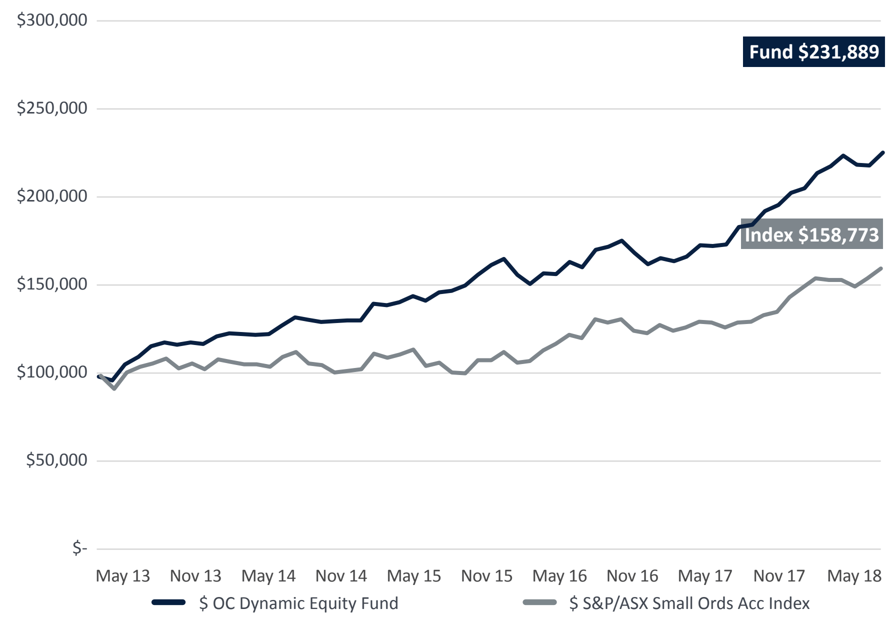
3.4% Fund up 3.4% for the month

18.4% Returned 18.4% 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 May 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	3.4	0.8	30.7	16.4	18.4	16.2	11.6	13.5
S&P/ASX Small Ords Accum	3.7	4.1	25.4	11.6	9.7	4.0	1.3	6.5
Outperformance	**-0.3**	**-3.3**	**5.3**	**4.9**	**8.7**	**12.3**	**10.3**	**7.0**
S&P/ASX Small Ind Accum	3.8	3.5	19.6	9.7	10.6	9.8	5.3	6.8
Outperformance	**-0.4**	**-2.7**	**11.1**	**6.8**	**7.8**	**6.5**	**6.3**	**6.7**

Performance review

The OC Dynamic Equity Fund had a solid May with most of the stocks in the portfolio recording a positive return for the month. The Fund returned 3.4% which was slightly behind both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which returned 3.8% and 3.7%, respectively, during the month.

The Fund's longer-term track record continues to be strong having returned 18.4% p.a. over the past 5 years, which is comfortably ahead of the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation which have returned 9.7% p.a. and 10.6% p.a. respectively over the same time horizon.

Afterpay Touch Group (APT, +30.6%) was a standout performer in May with the stock re-rating following its launch into the US market with Urban Outfitters signing on as its first US only retail partner. Urban Outfitters has one of the largest portfolios of consumer lifestyle brands in the US. For investors not familiar with APT, the company provides short term consumer funding for small-ticket retail purchases and develops and operates payment platforms for secure transaction processing. APT was the first to market in Australia and its offer, which allows shoppers to split purchases into four payments over eight weeks at no extra cost to consumers (retailers cover the cost by paying a 4% merchant fee), has resonated with consumers in Australia, particularly "millennials" who make up a large portion of the 1.8m customers currently live and transacted on the platform. APT is seeking to replicate its domestic success in the US and has secured Urban Outfitters to launch into that market. The company additionally announced it had hired two high profile executives from Uber, to head up Risk and Technology, and has an additional 50 retailers awaiting connection to the platform. There are 60m 'millennials' in the US, compared to just 6m in Australia, so there is significant scope for stock price upside should the US expansion follow a similar trajectory to Australia.

