FUNDS MANAGEMENT

OC Dynamic Equity Fund

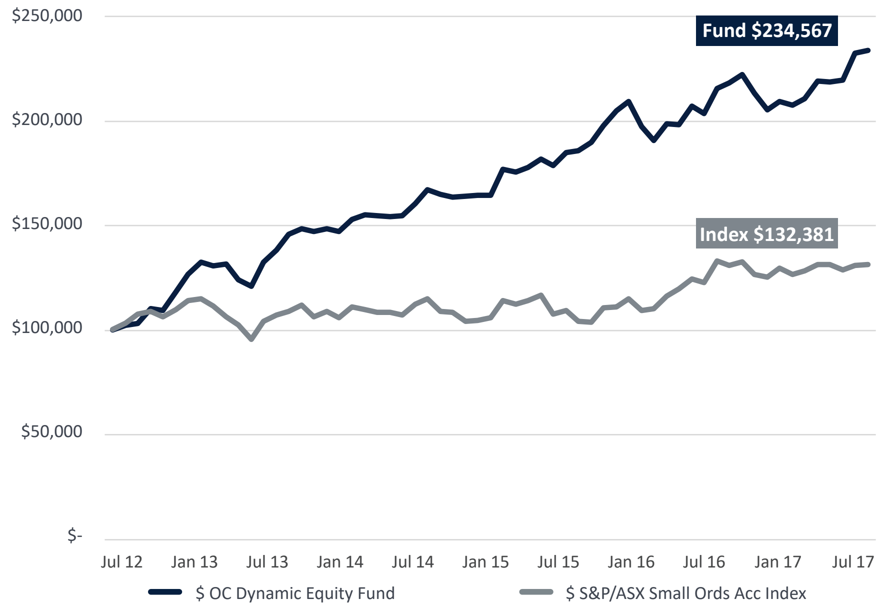
Fund Update | 31 July 2017

0.7% Fund up 0.7% for the month of July

18.7% Returned 18.7% p.a. for the past five years

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

Performance comparison of $100,000 over 5 years*



Total returns

At 31 July 2017	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	0.7	7.1	8.5	13.5	18.7	16.0	4.8	12.7
S&P/ASX Small Ords Accum	0.3	0.2	-1.1	5.6	5.8	3.2	-1.7	5.5
Outperformance	**0.4**	**6.9**	**9.6**	**7.9**	**12.9**	**12.8**	**6.5**	**7.2**
S&P/ASX Small Ind Accum	-0.2	-0.7	-0.6	7.7	11.0	9.1	0.7	6.1
Outperformance	**0.9**	**7.8**	**9.1**	**5.8**	**7.7**	**6.9**	**4.1**	**6.6**

Performance review

The OC Dynamic Equity Fund finished the month +0.6%, ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which were +0.3% and -0.2% respectively, for the month.

The a2 Milk Company (A2M, +10.1%) – had another strong month in July with several brokers initiating coverage or upgrading earnings forecasts post the positive trading update delivered in mid-June. The strong trading performance for the company into the end of the financial year implies a higher run-rate for the start of the current FY18 year with forward forecasts increasing as a result. Additionally, A2M appears to have been successful in passing through price increases in its infant formula products. These price rises were put through at a time when A2M raw material costs were increasing with the aim of alleviating the potential margin impact; but we now see these same raw material cost impacts subsiding and so there is the potential for increased margins for A2M in the near-term.

Fletcher Building (FBU, -10.0%) – fell after the announcement of increased provisions for losses in the New Zealand construction division, a write-down to the Australian businesses and the departure of the CEO. While the poor performance of the Australian businesses isn't new, writing it down implies reduced confidence in the attempted turnaround. Further provisioning for the NZ construction arm was a surprise however, and calls into question the ability of management of this division to assess how projects are tracking and ensure designs don't materially change after budgets have been set. On the back of the downgrade, without a CEO, and with a loss of confidence in the broader management team, we have exited this position.

