

Resources lead market higher

Monthly Report

November was a quiet month domestically with the AGM season the primary focus for investors. Dubai World's request to its lenders for a moratorium on \$80-90 billion in debt sent markets into a downward spiral late in the month. Nevertheless the Australian market still finished November almost 2% higher, but well below the US based Dow Jones Index which gained 6.5% and much of Europe which rose 3% or more. Gold was the standout commodity rising 13% to close the month near USD1180. Investors continued to flock to the metal as an inflation hedge and as a refuge from the declining US dollar.

There were few surprises from local companies during the AGM season. Companies tended to be quite circumspect in their outlook statements, with those bold enough to provide commentary flagging a cautious economic and earnings recovery as the most likely scenario over the balance of FY10. The domestic retailers however stood out with comments from the likes of **David Jones**, **JB HiFi** and **Harvey Norman** that recent trading had been ahead of expectations. Ironically both the **Myer** and **Kathmandu** floats have disappointed, with both stocks trading below their issue prices.

There was some ongoing corporate activity: **AMP** made a bid for competitor **AXA**; and two Canadian pension funds, already part owners of **Transurban**, made a play for the remaining shares of the toll road operator.

Economic data remained positive, although this was largely anticipated and hence priced into the equity markets. The RBA upgraded its growth forecasts and increased official rates to 3.5% at the start of November. This was followed by a third consecutive monthly rise on 1st December, taking rates to 3.75%. Three of the four majors banks have passed on more than these official increases in a move that, whilst unpopular, may help stem consumer demand and therefore reduce the quantum of future official rises.

From a share price perspective, the banks performed poorly in November as investors rotated out of financials stocks (which have had an impressive run this year) and into the resources sector. Indeed whilst the industrials were more-or-less flat in November, resources stocks gained more than 7% on average.

The Funds

The smaller cap **OC Premium** and **OC Dynamic** Funds performed solidly rising 1.9% and 3.7% respectively versus the Small Industrials index which fell -1.1%.

Core holdings such as **CSG Group**, **JB HiFi**, and **IOOF** enjoyed double digit rises after upbeat commentary at their respective AGM's. One of the few negative performers was **Hastie Group** which was impacted by view that their operations in the UAE will suffer from the financial concerns in the region. Importantly, the company announced to the market that its current exposure to

Performance to 30 November 09*	1 Month	3 Months	6 Months	1 Year	4 Years (p.a.)	7 Years (p.a.)	Since inception (p.a.)
OC Concentrated	7.4%	19.7%	66.6%	133.1%	11.4%		14.9%
All Ordinaries Accum	1.9%	6.1%	26.3%	34.5%	5.1%		11.2%
OC Dynamic	3.7%	17.6%	47.3%	67.3%	-3.4%	9.1%	11.2%
Small Industrials Accum	-1.1%	4.5%	29.2%	41.7%	-2.4%	8.4%	5.0%
OC Premium	1.9%	14.2%	39.5%	58.4%	-4.0%	7.1%	9.7%
Small Industrials Accum	-1.1%	4.5%	29.2%	41.7%	-2.4%	8.4%	4.7%
OC200 Fund	2.1%	6.3%	28.3%	35.5%	8.1%		12.1%
S&P/ASX 200 Accum	1.8%	5.9%	25.9%	31.7%	4.8%		8.3%

Dubai is non-material, although it is likely that the opportunities for growth in the region have been tempered.

The **OC200 Fund** again performed ahead of the benchmark with overweight positions in **BHP**, **RIO** and **JB HiFi** helping raise the Fund ahead above the index. **Brambles** was sold prior to its AGM in the expectation earnings would be impacted by currency movements and weaker trading data. **AXA** was added to the portfolio immediately after **AMP** announced it was making a bid for the company.

The **OC Concentrated Fund** continued to post some excellent results, rising 7.4% in the month and taking the 12 month return to 133.1%. As discussed, a number of the core holdings in the smaller cap **OC Dynamic** and **OC Premium** Funds had good rises and the performance of the **OC Concentrated** Fund was amplified by the higher weightings in these stocks. Further value was added through some of the smaller 'incubation' holdings such as **Halcyon** which has recently purchased the Mayne Pharma business and **Sirtex** which has soared in price on the back of profitable growth in its liver treatment cure.

Outlook

The market has rotated into cyclical stock such as media, resources and building materials in the expectation the recovery will continue into FY11. As such, these sectors are trading on historically high multiples and we believe there is some risk in backing these sectors at such extended prices. There remains good value at the smaller end of the market and amongst some

of the less 'leveraged' sectors such as IT, the telecommunications sector and certain domestically based industrial and services businesses.

