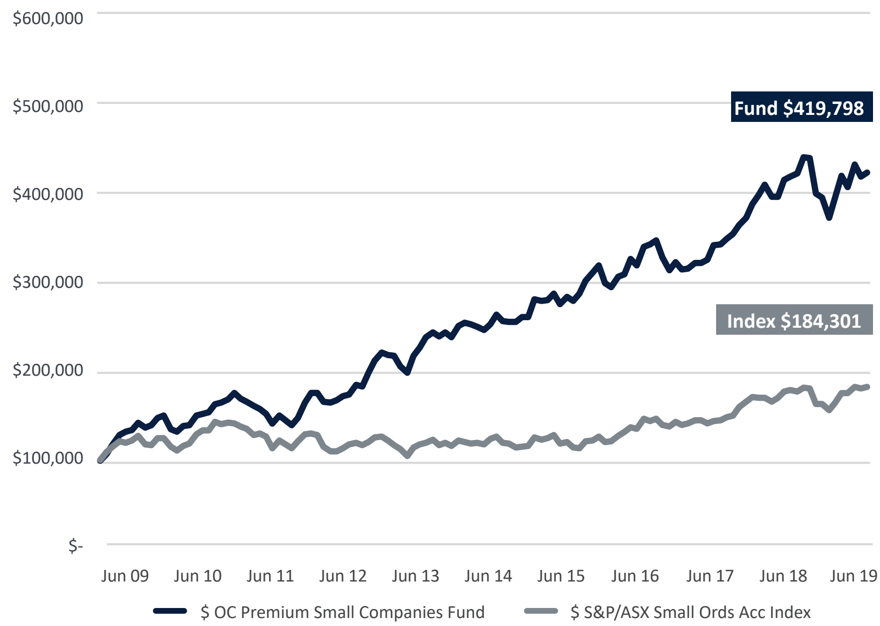
1.1% Fund up 1.1% for the month

15.5% Returned 15.5% 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 30 June 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. (Dec 2000)
OC Premium	1.1	4.1	1.0	9.9	11.4	14.3	15.5	11.2
S&P/ASX Small Ords Accum	0.9	3.7	1.9	10.7	9.3	7.6	6.3	6.1
Outperformance	**0.2**	**0.4**	**-0.9**	**-0.8**	**2.1**	**6.7**	**9.2**	**5.1**
S&P/ASX Small Ind Accum	0.4	5.4	6.4	10.7	10.4	11.7	10.4	6.6
Outperformance	**0.6**	**-1.3**	**-5.3**	**-0.9**	**1.0**	**2.7**	**5.1**	**4.6**

The total return performance figures quoted are historical, calculated using soft close, end-of-month mid-prices and do not allow for the effects of income tax or inflation.

Performance review

The OC Premium Small Companies Fund finished the financial year in positive territory after returning +4.1% for the June quarter. This was ahead of the Small Ordinaries Accumulation Index, which returned +3.7% for the quarter, and behind the Small Industrial Accumulation Index, which was up 5.4% over the same period.

The Fund finished the financial year up 1.0% which was slightly behind the Small Ordinaries Accumulation Index which was up 1.9% and behind the Small Industrials Accumulation Index which was up 6.4%. This is the first instance in a decade that the Fund has finished behind both small-cap indices in a financial year.

In the opinion of the OC Funds' investment team, it was the most challenging period for active small cap investors since the GFC and this was reflected across the small cap space with a wide array of managers finishing behind the small-cap benchmark and an increasing number of fund managers shutting their doors and handing back money to their investors.

Returns across the small cap index where driven largely by a narrow group of high-octane growth stocks in the technology and healthcare sectors, as well as "bond proxy" stocks and gold miners, which outperformed toward the end of the financial year. The Fund held just enough of the tech stocks to see it perform roughly in line with the broader small cap index, but it was a market which presented its share of challenges for our strategy.

