

Markets Jittery on Renewed Sovereign Debt Concerns

After a positive start to the month, global equity markets were sold off as sovereign debt concerns took the focus away from the ever improving feed of US economic data. Investors took risk off the table after a fresh round of credit downgrades for both Greece and Portugal which saw many of the global stock indices finish the month of April marginally lower.

In the main offshore markets, the resources heavy FTSE 100 was lower for the month at -2.2% and the Nikkei 225 was off -0.3% whilst the US S&P 500 Index bucked the trend to post a gain of +1.5% on encouraging first quarter earnings and improving economic data.

Domestically the All Ordinaries Index hit a post GFC high of 5044.5 before retreating 4.2% in 10 days to finish the month slightly lower.

Resources were hit hard as investors de-risked their portfolio after ratings agency S&P downgraded Greece and Portugal. Also worrying the resource market was the up-coming Henry Review where there was speculation that a resource rent tax would be introduced which would serve to dampen earnings for Australian miners in the years to come. Whilst the bellwether commodities of gold and oil were better for the month, most of the base metals followed the resources stocks lower with copper, zinc and aluminium all off more than 4%. With index heavyweights BHP (-6.5%) and RIO (-8.0%) sharply lower for month it was little surprise the market softened.

The Henry Review and the Federal Government's initial response was released in early May and the market concerns were shown to

be well justified with the government proposing a "Resource Super Profits Tax" of 40%.

Flying in the face of the commodity down draft was coal producer MacArthur Coal which was the subject of a competitive bidding war between offshore players Noble and Peabody. MacArthur finished the month up 10% at \$15.47 and dragged most other coal producers higher as speculation mounted as to who would become the next takeover target in the coal space.

The Telco (Telstra) and Banks (switching out of resources) sectors outperformed for the month whilst Consumer Staples, Information Technology and Materials sectors were all down between 3-4% for the period.

In domestic economic news, CPI inflation was slightly higher than expected in the March quarter at 0.9% quarter-on-quarter driven by strong price rises for vegetables, pork and petrol. Softening conditions in the retail sector and a continued high AUD meant that clothing and furniture prices weakened.

With inflation risk now on the upside and looking likely to break through the RBA's upper 3% band in the near term, further rate rises seem likely. Reinforcing this view is the continued strength in the housing market which the RBA has flagged as being of a concern. We expect the RBA to raise rates at its next sitting on May 4 and may well follow on with more rate rises in the coming months.

OC Premium Equity Fund

The OC Premium Equity Fund continued to perform strongly, finishing the month up 1.8% well ahead of both the Small Industrial Accumula-

Performance to 30 April 2010	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since incep (p.a.)
OC Concentrated	0.6%	6.8%	18.7%	104.4%	5.2%	13.2%	15.7%
All Ordinaries Accum	-1.2%	6.5%	6.0%	34.2%	-3.7%	8.6%	11.1%
OC Dynamic	1.7%	9.2%	15.5%	69.7%	-12.8%	2.3%	12.0%
Small Industrials Accum	-0.2%	4.1%	1.6%	35.4%	-13.1%	2.5%	5.1%
OC Premium	1.8%	10.1%	14.0%	61.6%	-12.9%	1.9%	10.6%
Small Industrials Accum	-0.2%	4.1%	1.6%	35.4%	-13.1%	2.5%	4.8%
OC200 Fund	-2.4%	5.9%	5.1%	33.4%	-0.2%		11.6%
S&P/ASX 200 Accum	-1.4%	6.5%	5.6%	32.4%	-3.8%		8.4%

tion Index and the All Ordinaries Accumulation Index which were down -0.2% and -1.2% respectively.

The Fund's strong performance for the financial year to date (up 50.3%) has been driven by two equally important factors. Firstly a very strong performance from our core holdings led by CSG Group, Mineral Resources, Automotive Holdings and IOOF. And, just as importantly, we have thus far avoided almost all of the stock specific downgrades which have impacted on the small-to-mid cap industrial space. We have been diligent in screening our stock universe for sectors and companies where analysts and fund managers have been building in expectations of an earnings improvement ahead of tangible evidence that activity has picked up (for example housing). These stocks are particularly susceptible to earnings disappointments which can hurt portfolio performance.

CSG Group continues to be a strong performer for all of the OC Fund's portfolios rising another 15% for the month. We have long held the view that the company's long-term contracts and high percentage of recurring income has been under-appreciated by the market. Management has recently presented at a number of investor conferences and conducted an "Investor Day" at Macquarie Bank with all senior management present. The market has subsequently gained a greater appreciation of the quality of the business and the stock has re-rated. Despite this, we believe that the stock remains an attractive investment proposition given its strong growth outlook and is priced on an attractive multiple of 10.5x FY11 earnings.

Hastie Group also rose strongly following an investor day in both Sydney and Melbourne which toured a number of the company's major projects. Hastie presents us with an interesting conundrum as investors. Whilst the outlook for the business into FY11 and beyond is no doubt strengthening we believe there is a high likelihood the company will miss its FY10 earnings guidance, albeit by a small percentage. As investors, we try to avoid holding companies that we believe are "cum an earnings downgrade". However, in this case, we believe that the prospect of a small earnings downgrade to existing company guidance is already priced into Hastie stock price as it is widely expected by analysts and investors. Notwithstanding this, the company remains cheap (FY10 PE multiple of 9x and a fully franked yield of 6%) given that these are likely to be bottom of the cycle earnings for the company.

The Fund added to its positions in Campbell Brothers, IOOF and took new positions in Select Harvest and Miclyn Express. It reduced its exposure to holdings in Carsales.com, Kathmandu, Adelaide Brighton Cement and SMS after strong share price performance.

