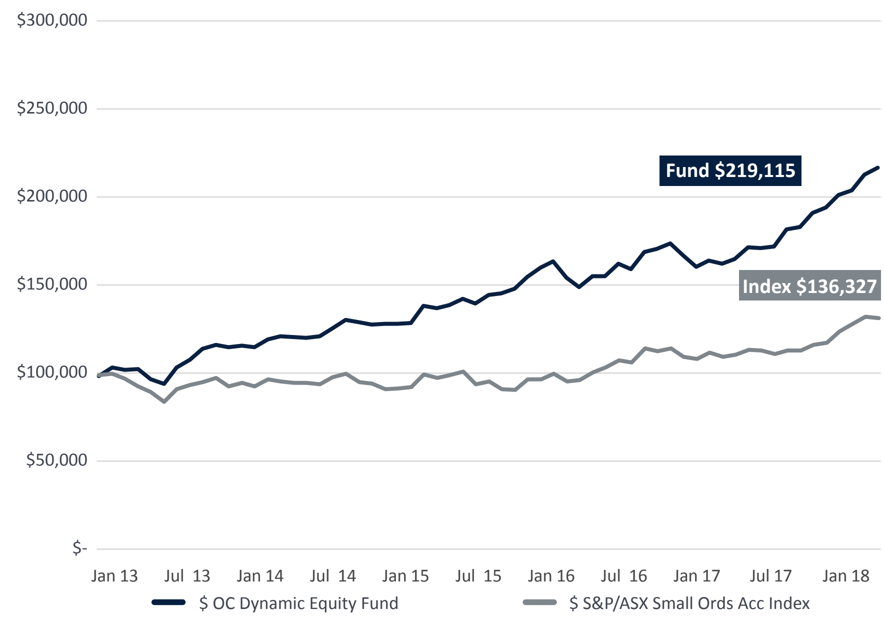
1.9% Fund up 1.9% for the month

17.1% Returned 17.1% 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 January 2018	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	1.9	7.7	33.5	19.1	17.1	15.6	10.0	13.6
S&P/ASX Small Ords Accum	-0.5	6.6	22.4	13.8	6.4	2.8	1.5	6.4
Outperformance	**2.5**	**1.0**	**11.1**	**5.2**	**10.7**	**12.7**	**8.5**	**7.2**
S&P/ASX Small Ind Accum	-0.4	4.0	19.8	11.9	10.0	9.0	4.4	6.7
Outperformance	**2.3**	**3.7**	**13.7**	**7.1**	**7.1**	**6.5**	**5.6**	**6.9**

Performance review

The OC Dynamic Equity Fund had a solid start to the new calendar year finishing the month up 1.9%. This was comfortably ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which were down 0.5% and 0.4% respectively over the month of January.

Continuing the trend of recent months, there was further corporate activity in the small cap space with Cleanaway bidding for listed peer Tox Free Solutions and Sirtex Medical receiving a bid from US giant Varian Medical Systems. Whilst the Fund had not been a beneficiary of any recent M&A transactions, we are pleased to confirm that we held a small position in Sirtex Medical at the time of the takeover bid.

Company specific news flow was limited in January ahead of the February reporting season, with many market participants on holidays during the month and companies in “black-out” ahead of releasing their results. Reporting season has now kicked off and we are comfortable that our holdings will deliver solid results over the course of the month.

Sirtex Medical (SRX, +66.2%) - is an Australian based company with an approved cancer treatment manufactured and supplied on a global basis. SRX’s main commercialised product is a targeted radioactive treatment for liver cancer called SIR-Spheres® Y-90 resin microspheres. The stock was added to the portfolio in December after a “deep dive” into the financials convinced us that the cost out opportunity ought to see the company deliver a H1 FY18 earnings result materially ahead of consensus expectations. Fortunately, that thesis was proven correct sooner than we had anticipated when the company upgraded its earnings forecast for the full year in mid-January.

In a further positive development later in the month, SRX announced that it had entered into a binding Scheme Implementation Deed with Varian Medical Systems (Varian) under which it is proposed that Varian will acquire 100% of the issued capital in Sirtex by way of a Scheme of Arrangement for A$28.00 per share in cash. The board of SRX disclosed that it had received several unsolicited, credible approaches to acquire the business in recent months and had consequently run a process to extract the best possible bid for shareholders. Clearly the Varian bid is a great outcome for shareholders, ourselves included, and we do not think that the conditions of the bid, including the independent expert report, will pose an obstacle to the deal being successfully completed.

