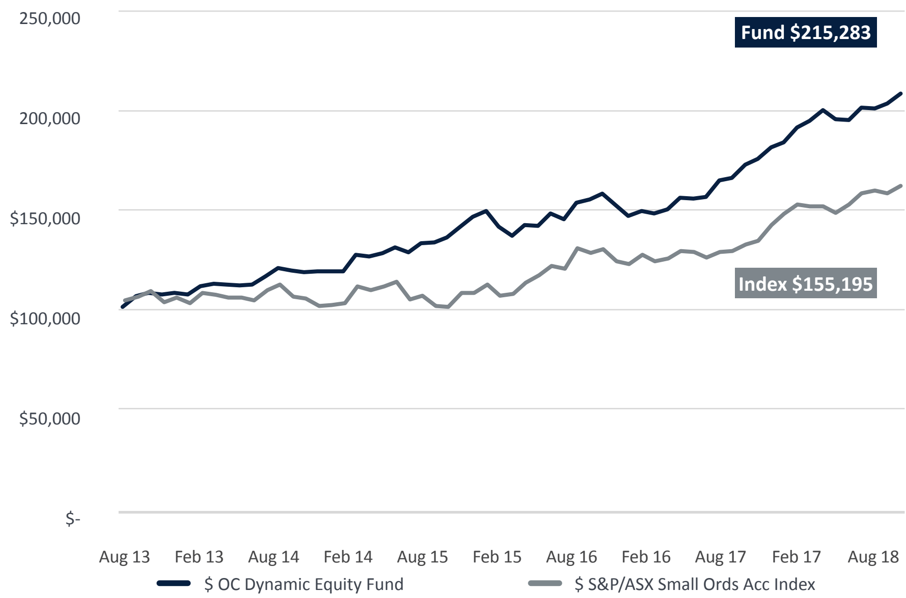
2.7% Fund up 2.7% for the month

17.0% Returned 17.0% 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 August 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	2.7	3.6	21.8	17.0	16.6	18.5	13.0	13.5
S&P/ASX Small Ords Accum	2.5	2.5	22.3	16.9	9.2	5.3	3.1	6.5
Outperformance	**0.2**	**1.1**	**-0.6**	**0.1**	**7.5**	**13.2**	**9.9**	**7.0**
S&P/ASX Small Ind Accum	4.4	5.2	21.1	14.6	10.7	11.5	6.7	7.0
Outperformance	**-1.7**	**-1.6**	**0.7**	**2.3**	**5.9**	**7.0**	**6.3**	**6.6**

Performance review

The August company reporting season was characterised by some extreme share price movements, with companies that released solid results often handsomely rewarded (particularly those within the technology space) and companies that missed consensus expectations or presented bearish outlook commentary in many instances aggressively sold-off.

According to research undertaken by the Goldman Sachs strategy team, reactions to earnings releases hit a new record during the month, with stock prices moving at nearly double the decade average, despite most companies reporting results roughly in-line with consensus market expectations. The latter is not unexpected given the continuous disclosure obligations imposed on companies by the ASX, whereby companies are duty-bound to update the market as soon as they are aware that their earnings will exceed or miss guidance (or analyst consensus in the absence of guidance) by a “material amount”, generally considered to be +/- 10%.

The best performing 20 stocks in the S&P/ASX Small Ordinaries Accumulation Index are up an average of 25.5% since reporting on the back of an average EPS upgrade of just 0.7%. Consequently, the rally does not appear to have been driven by upside earnings surprise, particularly given that most of these names were companies on “growth” multiples (an average 1-year forward P/E of 33.9x). Rather, the market seems to be increasingly driven by momentum trading brought about by the increasing popularity of quantitative and algorithm-based trading, as well as passive funds which tend to deploy more money into the stocks which are increasing their weighting within the index as their share prices move higher. A narrower or lower quality set of consensus earnings estimates due to fewer sell-side analysts may also be a contributing factor.

Whilst these factors can serve to distort the efficiency of the market in the near-term, the OC Funds team view them as being broadly positive for our strategy given that they enhance our ability to buy and sell stocks at valuations that are below or above their intrinsic value, which is a central tenant of our investment philosophy.

