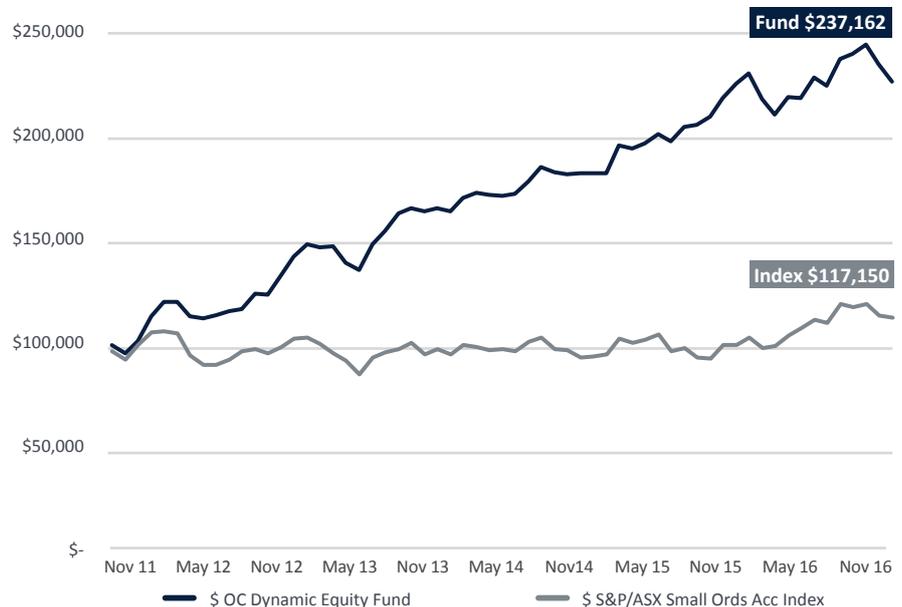


 Fund down 3.8% for the November period  
**-3.8%**

 Returned 11.9% p.a. for the past three years  
**11.9%**

 We remain confident the Fund will continue to deliver attractive long-term returns

### Performance comparison of \$100,000 over 5 years\*



### Total returns

At 30 November 2016	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Incep. % p.a. (Dec 2000)
OC Dynamic	-3.8	-5.8	0.3	11.9	18.9	14.1	5.2	12.5
S&P/ASX Small Ords Accum	-1.2	-4.4	13.5	5.9	3.2	1.8	-0.2	5.4
<b>Outperformance</b>	<b>-2.6</b>	<b>-1.4</b>	<b>-13.2</b>	<b>6.0</b>	<b>15.7</b>	<b>12.3</b>	<b>5.4</b>	<b>7.1</b>
S&P/ASX Small Ind Accum	-1.1	-5.6	6.1	7.3	11.5	7.3	1.9	6.0
<b>Outperformance</b>	<b>-2.7</b>	<b>-0.2</b>	<b>-5.8</b>	<b>4.5</b>	<b>7.5</b>	<b>6.8</b>	<b>3.3</b>	<b>6.5</b>

### Performance review

The OC Dynamic Equity Fund had a challenging November following the US presidential elections. The Fund finished the month down 3.8%, behind both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which were down 1.2% and 1.1%, respectively. The underperformance of the Fund versus the index was driven by two broad factors: first, sector rotation following the US election that resulted in a number of small-cap growth stocks owned by the Fund being heavily sold down as large-cap banks and miners received renewed buying interest and second, a number of disappointing earnings updates from Fund holdings which resulted in poor share price performance.

**The a2 Milk Company (A2M, +36.0%)** - released a strong AGM update with sales for the first four months of FY17 up 96% providing further evidence the company is continuing to build a substantial, premium milk business. A2M is executing well in the challenging Chinese market where demand growth in direct and cross boarder e-commerce (CBEC) trade reflects growing awareness of both the a2 Platinum infant formula brand and the

a2 Milk brand. Indeed, 'Singles Day' volumes in China were double last year's levels across A2M's top four e-commerce platforms. A2M's Chinese FDA infant formula registration process seems to be tracking to plan with registration required by 1 January 2018. A2M's Australian and New Zealand businesses are continuing with their solid growth and the US and UK businesses are both showing encouraging signs.

