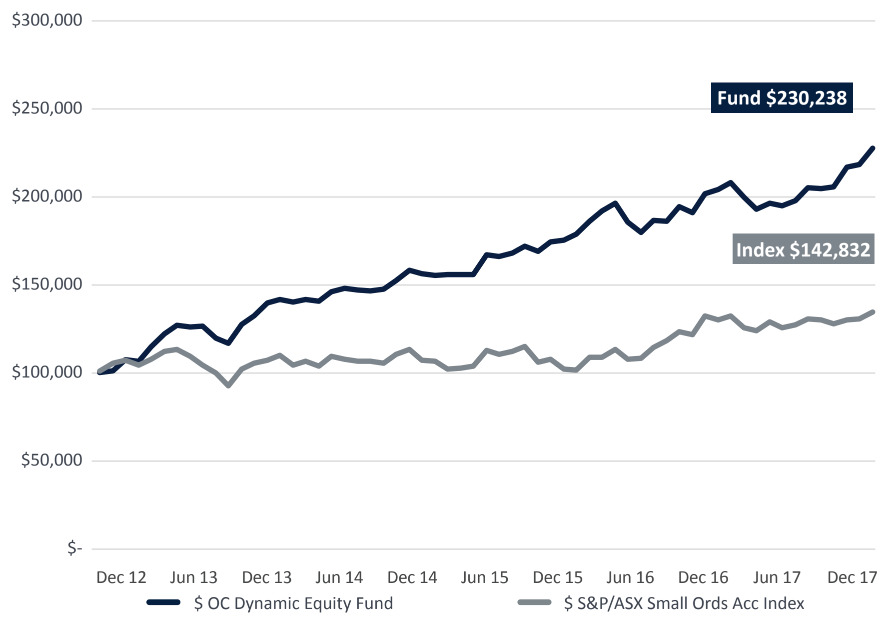
9.4% Fund up 9.4% for the quarter

18.3% Returned 18.3% 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 December 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 | 4.3 | 9.4 | 29.8 | 18.3 | 18.2 | 15.4 | 7.1 | 13.5 |
| S&P/ASX Small Ords Accum | 3.2 | 13.7 | 20.0 | 14.4 | 7.4 | 2.6 | 0.0 | 6.4 |
| **Outperformance** | **1.1** | **-4.3** | **9.7** | **4.0** | **10.8** | **12.8** | **7.1** | **7.1** |
| S&P/ASX Small Ind Accum | 1.6 | 10.6 | 15.7 | 12.2 | 11.5 | 9.2 | 2.6 | 6.8 |
| **Outperformance** | **2.8** | **-1.1** | **14.1** | **6.1** | **6.7** | **6.3** | **4.5** | **6.7** |

## Performance review

Domestic small-cap equities continued to perform well in the December quarter with commodity stocks doing much of the heavy lifting. The 25.4% increase in the S&P/ASX Small Resources Accumulation Index during the December quarter underpinned a 13.7% increase in the broader S&P/ASX Small Ordinaries Accumulation Index over the same period. Whilst the Fund struggled to keep pace with the Index, largely due to its aversion to investing in single commodity or single mine resource stocks, it nevertheless returned a credible +9.4% for the December quarter.

From an investment strategy perspective, it has been a challenging 12 months for the investment team given that our least preferred equity market conditions have been prevalent for much of the year. Namely a resources bull market (the Small Resources Accumulation Index was up 37.9% for CY17) coupled with a broader "risk-on" environment where speculative stocks (many of which are screened out of our investment process) have, overall, performed strongly.

Against this back-drop we are pleased to have finished the calendar year with a return of +29.8% which was well ahead of the S&P/ASX Small Ordinaries Accumulation Index (+20.0%) and the S&P/ASX Small Industrial Accumulation Index (+15.7%).

Several of the Funds better performing stocks in the months of October and November continued their momentum into December including **Appen Limited**, **NextDC Limited**, **Speedcast** and **Blue Sky Limited**.

