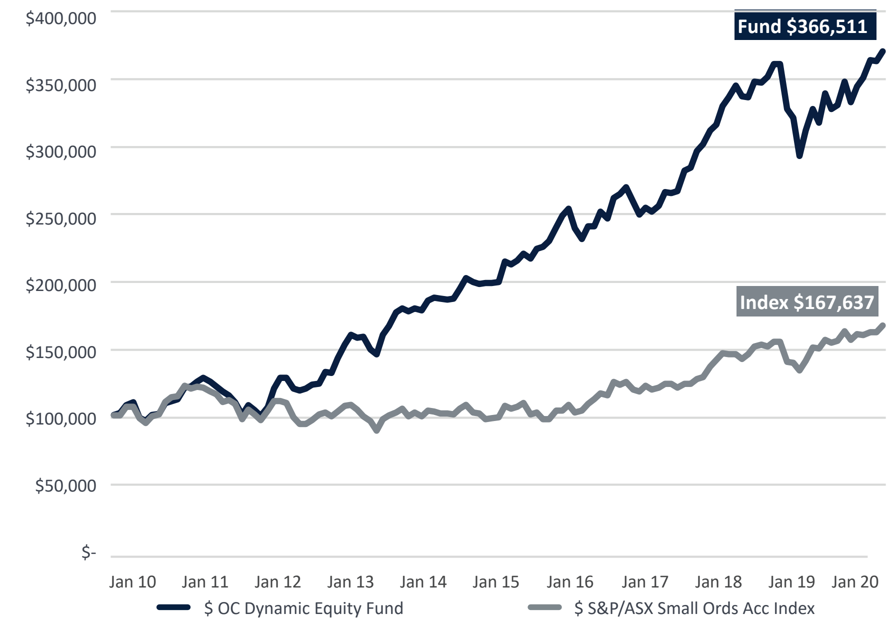
2.1% Fund up 2.1% for the month

13.2% Returned 13.2% p.a. for the past 5 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 January 2020†	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	2.1	5.6	18.7	13.7	13.2	13.5	13.9	12.6
S&P/ASX Small Ords Accum	3.4	4.7	18.8	12.1	11.2	6.7	5.3	6.5
Outperformance	**-1.3**	**0.9**	**-0.1**	**1.6**	**2.0**	**6.8**	**8.6**	**6.2**
S&P/ASX Small Ind Accum	4.1	5.6	23.6	13.4	11.3	10.1	9.2	7.1
Outperformance	**-2.1**	**0.0**	**-4.9**	**0.3**	**1.9**	**3.4**	**4.7**	**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 calendar year kicked off with a bang in January as domestic equity markets surged ahead on renewed optimism about the economic outlook and ongoing enthusiasm for Australian equities. The S&P/ASX 200 Index (+5.0%), a good indicator of the health for the broader equity market, hit an all-time high of 7,132 points during January and closed the month above the 7,000 points mark for the first time. The OC Dynamic Equity Fund remained relatively cautiously positioned during the month and delivered +2.1%, a result that was behind both the S&P/ASX Small Ordinaries Accumulation Index (+3.4%) and the S&P/ASX Small Industrials Accumulation Index (+4.1%). The near-term impacts of the bushfires and the emergence of the 2019 Novel Coronavirus (‘the Coronavirus’) weighed heavily on several of our key positions during the month, which largely accounted for the underperformance.

A leading indicator of the appetite of equity investors in the Australian market during January was the performance of some Fund bellwethers, including **Afterpay (APT, +31.7%), Altium (ALU, +14.7) and Appen (APX, +12.9%)**. Our readers will know these names well from prior monthly reports, as we have held each of these high performing stocks for many years; but the fact that APT and ALU are each at, or near, all-time highs is indicative of investors’ enthusiasm for these types of market leading, high growth tech stocks. It is also worth noting that outside of the Nasdaq Composite (+2.0%), most other major offshore equity markets finished in negative territory for the month, throwing the performance of these stocks, and indeed the entire Australian market, into stark contrast. We have continued to manage our portfolio weighting in these so called ‘WAAAX’ stocks in a conservative manner, not allowing the positions to get too big in the portfolio and constantly revisiting our assumptions to ensure we are comfortable with their growth rates and the stock valuations.

NextDC Limited (NXT, +15.4), a data centre operator exposed to the explosive growth in data being stored in the ‘cloud’, performed strongly during the month as news emerged of competitor data centre, AirTrunk, receiving corporate interest from Macquarie Infrastructure & Real Assets. The AirTrunk transaction not only demonstrates that data centres have attractive qualities from a corporate activity perspective, but also the reported transaction is priced at a level supportive of NXT's current market valuation (and higher). NXT had languished somewhat during the year with investors weary of waiting to hear of new Hyperscale client signings which can be quite lumpy. However, the corporate interest in the sector from an infrastructure investor prepared to pay infrastructure type prices for future earnings saw interest return to the name, driving it back toward all-time highs. We see the data centre story as being still in its infancy; data centres are the superhighways of the future that an increasingly cloud based, global economy will operate on and we remain positively disposed to the sector generally and NXT specifically.

