Monthly Fund Update

30 November 2011

Euro-zone Leads Market Lower

FUNDS MANAGEMENT

OC Premium Equity Fund

Following a strong bounce in October, the Australian equity market was again weak in November as Euro-zone debt issues continued to weigh on investor sentiment. The OC Premium Equity Fund finished the month down 3.1%, slightly better than the Small Industrials Accumulation Index which fell 3.2% and the Small Ordinaries Accumulation Index which fell 3.7%.

Spotless Group was up 14% during the month after its board agreed to engage with its previously spurned indicative bidder, Pacific Equity Partners. The private equity firm originally lobbed a conditional bid at $2.62 but has agreed to improve its bid to the tune of $0.05 in return for access to certain due diligence information. We still believe this one has further to play out and we continue to hold the position, although we have lightened our holding into the share price strength.

Maryborough Sugar Factory (MSF) was also the beneficiary of corporate interest during the month, fielding a takeover bid at a +30% premium from major shareholder, Mitr Pohl. It is pleasing to see the value of MSF's assets finally being recognised. Quality Australian sugar assets are in short supply and high demand with domestic players Sucrogen, Tully and Proserpine all having been acquired by global players in recent times. We expect a number of offshore players, including Chinese giant, COFCO, will look very closely at MSF in the coming months and we are holding the position in anticipation of further corporate activity.

The Fund took advantage of a management sell down in **Macmillan Shakespeare** at $8.45 and the stock finished the month some 3% higher. We have long admired Macmillan's strong salary packaging/leasing business model and took the opportunity to re-establish our position in the stock through this liquidity event.

SMS Management & Technology (SMX) disappointed the market during the month and finished 15% softer. Market expectations across the IT services space have been tempered after project delays from major government and corporate clients leading to a revision in growth expectations. In particular, SMX has suffered from a lack of spending from the NSW government, post the election, which has impacted utilisation rates and margins. This has more than offset market share gain in other states. We continue to see the business as a market leader and are comfortable holding it at these rebased levels.

IOOF weakened with the softer equity market to finish 12% lower in November. A meeting with management confirmed that our longer term investment thesis remains intact, although IOOF has a tendency to track the equity markets and is suffering from the weak markets of recent months.

OC Performance	1 Mth	3 Mths	6 Mths	1 Yr	3 Yrs (p.a)	5 Yrs (p.a)	Since Incep (p.a)	Since Incept
OC Premium Equity Fund	-3.1%	-4.3%	-12.3%	-5.6%	19.6%	-7.2%	8.6%	147.9%
S&P/ASX Small Inds Accum	-3.2%	-4.5%	-9.9%	-6.4%	10.5%	-6.9%	3.4%	43.9%
Added Value	0.1%	0.2%	-2.4%	0.8%	9.1%	-0.3%	5.2%	104.0%
OC Dynamic Equity Fund	-2.8%	-4.8%	-13.8%	-6.9%	21.0%	-7.0%	9.7%	174.8%
S&P/ASX Small Inds Accum	-3.2%	-4.5%	-9.9%	-6.4%	10.5%	-6.9%	3.6%	47.3%
Added Value	0.4%	-0.3%	-3.9%	-0.5%	10.5%	-0.1%	6.1%	127.5%
OC Concentrated Equity Fund	-1.4%	-3.8%	-15.5%	-9.7%	37.9%	6.0%	12.7%	159.7%
S&P/ASX All Ords Accum	-3.4%	-3.0%	-10.4%	-6.6%	9.0%	-1.1%	7.8%	82.6%
Added Value	2.0%	-0.8%	-5.1%	-3.1%	28.9%	7.1%	4.9%	77.1%

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 Dynamic Equity Fund

The OC Dynamic Equity Fund finished the month down 2.9%, slightly ahead of the OC Premium Equity Fund. Pleasingly, the Fund's holding in mining services company **Allmine** bounced 20%+ during the month following the acquisition of the 50% of Construction Industries Australia that it did not already own and on confirmation that its earnings guidance for FY12 was on track. We met with several layers of Allmine management during the month and the stock continues to appeal at these levels.

