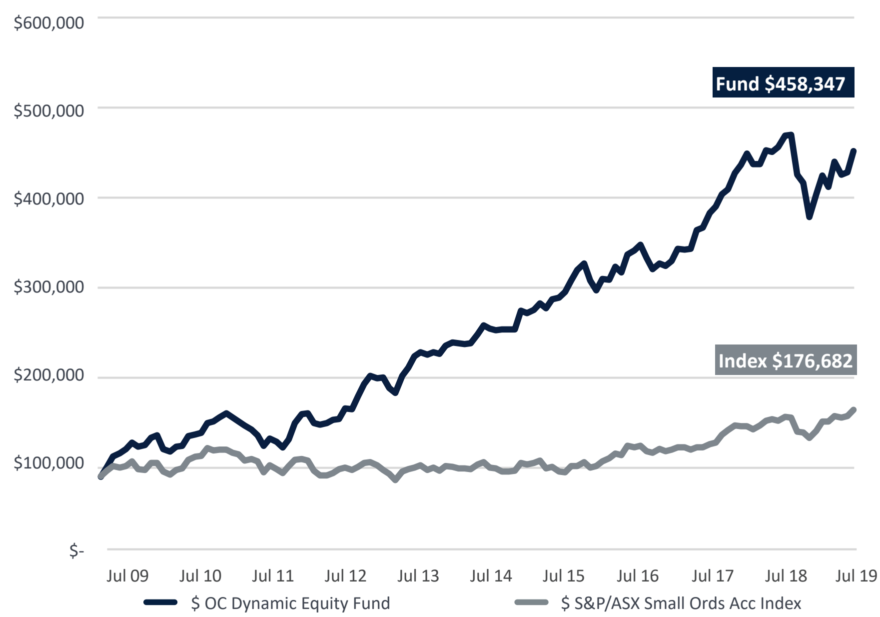
5.3% Fund up 5.3% for the month

16.5% Returned 16.5% 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 31 July 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 Dynamic	5.3	2.6	-1.0	10.0	12.3	16.3	16.5	12.6
S&P/ASX Small Ords Accum	4.5	4.1	7.6	9.3	9.2	8.3	5.9	6.5
Outperformance	**0.8**	**-1.6**	**-8.6**	**0.7**	**3.2**	**8.0**	**10.6**	**6.1**
S&P/ASX Small Ind Accum	3.7	2.8	10.9	9.1	10.3	12.0	10.0	7.0
Outperformance	**1.6**	**-0.2**	**-11.9**	**0.8**	**2.0**	**4.4**	**6.5**	**5.6**

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

Performance review

The new financial year started strongly with expectations of lower interest rates across most key markets emboldening investor risk appetite which in turn drove global stock indices higher. The OC Dynamic Equity Fund returned a solid 5.3% for July which was ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which returned 4.5% and 3.7% respectively for the month.

Company news flow was light on in July, as is typically the case in the ‘black-out’ period between the end of the financial year and August when most listed companies release their full-year results. During this time, many market participants, including company management, stockbrokers and fund managers take the opportunity for annual leave ahead of the busy results period.

A2 Milk (ATM, + 23.6%) was again a strong performer for the Fund during the month and our channel checks suggest that the company continues to perform well heading into the new financial year. The company is currently transitioning its Chinese distribution model from one dominated by the daigou to a more sustainable direct shipment model underpinned by Cross-Border E-Commerce (CBEC), China direct online and Mother and Baby Stores (MBS). June port data out of Christchurch, where Synlait manufacture the majority of A2M milk formula products, suggest very strong Chinese (+124%) and Hong Kong (+106%) exports somewhat offset by a fall in exports to Australia (-17%). This supports the view that the Australian daigou market is softening but is being comfortably offset by growth in China direct sales. During July, we also witnessed price rises in the A2 Milk infant formula range across Australian supermarket channels and we also expect there was a lift in the wholesale price during the month. A2M remains a core portfolio holding for OC Funds and we remain upbeat about the long-term growth of the business.

Pacific Current Group (PAC, +22.9%), a global owner of, and distributor for, boutique asset management businesses, bounced off heavily oversold levels during the month. We are aware that several of PAC’s larger institutional holders have lost investment mandates of late and this stock took some time to be absorbed by the market which may have contributed to the softness in the company’s share price in recent months. No doubt helping matters during July, PAC released a solid June quarter FUM update which showed total FUM at $57.5b, up 9.7% during the quarter. This was largely underpinned by inflows from tier-one boutiques GQG and Carlisle, helped along by a strong rebound in global equity markets and favourable currency movements. Despite the bounce in the stock price, PAC remains fundamentally cheap trading on a FY20 PE (ex-cash) of less than 8x and a dividend yield of 5.5%.

Austal Limited (ASB, +18.8%) continued its recent re-rate during the month following a trading update where management provided EBIT guidance for FY19 comfortably ahead of both our own and consensus forecasts, as well as providing preliminary EBIT guidance for FY20 of "not less than $105m". This FY20 guidance was also ahead of our own and consensus expectations. The strong FY19 result appears to have been driven by two key factors: (a) ongoing solid performance on ASB's two major vessel programs for the US navy; and (b) strong performance from ASB's Australasian shipyards. Both these factors bode well for the future growth of the business given the strong pipeline of future opportunities with the US navy and the ongoing ramp-up of ASB's Asian shipbuilding facilities which are expected to be a key driver of both revenue and margin expansion in the coming years.

During the month the Fund exited its holding in **Platinum Asset Management (PTM, -0.6%)** following continued underperformance from key PTM strategies and an acceleration of fund outflows. While PTM has a strong long-term track record, most of its funds are now meaningfully under-performing their key benchmarks, including the flagship Platinum International Fund. With the majority of retail FUM now underperforming over a five-year period it will become increasingly difficult from PTM to stem the fund outflow, notwithstanding the firm's strong reputation. We have consequently exited our small holding in the company.

