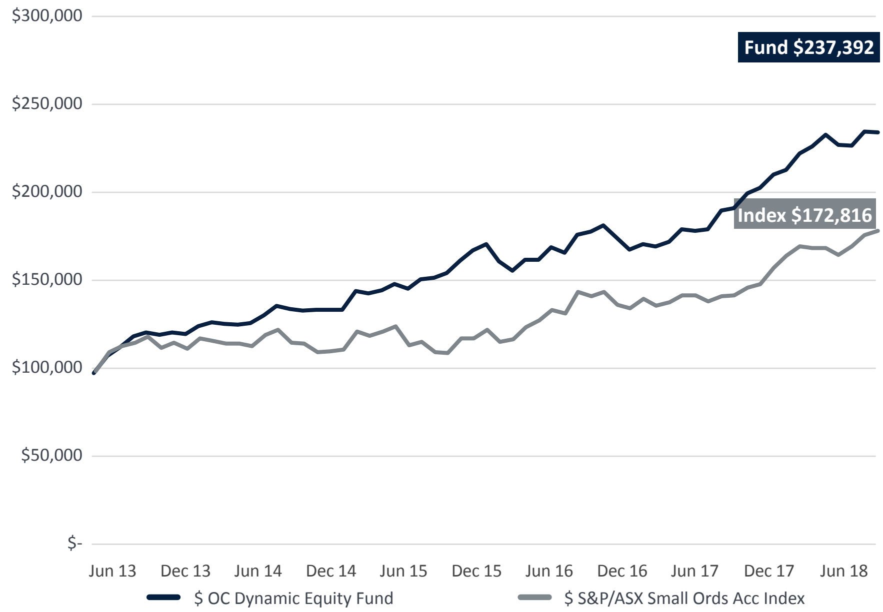
3.0% Fund up 3.0% for the quarter

18.9% Returned 18.9% 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 30 June 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	-0.2	3.0	23.1	17.1	18.9	16.6	12.9	13.4
S&P/ASX Small Ords Accum	1.1	7.7	24.2	15.0	11.6	4.9	2.6	6.5
Outperformance	**-1.3**	**-4.7**	**-1.1**	**2.1**	**7.4**	**11.8**	**10.3**	**6.9**
S&P/ASX Small Ind Accum	1.4	6.8	18.3	12.9	11.8	10.2	7.1	6.8
Outperformance	**-1.6**	**-3.8**	**4.8**	**4.1**	**7.2**	**6.4**	**5.8**	**6.6**

Performance review

Domestic small cap stocks continued their strong performance in the June quarter with the S&P/ASX Small Ordinaries Accumulation Index up 7.7% for the quarter. This capped off an excellent financial year for the small-cap benchmark which returned 24.2% for the 12-months. Resource stocks led the way in FY18 with the S&P/ASX Small Resources Accumulation Index up an impressive 49.0%, outpacing the S&P/ASX Small Industrials Accumulation Index which nonetheless posted a healthy 18.3% return.

The OC Dynamic Equity Fund returned 3.0% for the June-quarter and a robust 23.1% for FY18. This was a solid result given that we do not invest in single commodity or single mine resource stocks (due to their elevated risk profile) which were a key driver of the overall small cap-index. The consistency of our returns over a long period was recognised during the quarter when the OC Dynamic Equity Fund was awarded the 2018 Money Management/ Lonsec Fund Manager of the Year award in the small cap equities category.

Under the stewardship of the current investment team+, the Fund has returned a commendable 19.4% p.a. over the past nine years since Rob Frost was appointed Head of Investments. This is well ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which have returned 6.8% p.a. and 10.9% p.a., respectively, over the same time horizon.
Amongst the best performers for the Fund in the June quarter were stocks mentioned at length in either the April Monthly Review or the May Monthly Review including:

- **Reliance Worldwide Corporation (RWC, +25.0%)** was a standout performer following 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.
- **Speedcast International Limted (SDA, +20.3%)** which continues to perform strongly as the market becomes more comfortable with an improving outlook for the Energy and Maritime divisions as the balance sheet de-levers following the successful integration of the Harris Caprock and Ultisat acquisitions.

+the only change being the addition of Daniel Stein in May 2017

Appen Limited (APX, +50.4%) was again a stand-out performer for the Fund during the quarter following its AGM when management confirmed that: a) the recent highly complementary acquisition of Leapforce was on track and b) that the company was trending to the "upper end" of its $50-$55m underlying EBITDA guidance for CY18. We have written a great deal about APX over recent years and there is no doubt that the company is in a "sweet spot" providing data sets to leading global technology companies operating in the field of artificial intelligence that mimic a human function. In layman's terms, Appen's crowdsourced model helps machine based algorithms understand human functions better and therefore produce higher quality outcomes. It is a rapidly evolving area and APX continues to expand both the depth of its relationship with its major clients, which include nine of the world's ten biggest tech stocks, whilst also adding new clients. APX was undoubtedly a beneficiary of its elevation into the S&P/ASX 200 during the quarter and it has also garnered much greater investor attention following initiation of research coverage by major broking houses including UBS. The Fund has again trimmed its position following strong share price performance but we believe that the stock is likely to continue to surprise on the upside from an earnings perspective and it therefore remains a core holding.