**Appen Limited (APX, +59.5%)** – in late November the speech and search technology company operating in the field of artificial intelligence announced the earnings-accretive acquisition of Leapforce, a US-based competitor, for US$80m. Leapforce, like APX's content relevance division, specialises in search relevance through a highly automated and proprietary end-to-end technology platform. The deal makes compelling strategic sense as the businesses are highly complementary and will further diversify APX's customer base. Leapforce has a well-regarded technology platform that is scalable and will be implemented across APX, which ought to improve efficiency and ultimately reduce cost. APX's 400,000 on-demand global crowd of contractors will benefit from the addition of Leapforce's own crowd numbering around 800,000. At a time of rapid industry growth, the Leapforce acquisition ought to provide scale and a base load of worker supply for the growth opportunities that lie ahead. The acquisition is expected to deliver at least 35% underlying EPS accretion on a FY17 pro forma basis (pre-synergies, transaction costs and share-based payments) and the growth outlook for the combined entity continues to strengthen. We subscribed for stock in the placement undertaken to fund the deal and APX remains a core holding in the Fund.

**NextDC (NXT, +37.6%)** – the leading independent data centre operator in Australia continued to perform strongly during the quarter on the back of both the structural tailwinds from the ever-increasing use of data and cloud adoption and also from positive operational updates. In late December, NXT announced that it is continuing to see strong demand across its national footprint and that it is in "advanced negotiations in relation to further large customer opportunities that have the potential to result in a significant increase in the Company's contracted utilisation base". Management also disclosed that its new Sydney facility (S2), which is currently under development, has already secured orders for more than 5MW of capacity and that it expects to finish FY19 with 10 megawatts of built capacity, ahead of consensus expectations. NXT remains one of our preferred plays on the digital economy with the explosive growth in data usage likely to continue for some years to come and the business being very well placed to leverage its competitive position and grow shareholder value.

**Speedcast International (SDA, +34.7%)** - performed well during the quarter as it announced a number of business development wins and as the market became more comfortable with an improving outlook for the Energy Division driven by a buoyant industry backdrop. Speedcast is a provider of end-to-end remote communications and IT solutions utilising a network of satellites/teleports to ensure connectivity for a global customer base operating in industries such as offshore oil rigs and maritime shipping (including cargo and cruise ships). We visited the SDA Energy business in Houston during our recent tour of the US and from our meeting it became apparent the business has stabilised after challenging recent conditions on the back of depressed oil prices. The business has now booked three quarters of consistent service revenue and, combined with an improving macro environment (oil price ~ US$60, increased offshore drilling tendering activity), we have renewed confidence that the division can return to organic growth in CY18. SDA appears to have timed the recent acquisition of Harris Caprock in the energy space to perfection with green shoots starting to appear across the sector. On top of this renewed optimism in the Energy Division, SDA announced a number of other business developments, including:

- multi-year contract with the Australian Government's Antarctic Research Stations providing remote communication services
- partnership with the US Government in response to the Puerto Rican hurricane relief efforts, and
- strategic alliance with the European-based, market-leading marine IT and communications business, SRH Marine.

These developments further demonstrate SDA's global reach and capability and we believe SDA is well positioned to achieve solid organic growth across each of its energy, maritime, enterprise and emerging markets and government divisions in the coming years.

**Blue Sky Alternative Investments Limited (BLA, +32.2%)** – continued to re-rate during the quarter following an excellent FY17 result that came in at the top end of their guidance range and a positive announcement regarding Assets under Management (AUM) late in the quarter. BLA had been largely under the radar of institutional investors but has become much better understood as a result of improved disclosure from management and a vastly increased market profile thanks to its rapidly growing assets under management and strong investment performance. In late November, Rob Calnon, a member of the investment team, visited both of the assets of the Cove Property JV in New York and also met with the impressive US Student Accommodation management team. Around the same time, we also attended the BLA investor day in Brisbane where we caught up with most of the key business executives of BLA as well as meeting with several of the key operational managers of assets in which BLA has an equity investments.

