

Monthly Fund Update

31 May 2011

Market Volatility Continues



OC Premium Equity Fund

The OC Premium Equity Fund was down 2.2% in May, slightly more than both the Small Industrials Accumulation Index and the Small Ordinaries Accumulation Index which were each down 1.9%. The negative month was largely attributable to a broader sell off in global equities markets rather than anything stock specific impacting the portfolio. The Fund is up 25.1% for FY11, which is well ahead of the Small industrials Accumulation Index which is up 17.8%.

Cash Converters was down 17% for the month following a series of articles in the Australian Financial Review highlighting the regulatory risks surrounding pay-day lending and the potential for legislation to be introduced that will impose interest rate caps. Such legislation could impact Cash Converters MONE payday lending business that is forecast to contribute around 35% of FY12 EBIT. Regulatory noise is unlikely to ever go away given the emotive issues involved and the Cash Converters share price can often react to these distractions. The Federal Government commenced a review process several years ago with a view to implementing a nationally consistent consumer credit framework and we expect the Government to formalise its proposals in the next six months. A similar review has recently been undertaken in the UK and the regulatory authority concluded that price controls or interest rate caps were not in the interests of consumers.

Cash Converters recently received a proportional takeover from its largest shareholder EZCORP. The transaction is via a scheme of arrangement whereby

EZCORP will acquire 30% of all other shareholders' shares, if approved, at \$0.91. If one assumes that the deal proceeds, then the current share price (\$0.685) implies a post transaction share price of \$0.59. This would further imply a FY12 PE multiple of 7.2x which looks cheap, barring an extremely negative regulatory outcome which we think is unlikely.

Automotive Holdings finished the month down 14% after being impacted by two key events, namely:

- The supply issues brought about by the Japanese earthquake and tsunami and;
- A discounted equity raising of \$83m to fund the acquisition of Coventry Group's WA automotive parts division and Harris Refrigerated Transport Group.

The Japanese earthquake has caused supply disruptions to a number of Automotive Holdings key manufacturers including Toyota, Mitsubishi and Mazda who will be forced to cut production in the coming months. This has led to consensus earnings downgrades to FY11 forecasts which has in turn impacted the share price. We believe that the two acquisitions are strategically sensible and the capital raising gives the company the funding capacity to make further earnings per share accretive acquisitions in the automotive space in the new financial year. The company looks cheap trading on a FY12 PE multiple of 8x and a fully franked yield of 8.5%.

OC Performance	1 Mth	3 Mths	6 Mths	1 Yr	3 Yrs (p.a)	5 Yrs (p.a)	Since Incep	Since Incept
OC Premium Equity Fund	-2.2%	-1.6%	7.8%	22.8%	1.4%	-2.4%	10.4%	183.0%
S&P/ASX Small Inds Accum	-1.9%	-1.6%	3.9%	11.9%	-4.4%	-1.9%	4.6%	59.7%
Added Value	-0.3%	0.0%	3.9%	10.9%	5.8%	-0.5%	5.8%	123.3%
OC Dynamic Equity Fund	-2.7%	-3.0%	8.2%	23.3%	1.5%	-1.5%	11.8%	219.4%
S&P/ASX Small Inds Accum	-1.9%	-1.6%	3.9%	11.9%	-4.4%	-1.9%	4.8%	63.5%
Added Value	-0.8%	-1.4%	4.3%	11.4%	5.9%	0.4%	7.0%	155.9%
OC Concentrated Equity Fund	-2.3%	-3.9%	7.0%	32.6%	24.0%	13.0%	16.2%	207.7%
S&P/ASX All Ords Accum	-1.9%	-1.8%	4.2%	11.9%	-1.9%	3.5%	9.9%	103.7%
Added Value	-0.4%	-2.1%	2.8%	20.7%	25.9%	9.5%	6.3%	104.0%

Fund Inception Dates: OC Premium Equity Fund 08/12/2000. OC Dynamic Equity Fund 20/12/2000. OC Concentrated Equity Fund 30/11/2003.



OC Premium Equity Fund Continued

On a positive front, we have increased our holding in engineering services company **Ausenco** which announced a number of contract wins during the month and re-rated accordingly. We have made a significant amount of money in Ausenco since the company listed in June 2006. In our view, the key metrics to track for the company are the utilisation level of billable staff, the average rates per billable staff member and the overall employee numbers. Recent contact with management confirms that all key metrics have been tracking in the right direction and given the strong fixed cost leverage in the business this augers well for earnings in the coming years.

