FUNDS MANAGEMENT

Monthly Fund Update
31 May 2010

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

Global Markets Sell Off In May

The month of May saw capital markets hit by continuing sovereign debt issues in the Eurozone and the Federal Government's clumsy proposal for a Resource Super Profits Tax on Australian based mining operations. These factors had a negative impact on markets and played out against a backdrop of concerns regarding a cooling Chinese economy and a massive oil spill in the Gulf of Mexico. All of this combined to further dampen investors' appetite for risk during May and we saw markets lower across the board.

In the primary offshore markets, the FTSE 100 was down 6.6% for the month and in the US, the S&P 500 was off 8.2%. In Japan, the Nikkei 225 was amongst the worst of the global bellwether indices, off some 11.7% for the month.

Domestically, the All Ordinaries Index continued its downward trend that commenced in mid March finishing May 7.7% lower. It is noted that this was its worst month since the depths of the GFC in October 2008.

As mentioned earlier, the Resources sector (-6.2%) grabbed headlines with its campaign against the proposed Resource Super Profits Tax. But slipping under the radar somewhat was the banks (-12.2%) interim reporting season. Lacklustre earnings and concerns around capital adequacy and ongoing access to debt markets saw the banks one of the worst performing sectors for the month.

At a stock level, the month was characterised by profit warnings (Virgin Blue, Sonic Healthcare, Ausenco) and M&A activity, particularly at the small-mid cap end of the market (Healthscope, Sigma, Dexion, Wattyl).

In economic news, the RBA raised the cash rate a further 25 basis points to 4.50% at the start of the month, its sixth hike in seven meetings. Evidence is mounting that these rate hikes have had the desired effect with recent retail data showing signs of dampening consumer demand (and its concurrent impact on inflation). We expect the RBA to take a wait and see approach on interest rates in the near term, especially with a federal election looming.

The decline in the Australian markets was perhaps exacerbated by offshore investors exiting as the Australian dollar tumbled some 8.2% against the US dollar during the month, settling in the mid to lows US$0.80c range.

OC Premium Equity Fund

After a strong run of performance, the OC Premium Equity Fund finished the month down 10.2% versus the Small Industrials Accumulation Index and the All Ordinaries Accumulation Index which were down 8.0% and 7.6% respectively. The Fund performance remains well ahead of the Small Industrials Accumulation Index over a one year period, up 40.1% versus 22%.

Small cap stocks were sold down across the board as investors sought the safety of cash against the backdrop of the Eurozone sovereign debt crisis. As such, many of our core holdings fell around 10%, mostly on thin trading volumes. The news wasn't all bad for OC Funds with a number of our portfolio holdings reporting positive news flow. The market volatility also allowed us to get set in some stocks we have had on our radar over period of time.

CSG Group announced a highly earnings per share accretive acquisi-

Performance to 31 May 2010	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since incep (p.a.)
OC Concentrated	-8.9%	-4.7%	0.6%	67.5%	0.3%	11.8%	13.8%
All Ordinaries Accum	-7.6%	-3.3%	-3.9%	21.4%	-7.2%	6.2%	9.6%
OC Dynamic	-10.3%	-3.5%	-0.1%	47.2%	-17.0%	0.5%	10.6%
Small Industrials Accum	-8.0%	-5.1%	-5.6%	22.0%	-16.6%	0.1%	4.1%
OC Premium	-10.2%	-3.0%	0.4%	40.1%	-17.1%	0.0%	9.2%
Small Industrials Accum	-8.0%	-5.1%	-5.6%	22.0%	-16.6%	0.1%	3.8%
OC200 Fund	-7.6%	-5.0%	-4.9%	22.0%	-4.0%		9.7%
S&P/ASX 200 Accum	-7.5%	-3.5%	-4.1%	20.8%	-7.1%		6.6%

tion and confirmed that it had re-signed material contracts with the NT Government including the provision of desktop and server services and network management for the next 3 years. CSG has entered into a dealership agreement with Canon Australia to become a Canon multi-function device (MFD) dealer in Sydney, Melbourne, Canberra, Adelaide and Perth. As part of the new agreements, CSG has also acquired sub-contractor rights over an existing Canon portfolio of 10,500 MFD's. The Canon dealerships rights are expected to add ~$75m to sales and ~$15m to EBITDA implying that acquisition was made on a very low FY11 EBITDA multiple of 2 times. CSG funded the acquisition through an institutional placement at $1.90 to which OC Funds subscribed. The stock is trading on an attractive FY11 PE Multiple of 9 times which is a 20% discount to the Small Industrials Index. We expect that this gap will narrow as the acquisition is bedded down and earnings materialise. We believe that the earnings risk is relatively low given that ~85% of the EBIT is contracted.

Adelaide Brighton, a leading cement and lime supplier, upgraded its FY10 earnings outlook at the Macquarie Securities Conference in early May and this was later reaffirmed at the 2010 AGM in late May. The Fund benefitted as the stock rallied on the news.

On a disappointing note, Fantastic Furniture released an earnings downgrade during the month and the stock was sold off heavily. We have spoken at length in recent months about the tough retail trading environment and have taken steps to minimise the Fund's exposure to this space. We incorrectly forecast that Fantastic's rapid store roll-out and low price points would help offset the tough trading conditions. While there is no evidence of a structural decline across the company's five brands, we have nevertheless reduced our holding.

During the month we reduced our exposure to the mining services space, including trimming positions in Sedgman, Mineral Resources and Boart Longyear, following a 3 day research trip to Perth. We are concerned that the proposed Resource Super Profits Tax will delay some projects and lead to cancellations which will impact sector earnings.