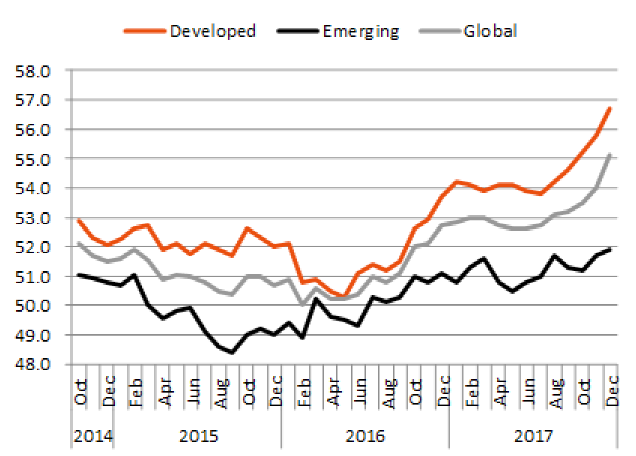
In late December, BLA announced that it had secured a large (undisclosed amount) mandate with Public Sector Pension Investment Plan (PSP), one of Canada's largest pension investment managers. Under the agreement PSP will work with BLA's real asset team to deploy the capital over a multi-year period. Given the size and calibre of PSP, this is a major boost to BLA's credibility given the extensive due diligence that would have been conducted prior to the award of this mandate. BLA now anticipates that fee-earning AUM at 30 June 2018 will be toward the upper end of previous guidance of between $4.0-$4.5b.

**PolyNovo (PNV, +85.7%)** – performed well during the quarter as a number of material announcements reminded the market of the potential value of PNV's key NovoSorb product. PNV is an Australian based medical device company that designs, develops and manufactures a unique bio-resorbable polymer for use in human tissue engineering. The PNV technology was developed by the CSIRO in the 1990s and has a number of applications including reconstructive surgery and repair in areas such as wounds, burns, cardiovascular, orthopaedic and periodontal. The investment team first met with PNV in September, participating in a capital raising at $0.26cps, and has since conducted a site visit to its Port Melbourne head office and manufacturing facility. PNV is approved and currently selling its product in the US, Australia and South Africa and is looking at other expansion opportunities in Europe, with sales in that jurisdiction anticipated later this calendar year. We believe PNV has unique competitive advantage over other human tissue trauma repair products and repeat orders from US customers are an early validation of our hypothesis. Furthermore, PNV has been identified by the US Government agency, Biomedical Advanced Research and Development Authority (BARDA), which is responsible for preparing the US homeland for mass disaster management, as a potential supplier of strategic medical device stockpiles and is currently receiving research funding from BARDA to assist with further product development. PNV product sales are extremely high margin against a very low unit cost. PNV fits into our portfolio as a "Concept" stock and we believe it is at an inflection point after a long period of product development; we look forward to the next 12 months of its growth.

## Outlook

The Australian equity market has once again benefited from the so-called 'Santa Rally' in December, with the market trading strongly into the end of the year. Markets are forward looking, so part of the 2017 gains reflect widespread optimism about 2018 and from a macro-economic perspective there appears plenty to be upbeat about.

After years of accommodative monetary policy from central banks, developed nations are currently experiencing synchronised global economic growth for the first time in over a decade and the number of economies currently in recession is the lowest on record. Manufacturing Purchasing Manager Indices (PMI), which are typically a leading indicator of economic activity, accelerated further in the December quarter. They continue to show synchronised acceleration in manufacturing activity around the globe.




*Source: Shaw and Partners, Factset. Note Dec 2017 are Shaw and Partners estimates based on country PMIs*

We are yet to see a price response from either labour markets (higher wages) or capital (producer prices) and inflation overall looks to be well contained in the near-term.