Our strong valuation discipline has seen the Fund reduce our high growth holdings throughout the year as their risk versus return characteristics deteriorated following strong share price appreciation. With long duration growth stocks continuing to rally through the financial year, this has meant we have sold down several stocks 'too early' in their extended share price rallies and so we have left plenty of money on the table. For example, we were early to identify the strong growth characteristics of businesses such as IDP Education (+69.8% FY19), Appen Group (+110.0%), Afterpay Touch (+168.1%), The A2 Milk Company (+31.7%) and Altium Group (+53.3%). But we have been disciplined in trimming our weightings when we believed that the market has gotten ahead of itself from a valuation perspective. Had we closed our eyes to valuation ("nobody cares about valuation at the moment" is a refrain that we have heard from many in the past 12 months), the Fund would have enjoyed an exceptional year. We have exited or partially sold down our positions in these stocks throughout the course of the year on valuation grounds and each of them have closed the financial year at or near record highs. Nevertheless, we are unapologetic for sticking to our investment process as we know that ultimately, when global growth slows materially or when global interest rates rise or when some other left field event occurs which sees long duration growth stocks fall from favour, a day of reckoning will come for these stocks and valuations will once again come into sharp focus for the market. Timing is always a difficult question, but we can say with a high degree of certainly that this day will eventually come.

At OC Funds we pride ourselves on our strict adherence to our proven investment process which has delivered strong returns for investors over the last decade under the stewardship of the existing investment team which is one of the more stable and experienced in the small-cap space. Over the past 10 years, the OC Premium Small Companies Fund has returned 15.5% p.a. which is well ahead of both the Small Ordinaries Accumulation Index and the Small Industrial Accumulation Index which have returned 6.3% p.a. and 10.4% p.a. respectively over the same time horizon. We have no intention of ignoring our disciplined process, which has driven strong returns for investors through the cycle, in order to chase short term returns.

From a stock perspective, **Eclipx Group (ECX, +104.7%)** was back on the positive side of the ledger after a difficult 12 months. The key catalyst for the stock re-rating was much needed management change at both the CEO and CFO level, the announcement of the full year result which brought the market some comfort around banking covenants, and a sensible and clearly articulated strategy to divest non-core assets, pay down debt and focus on the higher quality core fleet management and leasing business. Regular readers of our monthly will be acutely aware of the woes of ECX over the past 12 months and those familiar with our investment process would be aware that we typically sell stocks that have poor operational performance. As we have explained in the past, we clearly did not foresee the speed of the operational deterioration in the business but believe that the recent depressed share price was not a fair representation of the value of the company's assets, particularly the core fleet leasing and novated business.

The recent appointment of Julian Russell as CEO and Bevan Guest as CCO has instilled some much needed confidence in the executive team. Mr Russell has a solid pedigree in financial services and is well acquainted with the ECX business from his prior capital markets role at UBS where he has advised ECX since 2014. At the release of the full year result, management articulated a clear strategy to divest the underperforming assets, namely Grays Online, Right2Drive and the Australian commercial equipment business. The proceeds of these sales will be used to pay down debt and allow management to focus on the profitable core business, or more likely, allow for its orderly realisation in a manner that maximises shareholder value, as opposed to the fire sale the market had been anticipating.

Bingo Industries (BIN, +47.7%) rallied strongly during the quarter as the market became more comfortable with the recent acquisitions, management's ability to hit the revised earnings guidance for FY19 and the likelihood of meaningful price rises in the NSW market following the introduction of the $70 per tonne waste levy in Queensland. BIN is seeking put through price rises of 20-25% in NSW in response to increased costs and greater demand for landfill and recycling capacity following the introduction of the Queensland levy. The extent to which these price rises stick remains unclear at this stage, but we note that several of BIN's key competitors have announced their intention to increase prices and Sydney landfill prices look set to rise materially in the coming 12 months which will certainly make discussions with key customers a little easier.

We attended BIN's investor day in late June which showcased both the newly acquired Eastern Creek Recycling Ecology Park and the Paton's Lane landfill and recycling facility, both of which are state of the art and on track to make meaningful earnings contributions in FY20. The integration of Dial-a-Dump is well progressed and the $15m synergy target has been maintained. The ramp up at West Melbourne is going well and we recently undertook a site visit and were impressed by the quality of this facility. No doubt a softening residential market remains a key headwind but the ramp up in infrastructure related waste ought to provide some offset. BIN owns a suite of quality assets that are difficult to replicate, particularly the NSW landfill assets, which are a major competitive advantage given that the government is unlikely to approve further landfill sites in the greater Sydney region any time soon. The stock remains a core portfolio holding.