Reliance Worldwide Corporation (RWC, +23.4%) announced the strategically astute acquisition of John Guest, a manufacturer of plastic push-to-connect (PTC) products that are predominately sold in the UK, Europe and the US. The total acquisition price of A$1.22b represents a headline CY17 underlying EBITDA multiple of 12.4x, or 10.3x including A$20.0m of targeted annualised synergies. Whilst not cheap, prima facie, the acquisition will add highly complementary products to RWC's existing portfolio and expands its geographical positioning, especially in the European market where RWC is currently under represented. Following the transaction, RWC will be the globally dominant PTC fittings player, in both brass and plastic, with locations in most key regions. There is significant opportunity for RWC to introduce new products, cross-sell across the existing networks of the two businesses, and enter new markets and channels given the increased scale of the combined group. The transaction is expected to be >20% accretive to pro forma FY18 EPS, with this increasing to >30% with the benefit of the $20m in synergies. The transaction was largely funded by an entitlements issue and the Fund took up its full allocation of rights and received a small amount of additional stock in the shortfall bookbuild.

Seven Group Holdings (SVW, +8.4%) announced its second profit upgrade since it was added to the portfolio last September with strong operating momentum across Coates Hire, WesTrac and the energy division all supporting management's more bullish forecasts. SVW's key assets comprise: a) Coates Hire – the leading Australian equipment hire business, with over 200 branches and a national footprint; b) WesTrac Australia, Australia's largest authorised Caterpillar dealership, including sales, finance, maintenance and resale; c) a 41% stake in Seven West Media; and d) an expanding presence in oil and gas projects in Australia and the US, most notably a 25.6% stake in ASX listed Beach Petroleum (BPT). The company held an upbeat investor day during the month which reinforced the strong outlook across all the group's key divisions. We view SVW as an excellent exposure to an expected pick-up in both the Australian infrastructure investment cycle and the mining cycle, both of which appear to be in the early stages of a recovery, which could run several years.

GTN Limited (GTN, +21.1%) was added to the portfolio during the month following a significant share price pull back which coincided with the company's decision to exit the loss making US market. GTN buys short duration broadcast slots on radio/TV stations and compiles traffic reports and runs advertisements with the reports contemporaneously. The company has a highly profitable Australian operation which is a 'cash-cow', generating in-excess of A$40m EBITDA p.a. The Canadian and Brazilian businesses continue to grow as yield improves and new affiliates and inventory are added. The UK market is more mature and GTN has an excellent affiliate network of around 240 stations which contributes steady cash-flow to the business. In March 2018, GTN announced that it was disposing of its loss making operation to US management for a nominal sum after being unable to reduce the cash burn to a manageable level and right size the cost base. Management has confirmed that there is no recourse for creditors against the parent company which will allow it to focus on growing its existing profitable geographies. GTN is a capital light and cash generative business which we believe to be undervalued following its exit from the US market.

A2 Milk (A2M, -12.2%) provided a third quarter trading update with full year revenue guidance of NZ $900-$920m about 5% below consensus expectations. It was a rare blemish for A2M which has consistently delivered exceptional results since we became a shareholder back in February 2016. The company cited a change in branding as the major driver of the revenue miss. A2M is running down its old format inventory ahead of its new infant formula label launch with both the English and Chinese label packaging being re-launched. We do not think anything more sinister is to blame with China's A2 market share for the March quarter at +5.8% (up from 5.4% in the December quarter), implying continued strong demand. A2M also noted that Chinese distribution now exceeds 9,000 stores and has seen no noticeable impact from competitor launches such as Nestle's Atwo product. Putting it into perspective, despite the impact of the transition, A2M's Q4 year-on-year revenue growth is still a very healthy +50-60%. The company has also accelerated its marketing spend in H2 FY18, primarily in the US and Chinese markets, with benefits expected to flow into FY19. We remain comfortable shareholders as we expect the company to continue to grow as it develops into a leading global dairy marketing company in the coming years.

