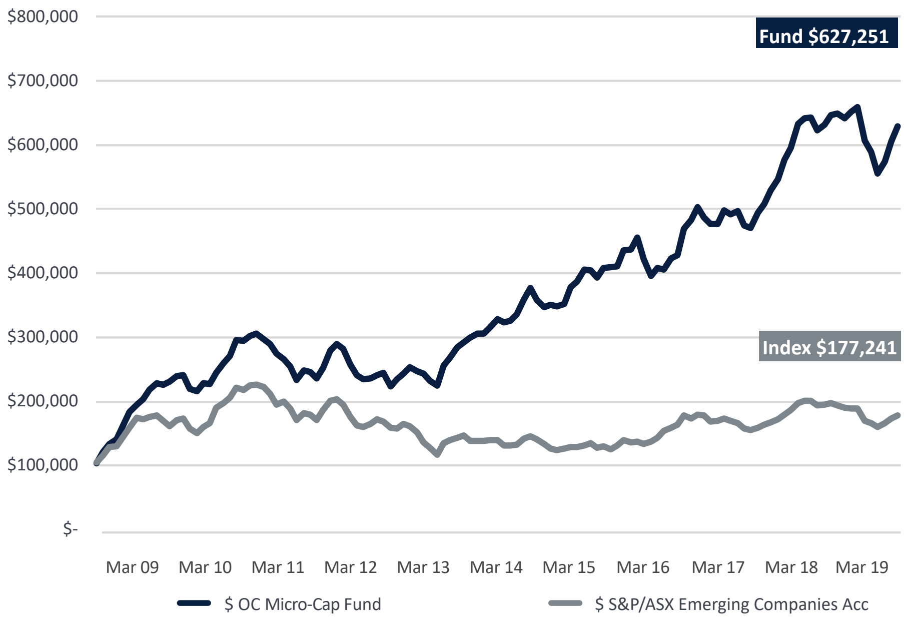
13.3% Fund up 13.3% for the quarter

20.2% Returned 20.2% p.a. for the past ten years

We remain confident the Fund is well placed to deliver strong long-term returns

Performance comparison of $100,000 over 10 years*



Total returns

At 31 March 2019†	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. (Mar 2003)
OC Micro-Cap	4.0	13.3	0.9	15.6	14.0	11.8	20.2	13.2
S&P/ASX Emerging Comp. Accum	2.8	12.3	-8.4	8.0	5.4	-1.9	5.9	NA
Outperformance	**1.2**	**1.0**	**9.3**	**7.6**	**8.7**	**13.8**	**14.3**	**NA**

Inception date for the Fund is 21/11/2003. Inception date for the Index is 31/12/2003. The performance reflects the performance of the OC Micro-Cap Fund since the change of strategy on 30 September 2016 and the performance of the OC Concentrated Equity Fund prior to that date. Performance is after fees applicable at the time.

Performance review

Global markets bounced sharply in the March quarter after the US Federal Reserve signalled that it was done hiking interest rates and several other major central banks subsequently turned more dovish, including the Reserve Bank of Australia. Following the global lead, the Australian micro-cap index rebounded strongly, with the S&P/ASX Emerging Companies Accumulation Index up 12.3% for the quarter.

The OC Micro-Cap Fund also enjoyed a solid bounce in the March quarter, up 13.2%. The Fund continues to have strong long-term performance having returned +20.2% per annum over the past 10 years, which is well ahead of the S&P/ASX Emerging Companies Accumulation Index which has returned +5.9% per annum.

During the quarter, most of the small and micro-cap universe released their first half results and one could be forgiven for concluding that corporate Australia is performing exceedingly well given the strong bounce in the market. But the reality is that only 44% of companies in the S&P/ASX Small Ordinaries Index grew EPS over H1 FY19, which is the weakest period of growth since H1 FY11[1]. In fact, the February reporting season was slightly disappointing versus consensus expectations with the index strength likely driven by a dovish pivot from the US Federal Reserve and/or expectations that a Sino-US trade deal may be close, rather than by underlying company fundamentals.

Dubber Corporation (DUB; +86.3%) was added to the portfolio during the quarter and has performed well since its acquisition. DUB is a cloud based, software-as-a-service (SaaS) platform that captures call recordings from many sources including browsers, mobile, PABX, hosted voice applications and legacy recording devices. DUB manages these recordings in a secure, permission-based environment and call recordings are immediately searchable and accessible from any location via a web browser. Though still relatively early in its development and deployment into enterprises, we expect the DUB platform will be widely available through telcos globally in the coming years (currently 92 telcos have contracted to use the technology). DUB remains an early stage,

(1) Goldman Sachs Research, FactSet, Bloomberg.

concept portfolio stock and we are holding the position at a relatively low weight, but we believe DUB is well positioned to take a leadership position in the large and growing call recording market.

