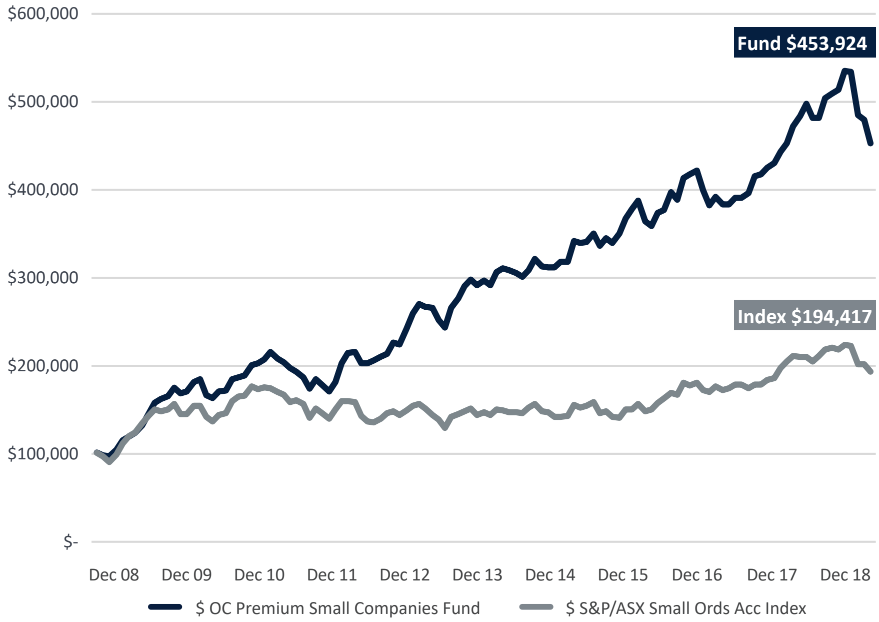
-5.7% Fund down -5.7% for the month

16.4% Returned 16.4% p.a. for the past ten years

We remain confident the Fund will continue to deliver attractive long-term returns

Performance comparison of $100,000 over 10 years*



Total returns

At 31 December 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 Premium	-5.7	-15.3	-4.0	5.3	8.8	15.0	16.4	10.7
S&P/ASX Small Ords Accum	-4.2	-13.7	-8.7	7.5	5.6	4.8	6.9	5.4
Outperformance	**-1.5**	**-1.6**	**4.6**	**-2.1**	**3.2**	**10.2**	**9.5**	**5.3**
S&P/ASX Small Ind Accum	-3.9	-13.4	-6.5	4.7	6.3	10.3	9.8	5.8
Outperformance	**-1.8**	**-1.9**	**2.5**	**0.6**	**2.5**	**4.8**	**6.5**	**4.9**

Performance review

A very weak December quarter (-13.7%) drove the S&P/ASX Small Ordinaries Accumulation Index to its worst yearly performance since 2011, down 8.7%, with the Index ending 2018 near its low. The S&P/ASX Small Industrials Accumulation Index fared little better finishing the quarter down 13.4% and -6.5% for the year.

The OC Premium Small Companies Fund also endured a challenging December quarter with the Fund down 15.3%. This dragged the annual performance of the portfolio into negative territory with the Fund finishing the calendar year down 4.0%.

The December quarter sell off was broad based with all sectors of the Index recording a negative performance, although energy (-29.1%) and industrials (-23.7%) recorded the steepest falls. Some respite was found in property trusts and gold stocks, most of which eked out positive gains for the quarter. The absence of these stocks from our portfolio largely accounted for the Fund's underperformance versus the Index in the December quarter.

Despite the challenging backdrop, there was a heightened level of M&A activity across the small cap space during the quarter with a number of stocks in the Index attracting corporate interest including Greencross (GXL, +28.3%), Trade Me Group (TME, +24.9%), Graincorp (GNC, +16.1%), Navitas Limited (NVT, +13.2%), MYOB group (MYO, +11.7%), Sigma Healthcare (SIG, -9.5%) and Eclipx Group Limited (ECX, -5.5%). Unfortunately for Fund holders, lady luck was not on our side with our only holding subject to corporate interest being Eclipx Group.

