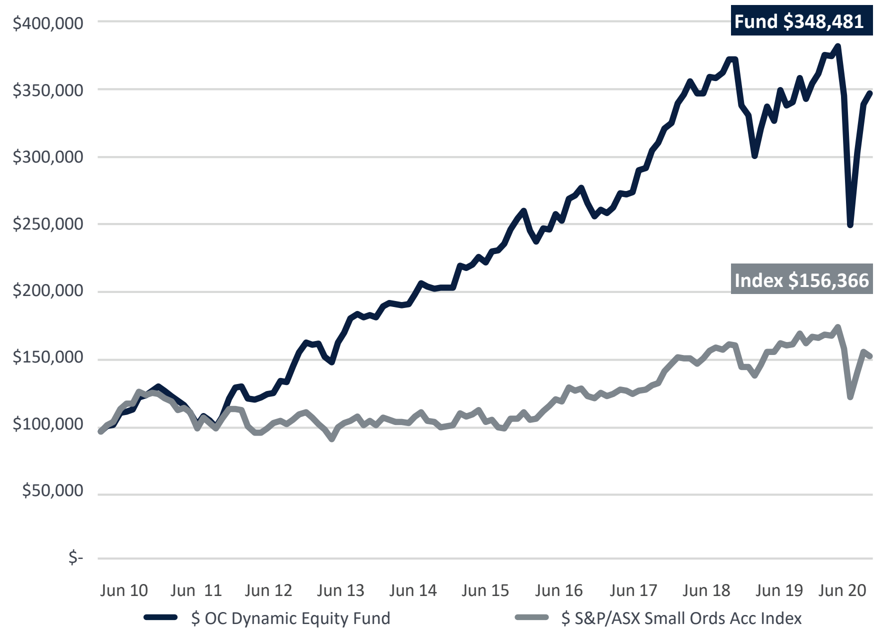
38.6% Fund up 38.6% for the quarter

13.3% Returned 13.3% p.a. for the past 10 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 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	2.4	38.6	1.9	6.1	9.2	12.7	13.3	11.8
S&P/ASX Small Ords Accum	-2.0	23.9	-5.7	6.1	7.9	7.5	4.6	5.6
Outperformance	**4.4**	**14.7**	**7.6**	**0.0**	**1.3**	**5.2**	**8.8**	**6.2**
S&P/ASX Small Ind Accum	-2.3	20.8	-7.4	5.2	7.2	8.0	8.5	6.0
Outperformance	**4.7**	**17.8**	**9.4**	**0.8**	**2.0**	**4.7**	**4.9**	**5.8**

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

Performance review

This June quarter will likely be remembered for many years by financial markets participants not just for the COVID-19 pandemic itself, but also for the remarkable surge in equity markets globally off the March lows. The lows late in the March quarter occurred against the backdrop of the worst global health crisis in decades, the onset of a global recession and a rapidly deteriorating geopolitical landscape.

Pleasingly the OC Dynamic Equity Fund bounced strongly in the June quarter, returning +38.6% over the past three months. This was well ahead of the S&P/ASX Small Ordinaries Accumulation Index (the Small Ords Index) and the S&P/ASX Small Industrials Accumulation Index (the Small Industrials Index) which were +23.9% and +20.8% respectively for the quarter. The rebound was sufficient to drag the Fund back into the black for FY20 and it finished up a credible +1.9%, which was ahead of both the Small Ords Index (-5.7%) and the Small Industrials Index (-7.4%).

In our April and May monthly reviews, we spoke in some detail of the plethora of discounted capital raisings that have come across our desk during the COVID-19 crisis; these deals continued at a rapid clip into the end of the financial year. Unlike the equity raisings early in the pandemic which were typically originated by companies severely impacted by the COVID-19 induced economic shutdowns, the more recent raisings have increasingly come from companies such as **Kogan.com (KGN, +175.1%)** and **Temple and Webster (TPW, +172.0%)** who are key beneficiaries of structural trends that have been accelerated by the pandemic such as online retail adoption. Some of these companies are raising money purportedly to pursue strategic growth initiatives which have come about due to COVID-19. One such example of this is the purchase of Matt Blatt, a furniture and homewares retailer, by Kogan.com during the quarter. KGN will relaunch Matt Blatt as an online only offering combining Matt Blatt's decades of industry experience with KGN's technology, systems and infrastructure. A decision on whether to participate in these raisings obviously requires an assessment of whether the strong recent trading of these businesses will continue once the COVID-19 crisis passes or whether consumers will once again revert to old habits, in this instance shopping in-store. It is our belief that many of the new customers signed up during the pandemic by these two companies will likely to continue to shop online, at least periodically, and that existing customers will also transact online at a more frequent rate than in a pre-COVID world. We bid into the book for both placements but as a non-shareholder in TPW we only secured a very small allocation.