Jumbo Interactive (JIN; +79.9%) share price rocketed on the back of strong tattslotto jackpot activity which drives game participation amongst JIN's core customer base. After upgrading the outlook for earnings at the 1H19 result in February, jackpot activity remained elevated for the remainder of February and March with a further seven jackpots of average size of A$40m. In February, JIN guided to FY19 TTV of A$296m and revenue of A$61m which assumed 17 large jackpots of average size of A$34m for 2H19. To date in 2H19, there have been 13 large jackpots of average size of A$43m, so the likelihood of a further earnings upgrade from JIN is high. Furthermore, the JIN share price has been supported by increased analyst coverage and the market factoring in upgrades to FY20 earnings. We look forward to further updates from management in the near term which may include the declaration of a special dividend.

Clover Corporation (CLV, +51.1%), the producer of powdered Omega3 used in infant formula, was a standout positive contributor to portfolio returns for the quarter, following the release of an outstanding H1FY19 result in March. Clover's results were strong, with new markets and territories delivering healthy top-line revenue growth (+10%) and better-than-expected margin expansion driven by increased volumes and improved trading terms. CLVs cashflow was somewhat dented by increased investment in inventory to support ongoing growth. Clover continues to enjoy strong demand for its products, with excellent opportunities developing in Europe, and China emerging as a key growth factor. Recently introduced European legislation sees the addition of 20mg/100 Kcal of DHA in infant formula mandated from February 2020. Additionally, pending legislation in China to increase the level of DHA in infant formula to 15mg/100 Kcal may further open up the Chinese market for Clover's products in the future. We continue to hold CLV as a core position in the portfolio despite its strong recent run and see its long-term prospects as highly encouraging.

Probiotec (PBP) is a recent addition to the portfolio. PBP is predominantly a contract manufacturer of over the counter pharmaceuticals based in Laverton, Victoria. PBP's share price moved higher during the quarter after reporting an underlying result which was broadly in line with the prior corresponding period despite divesting non-core assets recently. PBP has been using excess capital to buy back stock and may also deploy capital into acquisitions of private contract manufacturing and packing businesses. We like the relatively defensive earnings profile of PBP, the management team and its sound balance sheet and believe that the prospects are bright for the future of the business.

Kelly Partners (KPG; -29.6%) is a network of tax focussed accounting firms that have been rolled up by its charismatic founder, Brett Kelly. KPG traded lower during the quarter after reporting disappointing write offs of work in progress (WIP) from its Sydney CBD business which is the largest single KPG practice. KPG acquired the business prior to its ASX-listing and the existing vendor partners in the practice had a two year "earn out period" where the balance of the acquisition consideration was contingent upon earnings delivery. Accordingly, this earn out consideration was held back from vendors of the Sydney CBD firm after A$8m of revenue was delivered as opposed to the forecast of A$10m. This disappointing announcement at the first half result coincided with an increase to management compensation. Whilst we understand this change in compensation is now on hold, we have been reducing our position due to concerns with KPG management and corporate governance.

Outlook

The market bounced in the March quarter as domestic equity market participants climbed a wall of worry to cast aside concerns about a global economic slowdown, the unresolved Sino-US trade dispute, Brexit uncertainty and a softening domestic retail, property and consumer environment to close the quarter up strongly. This was in stark contrast to the last quarter of CY18 when a mood of extreme caution saw most liquid asset classes sell off materially. The circuit breaker appears to have been an abrupt turnaround by the US Federal Reserve ("the Fed") on interest rates policy, as well as widespread market optimism that the trade differences between the US and China will soon be resolved.

Without doubt, the dovish pivot from the Fed was the catalyst for improved risk appetite from equity investors during the quarter. The US Federal Reserve has now signalled that its done raising rates in the near-term and would be 'patient' about any future decisions on reducing its bond holdings. The return of the so called "Fed Put" has no doubt emboldened investor risk appetite and alleviated concerns that the Fed was hiking too quickly and could drive the US economy into recession. On the heels of the Fed's dovish rhetoric, the European Central Bank pushed out a planned rate hike and central banks from Canada and Australia also issued commentary suggesting that they had turned more dovish in their outlook for interest rates.