Outlook

The positive momentum across global markets gained pace in July with investors heartened by central bank commentary, particularly from the US Federal Reserve which signalled the likelihood of rate cuts in the coming months. Rate cuts make equities more attractive from two key perspectives: (a) lower bond yields make the dividend yield on equities appear relatively more attractive and (b) the risk-free rate (for which US 10-year treasury bills is typically used as a proxy) is a key input into equity valuation models and lower rates underpin higher equity valuations. Rates are again falling from already low levels in both the US and Australia, as well as most other key western economies. Indeed 10-year Australian government bonds are now yielding a record low 1.05%, down from 2.7% a year ago, signalling that more rate cuts are to be expected from the Reserve Bank of Australia (RBA) over the medium term. Moreover, it is a powerful signal that markets are pricing a low inflation, low rate environment over much of the next decade. Against this backdrop, investors have been abandoning fixed income investments, with their paltry yields, and moving up the risk curve by increasing their equity exposure and this has driven the Australian market to new records highs at the end of July.

In early August, US President Trump broke the uneasy truce in the US-Sino trade war when he announced a 10% tariff on the remaining $300b or so of Chinese goods not yet subject to trade duties. Whilst not overly material in isolation, it signalled a serious escalation in hostilities in the simmering trade dispute between the two global super-powers and shattered any illusion that a resolution was close at hand. The market reacted savagely on the announcement precipitating a major sell off across global equity markets with volatility spiking and the Australian dollar gold price hitting record levels.

Unsurprisingly, the Chinese reaction was swift and damaging with an announcement from China's Commerce Ministry that China would immediately cease purchasing US agricultural products. Perhaps more damagingly, Beijing has allowed the Chinese yuan to weaken beyond the psychologically important benchmark of RMB7.0 (per US$1) for the first time in more than a decade. Clearly this will have an economic benefit to China in that it will make their exports more competitive, but it is the political element of the devaluation that is perhaps more alarming in that it again rachets up the trade war and makes a near-term resolution look most unlikely. The US treasury was quick to label the Chinese a 'currency manipulator' in the wake of the move which is likely to only serve to inflame tensions even further. Not surprisingly, the reaction from the market was brutal and the sell-off which followed on Wall Street was the biggest one-day fall since December 2018.

Rising trade hostilities are likely to further hasten the pace of interest rate declines from both the US Fed and other central banks in the coming months and this will no doubt be applauded by equity market participants. What is less clear, and is of great consequence, is the impact of escalating trade hostilities on the global economy and whether central bank action will be enough to avert a global recession. There is no doubt that the trade war is already impacting global supply chains and its impact can already be seen in several areas of the global economy, including China, where growth has slowed considerably, as well as the US where agricultural and manufacturing activity has declined. There are now several key indicators of an imminent global recession flashing red with most cyclical and industrial indicators showing business activity is slowing and the US yield curve inverting (often a reliable indicator of imminent recession). Australia is not immune to contagion and the prospect of an external shock caused by a trade war and/or a currency war could have serious negative repercussions for our economy.

The RBA cut rates again in June to a record low 1.00% and bond markets are pricing in further interest rate relief in the coming months as the RBA endeavours to stimulate the economy and bring the unemployment rate down towards its target of 4.5%. Economic growth has slowed in recent months with household consumption weighed down by a period of low-income growth and falling house prices. Whilst the housing market appears to have stabilised following the election, inflation remains stubbornly low, wages remain stagnant and the unemployment rate appears to be on the increase. Given the domestic economic backdrop, the OC portfolio remains underweight domestic cyclical exposure notwithstanding that further rate cuts ought to provide some level of insulation against a material downturn. We have increased our defensive positioning in names with sustainable dividend yields including Cromwell Property Group and Investec Australia Property Fund.

The upcoming reporting season is a critical time for the Fund as it gives us an opportunity to assess the financial performance of our stock universe from their published results, as well as the chance to meet with management and glean key insights into their strategy and outlook. Over the coming six weeks our analysts will meet with around 200 ASX listed companies with a view to refining our portfolio so that we can continue to generate strong investment outcomes for our clients over the coming years. Notwithstanding the current volatility in markets, we believe the Fund is well positioned going into the results period and we are conservatively positioned with a cash holding above 10%. Our team remains confident in our ability to generate strong investment outcomes for our investors over the long-term.

Top 5 holdings#

Company	ASX code
Bingo Industries Ltd	BIN
Nextdc Limited	NXT
Seven Group Holdings	SVW
The A2 Milk Company	A2M
Webjet Limited	WEB

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

CONTACT COPIA

1800 442 129 | clientservices@copiapartners.com.au | copiapartners.com.au

John Clothier	General Manager, Distribution	0408 488 549 | jclothier@copiapartners.com.au
Iain Mason	Director, Institutional Business	0412 137 424 | imason@copiapartners.com.au
Mani Papakonstantinos	Distribution Manager	0439 207 869 | epapakonstantinos@copiapartners.com.au
Matthew Roberts	Distribution Manager	0438 297 616 | mroberts@copiapartners.com.au
Jude Fernandez	Distribution Manager	0414 604 772 | jfernandez@copiapartners.com.au
Sam Harris	Distribution Manager	0429 982 159 | sharris@copiapartners.com.au

[†]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. 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. Soft close unit prices are interim unit prices struck at month end before all transactions for the month have been completed. Performance data available on the OC website, ocfunds.com.au, however, is based on hard close unit prices which are struck after all transactions for the month have been completed.

[*] The performance comparison of $100,000 over 10 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.