US based "buy now, pay later" (BNPL) company Sezzle Inc (SZL, +474.0%) was a stand-out performer, following a challenging March quarter when it was sold down heavily at the start of COVID-19. SZL is an early stage entrant into the burgeoning BNPL segment with an initial focus on the US, the world's biggest consumer market. SZL is a customer centric platform that facilitates fast, secure and easy payments between consumers and retailers by providing its customers with a short term, interest free instalment plan delivering both a budgeting and financial planning proposition. During the June quarter, the market gained an appreciation that the pandemic would help to drive adoption of SZL's offering as online shopping surged in popularity due to social distancing restrictions and consumer fears around shopping in-store. Its growth was highlighted by record Underlying Merchant Sales in the quarter of US$188m (+55% quarter-on-quarter and +349% year-on-year). During the quarter active customers rose 28% quarter-on-quarter, active merchants jumped 28% quarter on quarter and leading loss indicators continued to show improvement. The BNPL segment has two key tailwinds, namely millennial's aversion to credit cards and the growth in the ecommerce channel. Strategic interest in the space is accelerating with Chinese e-commerce behemoth Tencent taking a 5% stake in industry leader Afterpay Limited and Heights Capital Management/ Susquehanna's investment in Zip Co Ltd. Clearly the sector is attracting long-term strategic investors keen to take advantage of the structural shift away from traditional consumer credit and view the BNPL space as a key long-term beneficiary.

At the opposite end of the COVID-19 pendulum to the structural beneficiaries were those businesses that faced existential threats to their existence due to the pandemic and needed urgent additional capital to survive. Readers of our recent monthly reviews would be aware that the Fund was on the wrong side of the ledger with holdings in travel stocks **Webjet (WEB, +21.6%)** and **Helloworld Travel (HLO, +40.5%)** which experienced a near total collapse in demand with the onset of the pandemic. Readers would also be aware that we participated in the recapitalisation of both WEB and **Flight Centre (FLT, +24.6%)** in early April, when these stocks were trading at multi-year lows. By our reasoning, both are quality businesses in the travel space, with strong management teams and the large capital raisings left them well positioned to once again prosper after the crisis passes, unlike many of their competitors who lack access to the additional capital needed to survive the pandemic. Following the recapitalisations, we have been pleasantly surprised by the haste at which the market has re-rated these stocks, with each continuing to climb higher as social distancing restrictions were liberalised. Indeed, both stocks have since traded at a +100% premium to their April raising prices. We felt that this was overdone given the considerable uncertainty over whether international travel would resume on a large scale in the absence of a COVID-19 vaccine and the ongoing border restrictions that remain in place between some states which makes domestic tourism challenging. Both WEB and FLT are burning considerable cash each month and will do so for the foreseeable future until the travel industry recovers and we therefore used the share price strength to exit these positions and lock in these more recent gains.

During the quarter the Fund has increased its holdings in a number of industry leaders who have been significantly impacted by the COVID-19 pandemic but who ought to perform strongly as the COVID-19 imposed restrictions are liberalised including **Bapcor Limited (BAP, + 44.3%)** and **AMA Group Limited (AMA, +112.5%)**. BAP operates in the automotive aftermarket parts, accessories and equipment industry. It raised capital in mid-April to remove any lingering concerns about its balance sheet should the pandemic linger given that social distancing measures had greatly reduced vehicle movements. But with the winding back of social distancing restrictions, vehicles are returning to the road and there are a number of other factors driving a strong earnings outlook for BAP including: pent up demand for automotive servicing; the ageing of the car parc (new vehicle sales are well down and older vehicles require more maintenance); the shift towards SUV and utes which have much higher servicing costs; and a reluctance by individuals to take public transport meaning more overall vehicles on the road. AMA Group, which runs the largest national network of collision repair workshops, is also benefitting from several of these trends including more vehicles being on the road and more costly repairs with the increased sophistication of vehicles which are now being compensated with higher average repair revenues following a recent renegotiation with key insurer clients. Both BAP and AMA released buoyant trading statements in late June with recent performance ahead of market expectations and both are solidly positioned heading into the new financial year.