OC Dynamic Equity Fund

The OC Dynamic Equity Fund performed roughly in-line with the Premium Fund rising 1.7% for the month of April. The Fund is now up 56.9% for the 2010 financial year. Its outperformance over the OC Premium has been driven by its more aggressive investment mandate or, more specifically, the success of a number of its short-term trading positions. The core investment positions of the OC Premium and Dynamic Fund remain the same.

The Fund's slight under-performance for the month was driven by a pull-back in the Virgin Blue share price on concerns that the full year earnings may not be as buoyant as first expected. In the March quarterly we highlighted the fact that we didn't expect that Virgin Blue would become a "core holding" of the Funds given the increasing uncertainty about the operating environment. We sold our position in Virgin Blue having made a very healthy return of 100% on our initial investment.

OC Concentrated Fund

The OC Concentrated Fund finished the month up 0.6%, a credible return in a down market. The key performers for the month were two of our fundamental holdings mentioned in the OC Premium Equity Fund review, namely CSG Group and Mineral Resources and other core holdings such as Kathmandu. The fundamental section of the OC Concentrated Fund holds our best six to eight core stock ideas from the OC Premium and Dynamic Fund's at slightly higher weightings.

Po Valley Energy, one of the Fund's trading positions, was sold after it released a surprise downgrade to its reserve base and was discounted heavily by the market.

The Concentrated Fund has strict stop-loss limits imposed on all trading positions to ensure that downside losses on any one position are limited to a maximum of 0.75% of the Fund's capital. We believe that this is a strong risk management discipline to maintain on more speculative trading stocks where volatility can be high and a fundamental valuation is often difficult to ascertain.

Losses on the Po Valley position were partially offset by gains made in stocks such as CSL (short position) and CBH (competitive takeover).

OC 200 Fund

The OC 200 Fund had a disappointing month finishing April down -2.4% versus the ASX 200 Accumulation Index down -1.4%. The Fund is up +26% for the financial year and remains ahead of its benchmark (+25.6%).

The main area of underperformance in the month was in the Telco sector, (where the Fund has nil exposure), which was up 5.6% for the month. With Telstra being the major component of this sector we have made a conscious decision not to be invested in this name due to the political uncertainty surrounding it and the Federal Government's NBN agenda. Telstra bounced 6.5% off its lows at the start of the month to be one of the best performing stocks (outside of M&A activity) in the ASX 200 Index for the month and this contributed to the Fund's relative underperformance for the month.

The other primary stock contributing to underperformance during the month was Lihir Gold which ran very hard on the scrip bid from Newcrest. The Fund had a holding in Newcrest, and not Lihir, because we preferred Newcrest's management team and its diversified resource base. Obviously holding the higher quality stock in this instance has not served us well but we will certainly not be changing our stock selection process due to one off events such as these.

Outlook

In recent weeks, equity markets have been jittery as investors take risk off the table until the sovereign debt issues in Europe are resolved. It is clear from Greece's experience thus far that sovereign bailouts are far more complicated than bank bailouts. More sophisticated negotiations involve an extra layer of diplomacy which makes them more difficult to accomplish.

Whilst Greece and Portugal are only very small from a global economic point of view (2.9% and 1.9% of Euro GDP respectively) they nevertheless matter as European banks hold a lot of Greek and Portuguese debt. European banks, unlike Australian banks, have not come close to dealing with their issues and remain highly leveraged. The worst case scenario is a follow on banking and credit crisis stemming from the European banks should inter-bank lending freeze again as world banks lose their trust in each other. It is far more likely that a bail-out package will be orchestrated by the Euro zone members, lead by Germany and France, in conjunction with the IMF, who have too much to lose by letting the crisis deepen.

Should the European sovereign concerns be resolved, we see significant upside in the equity market from these levels. There is increasing evidence that the US economy is emerging from a protracted economic downturn and the Australian economic outlook remains buoyant.

In the short term the domestic market will be focused on the Henry Review and its implications for Australian companies and investors.

Following the recent pull-back, the ASX 200 is now trading below its average 12 month forward PE multiple of 14.5x. We expect equities to perform strongly over the balance of the 2010 calendar year, despite some near term volatility which will persist until the European sovereign debt issue are contained.

OC Funds Management acquires Patriot Managed Accounts

OC Funds Management is pleased to announce the acquisition of Patriot Managed Accounts.

Patriot Managed Accounts is an independent licensed investment manager specialising in the management of discreet Australian share portfolios, otherwise known as Individually Managed Accounts, for wholesale investors.

The Principal of Patriot Managed Accounts, Stephen Sedgman, will join the OC Funds Management Investment Team along with Portfolio Manager Stephen Evans. Stephen Sedgman brings with him 35 years plus investment experience and proven top level performance through many different investment cycles.

OC Funds Management Chairman Charles Baillieu said "This is an exciting step for OC Funds Management and confirms our commitment to grow the services we offer to our clients. Stephen Sedgman is a highly respected fund manager and we welcome his expertise on our investment team".

Stephen Sedgman of Patriot Managed Accounts added, "OC Funds Management is a strong cultural and strategic fit for our business and brings a number of synergies that will benefit all of our clients".

The acquisition significantly enhances OC Fund Management's investment capabilities beyond its four equity funds (Premium, Dynamic, Concentrated and 200 funds) to now include Individual Managed Accounts and Separately Management Accounts.

Mr Baillieu concluded "We are leveraging the proven investment skills of the OC team and adding depth of experience as we welcome Stephen Sedgman and Stephen Evans to our team. I'm sure our clients will enjoy significant benefits from additional boutique services and a broader perspective on the markets".

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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 30 April 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