The OC Dynamic Equity Fund ended up on the positive side of the ledger for the month with the Fund returning

2.7% in August, marginally ahead of the S&P/ASX Small Companies Accumulation Index which was up 2.5%, although slightly behind the S&P/ASX Small Industrials Accumulation Index which returned 4.4%.

Baby Bunting (BBN, +47.8%) released an upbeat FY 2018 result, which was a welcome relief to investors who had endured a difficult year following unprecedented structural change in the baby goods industry, with many of the company's key competitors entering administration. This led to a wave of heavy discounting and stock liquidations, manifesting in BBN margin pressure and lost sales, which weighed heavily on operating results and the share price throughout much of the year.

The FY18 result was flush with bullish indications for BBN, particularly relating to its competitive position versus Amazon, as well as its greatly diminished bricks and mortar competitors. With regards to Amazon, 79% (or 197 products) of BBN's top 250 selling SKU's are not available on Amazon. Amongst the 21% (or 53 products) sold on Amazon, BBN is, in fact, cheaper for the majority (or 36) of products, whereas Amazon is cheaper for just the 17 remaining products. Consequently, amongst BBN's top 250 SKU's, Amazon offers consumers a cheaper alternative for just 6.8% of these products which are, on average, 7% cheaper and hardly the game changing disruptor many commentators or analysts would have you believe. Moreover, an estimated $138m of sales have left the industry through store closures over the past 12 months by the likes of Bubs, Baby Bounce in WA, NSW and QLD, and Toys R US/ Babies R US, representing approximately 45% of BBN's current sales. Clearly this provides a material opportunity for BBN to grow its sales given that it is the only remaining national baby goods retailer.

Management reiterated their medium-term goal of delivering a 10% EBITDA margin (versus FY18 6.1%) which had been heavily discounted by the market and outlined key initiatives to help achieve that target. The new financial year has started strongly with comparative stores sales growing an impressive 9.8% as at 5 August. Whilst this is a short period of time, it is particularly pleasing given that Toys R US/ Babies R US were in the final stages of their stock liquidation for much for of the period. Guidance for FY19 earnings of A$24-27m EBITDA represents a 6-19% upgrade to Bloomberg Consensus and was well received by the market.

Long-term Fund holding **Appen Group (APX, +41.2%)** surprised the market with another earnings upgrade at the release of its half yearly result. The Content Relevance division, which uses human annotated data to train machine learning algorithms to improve content relevance across areas such as search engines, social media platforms and eCommerce websites, was again the powerhouse behind the strong first half. The division continues to generate strong organic growth and demonstrated further operational leverage in the half, with the recent Leapforce acquisition anticipated to further boost operating margins in the medium term. The artificial intelligence industry is in a high growth phase and is approaching mass adoption, which ought to underpin Appen's business model in the coming years.

Bravura Solutions (BVS, +30.6%) was a standout performer again during the month. The company, a market leading provider of enterprise software for wealth managers and fund administrators, reported a strong result, comfortably ahead of market estimates. The company's guidance saw upgrades to analysts' forecasts for 2019 and beyond, underpinned by a strong pipeline of work and continued margin expansion from operating leverage. Work for existing Sonata clients, and new implementations already signed, has given the market further confidence in the visibility of work in hand, which also led to a positive re-rating of the stock. During the year, BVS won new major clients in UK, NZ, Australia and South Africa, and is now turning its eye to potential customers in Canada and continental Europe. Large clients tend to implement the software over a period of up to four years, with additional work over a 10-15-year period. The stock remains a core holding for the Fund.

Zenitas Health (ZNT, +27.5%) is a provider of allied health, homecare and primary care services with leverage to the structural shift in demographics towards an ageing population. We were an IPO investor in ZNT at listing, some 18 months ago, and were attracted to its first mover advantage in consolidating the community-based allied health sector. OC were a substantial shareholder as a result of the IPO, which was priced at $1.00. Late in August, ZNT agreed to be acquired by a private equity consortium via scheme of arrangement for A$1.46 per share. This private equity consortium comprises Adamantem Capital and Liverpool Partners, which is an entity controlled by a Board member of Zenitas. Whilst the acquisition multiple of 6.2x consensus FY19 EBITDA appears undemanding, the bid price represents a good premium to the prevailing share price of ZNT, as the market has, to date, been unwilling to value ZNT on a higher multiple given the early stage of its consolidation strategy. All things considered, we see the bid as fair and reasonable given the early stage of Zenitas' evolution as a consolidator in the allied health space.