Austal Limited (ASB, +51.6%) has enjoyed a strong re-rating since being added to the portfolio in April following extensive due diligence from the investment team including a site visit to the company's support centre in San Diego, USA and a recent visit to the company's Henderson facility in WA. The global ship building company has grown in stature in recent years following a successful expansion into the US market where it has established a large modern shipyard in Mobile, Alabama which is the prime contractor for the US Navy's Littoral Combat Ships (LCS) and Expeditionary Fast Transport

Vessels (EPF) programs. Austal has more recently increased its Asian shipbuilding capabilities by opening a manufacturing facility in Vietnam to complement its facility in the Philippines which, coupled with its Aulong JV in China, gives the company a significant cost advantage over most global peers. We remain confident that ASB can grow its profit margins in the coming years, underpinned by its rapidly growing sustaining and support business in the USA which has the potential to be a +$400m revenue opportunity for the business in the next three years, better execution of the LCS programme, in addition to utilising its Asian operations which lend ASB a significant cost advantage in the high-speed ferry market. Whilst ship building is not without risk, the ASB management team has delivered strong results in recent years and the company has a solid platform for sustainable growth and a strong pipeline of opportunities.

The Citadel Group Limited (CGL, -37.8%) was the key disappointment for the Fund during the quarter after it provided earnings guidance for the year ending 30 June 2019 which was well below consensus expectations. As discussed in the May Monthly Review, the IT services provider flagged two key reasons for the earnings miss. Firstly, CGL noted key customer spend fell significantly in the lead up to the federal election (the federal government comprises a high portion of CGL's customer base) as the government went into 'care-taker' mode during the election campaign. The company did not anticipate the scale of the drop-off and did not adjust its cost base accordingly and the resultant negative fixed cost leverage was significant. Secondly, CGL has made a strategic pivot away from managed services contracts, which typically include a large up-front licence fee, toward a Software-as-a-Service (SaaS) style recurring revenue model which has seen revenues and margins fall this year. Under a SaaS model, these earnings ought to become higher quality, stickier revenue streams going forward. SaaS is now 35% of CGL's total revenues and is a growing part of the business which we believe bodes well for a future potential re-rating of the stock. Following the downgrade, the investment team has actively engaged the management and board members of CGL on several occasions and we are confident that the earnings will rebound in FY20. Whilst the downgrade was clearly disappointing, we believe that the quantum of the sell off is overdone and have retained our holding.

Link Administrative Holdings (LNK, -32.3%) revised down its earnings in late May with the new guidance around 12% below our prior expectations. According to management, the key contributors were: a) Brexit uncertainty which is impacting business sentiment and the performance of the group's European operations and b) earlier than anticipated implementation of "Protecting Your Super" legislation, which has increased activity levels at an operational level as some funds have moved to transfer identified inactive member accounts to eligible rollover funds to facilitate early consolidation. The latter factor has driven negative operating leverage in the LNK business due to the scaling up of resources, without a commensurate increase in revenue. The Fund exited the stock on the day of the downgrade, as is often our approach on an unexpected operational earnings downgrade. Taking our medicine quickly has spared our investors the additional pain of the further ~20% the stock has subsequently fallen.

Costa Group Holdings (CGC, -21.4%) was added back to the portfolio in early June after a sharp pullback in the share price. We had owned CGC for a period from IPO as we recognised the quality of the business but had exited the stock when we became concerned that the market was no longer pricing in any agriculture risks, such as potential for subdued produce prices, or reduced yields due to natural, seasonal and environmental factors. CGC, however, has had a run of these adverse events recently, culminating in a disappointing announcement to the market on 30 May which saw the shares trading less than half the price of a year earlier. Lower mushroom prices with increased compost costs, a delayed Moroccan blueberry season with lower prices, lower raspberry yields and related labour inefficiency, fruit fly related increases to packing and processing costs and higher water prices for citrus operations were all cited in the AGM trading update as current issues the business was facing. Most of these issues represent seasonal, not structural factors, which will likely resolve or be ameliorated by the company before the next season. The underlying operations of the company are continuing to exhibit growth with increased volumes likely to continue and cost efficiencies likely to return. The company's share price has started to recover and is up 7% from our average re-entry price.