Long-term Fund holding **Appen Group (APX, +72.3%)** recovered strongly from the March sell-off as the market began to appreciate that the robust recent performance of its major customer cohort (over 80% of revenues comes from global five tech behemoths including Facebook and Google), many of whom are thriving in a COVID-19 environment, ought to bode well for the business. APX is a global leader in the development of high quality, human annotated datasets used to train machine learning algorithms and artificial intelligence (AI). Its largest division, Content Relevance, ought to be benefitting from the increasing desire of 'big tech' to improve the integrity of the output of the key algorithms responsible for determining the content and advertisements placed on their sites. Whilst slowing advertising revenue is a risk for APX, particularly with smaller clients, we expect the increasing consumer usage and traffic to key client platforms, as well as the launch of new products, to drive strong demand for APX's services over the medium term.

During the quarter the small cap market was awash with opportunities to add alpha to the portfolio as various broking and investment banking ECM teams stepped in to shore up the balance sheets of companies negatively impacted by COVID-19. The Fund participated in many of these deals, usually discounted placements or entitlement offers, but also included some underwriting opportunities. In several of the higher quality deals we have retained our positions, but otherwise we judiciously recycled this capital into later raisings. Some of these realised deals included **Kathmandu Holdings (KMD, +57% from entry price)**, **Credit Corp (CCP, +44%)**, **OohMedia (OML, +12%)**, **Ingenia (INA, +12%)** and **Breville Group (BRG, +17%)**.

The Fund had few underperformers during the quarter, although **United Malt Group (UMG, -6.6%)** which recently demerged from Fund holding **Graincorp (GNC, +33.3%)** was a rare negative contributor. UMG is a global processor of barley and distributor of malt products, predominantly to the world's largest beer and whisky brewers, but also to the burgeoning craft and micro-brewery industries. In May, UMG raised capital to strengthen its balance sheet and to insulate the business against the effect COVID-19 has had on the consumption of tap beer across the globe. As the world's number four maltster, UMG is now an independent, well capitalised company and the Fund participated in the equity raising. We expect UMG to play a key role in the likely consolidation of the global malt industry in the coming years and the business remains well positioned to sustainably grow earnings and market share.

Outlook

As we enter the new financial year, equity markets remain buoyant with investors encouraged by recent economic data which has been poor, but significantly better than earlier dire predictions, and emboldened by the continued support of central banks who continue to pump liquidity into the financial system. The strength of the rebound has surprised most seasoned investment professionals, but significant challenges remain in the coming months and the OC Funds portfolio is positioned accordingly.

The US Federal Reserve (the Fed) is peddling hard and has taken unprecedented step, including pledging to buy corporate debt and unlimited amounts of Treasuries, to keep the credit market and the US economy on track during the COVID-19 induced downturn. In mid-June the US Central Bank said it would expand its purchases in the credit market to include individual corporate bonds. Equities again rallied on this news as it created a 'win-win' mentality in the equity markets, as many traders believe that the Fed will continue to buy assets as needed to support the market. The Fed has faced increasing criticism in some quarters for its intervention in money markets but its Chairman, Jerome Powell, has defended the move to buy corporate bonds as fulfilling a pledge telegraphed in late March and was out of an "excess of caution", as opposed to a desire to distort normal market functioning.

Despite the obvious health and social issues facing the US at present, the economic data released in June including consumer confidence, retail sales, manufacturing and employment have generally surprised on the upside. This is most likely reflective of the large monetary and fiscal support targeted at the economy in recent months, as opposed to a genuine resurgence in economic activity. US payrolls grew by 4.8m in June, following an unexpected gain of more than 20 million in April. Regardless, the unemployment rate of 11.1% remains higher than any previous period since World War II and the US GDP rate is likely to fall at an unprecedented rate in the second quarter with many economists forecasting a drop of more than 30%, illustrating the devastating impact that the COVID-19 pandemic has had on the broader economy.