The Sino-US trade dispute has been topical for some time now and is still garnering daily headlines with ongoing rumours that a trade deal between the two super powers is getting closer. Chinese Vice Premier Liu He will meet Trump at the White House on Thursday in what is believed to be a further push to resolve some of the more contentious issues. Negotiations seem to have come down to three key points of contention:

1. The US wants China to purchase more American exports and has already won Beijing's assurances that they will do so;
2. The US wants assurances around intellectual property (IP) protection, namely that China will stop stealing US IP and further that it will enforce IP protection laws against those who do;
3. The US wants to prevent forced technology transfer to China which occurs when foreign multi-nationals are pushed to provide strategically significant technology to Chinese entities (that they do not control) so they can do business in the massive Chinese market.

Whilst the direct impact on the Australian small cap stock universe of a protracted trade war is minimal, given that few companies are directly affected by the current tariffs, the second order effects of these tariffs may have a significant impact on our market. For instance, a protracted trade war would likely drag heavily on global growth which would have a material impact on many companies including those exposed to commodity prices such as the resource companies or mining services stocks. In this context, it is not surprising that global markets have rallied, including domestic small-caps, on optimism that Washington and Beijing may be close to reaching a binding trade agreement.

On the domestic front, the Reserve Bank of Australia (RBA) remains relatively upbeat about the prospects for our economy, although it has modestly downgraded its GDP forecasts for 2019 and 2020 to 3.00% and 2.75% (from its prior forecast of 3.25% and 3.00%) respectively. Clearly the RBA remains heartened by the strong labour market (unemployment is forecast to be 4.75% over the next few years) and the benign level of inflation, with the bank recently downgrading inflationary expectations to 2.25% by the end of 2020. Interest rates appear to be on hold for some time following RBA governor Philip Lowes' dovish shift to an "evenly balanced" stance on the direction of rates, although the bond markets are now starting to price in an interest rate cut later this calendar year.

We are a little more circumspect about the domestic economic outlook. Pleasingly, there remain areas of strength, such as public infrastructure and mining construction, and the portfolio has a healthy exposure to these thematics. Furthermore, the employment market is sound and inflation is well contained and unlikely to break out any time soon. However, the consumer is doing it tough with negligible real wages growth and falling house prices and tight credit conditions weighing on the outlook for domestic consumption.

The mounting pressures in the residential property market are well publicised and the International Monetary Fund has recently sliced its Australian growth forecast from 2.8% to 2.1%. The IMF's lead analyst for Australia, Dr Thomas Hembling, said residential property had fallen further than had been anticipated and was generating a drag on the rest of the economy, although he noted that it should be offset somewhat by other drivers such as infrastructure spend.

The RBA has downplayed the risks of the slowdown in economic growth, arguing the "wealth effect" on consumer spending from falling house prices will be limited to cars and furniture. But our interactions with company management in recent months suggest it is more widespread and will likely have a more pronounced impact on consumer behaviour in the coming months, including on discretionary items such as travel and leisure activities. It remains to be seen whether increasing levels of public infrastructure spend, stimulatory tax cuts (promised by both major political parties in the run up to the May federal election) and non-mining business investment can pick up the slack.

The federal budget was an unusually subdued event from a market perspective with the Australian Labor Party the overwhelming favourite to win the upcoming election, which will take place on Saturday May 18. Unless there is an abrupt change in voter sentiment, it seems unlikely the Liberal-National coalition will be given a mandate by the Australian people to implement their newly announced budget policies.

If the polls are accurate and Bill Shorten is elected Australia's next Prime Minister, the most obvious implications will be in the following areas:

- the housing market, with the limiting of negative gearing to investment in new housing only;
- personal income taxes (positive for low income earners, negative for higher income bracket tax payers);
- the halving of the Capital Gains tax (CGT) discount for all assets purchased after a yet-to-be determined date; and
- elimination of franking credit cash refunds, which will likely impact some individuals and many superannuation funds.

The implications for the portfolio are minimal and we will give a more comprehensive update following the federal election.

The Fund has been conservatively positioned over the quarter with cash holdings exceeding 10%, which impacted our relative returns given the sharp rebound in the index during the quarter. We have resisted the urge to chase the market given the slowing global economic environment, albeit we have been selectively deploying capital into several new investment positions during the quarter.

Following our post-reporting season management catch-ups, we are again out on the road with an extensive list of companies, competitors and sites to visit. Recent weeks have seen members of the team in the US and China, meeting with an impressive array of ASX listed companies, their competitors and industry peers for comparative purposes. 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
Cann Group Ltd	CAN
Imdex Limited	IMD
Jumbo Interactive	JIN
National Veterinary Care	NVL
Propel Funeral Partners	PFP

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

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