It is likely the next couple of months will be quiet over the Christmas season, giving investors some respite from the extreme volatility and elevated corporate activity (particularly secondary offerings) seen for much of this year.

We remain optimistic about the 2010 calendar year and expect the gradual earnings recovery that has kicked off in the past few months to accelerate as debt markets continue to normalise and global economic growth resumes. There are expected to be some good opportunities emerge as a number of new businesses come to market through IPO's that have been back-logged in 2009. Importantly these often present an excellent opportunity to purchase quality businesses at attractive prices.

Clearly the Funds have recovered strongly this calendar year. Much of the good performance has been from long term holdings which were trading far below fair value in the global financial crisis despite performing strongly at an operational level during this period. These include **CSG Group**, **Hastie Group**, **Ardent Leisure** and **McMillan Shakespeare**. We also added a number of outstanding businesses such as **Peet and Co**, **Fantastic Holdings** and **Automotive Holdings** which have bounced strongly.

Despite the recent strong gains we remain confident that all the OC Funds will continue their positive momentum and are well positioned for continued growth in the 2010 calendar year.

Investment Team

Dean Fergie
Rob Frost
Sam Baillieu
Rob Calnon
James Casey

Marketing & Client Services

Sam Cole
Sarah Madden

Contact us

P: (03) 9602 3199
E: mail@ocfunds.com.au
W: www.ocfunds.com.au



The Lonsec Limited ("Lonsec") ABN 56 061 751 102 rating for the OC Funds Management Premium Equity Fund (assigned May 2009) presented in this document is limited to "General Advice" and based solely on consideration of the investment merits of the financial product(s). It is not a recommendation to purchase, sell or hold the relevant product(s), and you should seek independent financial advice before investing in this product(s). The rating is subject to change without notice and Lonsec assumes no obligation to update this document following publication. Lonsec receives a fee from the fund manager for rating the product(s) using comprehensive and objective criteria.

* Past performance is not a reliable indicator of future performance. The Total Returns of the OC Funds over specified periods are shown in the above table. This table contains information regarding Total Returns to 30 November 2009. Total Returns are calculated after taking into account performance fees. Where OC Funds generates a return on the OC200 Fund over and above the performance hurdle (S&P/ASX200 Accumulation Index) in a quarter, a performance fee of 10.25% of all profits above this level is charged to the Fund directly. Where OC Funds generates a return on The Premium and Dynamic Funds 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 Funds directly. Where OC Funds generates a return on the Concentrated Fund over and above the performance hurdle of 0% in any financial year (subject to a high water mark), a performance fee of 10.25% of all profits above this level is charged to the Fund directly. Between 1 July 2004 and 30 June 2009 where OC Funds generated a return on the Concentrated Fund over and above the performance hurdle of 0% in any financial year (subject to a high water mark), a performance fee of 20.5% of all profits above this level was charged to the Fund directly. Before 1 July 2004, performance fees were not paid out of the Funds but billed by OC Funds directly to investors. In this table, the Total Returns for the period prior to 1 July 2004 have been adjusted to reflect the paid performance fees as if the fees were paid out by the Funds. The Total Return performance figures quoted are historical, calculated using end of month mid prices and do not allow 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 Indices do not incur these costs. This information is provided for general comparative purposes. Positive returns, which the Funds are designed to provide, are different regarding risk and investment profile to index returns.

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 recipient. As such, before acting on any information contained in this document, recipients should consider the appropriateness of the information to their needs. This may involve seeking advice from a qualified financial adviser. OC Funds (ACN 092 872 056) is the issuer of the OC Premium Equity Fund (ARSN 098 644 976) ('Premium Fund') and the OC Dynamic Equity Fund (ARSN 098 644 681) ('Dynamic Fund'), the OC200 Fund (ARSN 123 963 806) ('OC200 Fund') and the OC Concentrated Fund (ARSN 126 537 424) ('OC Concentrated Fund'). Current PDS's are available from OC Funds, located at level 33, 360 Collins Street, Melbourne, VIC 3000, (03) 9602 3199. A person should consider the PDS's before deciding whether to acquire or continue to hold an interest in the OC200 Fund, the OC Premium Fund, the OC Dynamic Fund or the OC Concentrated Fund. Past performance is not a reliable indicator of future performance. As such, the recipient should not rely on past performance to make investment decisions. Any opinions or recommendation contained in this document are subject to change without notice and OC Funds is under no obligation to update or keep any information contained in this document current. OC Funds holds AFSL no. 229316.