The Australian economy too has outperformed earlier expectations and it seems that the COVID-19 induced downturn is unlikely to be as severe as first feared, albeit the recent spike in cases in Victoria is cause for concern (more on that later). Retail sales, in particular, have surprised on the upside with a combination of government stimulus money and early withdrawals of superannuation spurring consumer spending which has resulted in a raft of very strong updates from listed retailers in recent weeks including **JB Hi-Fi (JBH, +53.7%)**, **Nick Scali (NCK, +91.7%)**, **Accent Group (AX1, +78.3%)**, **Super Retail Group (SUL, +75.6%)**, **Harvey Norman Limited (HVN, +20.0%)**, **Temple and Webster (TPW, +172.0%)** and **Kogan.com (KGN, +175.1%)**. Employment data has also been better than feared, although the unemployment rate (7.1%) is the worst since October 2001 and is likely being masked by the government's JobKeeper wage program.

The Australian economy, outside of Victoria, is now re-opening under a framework laid out by the National Cabinet, with removal of social distancing restrictions occurring on a state-by-state basis. The re-openings are clearly good for businesses throughout the country, and we expect the removal of further restrictions to continue to support businesses and the economy. But we remain mindful that many business owners and employees have been able to take advantage of the government's JobKeeper wage subsidy, loan repayment deferrals, a four-month deferral on business activity statements from the ATO and, in some instances, rent relief. Many of these will come to an abrupt end in September, when several of these programs are currently scheduled to finish. These programs, along with actions of the RBA, have been instrumental in ensuring that the impact of the pandemic has not yet been economically devastating to the Australian economy. But there remains considerable concern about the impact on the economy should these programs be shuttered, as planned, before the recovery becomes more broad-based.

Clearly the biggest risk to resurgent markets remains the COVID-19 infection rate itself. The pandemic continues its march across the globe with countries such as Brazil, India and Russia recording large daily increases. Concerningly, several countries have lifted their social distancing restrictions and opened up their economies without sufficiently containing the virus, including the United States. This has the potential to do real long-term damage to the global economy as infection rates spike once again, aside from the obvious significant health consequences.

The recent outbreak in Melbourne has shown just how vulnerable we are and how easily the virus can flare-up even after it has been subdued. The decision to lock-down metropolitan Melbourne and Mitchell Shire for six-weeks is a devasting blow to the Victorian economy and is a significant blow to the hopes of the Federal Government on limiting the longer-term economic impact of COVID-19. It is a further body blow to tourism operators and educational institutions desperate for borders to re-open, not to mention the thousands of SMEs in Victoria who simply cannot survive another lock-down.

In recent days the Victorian outbreak and lock-down has reverberated through the Australian stock market with companies vulnerable to a shuttering of the economy, particularly in Victoria, being sold down and more defensive sectors such as gold outperforming. With border closures and a decisive lockdown across metropolitan Melbourne already in place, we are hopeful that the outbreak can be contained and does not spread to other states which seem to have the virus under control. With an eye to risk management we hope for the best but plan for the worst and so the portfolio is better positioned to navigate another lockdown than we were in February when we were overweight travel stocks, financials and mining services companies.

Our preferred portfolio exposures at present include:

- Companies that are growing earnings as a result of the structural changes that have been accelerated and amplified as a result of COVID-19, e.g. Kogan.com Ltd;
- Companies exposed to the growing use and value of data, e.g. NEXTDC Limited; and
- Industry leaders who have been significantly impacted by the COVID-19 pandemic but whom have subsequently re-capitalised their balance sheets and ought to thrive in a post COVID-19 world, e.g. Bapcor Limited.

Following a busy quarter for the investment team, July typically provides some welcome respite as we enter the blackout period for companies with either June 30 or December 31 financial year ends. This effectively means that communication from companies to investors is limited to non-financial matters until the release of results in August. July to date, however, has been unusually busy with secondary market placements continuing at a rapid clip, regular small cap company earnings updates and the coronavirus outbreak in Melbourne all keeping us on our toes.

We would like to thank our investors for their support through what has been a volatile year across equity markets and a challenging year for many people personally with the bushfires and the COVID-19 pandemic. We wish all our investors and their families good health and good spirits as we enter the new financial year and assure you that we will continue to work diligently to deliver strong long-term investment outcomes.

Top 5 holdings#

Company	ASX code
Appen Limited	APX
Bapcor Limited	BAP
Kogan.com	KGN
Nextdc Limited	NXT
Steadfast Group Ltd	SDF

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 hard-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.

* 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.