Core portfolio holding **Bingo Industries (BIN, +20.2%)** rallied strongly after meeting its prospectus forecasts and announcing the strategically sensible acquisition of Dial A Dump Industries ("DADI"), an integrated recycling and waste management business in NSW for $557.5m. DADI has highly complementary assets in post collections, including the Genesis Waste Facility at Eastern Creek, a recycling and landfill asset with approved capacity of two million tonnes per annum, and remaining useful landfill life of approximately 15 years. The medium-term strategy for the DADI assets involves developing a "recycling

Ecology Park" in Eastern creek aligned with Bingo's strategy of diversifying further into putrescible, Commercial & Industrial (C&I) and Municipal Solid Waste. The deal provides economic benefits through volume growth and internalisation of 100% of BIN's non-putrescible Building & Demolition and C&I waste, with significant capacity for external customers.

Whilst the acquisition will be earnings per share accretive, it did mask some slippage in the existing business given that managements earnings guidance for FY19 fell short of consensus expectations. The market was prepared to look through this slippage given that it will be largely brought about by disruption to the network from delayed capacity developments which do not materially detract from BIN's longer-term growth story. The deal was funded by an underwritten 1 for 2.48 pro-rata accelerated non-renounceable entitlement offer and $200m scrip consideration to the vendors of DADI. Pleasingly, the BIN Managing Director, Daniel Tartak, committed to take up his full entitlement and the founder of DADI, Ian Malouf, elected to take a material component of the consideration in scrip which we view as a major vote of confidence in the transaction. The Fund subscribed for its full entitlement in the raising, also receiving some of the rights issue shortfall, which was issued at a material discount to the current BIN share price.

Eclipx Group Ltd (ECX, -13.6%) provided an unwelcome, negative surprise early in the month when it downgraded FY18 earnings guidance by 11% (at the mid-point versus consensus), citing a slowdown in insolvency related sales across the recently acquired Grays Online auction business, and a change in the competitive landscape for no fault hire car company Right2Drive. The market reaction was savage, with the stock sold down over 40% as angry long only investors, blindsided by the release, rushed for the exit and quantitative funds followed suit. Typically, OC Funds will exit a holding in such circumstances where a material downgrade catches us unawares and it is not brought about by a one-off event. Nevertheless, the quantum of the share price fall in the context of the earnings miss seemed disproportional to us and we have retained our holding for now.

The bulk of the earnings miss was attributed to Grays Online, where weaker volumes in its industrial segment has been exacerbated by a sharp fall in insolvency auction volumes as the banks keep a low profile with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in full flight. Bullish management commentary on the division at the half yearly result, and the recent timing of the Grays acquisition, has led the market to take a dim view on management credibility, capital allocation, the strategic fit of this division and its future earnings prospects. No fault car rental business, Right2Drive, was also cited as an under performer with ECX pointing to a "more challenging environment" by means of new competitor offerings from auto insurers, including Suncorp, the key reason for the miss in this division.

Importantly, the core Fleet and Commercial business, which contributes the bulk of ECX's earnings, continues to perform in-line with expectations. This is a space that is ripe for consolidation, and the ECX fleet and commercial business would be an attractive strategic fit for several of its listed peers, including SG Fleet and McMillan Shakespeare, to whom it now trades at a steep discount, as well as potential offshore based competitors such as Element and Orix. Indeed, SG Fleet has already been rebuffed by the ECX board after making an opportunistic bid shortly after the downgrade. Whilst it is easy to get emotional and act impulsively when a major earnings disappointment occurs, we feel the rational decision in this instance is to retain our holding particularly with the stock now 'in-play'.

Speedcast International Ltd (SDA, -31.6%) was a key disappointment for the Fund during the month after management announced a material earnings downgrade and a large acquisition which will take the company's gearing to uncomfortably high levels. SDA 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, maritime shipping (including cargo and cruise ships), enterprise and government. The company seemed well positioned to benefit from a number of structural tail-winds, including an improvement in the offshore drilling space brought about by a strengthening oil price, strength in maritime shipping driven by boats upgrading from legacy L band services to VSAT broadband, as well as the increasing demand for faster internet services on luxury yachts and cruise ships. The disappointing guidance appears to have been largely caused by a protracted recovery in the energy space, especially deep-water rigs which are lagging the cyclical recovery in the oil and gas space.