OC Dynamic Equity Fund

The OC Dynamic Equity Fund finished the month down 2.7%. It is now up 26.4% for the financial year.

The Fund finished the month slightly behind the Premium Equity Fund largely due to a 6% pull back in the share price of both **Allmine Group** and **Mastermyne Group**. Both of these companies are exposed to the mining services sector which pulled-back across the board during the month as commodity prices weakened. Neither Allmine or Mastermyne suffered from company specific issues and we remain up-beat on their prospects going forward.

The share price of **Maryborough Sugar** (also an Emerging Leaders position) softened slightly (-3%) during the month as a falling sugar price and a lower crop estimate impacted operations. We retain a high conviction that Maryborough Sugar is "in-play" following further corporate activity in the space after fellow Queensland sugar concerns Prosperpine Sugar Co-op and Tully Sugar Limited received bids during the month. Interestingly, global sugar giant Mitr Pohl is rumoured to have crept to beyond its previously announced 19.9% shareholding in recent days and is widely expected to make a full bid for the company in the coming months.

OC Concentrated Equity Fund

The OC Concentrated Equity Fund finished May slightly behind the All Ordinaries Accumulation Index, down 2.3% versus the Index down 1.9%. The Fund is now up 35.1% for FY11, well ahead of the All Ordinaries Accumulation Index which is up 14.9%.

The strength of the Fund's performance numbers versus its peers was highlighted in the recently released Barclay Managed Funds Report, Volume 24, number 2, in which the OC Concentrated Equity Fund ranked #8 globally in Equity Long Biased Funds based on three year performance numbers. Given that this report monitors over 6,000 active funds we are proud of these performance numbers and our position on this global league table. For more information please refer to the OC Funds Management website (www.ocfunds.com.au).

In the Core Fundamental section of the Fund, the positive share price performance of **Mineral Resources, M2 Telecommunications, Service Stream** and **Ausdrill** was offset by 10%+ pull-back in both **CSG Group** and Automotive Holdings.

In the Emerging Leaders section **Reva Medical**, a medical devices company, fell 15% after a delay of a month in commencing a pilot study. We recently met with the high calibre management and are unconcerned about the delay which was due to factors outside of management's control (delays from a component supplier). A number of other Emerging Leaders positions softened around 5% including **Bravura Solutions, Allmine Group, G8 Education** and **Finbar Group**.

The Alpha Plus section of the Concentrated Fund was impacted by the performance of several small mining stocks, namely **Indophil Resources, Rum Jungle Resources** and **Latin Resources**. These stocks all fell by around 10% for the month and are in the process of being sold from the portfolio. On a positive note, we took a placement in **Central Asia Resources** which closed the month 57% above its issue price.



Outlook

Over the last 12 months we have flagged three global macro issues that have continued to weigh on equity markets; namely sovereign debt concerns in Europe, the prospect of a material slow-down in Chinese growth and the possibility of a US double dip recession. All three remain real issues which continue to impact investor confidence and they remain a key focus for our Risk Management Committee. The rate of recovery in the US appears to have slowed and the housing market has come under renewed pressure, raising the prospect of a much feared US "double dip" recession. We will be watching closely to assess the impact the end of the latest round of quantitative easing has on the US economy and whether the US Federal Reserve implements a further round of quantitative easing (QE III) to support the fragile economy.

On the domestic front, the property market continues to soften, albeit off a very high base, and consumer confidence remains fragile. The market had been on edge that the Reserve Bank of Australia may raise interest rates in the coming months which would be extremely negative for both the overall economy and ordinary Australians. This fear was somewhat allayed on June 7 when the RBA left rates on hold and the underlying tone of the text accompanying the decision was undoubtedly dovish, both in terms

of the global and domestic environment. Rates now appear to be on hold for several months, if not longer, which is a definite positive for both the economy and equity markets.

We are now entering "earnings confession season" a period during which listed companies whose results are going to be materially different from either guidance or analyst consensus (in the absence of explicit guidance) are obliged to inform the ASX of the revised earnings expectation. We have been vigilant in recent weeks to catch up with all of our core holdings and remain confident that they will report solid results for FY11 and announce earnings outlooks at least in-line with market expectations. Furthermore, our portfolio managers are travelling interstate several times in coming weeks to visit many of our stocks prior to the end of the financial year. Overall, we are confident of a solid August reporting season from our investments which ought to translate into strong portfolio returns for our investors.

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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 31 May 2011. Total Returns are calculated after taking into account performance fees. 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'), 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 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 Funds is under no obligation to update or keep any information contained in this document current. OC Funds holds AFSL no.229316.