Despite several of the portfolio holdings upgrading their profit forecasts during the quarter (Appen Limited, Baby Bunting Group and NRW Holdings), only a handful of companies in the Fund finished in the black. We will therefore focus our commentary on some of the poorer performers in the portfolio during the quarter and share our thoughts on them with investors.

GTN Limited (GTN, -53.2%) was the biggest disappointment in the portfolio during the quarter following an earnings downgrade in late December. GTN is a traffic information provider to radio and TV stations in Australia, Canada, Brazil and the UK. In exchange for the reports and station compensation, GTN receives commercial advertising slots adjacent to the traffic reports. The company guided the market to a 10-15% year-on-year decline in adjusted EBITDA, primarily due to negative operating leverage in the key Australian business where revenues have fallen but operating costs have risen. Whilst this is a disappointing outcome, the quantum of the share price fall has led us to retain our holding for the time being as we do not see the issues as being structural and should be able to be addressed by management, notwithstanding the fact the broader advertising market has softened in recent times. The stock is now trading on an FY19 PE of 8x and is yielding 6.8%.

Bega Cheese Ltd (BGA, - 27.6%) was the other key disappointment for the quarter after downgrading its earnings due to the impact of higher milk prices on the business. The current severe drought impacting the dairy industry will result in the overall milk supply being down an expected 5% in the current financial year which has created significant farm gate milk pricing pressure. Due to its expansion initiatives, Bega forecast that its overall milk intake in FY19 will be between 1.0 and 1.1 billion litres of milk, well up on its 750 million litres in FY18. Management also noted that the recent Koroit acquisition, coupled with its milk procurement program, has resulted in a seasonal build-up of working capital with associated funding costs. BGA provided FY19 normalised EBITDA and NPAT guidance which were 7.1% and 21.4% below our expectations. Whilst disappointing, we believe that the update reflects challenging industry condition, rather than company specific issues. Importantly, management noted that the integration of Koroit and its operating performance to date have been solid. BGA has excellent assets which would be difficult to replicate and a quality management team. The business remains well positioned to grow going forward, notwithstanding current challenging industry conditions, although we will be closely watching data points in the coming months to ensure conditions don't deteriorate further.

Worley Parsons (WOR, -41.0%) finished the quarter down on the back of a very weak oil price (-39.7% Q4) which combined with a large capital raising to water down investors' appetite for the global resources and energy services business. WOR announced the acquisition of the Jacobs Energy, Chemicals & Resources division for a headline price of A$4.6bn. The transaction is expected to be highly synergistic and not only delivers earnings per share accretion of +20% but also diversifies the WOR business across geographies and sectors. The combined business will create a pre-eminent global provider of professional, project and asset services in the resources and energy sectors. The market, however, took a cautious view of the size of the transaction and resulting risk with an additional almost $4bn of equity used to fund the deal and the combined debt levels of the group increasing by a further $985m. The sharp fall in the oil price during the quarter has heavily impacted sentiment and is likely to impact confidence and the pace of contract awards in the near-term. Following recent OPEC production cuts, the oil price has stabilised at a level that is still supportive of capex projects moving forward. A further material fall in the oil price would cause us to reassess our holding in the Fund.

Bingo International (BIN, -40.9%) was heavily sold down during the quarter after it received a setback when the ACCC released a statement of issues raising preliminary competition concerns about its proposed acquisition of Dial-a-DUMP (DADI). The ACCC's key concern is that the acquisition would remove BIN's most substantial competitor in building and demolition waste processing, particularly in eastern and inner Sydney and may lead to higher gate fees. Whilst disappointing, BIN continues to engage with the ACCC in further submissions and detailed consultation anticipation of a satisfactory resolution to the matter.

