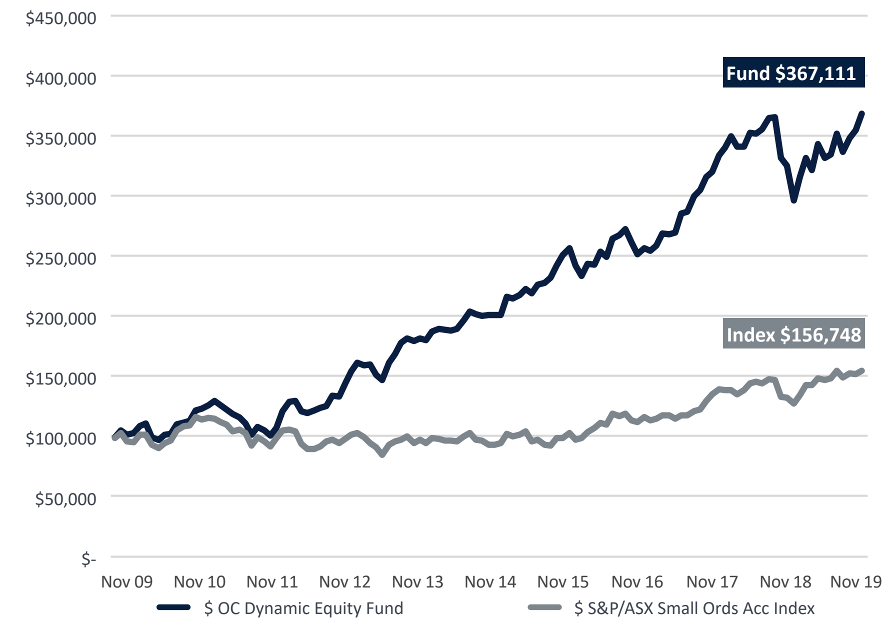
OC Dynamic Equity Fund
Fund Update | 30 November 2019

3.8% Fund up 3.8% for the month

13.9% Returned 13.9% 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 November 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	3.8	9.3	13.4	13.5	12.9	15.6	13.9	12.6
S&P/ASX Small Ords Accum	1.6	3.7	16.6	11.4	10.8	7.3	4.6	6.4
Outperformance	**2.2**	**5.7**	**-3.3**	**2.1**	**2.0**	**8.3**	**9.3**	**6.3**
S&P/ASX Small Ind Accum	2.8	5.7	21.4	12.4	11.0	11.5	8.8	7.0
Outperformance	**0.9**	**3.7**	**-8.0**	**1.1**	**1.9**	**4.1**	**5.1**	**5.7**

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 OC Dynamic Equity Fund performed strongly in month of November on the back solid AGM updates from many of our core holdings. The Fund navigated what can be a challenging AGM season with relative success avoiding many of the earnings downgrades that occurred across the small cap space, with a number of stocks, including **G8 Education (GEM; -23.5%)**, **AP Eagers (APE; -20.1%) and Nufarm (NUF; -16.4%)**, guiding the market to softer earnings numbers during the month.

The OC Dynamic Equity Fund returned +3.8% for the month which was ahead of both the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which returned +1.6% and +2.8% respectively in November. The Fund has returned +24.3% for the calendar year which is ahead of the very strong performance of the S&P/ASX Small Ordinaries Accumulation Index which has returned +21.7% for the year to date, despite it holding an average cash balance of around 10% over the course of 2019.