Outlook

As we enter the new financial year, global equity markets are rallying on the expectation that central banks will drive global rates towards zero across most key Western economy's in the coming year to offset a slowdown in global growth that is expected as the Sino-US trade war starts to bite. Whilst the deepening trade war makes the probability of a 2020 globally recession more likely, the so called "central bank put" makes rate cuts far more likely in the coming months and investors seem willing to look through the possibility of slowing near-term company earnings, presumably on the basis that interest rate relief will ultimately drive company earnings higher in the medium term. The dearth of alternative attractive asset classes for investors in the current economic climate is also helping the cause of equities.

Certainly, most central banks globally seem to be coming to the party led by the US Federal Reserve whose recent dovish commentary has seen bond futures markets price in 50 basis points of rate relief before the calendar year is out with more to come in calendar year 2020. Even our own central bank, the Reserve Bank of Australia, cut rates in June and July following a record run of 34 consecutive months where interest rates had remained on hold. More on that later.

With interest rates approaching record lows and the property market still subdued (albeit showing signs of life), equities remain in clear favour with investors looking for returns in a difficult investment environment. Clearly the view is that lower interest rates and the potential for quantitative easing by central banks will underpin asset prices, notwithstanding the trade and geopolitical tensions between China and the US and the deteriorating relationship between the US and Iran, both of which could derail global growth.

In a recent positive development on the trade front, Trump and President Xi Jinping have reached an agreement to resume negotiations to reach a binding agreement after each agreed to compromise on key issues. Trump has lifted a ban on US companies selling parts to Chinese tech giant, Huawei, and put on hold a threat to impose tariffs of a further $US300 billion on Chinese imports. China for its part, has agreed to buy a “tremendous amount” of US agricultural products as part of the new ceasefire. Whilst the de-escalation in hostilities has been cheered by the markets, this remains a complex negotiation which will need patience, compromise and mutual respect from both parties to reach a lasting trade deal. The likelihood of a near-term agreement seems remote given the growing ideological differences between both countries and, importantly, the strong personalities of the leaders, each who seem unwilling to back down on the remaining sticking points.

The domestic economy has its own set of challenges as we enter FY20 and this was clearly telegraphed by the RBA when it cut the cash rate to a record low 1.00% in early July. The RBA has done an exceptional job in talking up the domestic economy in recent years. The RBA has regularly espoused confidence in the economic outlook, particularly under current governor, Phillip Lowe, and this has arguably instilled some confidence in the economy for consumers. But with the RBA cutting both rates and its outlook for growth, it is clear the domestic economy is under some pressure.

Whilst the unexpected victory of the Morrison Coalition government has provided some welcome news for property owners, equity investors, householders and retailers, who stand to benefit from tax cuts, the overall domestic economic outlook remains challenging. Despite the bump in sentiment following the election, several retailers have lowered earnings guidance in June, including Wesfarmers subsidiaries Kmart and Target and also Adairs. Wages growth remains stubbornly low, inflation is tracking well below the RBA’s preferred band of 2% to 3% (currently 1.3%) and unemployment is starting to track higher. On a brighter note, sentiment in the property sector has improved markedly on the back of interest rate cuts, the wind back of lending limits from APRA, which ought to help credit origination, and the removal of the threat of negative gearing and capital gains tax changes which are no longer on the table following the Coalition victory.

Recent commentary from the RBA has been extremely dovish and has even mentioned “unconventional monetary tools”, a thinly disguised euphemism for quantitative easing which would reduce short term funding costs and is generally supportive of asset price growth. Quantitative easing, also known as large-scale asset purchases, is a monetary policy whereby a central bank buys government bonds or other assets in order to inject monetary liquidity into the economy. It is widely believed to cause asset price inflation and therefore ought to be supportive of equity prices should the RBA eventually head down that path.

Entering the new financial year, some of the key themes in the OC Funds portfolio include:

- quality stocks that can grow their earnings outside of the economic cycle, e.g. Fisher & Paykel Healthcare;
- companies exposed to the increasing value and use of data, e.g. Next DC
- companies exposed to the growing east coast public infrastructure pipeline, e.g. Seven Group Holdings; and
- defensive companies paying a sustainable yield, e.g. Cromwell Property Group.

We would like to thank our investors for their support through what has been a challenging year in the domestic small cap space. The investment team has a high conviction that our investment process will continue to generate strong returns for investors over the long-term and we thank our investors for their ongoing support. All the best to everyone for a healthy, safe and prosperous new financial year.

Top 5 holdings[#]

Company	ASX code
The A2 Milk Company	A2M
Mineral Resources	MIN
Nextdc Limited	NXT
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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