The Citadel Group (CGL, +13.1%) – long term fund holding, CGL, updated the market in January announcing $62m in new contracts or contact renewals since July 2017. For those investors not familiar with CGL, it is a software and services company that provides integration and managed services solutions that are predominately delivered under multi-year managed services contracts in complex and sensitive environments. The new contracts have been signed with high quality existing counterparties and a raft of new clients, and typically involve long tenure and high margins. One negative was Queensland Health not renewing its contract with CGL beyond 2022, preferring instead to go with a large multi-national that is trying to build its presence in Australia. Whilst disappointing, termination is only possible from 2021 and we do not expect it to have material impact on earnings at that point. CGL has a very strong pipeline of opportunities ahead of it, a net cash balance sheet and a quality management team that continues to deliver earnings growth.

Bravura (BVS, +16.8%) – the company re-rated in January following an announcement in late December that it has signed a long-term contract with ASB Bank Limited, a leading New Zealand financial services provider, for the implementation of the Sonata platform. BVS is a market leader in the provision of enterprise software to the global wealth management and funds administration industries. It is generating around 70% of revenue from recurring sources under long-term contracts, (typically 5 to 10 years in duration). BVS has invested heavily into its flagship wealth management product, Sonata, with more than $100m having been spent on the product over the past decade. Management has flagged a strong pipeline of opportunities for Sonata, predominately in the UK, Australia and South Africa, and we expect a number of these deals to be signed in H2 FY18. Despite the recent share price appreciation, BVS continues to trade at a material discount relative to software peers and we believe this discount can narrow as the company continues to announce new contracts wins and delivers on its earnings forecasts.

Outlook

All eyes are on the US market following a sharp pull-back in global markets at the start of February which has extended to become the biggest selloff for global equities in two years. The trigger for the sell off came as upbeat January jobs data, which showed wages growth stronger than expected, raising fears of inflation accelerating in the world's biggest economy. That added to speculation that the US Federal Reserve would be forced to raise rates faster than had been anticipated by the market to prevent the US economy from overheating and inflation taking hold. As a consequence, 10-year US bond yields rose to their highest level in four-years which sent global equity markets into a steep correction as the reality of a more rapid normalisation of US interest rates impacted investor confidence.

The question occupying our minds is whether this is merely a healthy, overdue correction or the start of something more sinister that would mark the end to the current bull market.

Our view is that this more a healthy pull-back that may see the market correct somewhere around 5-10%. We know that the US economy is strong, corporate earnings are growing and that a big jolt of stimulation is coming to the US economy following the recent changes to the US tax code. Bond yields rising from low levels has been a positive for equities in recent times with the bond market signalling continued recovery and expansion in the US economy. Rather than seeing this as major change in the economic landscape which could slow growth and send the US into recession, we view this as part of a healthy economic and financial normalisation. It is not, in our opinion, a time to be overly fearful and cashing up.

That said, despite a 5.9% fall in the Small Ordinaries Accumulation Index at the beginning of this week it is not yet, in our opinion, the time to pin one's ears back and go bargain hunting. This correction could easily have more to run and we see no point in standing in the way of the market, especially with many stocks in the small-cap universe still looking stretched from a valuation perspective.

Should the sell-off continue, we will use it as an opportunity to selectively deploy capital into quality names in our space that have been over-sold. Sharp corrections, such as this current one, tend to be quite indiscriminate with panicked investors often discarding good quality stocks at irrationally low prices as they rush to "cash-up". Over the years, we have used these periods to judiciously add quality stocks that have been sold down below their intrinsic value to our portfolio.

We have now entered the February reporting period with most of our holdings releasing either their half-yearly or full-year results during the month. This ought to focus the market's attention back onto investment fundamentals and away from the "noise". We remain confident that our stocks will release solid results and we look forward to reporting back to you with the highlights in the February monthly review.

Top 5 holdings#

Company	ASX code
Appen Limited	APX
Bapcor Limited	BAP
Bingo Industries Ltd	BIN
Speedcast International Ltd	SDA
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.