After a strong 12 months of share price performance, where the stock more than doubled off its lows, **Kogan.com (KGN, -32.0%)** announced a disappointing post Xmas trading update and the stock was hammered by the market. The reaction was exacerbated by the fact that KGN had delivered a strong FY19 result (in August 2019) and a bullish first quarter trading update just three months ago in October 2019. Given heightened market expectations, and a share price at record highs, any hint of disappointment from the Kogan team was going to be treated harshly by the market and so it proved to be the case with the January update. The softer trading outcome was due to competitive pressure in both the exclusive brands business and the high margin mobile plan reselling business. Furthermore, during the past six months, KGN focussed on the rapid growth of the capital light Kogan marketplace business which came at the expense of its capital intensive, partner brands segment, which is a higher margin business. Whilst the growth of the Kogan marketplace, at the expense of partner brands, makes longer term sense strategically, investors were unwilling to display the patience required to see fruits of this transition. Given the uncertainty around the near-term earnings trajectory of KGN and the difficulty in forecasting the businesses profitability over the coming 12 months we have exited our position in KGN.

The impact of the Coronavirus was acutely felt in late January by two of our travel related holdings, **Webjet Limited (WEB, -9.8%)** and **Helloworld Travel Limited (HLO, -14.4%)**. While the tragic human cost of this epidemic will be long lasting, the financial cost to these listed companies will be likely constrained to one half year result. The impact of cancelled travel arrangements and changed plans will have a marked impact on the 2020 results of these companies, however this impact should not be priced into their valuation into perpetuity. WEB, which had $338m wiped off its market capitalisation in the last week of January, made merely $5.8m of EBITDA from wholesaling Asia-Pacific hotel rooms in the whole of 2019 financial year. In addition, while online flight bookings from their $60m revenue Australian retail business may be somewhat lower in coming months, some holiday makers are likely to simply divert to other destinations and thus the opportunity is not completely lost for WEB. HLO has a business model which is more exposed to inbound tourism which may be affected by recent bushfires, however the large downward move in the share price appears to have been overdone. We remain holders of these investments and, indeed, we could add to these positions should the somewhat irrational share price reaction continue.

Recent portfolio addition, **Sealink Travel Group (SLK, -11.5%)**, experienced a perfect storm during the month when it was impacted by extensive bushfires at Kangaroo Island, one of its key tourism destinations. Compounding this, sentiment begun to weigh on the share price as investors factored in the flow on impacts of the Coronavirus across its tourism network. Many of our investors will already be aware of the Kangaroo Island bushfires which have burnt through a large portion of the island, including the destruction of SLK's Vivonne Bay Lodge resort. Clearly this will have a follow on impact on the tourism numbers for SLK's ferry link to the mainland at Cape Jervis. There are, however, some mitigating factors in all this devastation, including SLK's insurance coverage and any possible uplift in ferry utilisation through the extensive infrastructure rebuilding effort that will be necessary in the months and years to come. Furthermore, whilst the Coronavirus is undoubtedly impacting Australia's tourism industry right now, we remain circumspect about the full and ongoing (if any) impacts on the SLK business. Fortunately for SLK, the business model and its exposure to the tourism dollar has been significantly de-risked since it made the transformational acquisition in October 2019 of Transit Systems, a major operator of metropolitan bus services to governments in Australia, the UK and Singapore. Transit Systems diversifies SLK's operations into a more capital light, domestic consumer facing business model with defensive earnings which are largely underpinned by sticky long-term government contracts. With the full impacts of the Kangaroo Island bushfires and the Coronavirus yet to be quantified, and the SLK share price having retreated materially already, we not panicking and are holding our position in SLK with a view to making a considered investment decision when more complete information is at hand.

Outlook

The new decade is just a month old, but it has certainly been an eventful one, giving us, as investors, plenty of food for thought. In no particular order we have seen Iran and the US exchanging missiles in the Middle East, the US president impeached (and now acquitted), the US and China signing a Phase 1 trade deal, an outbreak of the Coronavirus in mainland China which is threatening to become a global pandemic, the achievement of Brexit (though with plenty of detail yet to come) and ongoing bushfires across the east coast of Australia. Each of these events carry with them their own potential impacts on our domestic and/or our global economies and we have been constantly considering the portfolio implications accordingly. These 'macro-economic' machinations, along with the usual economic datapoints, are accompanied by myriad 'micro-economic' updates that we also have to filter into our portfolio construction; trading updates (mostly downgrades) from ASX listed companies and a seemingly unending litany of bricks and mortar retailers falling into the warm embrace of administrators and receivers.