Furthermore, the US $135m debt funded acquisition of Globecomm appears ill-timed and will increase SDA's leverage ratio (net debt/EBITDA) to above 3.3x. While Globecomm may complement SDA's operations in government, maritime and other industrial verticals nicely, we would prefer to have seen management focus their attention on bedding down synergies from previous acquisitions, including Harris Caprock, and delivering organic growth and free cashflow to pay down corporate debt. The Fund has reduced its holding but the share price, like ECX's, was sold down very aggressively in the days following the announcement. Given the cyclical improvement that ought to play out in several of SDA's key industries, we were reluctant to "fire sale" the holding.

Netcomm Wireless Limited (NTC, - 28.7%) was sold from the Fund after delivering FY19 earnings guidance, which was significantly below our forecasts, on the back of further project delays with key customers, primarily Australia's NBN Co and America's biggest telco company AT&T. NTC actually delivered a solid FY18 result with EBITDA of $20.5m, up 472% on the prior year and operating cashflow strong at $23.7m. Notwithstanding this, we have lost patience with the lumpy nature of the NTC business model and have been underwhelmed at their ability to generate commercially acceptable returns on their R&D spend. In recent years, there has been consistent slippage in the timing and size of major contracts, as well as numerous promising growth areas, which received both management time and shareholder funds, have failed to deliver an acceptable return on funds employed such as elevators and dialysis. Furthermore, the promising pipeline of telecommunications opportunities remains largely unconverted. Whilst the company now has four major customers, following the signing of Bell Canada in April 2018, we feel that NTC needs much greater customer diversity to deliver consistent earnings growth. We understand the long lead times involved in NTC's "high tech" field of endeavour but feel that our unitholder's capital is better deployed elsewhere.

Updater, Inc. (UPD, -21.7%) announced mid-month that its successful three years on the ASX would draw to a close in October, after the UPD board concluded it was in the best interests of all security holders to seek alternate sources of capital, namely from the cashed-up US based Venture Capital Funds. These VC funds have been watching recent developments at UPD closely and have concluded there is greater value in UPD than ASX holders have been unwilling to ascribe to the company at this stage. Management has stated there are up to 20 VC's and industry players that are looking to invest in UPD at a significant premium to the current ASX valuation.

UPD has been a successful investment for the OC Dynamic Equity Fund, having delivered a four-fold return since first investing in the stock at around $0.25 in December 2015. Concurrently with the delisting proposal, UPD affirmed its bullish CY18 revenue guidance (US$19-23m) and announced that the "purchase rate" on its Pay TV/Internet vertical had exceeded 8%; an outstanding result that analysts had not been factoring into their estimates until 2020. The "purchase rate" is the percentage of UPD users, that are eligible to buy an applicable product, purchasing the product within the Updater experience. This is a leading indicator of the value proposition that UPD offers for its corporate partners. Ordinarily we would have expected this data point to have been received positively by the market; however, the de-listing proposal has overshadowed this as many market participants are unable to continue to hold UPD stock once it de-lists from the ASX.

Outlook

2018 has been, so far, a year of transformational markets driven by populism, political turbulence and heightened volatility. Synchronised global growth in the back half of calendar year 2017 has given way to a wave of contagion in emerging markets, with Argentina's US$50 billion bailout by the International Monetary Fund being the most extreme event so far. Alongside the dramatic collapse of the Turkish lira, and bearish economic predictions for Indonesia and Mexico, the escalation of Sino-American trade friction is dampening global sentiment even further, dragging down US and Asian stock performance.

China's trade surplus with the United States has risen to a record US$31 billion by August 18, up nearly 15 per cent in 2018, an outcome that has seemingly pushed the Trump administration to turn further heat on Beijing in their cantankerous trade dispute. Indeed, only hours after a public comment period closed on his US$200 billion China tariff list, Trump upped the ante on last Friday and warned that he was ready to impose tariffs on nearly all Chinese imports, with top US executives' appeals to the government not to proceed with the punitive tariffs seeming to fall on deaf ears. Despite China's commitment to retaliate with countermeasures, it will not be able to match the new tariffs dollar for dollar, given that the country's US imports constituted barely a third of its exports to the US. It has become evident that the US focus on trade imbalances with China detracts from the resolution of pressing multilateral issues, such as intellectual property protection and investment restrictions in China.