NWH Holdings (NWH, +28.4%) provided a strong operational update to the market in late June following the announcement of a raft of contract wins and extensions over the June quarter. NRW is a civil construction and mining services contractor with a focus on the Infrastructure and Resources sectors in Australia. It is a company that is well placed to benefit from a large increase in both mining construction expenditure, underpinned by upcoming major iron-ore replacement and sustaining tonnes projects, as well as the large ramp-up in east coast infrastructure spending expected over the coming 3-5 years. NWH announced that its order book now includes around $875m of work secured for delivery next financial year, with total revenue for FY19 expected to exceed $1.1b. This was comfortably ahead of consensus revenue expectations and we believe that there is scope for further upgrades in the coming year as new projects are awarded. Importantly, NRW is diversified across a number of high quality clients and performs work across the bulk commodities, lithium, gold, public infrastructure and urban development sectors. Despite the share price appreciation during the quarter, we remain bullish on NRW's prospects into the new financial year.

We had spoken on numerous occasions about our expectations of consolidation in the outdoor media space and that came to fruition in the quarter with two large deals being announced in late June. After a protracted auction involving **Ooh!Media (OML +12.6%)** and **APN Outdoor (+35.3%)**, street furniture business Adshel (part of listed **HT1, + 31.8%**) was acquired by OML for what looks to be a relatively full price of $570m. Shortly thereafter, APO announced it had entered into a Scheme Implementation Deed with French giant JCDecaux under which JCDecaux has agreed to acquire APO for a cash price of $6.70 per share. Whilst the Fund had positions in both companies, its position in APO was very small with the stock price having run hard just after we started purchasing it March 2018 at around $4.10. Consequently, the APO takeover had limited impact on Fund performance. We have subsequently exited APO given the small size of the position and the risks around ACCC approval of the deal. Whilst we have some reservations about the price tag OML paid for Adshel, we can understand the strategic merit given that street furniture is an area that OML does not have significant presence in. The addition of Adshel builds scale and further diversifies OML's offering and provides a larger platform to leverage its investment in sales, tech and data. The Fund participated in the discounted rights issue to fund the purchase of Adshel and OML remains a core holding in the Fund.

Pleasingly both of our recent Fund purchases, namely **GUD Holdings (GUD)** (+19.9% since being added in May) and **GTN Limited (GTN)** (+9% since being added in June) have been solid contributors of late. These companies and our investment thesis on them were discussed in the April Monthly Review and the May Monthly Review respectively.

The major disappointment for the quarter and indeed the financial year was Blue Sky Limited **(BLA, -83.6%)** which was exited in April at well above the current share price. We will spare our investors the pain of rehashing this sorry tale but those who missed it can read about it in the April Monthly Review.

Hansen (HSN, -23.0%) was the key disappointment for the month after it provided a negative earnings update for the year to 30 June 2018, as well as providing softer than expected guidance for FY19. HSN provides mission-critical billing and customer care software solutions to clients within the pay TV, telecommunications, energy and water sectors. It is a global business that has grown rapidly over the past five years driven by a combination of sensible acquisitions into new geographies or complementary vertical adjacencies and steady mid-single digit organic growth. The business was thought to be quite predictable given the very low churn rate amongst the customers and the revenue model which we believed to have a high degree of predictability given the sticky customer relationships. That thesis now looks flimsy, particularly in light of the FY19 revenue guidance which suggests to us that the lower quality project based revenues may be higher and more volatile that the market (and ourselves) had previously anticipated. Not helping matters Managing Director, Andrew Hansen, sold down his position in the company in March 2018 which, at the time, we dismissed as sensible diversification. But the optics of the sell-down now look bad, given the quantum of this downgrade. This has no doubt exacerbated the angry selling from investors. OC Funds was on the front foot when the downgrade was announced and was quick to push the sell trigger exiting a large portion of our stock well above the current share price. When the facts materially charge so will our investment thesis and we have now exited the position.

Micro-X Limited (MX1, -26.9%) was a key detractor from performance during the quarter following delays to ramp up of commercialisation of the company's first product the DRX Revolution Nano. A lack of visibility on distribution partner Carestream's ordering intentions has caused analysts to further downgrade volume estimates into FY19. Adelaide-based Micro-X is developing and commercialising a range of highly innovative products based on proprietary carbon nanotube emitter technology. This technology enables the miniaturisation of a number of x-ray applications relevant to large global markets such as the healthcare, military, security and anti-terrorism sectors. As is the case for many innovative companies, the transition from R&D company to a commercially profitable medical devices company has caused some hiccups for the MX1's management team. The company is busy negotiating with several quality strategic partners who will potentially bring capital, technological "know-how" and relationships to the business with an agreement targeted for completion by the Q4 of CY18. During the quarter MX1 raised $5.0m equity, structured as an unsecured, mandatorily convertible note to take care of the short-term capital needs of the business. While the delay is unfortunate, we believe that the stock is oversold and remain excited by the strong suite of IP held by MX1 which has both obvious commercial applications and lucrative end markets.