There remains a range of potential outcomes for BIN including asset divestments (potentially the Banksmeadow facility and Patons Lane landfill) to appease the concerns of the ACCC. We have engaged with several industry consultants and believe that the transaction may still be approved subject to some asset divestments by the company. Should the DADI transaction be cancelled, BIN will have a very strong balance sheet having raised $425m from shareholders to fund the deal at a price materially above the current share price ($2.48). The company has numerous other strategic options which may be funded or, alternatively, it could launch a share buy-back which we estimate would be significantly accretive to EPS in FY20. We believe the stock has been oversold with the uncertainty of the transaction weighing heavily on the share price.

NRW Holdings Limited (NWH, -22.7%) fell heavily during the quarter despite a raft of positive announcements which paint a healthy picture for the business and its future growth prospects. These included several material contract wins and extensions across the civil, mining and drill & blast divisions, the securing of bank funding to repay corporate notes which will reduce the company's cost of debt and, not least, a material profit upgrade with H1 FY19 earnings now expected to be $45m, up over 100% on the same period last year and well ahead of consensus expectation. Whilst the share price initially rallied on each positive announcement, it was short-lived with the stock progressively sold off over the quarter as the storm clouds gathered around the outlook for global growth, largely due to the ongoing trade war.

NWH is strongly positioned to deliver an excellent FY19 result but the market is obviously worried about the earnings outlook for the sector. NWH has a strong forward order book (currently in excess of $2b) and ought to be debt free by the end of the financial year. The NWH civil business is well positioned to win a significant amount of work in the coming years on the iron ore replacement and sustaining tonnes projects from BHP, RIO and FMG which have approval to begin construction and are critical to the iron ore majors maintaining their production levels in the coming years. It is, therefore, unlikely that these projects would be cancelled regardless of what transpires in the global economy because this would result in the iron ore majors having significantly smaller businesses going forward. In a promising sign, NWH has already been awarded some early works on BHP's South Flank and FMG's Eliwana projects.

With capital preservation front of mind, we have been extremely selective in adding new stocks to the portfolio during the quarter, although we have added to certain existing portfolio holdings that we feel have been oversold. We did, however, participate in a capital raising for litigation funder **IMF Bentham (IMF)** in late October at $2.80 and the stock was a rare winner for the portfolio finishing the quarter at $3.14.

IMF is a litigation funding company that provides funding to plaintiffs, law firms and corporations for legal disputes in Australia, New Zealand, Hong Kong, Singapore, USA and Canada. The company is principally involved in the investigation, management and funding of litigation. IMF has collected $2.3b for clients and successfully resolved 90% of the 179 completed cases since listing on the ASX in 2001. Management is well down the path of transitioning the business from direct single-case investments (which can deliver "lumpy" earnings) to a co-investment, multi-case SPV structure. This should lead to higher Return on Invested Capital (ROIC), reduce the earnings volatility for the business and diversify risk to a larger portfolio of investments. Over time, solid execution by management ought to see the stock re-rate as the business grows and the quality and predictability of its earnings stream increases.

Outlook

Whilst there have been several high-profile factors contributing to the risk off environment that has gripped global markets in recent months they all ultimately relate back to underlying concerns about the prospects for economic growth and earnings growth. Entering the new year, many of these uncertainties remain unresolved with ongoing trade and geopolitical tension between the US and China, Britain (still) attempting to negotiate a palatable deal for "Brexit" and the Chinese economic outlook deteriorating. Combined, this has created a mood of extreme caution amongst investors which has seen global equity markets and, indeed, most liquid asset classes sell off materially in the December quarter.

Although Trump has recently alluded to making significant progress toward reaching a trade deal with his counterpart, Xi Jinping, recent economic data out of China is a reality check that the trade war is starting to impact on its economy. China remains on track to hit its growth target of around 6.5% in 2018, but the economy is losing momentum heading into 2019. The recently released December Purchasing Managers' Index (PMI) showed that activity in China's manufacturing sector contracted for the first time in two years amid an economic slowdown which can be largely attributed to the Sino-US trade war. As headwinds to growth and confidence gather, Chinese policymakers continue to show flexibility in offering dovish economic policy in attempting to buffer any slowdown.