In the US, the current cycle appears to have plenty of legs with corporate earnings continuing to surprise on the upside and the US private sector (driven by households) still running a cash-flow surplus as we enter the ninth year of economic expansion. US tax reform should be a catalyst for improved US earnings and has been a key driver of recent market optimism.

In China, growth is being underpinned by increased spending on infrastructure and property construction which, in turn, is fuelling commodity price rises which is good for both resource companies and Australia's national accounts. In a sign of increased global optimism, the IMF recently upgraded its global growth forecast for the first time in six years.

We are carefully monitoring how central banks approach their monetary policy settings as 'cheap liquidity' has been a major driver of asset valuations, including equities. At the US Federal Reserve's recent meeting in mid-December, where rates were raised by a quarter percentage point, most participants reiterated their support for "continuing a gradual approach to raising the target range" for the benchmark policy rate.

We continue to see central banks gradually unwinding their QE programs and reducing the size of their balance sheets over the medium term, although we do not expect them to raise rates rapidly in the short term, which ought to be supportive of equity markets.

Conditions in the domestic economy remain more balanced although recent economic data has certainly had a more positive bias. Non-mining business investment remains robust and the labour market is strengthening, although the lack of real wages growth and high consumer debt levels are constraining consumer spending.

A soft household sector, ongoing low growth in wages, inflation below trend and concerns about the persistent Australian dollar strength are preventing the RBA (which kept the cash rate at 1.5% at its December meeting) from joining a growing offshore central bank shift toward interest rate normalisation.

December housing market data reinforced our view that the east coast housing market appears to have peaked, particularly in Sydney, with out-of-cycle rate hikes and macro-prudential tightening finally starting to impact. Home values in Sydney fell 0.9% last month which dragged the national average into negative territory (-0.3%). We expect east coast housing prices to continue to moderate in the coming year as more supply comes onto the market and buyers find it tougher to get finance. Our portfolio has limited direct exposure to the domestic housing market at present.

The RBA's confidence in a non-mining investment recovery appears to have strengthened recently which corresponds with our view that east coast infrastructure spend will increase significantly over the coming few years, particularly in areas such as road, rail, transport, telecommunications and renewable energy. The outlook for mining capex has also improved, with project-related activity having bounced off its lows and lead indicators, such as heavy equipment sales and utilisation levels, also improving. Our portfolio has ample exposure to both of these thematics heading into the new year.

It has been a busy quarter for the investment team which has mostly been spent out of the office either locally, interstate or overseas visiting the management of fund holdings, conducting site visits or undertaking due diligence on potential new investments.

January provides some welcome respite as we enter the blackout period for companies with either June 30 or December 31 financial year ends. This effectively means that communication from companies to investors is limited to non-financial matters until the release of results in February.

We would like to thank our investors for their ongoing support throughout 2017 and wish you all the best for a prosperous new year. We enter the new year confident our stocks are performing well operationally and that we can continue to deliver strong long-term returns for our investors.

## Top 5 holdings[#]

| Company | ASX code |
|---|---|
| Appen Limited | APX |
| Bapcor Limited | BAP |
| Bingo Industries Ltd | BIN |
| Speedcast International Ltd | SDA |
| Webjet Limited | WEB |

## CONTACT COPIA

1800 442 129 | clientservices@copiapartners.com.au | copiapartners.com.au

| | | |
|---|---|---|
| **John Clothier** | General Manager, Distribution | 0408 488 549 \| jclothier@copiapartners.com.au |
| **Adam Tweedale** | State Manager, Southern Region | 0425 804 727 \| atweedale@copiapartners.com.au |
| **Angela Vincent** | State Manager, Northern Region | 0477 347 260 \| avincent@copiapartners.com.au |
| **Sean Paul McGoldrick** | Account Manager, Northern Region | 0421 050 370 \| spmcgoldrick@copiapartners.com.au |
| **Iain Mason** | Director, Institutional Business | 0412 137 424 \| imason@copiapartners.com.au |
| **Jacinta King** | Business Development Associate | 0413 962 922 \| jking@copiapartners.com.au |


* 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.