios into simple domestically focused businesses that have strong balance sheets, solid growth prospects and excellent management.

The Reject Shop once again exceeded analyst expectations with sales up 13% and EBIT increasing 16%. Although the stock trades on a premium multiple, it is less than half way through its store roll-out program which provides a strong medium term growth outlook for the group.

SMS Management, an information technology services company, was added to the core portfolios last month. The company has an

Performance to 28 February 10*	1 Month	3 Months	6 Months	1 Year	5 Years (p.a.)	Since incep (p.a.)
OC Concentrated	2.4%	6.0%	26.9%	154.4%	10.2%	15.4%
All Ordinaries Accum	1.8%	-0.6%	5.4%	47.0%	6.7%	10.7%
OC Dynamic	1.5%	3.5%	21.7%	87.9%	-0.9%	11.3%
Small Industrials Accum	0.9%	-0.5%	4.0%	62.9%	0.5%	4.8%
OC Premium	1.8%	3.5%	18.2%	78.4%	-1.2%	9.8%
Small Industrials Accum	0.9%	-0.5%	4.0%	62.9%	0.5%	4.5%
OC200 Fund	3.0%	0.1%	6.4%	45.8%		11.4%
S&P/ASX 200 Accum	2.2%	-0.6%	5.3%	44.7%		7.7%

excellent growth track record, no debt and increases our exposure to a recovery in corporate spend which we have recently flagged as beginning to increase post the GFC. SMS released a strong result and our meeting with management confirmed that demand is now strengthening and the company is recruiting aggressively to respond a more buoyant market-place.

The Mac Services and Sedgman both re-rated materially as a result of their exposure to capital expenditure in the coal space. Major resource houses including BHP and Xstrata have flagged a significant increase in spending on coal projects in the coming 12 months and Sedgman and The Mac Services, as industry leading services providers to the sector, are well positioned to prosper.

Healthscope was sold following an attempt to enter the aged care space that called into question management's judgment and growth ambitions. Aged care is a notoriously difficult space to add shareholder value and institutional shareholders (rightly in our view) refused to support a capital raising that would have made Healthscope a major player in aged care.

Iress was sold post the result as we do not believe that the stock's single digit earnings growth outlook warrants the 50%+ premium that it commands to the Small Industrials forward earnings multiple, notwithstanding its high quality business model.

The **OC Concentrated Fund** continued its excellent performance, rising 2.4% for the month and taking the 12 month return to a very healthy 154.4%. A number of the core holdings of the **OC Premium** and **OC Dynamic Funds** that are held in the **OC Concentrated Fund** had solid rises post reporting including CSG Group, Mineral Resources and SMS Management. Incubation positions in Global Constructions and Logicamms also reported results exceeding expectations and rose in price. Pleasingly, value was added by short selling AJ Lucas ahead of a profit downgrade after discussions with industry sources indicated that the company was encountering cash flow difficulties in paying employees and key suppliers.

The **OC 200 Fund** again exceeded its benchmark rising 3.0% for

the month. Key overweight positions in News Corporation, Orica and ANZ helped to keep the Fund above the bench-mark ASX 200 return of 2.2%. Seek and SMS Management have been strong performers for the Fund since being added earlier in the month. The key detractor for the month was Macquarie Group which provided an operational update in February expecting its second profit in 2010 to be "broadly in line" with first half of 2010. However, this failed to spur further investor confidence and the stock declined 11% for the month.

Outlook

Despite the on-going global uncertainty, the February reporting season reaffirmed our view that the first half earnings in FY10 will be the bottom of the earnings cycle for many companies. Whist management overall remain cautious in discussing their future prospects, many companies flagged a strong second half of the financial year and commented on improved trading conditions coming into calendar year 2010.

We reiterate our view that the corporate sector remains an attractive space in which to invest with companies coming off a low earnings base and with subdued analyst expectations in the market place. In particular, we flag SMS Management, The Mac Services, Talent Two and Sedgman as having strong leverage to a recovery in corporate spending. Although the retail space may get more difficult with further interest rate rises pending and government stimulus money being wound back, we remain attracted to well managed roll-out stories including JB Hi-Fi and The Reject Shop.

The Australian equity market remains well below its highs of late 2007 and there remains opportunity for disciplined stock pickers to generate strong returns. The ASX 200 is currently trading on a PE of 14.2 x FY10 earnings, marginally below its 10 year average. Market expectations for future earnings have now been re-based to what we believe are conservative levels. In this environment, the well managed, conservatively geared companies that we hold in the Funds ought to generate handsome portfolio returns in the coming 12 to 18 months.

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* 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 28 February 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. This document is for general information purposes only and does not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. As such, before acting on any information contained in this document, recipients should consider the appropriateness of the information to their needs. This may involve seeking advice from a qualified financial adviser. OC Funds (ACN 092 872 056) is the issuer of the OC Premium Equity Fund (ARSN 098 644 976) ('Premium Fund') and the OC Dynamic Equity Fund (ARSN 098 644 681) ('Dynamic Fund'), the OC200 Fund (ARSN 123 963 806) ('OC200 Fund') and the OC Concentrated Fund (ARSN 126 537 424) ('OC Concentrated Fund'). Current PDS's are available from OC Funds, located at Level 33, 360 Collins Street, Melbourne, VIC 3000, (03) 9602 3199. A person should consider the PDS's before deciding whether to acquire or continue to hold an interest in the OC200 Fund, the OC Premium Fund, the OC Dynamic Fund or the OC Concentrated Fund. Any opinions or recommendation contained in this document are subject to change without notice and OC