OC Concentrated Equity Fund

The OC Concentrated Equity Fund outperformed the market by 2.0% during November, falling 1.4% versus the All Ordinaries Accumulation Index which dropped 3.4%. The Fund benefitted from positions in the likes of Spotless Group, Allmine and Maryborough Sugar Factory (mentioned above) but failed to finish in positive territory due to other positions moving lower in line with the market.

The Fund also gained some ground with a position in African iron ore developer, **African Iron**. The stock finished the month up 12% and continues to rally further on the back of a solid resource upgrade and in anticipation of corporate activity, particularly around major shareholder, Cape Lambert and its 25% stake.

Outlook

Global equity markets continue to gyrate around the fortunes of the Euro-zone as its leaders slowly move toward an ultimate resolution of the sovereign debt crisis. Last weekend's EU summit went a long way toward forging the closer economic ties needed to prevent a future debt crisis but there remains some scepticism that such long term steps could solve the current crisis. Critically, however, 26 of 27 EU member states have backed a tax and budget pact to tackle the current situation (although the UK has said it will not join in). In so doing, Europe has taken a major step towards closer integration with binding rules over tax and spending, and automatic sanctions against countries that overspend. It is pleasing to see that the European leaders are finally showing that they may have the political fortitude to make the very tough decisions necessary to solve the current crisis.

The US economy continues to show signs of life with US consumer spending having picked up again in recent months. In real terms, retail sales rose 0.6% in October and have recovered 14% from the lows to be within reach of their 2007 highs. Furthermore, store sales following the recent Thanksgiving holiday were "incredibly strong" according to the National Retail Federation and are estimated to have expanded by 6.6% from the previous year. Pleasingly, the US continues to show signs that it will avoid the double dip recession predicted by many economic commentators.

In further positive news, a larger than expected drop in China's inflation rate to 4.2% has given the government room to ease fiscal policy in order to bolster growth against a backdrop of falling property prices and slowing demand for Chinese exports. Fighting inflation has clearly been Beijing's top economic policy this year and with easing inflationary pressures, policymakers will have greater scope to restimulate the economy. This is a huge positive for the Australian domestic economy as our equity market is inextricably linked to the fortunes of China given our strong trade relationships.

On a domestic front, sentiment continues to be poor, especially on the eastern seaboard where a falling housing market and weak retail environment continue to impact. The RBA has lowered rates in both November and December bringing the cash rate down to 4.25% providing some much needed respite to the consumer and households in the lead up to Christmas.

In stark contrast, our trip to Western Australia last week, where we visited 36 companies in our investment universe in just four days, confirmed a very bullish outlook for capital expenditure and mining in Australia over the medium term. The project pipeline, particularly for mining services companies, remains extremely robust. This was perhaps best enunciated by the well regarded Managing Director of the market leading **Monadelphous Group**, Rob Velletri, who described the 12 month outlook for mining services as being "white hot". Indeed, the consistent theme from our meetings was that capacity constraints (namely insufficient labour) or a major unanticipated global shock were the only potential impediments to a multi-year boom that will provide a massive boost to the Australian economy.

Equity markets continue to price in extremely dire outcomes that we believe are ultimately unlikely to come to fruition. The ASX 200 Index is currently trading on a 12 month PE of 11.4 x forward earnings, over 20% below its 10 year average. Notwithstanding the global macro issues and domestic challenges, we believe that the attractive pricing of many of the high quality stocks in our portfolio will reward investors with strong returns over the medium term.

Investment Team
Rob Frost
Rob Calnon
Sam Baillieu
Stephen Sedgman
Stephen Evans

Marketing & Client Services
Sam Cole
Antony Blazey
Iain Mason
Natalie Karras
Deborah Amphlett

Contact us
P (03) 9602 3199
E mail@ocfunds.com.au
W www.ocfunds.com.au

OC FUNDS MANAGEMENT

* 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 November 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.