Clearly few parties will benefit from further escalation in the Sino-American trade dispute, although we expect the direct impact on the OC Fund's portfolio to be relatively modest given that overwhelming majority of our holdings are domestically based companies that have few US domiciled subsidiaries that import from China. Nevertheless, we are not entirely immune with key Fund holding, Reliance Worldwide Corporation, announcing in early August that recent changes to US import duties will impact FY19 earnings by less than $1.5m, although it added the caveat that "*potential changes still subject to hearings and/or consultation could, if implemented, have further impact*". Other Fund holdings that may be impacted include **Seven Group Holdings**, via its wholly owned WesTrac subsidiary which is the WA, NSW and ACT dealership for Caterpillar heavy equipment, and potentially **Speedcast International** and **Fisher & Paykel Healthcare Corporation**. Less clear is the indirect impact, which may be felt from companies purchasing from US companies that face higher input costs brought about by the China trade dispute, including mining services companies such as **NRW Holdings** and **Mineral Resources Limited**.

The Chinese economic outlook is being clouded by the rapidly escalating trade dispute and cooling domestic demand. While authorities have deleveraging and financial risk reduction as a long-term policy objective, policymakers have shifted their focus in recent months to improving credit conditions and building up business confidence. Beijing is ramping up spending on infrastructure projects to spur domestic demand, and the central bank is ratcheting down borrowing costs and relying on commercial banks to rescue struggling firms impacted by trade troubles. It is widely anticipated that the government will introduce more stimulus measures should business conditions continue to deteriorate.

On a more positive note, domestically, Australia's second quarter GDP growth came in well above expectations. Real GDP expanded by 0.9 per cent in the June quarter, and solid annual growth of 3.4 per cent exceeded the market expectations of 2.8 per cent. This is the fastest annual GDP growth rate since 2012, during the height of the post-GFC mining boom. The known unknowns are largely political, with Scott Morrison defeating Peter Dutton who had brought on a challenge to replace Malcolm Turnbull. All the last four elected Prime Ministers have now been deposed by their own party and the lack of durable leadership makes it more difficult to undertake productivity enhancing economic reforms, most notably around energy policy and tax cuts. Whilst business confidence is expected to be resilient during the political upheaval, as it has been during previous political coups, the housing market is most at risk in the likely event of the Labor Party forming government in the next election given that its proposed changes to negative gearing and capital gains tax could exacerbate the downturn in property prices.

Political instability and the widening differential between US and Australian interest rates (with the Fed set to hike rates later this month and another in December) have put renewed pressure on the Australia dollar which has fallen below US $0.72, its lowest level in more than two years. 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**, **Appen** and **Fisher & Paykel Healthcare Corporation**, and we hold minimal exposure to importers who typically suffer when the currency falls.

As discussed earlier, the August reporting season was characterised by heightened volatility, with share price moves on earnings days being 85% above the decade average. There is a widespread narrative among the investment community that the rise in passive funds and momentum investing are the primary drivers of a less efficient market, while increasingly stale consensus estimates may also be playing a role. The team has taken advantage of the increasing liquidity around the reporting season window to re-balance our portfolio and we remain confident in the current positioning of the portfolio withstanding any further political and economic turbulence. The Fund remains "cashed-up" at present, with a cash balance in-excess of 10%, providing ample flexibility to capitalise on any pull-back in the market in the coming months.

Post our post-reporting season management catch-ups, we are again heading out on the road with an extensive list of companies, competitors and sites to visit in the coming weeks. We thank our investors for their ongoing support and remain committed to our goal of generating strong long-term risk-adjusted returns for our clients.

Top 5 holdings#

Company	ASX code
Bapcor Limited	BAP
Bingo Industries Ltd	BIN
NextDC	NXT
Reliance Worldwide	RWC
Seven Group Holdings	SVW

The top 5 portfolio holdings are in alphabetical order and may not be representative of current or future investments.

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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.

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