**APN Outdoor (APO, +12.4%)** - released a positive trading update in November which caused the stock to re-rate. At the time of the August profit downgrade when we exited the stock, management conceded to us that it was too early to tell if the recent sales decline would impact the key September to November sales period. In the following months, we have continued to meet with key industry contacts as well as management of all three listed outdoor players. It became clear the election/Olympic lull was short-lived and that industry conditions had rebounded strongly in the following months. In addition, our channel checks clarified that static billboard rate declines had stabilised, the APO NZ business was improving under new management and, importantly, large-format digital screen demand was robust across

the industry. Based on our revised earnings forecast and operational risk assessment, the stock was back in 'buy' territory and we re-initiated a position in the company in October. Several weeks later, the company upgraded its earnings forecasts (roughly back to the levels expected prior to the previous downgrade). We continue to hold the company which stacks up well on risk/return metrics. Ongoing channel checks suggest it has finished the year strongly and has solid forward orders.

Australia's premier fruit and vegetable grower **Costa Group (CGC, +10.5%)**, provided a strong trading update at its AGM during the month and the share price re-rated accordingly. Costa is Australia's largest grower, packer and marketer of fresh fruit and vegetables and is the leading producer of tomatoes, mushrooms and berries (and a close second largest in citrus). Costa's competitive position is underpinned by significant market share in its primary categories, its extensive plant breeding programs, the capital intensity of horticulture and vertical integration with full sales and marketing capabilities. Costa also has offshore growth opportunities through its operations in China and Morocco. Costa upgraded its earnings growth forecast at the AGM to "at least 15%" which was ahead of market expectations and we remain comfortable with our CGC holding.

**CSG Group (CSV, -44.9%)** - guided to a weaker FY17 result driven by several factors that are expected to see FY17 EBITDA in the range of \$38-\$42m versus the \$44m-\$48m guidance provided in August. The factors include an ongoing decline in print services margins due to declines in both volume and price, particularly in New Zealand, and a mix shift towards enterprise solutions which has a lower gross margin. Compounding this, the unexpected sale of the Samsung print division to HP has meant CSV incurred a significant margin hit offloading consumables held in inventory to avoid product obsolescence. The Fund sold down its position post the downgrade.

Long-term holding **Vocus Communications (VOC, -27.0%)** released earnings guidance below market expectations (FY17 EBITDA \$430-\$450m versus consensus EBITDA \$470m) at its AGM in November. The weaker guidance was largely driven by customer losses in the recently acquired NextGen business, some repricing of existing customers at lower margins and the loss of a \$17m fibre build contract. The AGM release included improved disclosure from the company, particularly on the profitability per subscriber in an NBN world versus the old DSL network. While this was in line with our expectations, the one-off cost of migrating customers from the existing copper network onto the NBN (currently estimated at \$125/subscriber) was above our expectations. The downgrade has weighed heavily on the VOC share price in a market that has a low tolerance for earnings

disappointments. We believe the PE multiple of 13x FY17 underestimates the opportunity in the core corporate business and the quality of assets across the VOC business and we remain shareholders of the company.

**Apiam Animal Health (AHX, -20.7%)** - traded lower during the month as it revealed in its AGM commentary that a near-perfect storm of circumstances led to a weak first quarter of trading which would impact on H1 earnings. In its dairy cattle business for instance, the low farm gate milk price combined with attractive beef prices, saw dairy farmers aggressively cull their herds in July/August leading to reduced demand for veterinary services from Apiam vets. There were similar exogenous factors impacting on demand for veterinary services in the beef feedlot and piggery businesses which combined to materially subdue Q1 earnings. Channel checks, industry data and our company visit in late November have given us confidence that these circumstances have not persisted and that normal trading has resumed. For instance, dairy farmers commenced restocking herds in September/October and Apiam vets are back in the field servicing these animals in line with normal trading. Apiam has a number of initiatives, including some smaller acquisitions that are coming to fruition over the next six to 12 months which should see FY17 earnings not far below original prospectus forecasts despite the Q1 dip, and we remain comfortable with the business.

## Outlook

In early December, the September quarter domestic GDP data was released showing an unexpected 0.5% contraction in real GDP which saw the annualised rate slow to 1.8% (from 3.1% year-on-year). This highlights the fragile state of the Australian economy which continues to transition after the mining boom. The elevated number of negative earnings revisions released by listed companies in October and November, which has continued into December, is tangible evidence that real pain is being felt in the boardrooms of corporate Australia.