Bingo Industries (BIN; +20.0%) provided a positive update at its November AGM including earnings guidance for FY20 which exceeded the consensus expectations of the market. The business is now tracking strongly which is in stark contrast to earlier in the calendar year when residential volumes came under considerable pressure as the housing cycle turned downward and heavy discounting from competitors put pressure on margins. It has been a busy year for BIN management with the integration of material acquisition, Dial-a-Dump, progressing well and the reconfiguration of the NSW network now largely complete. The company's new landfill site, Paton's Lane, has commenced operations and the relatively new Melbourne business, including the West Melbourne Recycling Centre, is trading well and appears to be gaining market share. BIN's investment in its post-collections network leaves it with a suite of assets which can drive strong earnings growth in the coming years and the group's medium-term ROCE target of 15% looks achievable. There are further catalysts for the stock in the near term including an expected material increase in the landfill levy in the Victorian market and the anticipated regulatory approval for the expansion of its landfill capacity at Eastern Creek, both of which ought to help drive strong financial outcomes for the business over the medium term.

NRW Holdings (NWH; + 33.3%) announced the transformational acquisition of BGC Contracting (BGC) for an implied enterprise value of $285m (including the net cash generated from the effective date of 30 November 2019 of around $25m). BGC has a national presence and provides services to the resources, energy and infrastructure sectors across three core businesses: mining, construction and engineering. BGC is expected to generate FY20 revenue of $850m and EBITDA of $100m, implying an attractive acquisition multiple of 2.8x FY20F EV/EBITDA. It is a strategically sensible acquisition which increases NWH's scale in some of its core markets, including the resources, public infrastructure and energy sectors, through a high-profile client base with a long track record of contract renewals and extensions. It also increases NWH's exposure to the growing maintenance sector through the addition of the DIAB engineering division, which generates annuity style revenues through the provision of specialist maintenance (shutdown services and onsite maintenance), industrial engineering and fabrication services. The company has guided to pre-tax synergies of around $15m and expects the deal to be highly accretive to earnings per share (at +14% pre synergies and +25% post synergies). The acquisition looks strategically sensible and builds scale and capability to the group. Management has an excellent recent track record of making value accretive acquisitions (including Hughes Drilling, Goldings Contractors and RCR Mining and Heat Treatment) and operational execution of integrating these deals has been first class. The Fund participated in the capital raising to fund the transaction and the company remains a core holding.

Appen Group (APX; +12.0%) continued its regular cycle of earnings upgrades late in the calendar year (APX has a December financial year-end) when it provided an earnings update in mid-November. Operational execution by management has been exceptional since OC Funds joined the share register in early 2016 and the company has comfortably exceeded its earnings forecasts each year since we have held it, often upgrading multiple times during any given year. The company is a global leader in the development of high-quality, human annotated datasets for machine learning and artificial intelligence. It is a space that continues to evolve and grow rapidly, and we see this continuing into the medium term. Pleasingly, APX's recent acquisition of Figure Eight appears to be performing well after some initial business disruption at the time of the acquisition. The most recent revised guidance from management again appears conservative which leaves the business well placed to exceed the guidance at its full year result, assuming the recent business performance continues into the last weeks of 2019.

Viva Leisure (VVA; +13.4%) recently announced the acquisition of 10 gyms in South Eastern Queensland and another 13 gyms, predominantly in inner and outer western Sydney suburbs. Prior to this, VVA had built a strong gym network in Canberra organically and was bulking up via acquisition into regional NSW and Victoria. The most recent acquisitions were struck on valuations which were accretive for VVA shareholders. VVA will also improve the performance of these acquisitions through cost efficiencies, operational improvements and lifting capital investment. Furthermore, these two additional networks provide strategic beachheads which are likely to be augmented with offerings such as its high intensity interval training studio, HIIT Republic. This would be in keeping with the VVA strategy of forming "hubs" of larger format gyms surrounded by smaller gym "spokes" which enable potential customers to attend a varied menu of gyms and classes.

In conjunction with these acquisitions and a placement, VVA provided FY20 guidance in excess of prospectus forecasts, due not only to acquisitions, but also driven by organic site roll-out and healthy trading. Whilst VVA has been a strong performer for the funds since the June 2019 IPO at A$1 per share, we still view the current valuation as attractive given the growth trajectory and opportunity for further gains in the VVA network.