We increased our position in Realestate.com on price weakness given that it is a high quality and resilient business model. We reinitiated a position in Healthscope after private equity announced a bid for the company. The stock has subsequently rallied after two further parties have subsequently lodged competing takeover proposals. The stock is trading at a material discount to the indicative bids and we are confident of a positive outcome.

OC Dynamic Equity Fund

The OC Dynamic Equity Fund finished the month roughly in-line with the Premium Fund, down a disappointing 10.3%. Given the extreme market volatility and negative sentiment trading, activity was kept to a minimum during the month. The Funds' performance is still well ahead of the Small Industrials Accumulation Index over a one year period, up 47.2% versus 22%.

We exited our position in litigation funder IMF after the share price spiked following an announcement that it would fund a class action by bank customers for repayment of exception fees deducted from their accounts over the past six years by local and foreign banks. Whilst the action has significant potential, the wide publicity garnered by the announcement saw the share price temporarily spike above our valuation and we sold down our position.

OC Concentrated Equity Fund

The OC Concentrated Fund finished the month down 8.9% but still remains up 67.5% over the past year. The Fund's core positions and incubation positions came under pressure as the market de-rated. We exited our core position in Katmandu on concerns about the retail trading environment and added to our position in CSG Group following the Canon acquisition and associated capital raising.

Pleasingly, the Fund's incubation position in Wattyl (a paint and surface coating company) benefited from a takeover proposal and a profit upgrade during the month. We have reduced our position into the strength of the bid given that the share price of Wattyl is trading very close to the indicative non-binding offer of $1.30 per share.

The Fund also benefitted from holding short positions in Rio Tinto and Pacific Brands during the month as each of these stocks had sharp downward movements associated with sector specific issues.

We exited a number of our smaller trading positions during the month as reduced investor risk appetite and low liquidity is likely to see share prices subdued in micro cap stocks in the near term.

OC 200 Fund

The OC 200 Fund performed in line with the All Ordinaries Accumulation Index for the period, falling some 7.6% for the month, and remains ahead of the index for the financial year to date.

The Fund's outperformance due to its underweight positions in the Materials and Energy sectors was cancelled out somewhat by underperformance experienced due to its overweight position in the Financial sector.

Overall, we are comfortable the Fund is reasonably defensively weighted going into year end and look forward to continued outperformance in the year ahead.

Outlook

The proposed Resource Super Profits Tax has seen a flood of capital leave the Australian equity markets as exasperated foreign investors have ditched their Australian investments amidst talk of sovereign risk concerns associated with Rudd's government. For overseas investors in Australia, matters were further exacerbated by a 8.2% decline in the Australian Dollar versus the US Dollar.

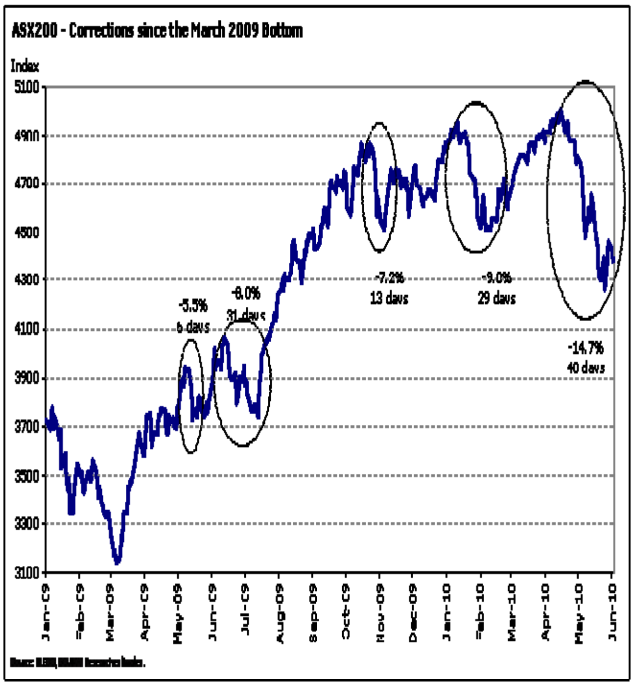
Our view is that the Rudd government's policy is fundamentally flawed and has the potential to seriously impact future growth in this country should it be implemented in its current form. There are around 270 major resource projects undergoing feasibility studies and financing with a capital value of in excess of $300 billion. These projects would potentially employ around 120,000 people in the construction phase. Xstrata has already stopped work on $6.6 billion worth of projects in Queensland citing "sovereign risk issues" and saying the tax was the main reason for shelving the projects. We agree with Future Fund Chairman David Murray who says that the tax should be abandoned if it is not substantially changed.

The recent equity market sell-off saw the All Ordinaries Index fall 14.7% from the highs reached back in March. It is the biggest correction since the market rally began in March 2009. The pull-back has provided us with the opportunity to get set in a number of quality stocks including names such as Realestate.com.

European sovereign debt problems have overshadowed a raft of positive economic news emerging from the US over the past month. The domestic economy remains buoyant although there is mounting evidence that households have now crossed the interest rate pain threshold with retail sales soft and signs that the housing market is starting to cool.

We will remain vigilant over the coming weeks on company earnings as we enter the "earning confession season" where companies are prone to warn that company guidance or consensus forecasts are too high. Recent contact with company management and industry contacts has reinforced our confidence in our own earnings forecasts for stocks in the OC Funds' portfolios.

It is our opinion that consensus earnings forecasts for FY11 of 20%+ EPS growth across the market are too high. We expect this number to be revised downward in the coming months. Notwithstanding this, the Australian equities market still remains attractively priced. The ASX 200 is trading on 11.6x forward earnings which is 20% below its 10 year average.



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	Deborah Amphlett	W: www.ocfunds.com.au
Stephen Sedgman		
Stephen Evans		

* 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 31May 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