FUNDS MANAGEMENT

Boutique Equities Funds Management
Vision to see opportunity. Freedom to swoop.

Economy improves but market's winning streak ends

Monthly Report

The stock market's monthly winning streak since March this year looked set to continue through October until some weaker economic news out of the US late in the month sent shivers through the global markets. The All Ordinaries Index peeled away its early gains and finish October down 1.9%.

This fall was broadly in-line with the performances of the offshore markets, although the strength in the Australian dollar, which closed the month at USD0.90, has diluted the returns of these markets in local currency terms. The dollar was a significant factor in the downward guidance coming from a number of companies over the AGM season. Billabong, which has a large proportion of its sales in North America and Europe, downgraded guidance based on the currency, and Worley and CSL followed suit. Seeing this, investors pre-empted the performances of other currency impacted businesses such as Aristocrat, Brambles and Westfield which were all sold down.

Despite the weakness in the economic news offshore, the data coming out of Australia remains positive. Unemployment eased slightly to 5.7% and consumer confidence rose further. Given the continued strong data, interest rate rises appear to be on the agenda for the medium term with 3 years bonds at 4.5% factoring in a series of rises. Confirming this, the RBA made its second 0.25% rate rise early in November 2009.

Some of the better performers in the month were the employment related businesses such as Seek, Skilled Group and Talent2 which all saw rises of 10% or more, no doubt supported by the positive employment data.

There were a number of successfully conducted large capital raisings including Oil Search ($895m), ING Office Trust ($700m) and CSR ($375m). Less successful was the high profile Myer IPO which listed on 2 November. Selling down 581m shares at $4.10 (at the bottom end of the $3.90 - $4.90 range) the stock closed day one at $3.75, an 8.5% discount. None of the OC Funds subscribed to Myer. Another retailer coming to market shortly is the travel and adventure wear store chain, Kathmandu, which looks relatively more attractive given it has a stronger growth profile and is likely to be less 'optimistically' priced than Myer.

Performance to 31 October 09*	1 Month	3 Months	6 Months	1 Year	4 Years (p.a.)	7 Years (p.a.)	Since incep (p.a.)
OC Concentrated	4.3%	25.7%	70.9%	95.1%	9.7%		13.7%
All Ordinaries Accum	-1.9%	10.8%	26.6%	22.4%	5.7%		11.0%
OC Dynamic	3.2%	25.8%	46.8%	39.7%	-3.4%	8.7%	10.9%
Small Industrials Accum	-1.2%	15.5%	33.3%	29.1%	-1.5%	8.3%	5.2%
OC Premium	2.8%	22.8%	41.8%	36.1%	-3.4%	6.9%	9.6%
Small Industrials Accum	-1.2%	15.5%	33.3%	29.1%	-1.5%	8.3%	4.9%
OC200 Fund	-1.9%	12.1%	26.9%	23.9%	8.8%		11.8%
S&P/ASX 200 Accum	-2.1%	10.9%	25.4%	21.4%	5.5%		8.0%

THE FUNDS

Pleasingly the OC Funds gained ground even when pitted against the market's outgoing tide. All Funds other than the OC200 Fund posted positive returns in October.

One of the better performers for the OC Premium and Dynamic Funds (our small to mid cap funds) was Mac Services which is seeing continued demand for its accommodation villages, particularly in the booming coal fields of Central Queensland. We conducted a field trip to Queensland's Bowen Basin during the month and experienced first hand the level of activity which is likely to benefit the likes of Mac Services, Sedgman and Macarthur Coal all of which have large exposures to the region.

Other stocks to perform well for the Funds included accounting software provider Reckon, and small telecommunications company Amcom. Retailer Fantastic Furniture had a good rise after releasing positive profit guidance during the month.

We sold our positions in Pacific Brands and SP Telemedia after some significant price appreciation, and have added a small holding in Talent2.

The OC Concentrated Fund benefitted from a number of the core positions contained in the small-mid cap funds. It also added additional value through liver cancer treatment company Sirtex which gained over 20%, a placement in Elders which we sold out of at a premium, and our trading position in Virgin Blue which ran strongly due to AUD currency strength and its perceived economic leverage.

The OC200 Fund performed slightly ahead of the ASX200 Index over the month and continues to track consistently ahead of the index. During the month we added Wesfarmers to the Fund and removed GPT Group and Worley Parsons. Our weighting in Coca Cola was increased and we lightened our positions in both Westfield and Woolworths.

OUTLOOK

In many ways the pull back we have seen in the past couple of weeks has been a healthy development. Cleary the market cannot continue to rise in a straight line and, in our view, it was beginning to feel a little "hot".

In reflection of this we had made the decision to exit some holdings such as Pacific Brands and had lightened our exposures in others such as CSG and Reckon.

However there are plenty of reasons to remain optimistic about the medium term outlook for the Australian equity market. As we stated last month, the economy continues to remain in good shape and even the most recent data confirms the positive economic momentum.

As stated at the November RBA meeting by the Reserve Bank Governor, Glenn Stevens:

"Growth in China has been very strong, which is having a significant impact on other economies in the region and on commodity markets…..Economic conditions in Australia have been stronger than expected and measures of confidence have recovered "

In addition, overseas investors appear to be returning to the domestic equities market, with the currency strength an indication of a strong flow of money back onto our shores. Investors also appear cashed up with this month's large equity issues being easily digested.

Whilst the volatility from month to month should be expected to be a market feature, we believe the medium term prospects for the market continue to look positive.

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