Outlook

As we enter the new financial year the biggest risk to the global outlook and markets is the prospect of a Sino-American trade war with tensions intensifying in recent weeks. Until recently, the consensus view seemed to be that the protectionist rhetoric coming out of the Trump administration was the necessary precursor to a negotiated deal with the Chinese. While tariffs announced to date are relatively small in the context of overall trade between the two nations, we now expect there to be further escalation given recent inflammatory developments as the US threatens to impose tariffs on every single Chinese import into America and China promises to reciprocate like-for-like and accuses the US of "*bullying*" and igniting "*the largest trade war in economic history*".

It is difficult to predict exactly the trade war will play out in the coming months and the extent to which the recent escalation will weigh on global growth and confidence. To date, our portfolio does not have any exposures that will be directly impacted by tariffs thus far announced, although in the event of an all-out trade war between the US and China there are likely to be few winners.

Whilst global growth remains solid, it is clearly less synchronised than it had been throughout the second half of CY17 with some growing regional divergences, particularly in emerging markets including China and in Europe where growth has moderated after a strong end to the last calendar year.

The US economy remains the bellwether with growth strengthening at a time when unemployment continues hit new lows (3.9%). Inflation has now reached the US Federal Reserve's (The Fed) target of 2% but with little evidence of a breakout. As expected, the Fed raised rates for a second time this year at its mid-June Federal Open Market Committee meeting and is now expected to hike rates a further two times in the second half of the year.

Despite the buoyant economic conditions, the flattening of the yield curve or the narrowing of the differential between the US ten-year Treasury bond note and shorter duration Treasury bond notes has been a cause of concern for some given that inversion of the yield curve has typically been a reliable indicator of a future recession. At its June meeting, the Fed officials explicitly said that they see the underlying economy as strong enough to keep the yield curve from inverting. But should a full-scale trade war eventuate or the US economy unexpectedly deteriorate, we would expect the Fed to slow the pace of interest rate normalisation.

Chinese growth is slowing with the Central government trying to achieve more balance and less credit-fuelled growth. The Chinese stock market has seen sharp declines in the past five months with the Shanghai Composite Index falling around 20% and slipping into bear market territory with investors mindful that authorities have deleveraging and financial risk reduction as a long-term policy objective. The spectre of a US-China trade war is not helping matters and the weakening yuan is hurting companies with high levels of dollar debt as well as exporters. Faced with a slowdown in domestic demand and potential fallout from a trade war, Chinese policymakers are widely expected to step up the policy support for the economy and soften their stance on deleveraging.

Domestically, economic conditions remain stable with the RBA leaving rates unchanged at 1.5% at its July board meeting as was widely expected. GDP grew above trend in Q1 CY18 with the economy expanding at 3.1% over the year and the RBA board minutes suggest that it expects that rate of growth to continue in 2018 and 2019. This looks feasible to us underpinned by business investment which remains robust and with increasing expenditure on public infrastructure (a key portfolio thematic) expected to provide a solid impetus to economic growth going forward. The outlook for the labour market remains positive despite persistent low wages growth with a gradual decline in the unemployment rate expected over the medium term. The Central Banks forecast for inflation is to be "a bit above 2 per cent in 2018", reflecting low growth in labour costs and a competitive retail environment.

The housing market remains highly topical at present with property prices in Sydney, Melbourne and Perth falling over the quarter according to CoreLogic data and the national annual change in dwelling value now negative 0.8%. Tighter credit conditions seem finally to be impacting the housing market which, together with APRA's supervisory measure, ought to help contain the build-up of household balance sheets which remain near record highs. Whilst it looks currently more like a "soft landing" than a housing crash, the portfolio's exposure to domestic housing and construction remains limited.

Offshore events and the widening differential between the US and Australian interest rates have put renewed pressure on the Australia dollar which has fallen to around US $0.74. Our portfolio is currently a net beneficiary of a weaker Australian dollar, largely through the impact of companies with offshore earnings such as **Reliance Worldwide Corporation** and **Speedcast International Limited** and we hold minimal exposure to importers who typically suffer when the currency falls.

We have now entered the so called "black out" period between the end of the financial year and the August reporting season when company management go into lock-down and avoid investor communication ahead of full year results announcements. The investment team was very active during the quarter, travelling widely and communicating directly with all our holdings to ensure that our investment thesis remains intact and that the key assumptions underpinning our financial forecasts remain accurate.

We would like to thank our investors for their support over the 2018 financial year. We remain optimistic about the prospects of the companies in our portfolio for the coming twelve months and remain confident that we can continue to generate excellent long-term returns for our investors.

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.