The Coronavirus is perhaps the main near-term area of focus for us as investors. Apart from the obvious human toll, the uncertainty of the unknown is what is most unsettling for markets. The Coronavirus is a moving feast, with the prognosis changing by the day, but the impacts on certain sectors is undeniable. Travel related stocks have been hammered, education stocks exposed to Chinese students are under pressure, and the resources and energy sectors have declined as market begin to factor in reduced demand for raw materials from the usually insatiable Chinese economy which is the engine room of global manufacturing. Uncertainty about potential impacts is less well understood in other sectors such as retail, where supply chain disruption could become an issue, or there could be broader impact such as a further slow-down in consumer confidence. We are following updates on key data points such as infection rates, death rates and geographic spread closely. But at this stage, the market wants to factor in a near term containment of the virus, followed by an enormous stimulus package out of Beijing in order to reboot the stalling Chinese economy. We remain vigilant on this constantly evolving scenario and stand ready to take action, from a portfolio perspective, as required.

In mid-January, the US and China formally signed a 'Phase I' trade deal which is an undeniably positive for not only the two global super-powers that are party to the pact, but more broadly for the global economic outlook. Most importantly, the pact signals the economic powerhouses of the US and China are willing to work together for mutually beneficial economic outcomes that co-operative trade agreements deliver, which removes a significant degree of uncertainty for the balance of the global economy. Key points of the deal include China agreeing to increase imports of US goods and beef up intellectual property protections whilst the US has halved its tariff rate on US$112b of Chinese imports from 15% to 7.5%. Importantly, the two have agreed to a framework for top trade officials to work together with an aim of delivering a 'Phase II' trade deal, addressing longer term structural issues, over the medium term. We will consider the positive impacts of this trade pact through a cautious lens, clouded by the Coronavirus.

Large scale bushfires across the eastern seaboard of Australia over the recent summer months are expected to have a not only a human cost, but an economic cost also. Estimates suggest the bushfires will result in around a 0.4% hit to GDP, mainly in the current March quarter. Along with indirect impacts of the Coronavirus, this has resulted in the RBA reducing GDP growth forecasts for the year to June 2020 to 2% (from 2.5%). This drag on economic activity has increased the pressure for more monetary and fiscal stimulus, and to this end federal and state governments have promised significant infrastructure and reconstruction packages for affected areas. Whether the RBA is forced to take further action and cut already record low interest rates is still up in the air. The parts of the economy hardest hit by the bushfires include the tourism/travel sector, the consumer discretionary space, and to a lesser degree agriculture. We are closely watching developments in bushfire regions, with recent welcome rain seeming to at least extinguish any ongoing fires, and the response of government which should have a stimulatory impact.

The US/Iran flashpoint seems to have calmed down as quickly as it flared up – with the protagonists seemingly wanting to settle for a tit-for-tat one all draw. An unsettled Middle East region is clearly a positive for higher oil prices and military spending but a net negative for the balance of the equity market where we deploy our capital. As investors, we take comfort in the relative calm of the Middle East but are constantly wary of the next excuse for this volatile region to ignite again.

Trump was impeached by the House of Representatives but the trial in the Republican controlled Senate turned into a fizzer when the home team refused to allow any new witnesses or evidence introduced into proceedings. The acquittal was undoubtedly frustrating for the Democrats but settling for markets. Whether you like Trump or not, there is little doubt that the equity markets applaud having a brash New York businessman in charge of the White House and his first three years in office have been aligned with a slew of market records and positive economic data. Removing the uncertainty of a potential change in presidency mid-stream is unambiguously positive for the markets' outlook.

More than three and a half years since the original referendum (June 2016), and at the cost of two prime ministerships, Brexit was finally achieved on 31 January 2020. It was a muddled and at times murky process, but the snap election victory by Boris Johnson's conservatives in December 2019 made the January exit by Britain from the EU a certainty. Now its just the details of the divorce that need to be sorted. Yet again, the removal of uncertainty is a positive for markets generally, and the UK in particular, and potentially for our portfolio too as we hold a number of companies with operations in the UK, but there remains a period of negotiation where the exact terms on which the two bodies will separate, are to be finalised. After years of uncertainty, and underperformance, we see the UK as an economy that should outperform over the near to medium term and we will factor this view into our portfolio construction moving forward.

On balance, we remain positively disposed to the equity market outlook, with interest rates across the developed world near record lows, inflation remaining well contained and the global economy tracking solidly. Nonetheless, we remain vigilant on some of the fast-moving scenarios described above, particularly the Coronavirus. For this reason, the Fund remains on a cautious footing but with a keen eye on the critical mid-year reporting season that visits us each February; and the inevitable opportunities that present themselves to us as small cap equity investors. We look forward to reporting back to you next month with what we anticipate will be an active period of results delivery from our stock universe.

Top 5 holdings#

Company	ASX code
Appen Limited	APX
Bingo Industries Ltd	BIN
Nextdc Ltd	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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[†]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.

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