Hansen Technologies (HSN -5.7%) – was under pressure in July following an equity placement at a discount to the prevailing share price to fund the acquisition of Enoro for just under $100m. Enoro is the Nordic market-leading provider of Customer Information Systems and Meter Data Management systems for the energy sector. HSN management know the Enoro business well having followed it for many years and the acquisition is expected to be earnings-per-share accretive in FY18. While the positive news of an accretive acquisition would ordinarily offset the dilution from any equity raise, HSN also took the opportunity to advise the market re FY17 trading, which was slightly below broker estimates, and this earnings update was the likely reason for the share price weakness. Longer-term we see HSN as being able to continue solid grow, both organically and by acquisition, and have retained our position in the name.

Webjet (WEB -6.7%) – share price moved lower late in the month when it was revealed the company had fallen into dispute with its auditors, BDO, regarding the accounting treatment of its recent transaction with Thomas Cook. Despite signing off on the accounting treatment of transaction at the preparation of the interim accounts in December 2016, BDO has since changed its mind and no longer agrees with the position adopted by WEB. The WEB position in relation to the matter has been reviewed and signed off by "two big four accounting firms" and we take comfort in this given industry leaders are willing to validate WEB's treatment as reasonable. As a result of this dispute, BDO will likely qualify the FY17 financial statements of WEB which is never a good look. While this may attract some attention, we will continue to focus on the cashflow and normalised earnings of the business. On our analysis, WEB remains a quality growth company and it remains one of our top five portfolio holdings.

Zenitas Healthcare (ZNT, +23.5%) – announced two acquisitions during the month, which progresses their strategy of becoming a provider of primary care medical centres, home care facilities and allied health clinics. These businesses will provide ZNT with an increased opportunity to access further revenue and cross refer home care and allied health services into new service channels. ZNT is a community-based healthcare operator providing integrated in-home and in-the-community healthcare services and clinics specialising in the allied health and primary care segments. ZNT listed on the ASX earlier in CY17 and reaffirmed FY17 prospectus forecasts during the month. ZNT is an Emerging Leaders position for the Fund, being a smaller company we expect to grow strongly over the medium term.

Outlook

The long-term outlook for the Australian economy remains largely unchanged although the RBA did modestly downgrade its near-term growth outlook in its August Statement on Monetary Policy. Capacity utilisation and business conditions are improving slightly while the higher Australian dollar is having a negative impact on the terms of trade. A further increase in the Australian dollar could put greater pressure on economic growth, although we don't see this as a particularly likely scenario.

While employment continues to trend higher and interest rates remain low, the low growth in real wages and high consumer debt levels are likely to continue to constrain consumer spending. As a result, the inflation outlook also remains benign with some pressure from tobacco and energy prices offset by more competition in the retail sector which is causing pricing pressure in that space.

In the US, the three primary equity market indices, being the DOW, the S&P500 and the Nasdaq, each topped all-time highs during the month of July. US equities were supported by a strong quarterly earnings season, as well as an increasing oil price and persistently subdued sovereign bond yields. Further support was leant to equities when the Federal Reserve unanimously decided against raising interest rates in July with the market taking encouragement from the Fed's Beige Book which showed "activity expanded across all 12 Federal Reserve Districts in June, with the pace of growth ranging from slight to moderate".

Strength in the world's largest economy seems to be occurring in spite of, and not because of, the political machinations in Washington. The euphoria of the 'Trump bump' market rally from earlier in the year has subsided with the present, chaotic administration unable to pass even some of the most partisan pieces of legislation (such as the repeal of Obamacare) or implement key planks of election policy (such as tax reform) in a timely or effective manner. But US equity markets are rallying which would indicate there is some genuine strength in the underlying economy.

From a stock-specific perspective, there has been limited news flow in July as most companies are in blackout in the lead-up to the August reporting season. We look forward to the results of our companies being released in the coming weeks and will report our conclusions to our investors in September.

Top 5 holdings[#]

Company	ASX code
Bapcor Limited	BAP
Blue Sky Limited	BLA
Speedcast International Ltd	SDA
Updater Inc	UPD
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 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.