The uncertainty brought about by the July Federal election may well have been a factor in deferring investment spending with both business and dwelling investment particularly weak and net exports detracting from growth for a second consecutive quarter. Despite the weak GDP print, the RBA remained on hold at its November and December meetings with the cash rate remaining at 1.5%. The November board minutes suggest GDP growth is expected to pick up across the economy following a year-end flat spot.

We remain cautious on the housing sector with looming over-supply, particularly in the apartment market, and we remain cautious on companies exposed to the housing

market over the coming years (property developers, mortgage brokers etc.).

From a sovereign risk perspective, it seems only a matter of time before Australia loses its AAA credit rating as the budget deficit continues to increase which would likely lessen the attractiveness of our debt to international investors.

In contrast, the US economy continues to expand at a solid rate. Employment growth is increasing at a moderate pace (unemployment is below 5%), housing construction is strengthening and non-residential construction continues to rise thanks to private sector activity. President-elect Trump has a policy platform that appears to be market friendly and ought to be supportive of growth in the US economy. Key Trump policies include:

- tax reform, including reducing the corporate tax rate
- fiscal stimulus, including infrastructure spending
- healthcare reform, promising sweeping changes to Obama-care, and
- unilateral international trade reform, possibly indicating more protectionist policies (this would be a negative).

With the US economy seemingly on track, the US Federal Reserve will raise rates sooner rather than later, with a December rate increase a near certainty. On balance, Trump's economic policies look to be inflationary which have had a dramatic impact on global bond markets over the past month or so.

Historically, the start of a Fed rate tightening cycle has not been a drag on equities, and the relative attractiveness of equities over bonds coupled with the unwinding of low-growth/low-inflation positions, should be supportive of solid equity market returns. Our portfolio is substantially underweight most bond-sensitive sectors, such as REITs, utilities and infrastructure, which may continue to come under pressure over the medium term as US interest rates start to rise.

While the valuation differential between value stocks and low volatility, bond-sensitive stocks and long-duration growth stocks has narrowed, this thematic may continue to play out in the coming months. Fund holdings, including **Millennium Group** and **Integral Diagnostics**, considered to be 'value stocks' have been recent beneficiaries of this thematic shift.

With Christmas approaching, we would like to take this opportunity thank our clients for their support through what has been a challenging 2016. Despite the recent volatility, we remain confident the Fund will continue to deliver attractive long-term returns.

We wish you all the best for the festive season and a safe holiday period.

### Top 5 holdings<sup>#</sup>

Company	ASX code
APN Outdoor Group Ltd	APO
Bapcor Ltd	BAP
Blue Sky Alternative Investments Ltd	BLA
Mineral Resources Limited	MIN
Webjet Limited	WEB

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\* The performance comparison of \$100,000 over 5 years is for illustrative purposes only. All returns shown are based on Australian dollar figures. Past performance is not a reliable indicator of future performance. The total returns shown are prepared on an ongoing basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the S&P/ASX Small Ordinaries Accumulation Index is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index. There is no guarantee these objectives will be met.

# The top 5 portfolio holdings are in alphabetical order and may not be representative of current or future investments. The securities listed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

Past performance is not a reliable indicator of future performance. The total return performance figures quoted are historical, calculated using end-of-month mid prices and do not allow for 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 OC Dynamic Equity Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns. Total returns are calculated after taking into account performance fees. Where OC Funds Management generates a return on the OC Dynamic Equity Fund 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 Fund directly. 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 reader. As such, before acting on any information contained in this article, readers should consider the appropriateness of the information to their needs. This may involve seeking advice from a qualified financial adviser. Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) is the issuer of the OC Dynamic Equity Fund (ARSN 098 644 681). A current PDS is available from Copia located at Level 25, 360 Collins Street, Melbourne Vic 3000, by visiting [ocfunds.copiapartners.com.au](http://ocfunds.copiapartners.com.au) or by calling 1800 442 129 (free call). A person should consider the PDS before deciding whether to acquire or continue to hold an interest in the Fund. Any opinions or recommendation contained in this document are subject to change without notice and Copia is under no obligation to update or keep any information contained in this document current.