Outlook

The Fund has managed to escape the earnings confession season ahead of FY18 results relatively unscathed thus far. From our recent interactions with management teams, the companies that we own are trading in-line with, or ahead of, our expectations. A disproportionately large number of listed companies, particularly those exposed to government spending, tend to have a large month in June, so it will not be a surprise to see the pace of downgrades accelerate in the small cap market as we get closer to the end of the financial year.

The Fund is underweight stocks exposed to consumer spending and the housing market, both of which face a challenging macro-economic backdrop. We have seen a plethora of analyses in recent weeks from investment banks such as UBS, Morgan Stanley and Citigroup sounding warning bells on the domestic housing market and data from the latest CoreLogic Home Value Index suggests that the Melbourne and Sydney markets are now firmly in retreat. Auction clearance rates in Sydney fell to around 50% last weekend, their lowest point since the current boom started around seven years ago whilst

Melbourne's clearance rate dropped to about 62% from 80% at the height of the boom. Tighter credit standards seem finally to be impacting the housing market and this is only likely to be exacerbated in the fall-out from the Hayne Royal Commission with the expected report and recommendations from the Royal Commission, due in September 2018. The Royal Commission findings are expected to push for even tighter controls being placed on the lending practices of the major banks and brokers.

Falling house prices will clearly have an impact on the domestic consumer, particularly at a time when wages growth remains stubbornly low and household debt remains at elevated levels. One consistent comment we are getting from company management over the past six months is that the consumer remains under pressure and discretionary spending remains subdued. Robust housing prices have insulated the consumer somewhat in recent years because of the "wealth effect" but these tailwinds look like giving way to headwinds in the coming months with east coast house prices likely to fall further. We view this as the biggest challenge for the domestic economy over the next 12 months and, likely, will mean that the RBA keeps the cash rate on hold at 1.5% for the rest of calendar year 2018.

Despite this pessimism, the OECD expects the Australian economy to remain "robust" underpinned by exports and business spending which ought to offset weaker household spending. In its June commentary, the RBA reiterated its forecast for GDP growth to average above 3% in 2018 and 2019 with higher levels of public infrastructure spending called out as being a key support to the growth outlook. Our key conviction domestic calls, at present, remain in companies exposed to the large pipeline of east coast based infrastructure projects, particularly in areas such as road, rail, transport, telecommunications and renewable energy. The portfolio is well represented by companies that ought to benefit from an uptick in spending in these areas with Bingo Industries, Seven Group Holdings and NRW Holdings all expected to be beneficiaries to varying degrees.

The global economy continues to grow at an above trend rate with China robust and the US economy continuing to power along. In the US, a tightening labour market is expected to fuel a stronger economic performance in the second quarter, following a moderation of seasonally-adjusted annualised growth in the first quarter. In April, the unemployment rate (4.1%) was at its lowest since the peak of the dot-com bubble in 2000. Inflation has now reached the US Federal Reserve's (the Fed) target of 2% but with little evidence of a breakout. Nevertheless, the Fed is widely expected to continue along the path towards interest rate normalisation and increase rates for the second time this year to 2.0% at the upcoming Federal Open Market Committee meeting in mid-June. President Trump and on again/off again protectionist policies represent clear risks but the US looks to be on a strong footing leading into the second half of CY18.

Activity in the IPO market has picked up over the past month but remains well below the levels seen over most of the past few years. The Fund passed on the IPO of Prospa, which is a non-bank unsecured lender to small businesses which recently raised capital through UBS and Macquarie. While the business is growing rapidly, it is early stage and we assessed credit, funding and regulatory risk to be high, particularly relative to the valuation at which the stock was being offered. We have started to receive pre-marketing documents for several of other floats including fuel refining and distribution business, Viva Energy, and we will share our views on them in the coming months.

Top 5 holdings#

Company	ASX code
Bapcor Limited	BAP
Eclipx Group Ltd	ECX
Seven Group Holdings Ltd	SVW
Reliance Worldwide Corporation Ltd	RWC
Webjet Limited	WEB

#Alphabetical order

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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.