Baby Bunting (BBN; -15.4%) pulled back during the month after rallying strongly this calendar year (+53.9%) despite an overall positive AGM update which reaffirmed the solid FY20 margin and NPAT guidance the company announced to the market at its full year result in August. Year-to-date comparable store sales growth is tracking at +3.1% which is behind the full year guidance of 5.0%, but the company is cycling very strong trading conditions at this time last year due to the closure of Babies R Us, and also some clearance activity in high end cots and prams, in September 2018. Online sales year to date have been affected by some technical issues associated with the transition to a new web platform but, like the comparative store sales number, we see this as a transitory issue which ought soon to be rectified. BBN remains one of our preferred ways to play the domestic retail space. Following the closure of most of its national competitors in the specialty baby good space in 2017 and 2018 (BBN's largest specialty national competitor now has 3 stores versus BBN with 55), the company is the dominant player in its space with a strong competitive moat around its business including superior levels of customer service, guaranteed lowest prices, extensive private label and exclusive offering and a proven ability to navigate the complex regulatory regime for baby goods. We view the stock price weakness as a buying opportunity and continue to hold it as a core position in the Fund.

Perenti Global (formerly Ausdrill) (PRN; -15.1%) traded lower during the month after it announced that one of its contract mining operations in Burkina Faso had been the target of a terrorist attack. PRN subsidiary, African Mining

Services, tragically lost 19 members of its workforce when a convoy from the Canadian owned, Boungou mine, in the country's north, was the target of suspected Islamist extremists. Whilst we are well aware of the "country risk" that comes with our investment in PRN, and its extensive African operations, the scale and savagery of this incident is particularly disturbing. To the credit of PRN management, they were quick to act to ensure the safety of their staff, (the remaining workforce has been evacuated from the mine), and to support the families of those killed and injured. Management were on the front foot with investors also, taking the time to carefully explain the incident to us and the follow-on ramifications.

Whilst it may seem mercenary to consider financial impacts at a time like this, it is our duty as fund managers to do exactly this. The Boungou mine, one of the many sites that PRN operates in Africa, was a marginally profitable contract for PRN and with operations now suspended, we expect limited ongoing financial impact from PRN's withdrawal from this contract. There will of course be an, as yet unquantified, one off cost associated with the incident. PRN has also taken the conservative decision to withdraw from another contract in northern Burkina Faso (AMS Bissa), a contract which was scheduled to conclude at the end of 2019. PRN is otherwise committed to its African operations, where it has successfully carried on business for several decades, and of course has substantial and profitable operations elsewhere around the world, including a significant presence in Australia. We continue to support the PRN management team and the PRN business and believe it's a highly competent contract miner that appears good value at these lower levels.

Outlook

Most major global equities indices traded higher during November, including the domestic small-cap index, with the uplift underpinned by the expectation that a phase one trade deal between China and the US was imminent. Key measures of global manufacturing also showed signs of stabilising during the month, following a sharp recent contraction, alleviating concerns that the global economy could be heading for recession. It seems, however, that we are not out of the woods just yet, with the closely watched US ISM purchasing managers index unexpectedly weaker in early December.

We have previously cautioned (September Quarterly Review) against buying into the hype of an imminent trade deal and markets have once again tumbled in early December after Trump signalled he was willing to wait, perhaps for another year or longer, for the "right deal" with China. Whilst sources out of Beijing and Washington remain optimistic that a deal can be cemented this month, Trump has said he was open to waiting until after the 2020 elections to reach a trade deal with China. The OC Funds portfolio remains conservatively positioned and we have ample capacity to deploy cash should a meaningful pull back in markets be triggered by an ongoing faltering of trade talks.