Whilst corporate profitability and the general economic conditions in the US remain solid, they are being undermined by political instability and uncertainly around the regulatory environment. There are growing concerns that the trade war will ultimately lead to a significant economic slow-down in 2019 and drive the economy into recession, which will obviously have negative connotations for corporate earnings. In early January the market was spooked when tech bellwether Apple downgraded earnings estimates citing weakness in the Chinese market and a gauge of US manufacturing (ISM) plunged by the most since 2008, raising concerns that the trade war with China is taking a bigger toll than expected on economic growth. Offsetting these concerns, US December jobs data (non-farm payroll employment) far exceeded consensus expectations and indicates that whilst business confidence may be softening, the US consumer remains on solid ground underpinned by a strong jobs market and wage gains.

Compounding investor angst in December were the actions of the US Federal Reserve ("the Fed") which hiked rates and guided to two further increases in 2019. In December, the Fed ignored the market volatility and increased rates for a fourth time for 2018 and talked to further rate rises in 2019 which unnerved investors who were hoping for more "dovish" commentary from Fed Chairman Jerome Powell. Since the GFC, investors have become accustomed to the so called "Fed Put", the widespread belief that the Fed can rescue the economy with accommodative monetary policy. With confidence in the "Fed Put" now wavering, market watchers are becoming more concerned about a shrinking of the size of the Fed's balance sheet and, as such, more skittish about future economic conditions. Not helping matters, Trump further shook the market when he blamed the central bank for December's steep equity market sell-off and reportedly inquired about firing the Fed chairman, a claim later allayed by Treasury Secretary Steve Mnuchin.

Whilst the Fed's updated economic assessment is somewhat less upbeat than in prior months, and included a slight downward revision to next year's GDP forecast, there appeared to be a gulf between the economic expectations of the central bank and those of the market, with the latter pricing in a much more bearish outlook. In early January, Fed Chairman Powell used an appearance at an economic conference to appease the market by backing down from earlier comments relating to the Fed's balance sheet policy where he had said that the Fed's balance sheet wind down was on "autopilot". He softened that position considerably on the weekend and reassured investors that the Fed was listening carefully to the market and would be flexible with all its policy tools.

On the domestic front, the Mid-Year Economic and Fiscal Outlook (MYEFO) was released in December and confirmed that the annual deficit is tracking at $5.2b, a little over $9.0b better than the forecast delivered at the Federal Budget in May, mostly due to stronger than anticipated tax receipts. Whilst this leaves the government well positioned to cushion any economic downturn, we would expect most of this money to be committed to either tax cuts or government spending by the major political parties coming into the 2019 election. Any tax relief would no doubt be well received by the domestic consumer who continues to struggle under the increasing pressure of falling house prices and record-low wages growth. Indeed, household spending fell to its lowest level in six years during the quarter and our anecdotal feedback suggests that Aussie retailers overall endured a challenging Christmas season.

The good news for investors is that the steep sell-off has seen valuations on equities starting to price in a material slowdown in the global economy including a likely sharp sell-off in China and a strong probability of the US entering a recession in the back half of 2019. Absent a policy mistake by the US Federal Reserve (hiking rates too quickly in 2019) and/or a re-escalation of the trade war, we view this as an unlikely scenario based on the current economic data and believe there is valuation support now emerging in the market.

The month of January is usually very quiet from an information perspective with most ASX listed companies in "blackout" ahead of mid-year results due in February and company management typically on their summer holidays. The investment team is looking forward to the upcoming February reporting season when the market will once again focus on fundamentals as we believe that our portfolio is well positioned to deliver strong operating results and solid outlook statements despite the current macro-economic conditions and political uncertainty.

We wish our investors all the best for a safe and prosperous new year and thank you all for your ongoing support of the team.

Top 5 holdings#

Company	ASX code
Mineral Resources Limited	MIN
NextDC Limited	NXT
Reliance Worldwide	RWC
Seven Group Holdings	SVW
Webjet Limited	WEB

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

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† The total return performance figures quoted are historical, calculated using hard close, end-of-month mid-prices, cum-distribution, 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 index does not incur these costs. This information is provided for general comparative purposes.

* 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.