On a domestic front, the national accounts released early in December indicate that the Australian economy continues to grow below the long-term average, expanding by an underwhelming +0.4% in the September quarter, with annual growth rate of +1.7% marginally above the +1.6% recorded in the June quarter. Whilst this could technically satisfy the Reserve Bank of Australia's (RBA's) assessment that the economy has passed a 'gentle turning point', it is unlikely to excite anyone at the RBA's Martin Place headquarters. Rates were again kept on hold in December with the RBA arguing more time is needed to see the follow-on effects on the consumer of record low interest rates. Whilst growth may be below trend, there has been no recent deterioration in the economic picture and the RBA remains confident that the low levels of interest rates, recent tax cuts, ongoing spending on infrastructure, the upswing in housing ought to be supportive of growth moving forward.

The Fund remains underweight domestic cyclical exposure as we continue to be more circumspect than our central bank on the prospects of the domestic economy, with retail sales still soft, wages growth low, inflation below trend and unemployment creeping higher. That said, we still believe there are pockets of opportunity in the retail space and Fund holdings Baby Bunting Group (BBN), Kogan.Com Ltd and Lovisa holdings Limited (LOV) all gave solid updates at the recent AGMs and continue to trade strongly.

During the month, the Reserve Bank of Australia (RBA) governor Philip Lowe made it clear that he hoped the government would intervene to stimulate the domestic economy before the central bank was forced to pull the 'Quantitative Easing' trigger. The Morrison government is under increasing pressure to abandon plans to deliver its widely promised budget surplus to help stimulate the lacklustre economy. Unless there is a financial crisis or the key economic indicators (inflation and unemployment) significantly deteriorate, Lowe signalled he would be reluctant to pursue unorthodox monetary measures if the cash rate is ever cut to his newly announced lower band of 0.25%.

Complicating matters, the Morrison government has been urged to stick to its focus on strong budget surpluses with credit rating agency S&P Global warning too much government spending could jeopardise the country's coveted triple A credit rating. It is a tough dilemma for the government, but with the economy not showing any signs of major stress we do not expect them to waiver from their promise to produce a budget surplus.

As we enter the festive season, corporate activity remains at fever pitch, particularly in the secondary (placement) market where we are being shown multiple deals on a daily basis. Some of these are for acquisition activity (e.g. **NRW Holdings**, **EML Payments Limited**, **Uniti Group**, **Viva Leisure**), whilst others are to strengthen the balance sheet (e.g. **Megaport**, **Pacific Current Group**, **Bubs Australia Ltd**) ahead of the summer lull when capital market activity typically shuts down as corporates, stockbrokers and fund managers take their summer vacations. During December, we have an extremely active company visitation schedule as we seek to catch up with our holdings ahead of the end of half year black-out period.

With the holiday season approaching, we would like to take this opportunity to thank our clients for their support through what has been a successful 2019 for the Funds, with each of our strategies delivering strong absolute returns. We remain optimistic about the operational performance of the companies that make up our portfolio and we will continue to work diligently over summer and into 2020 to produce strong investment outcomes for our valued clients.

Top 5 holdings#

Company	ASX code
Bingo Industries Ltd	BIN
Nextdc Limited	NXT
Seven Group Holdings	SVW
Viva Leisure Limited	VVA
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 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.

Past performance is not a reliable indicator of future performance. Positive returns, which the OC Dynamic Equity Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns. Total returns are calculated after taking into account performance fees. Where OC Funds Management generates a return on the OC Dynamic Equity Fund over and above the performance hurdle of 15% in any financial year, a performance fee of 20.5% of all profits above this level is charged to the Fund directly. This document is for general information purposes only and does not take into account the specific investment objectives, financial situation or particular needs of any specific reader. As such, before acting on any information contained in this article, readers should consider the appropriateness of the information to their needs. This may involve seeking advice from a qualified financial adviser. Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) is the issuer of the OC Dynamic Equity Fund (ARSN 098 644 681). A current PDS is available from Copia located at Level 25, 360 Collins Street, Melbourne Vic 3000, by visiting ocfunds.copiapartners. com.au or by calling 1800 442 129 (free call). A person should consider the PDS before deciding whether to acquire or continue to hold an interest in the Fund. Any opinions or recommendation contained in this document are subject to change without notice and Copia is under no obligation to update or keep any information contained in this document current.