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Big plans for Ophir High Conviction Fund

By **DAVID ROGERS**, MARKETS EDITOR
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Australia's best-performing small-mid-cap fund will be available to retail investors for the first time on Wednesday when the Ophir High Conviction Fund lists on the ASX as a listed investment trust.

With a 20.2 per cent return after fees since inception and a "recommended" rating from Zenith, Ophir High Conviction Fund will have one of the best track records of its listed peers.

Backed by family offices, private banking and high-net-worth investors including Ophir co-founders Andrew Mitchell and Steven Ng, it will be the second-largest listed small-mid-cap fund behind WAM Capital, with a market capitalisation of $450 million.

And unlike some recent floats that have struggled in a sharemarket correction, the conversion of the existing unlisted unit trust to a listed investment trust does not involve any additional capital raising.

"The deal is essentially already done and locked away so the confidence level is more around being the best structure and performing post-listing," Mitchell tells *The Australian*.

"We really like the closed-ended structures and proposed to investors to convert from an unlisted fund to a listed one. The conversion route that we have taken is pretty unique, and we think has only been done successfully once before."

Mitchell expects other funds will be closely watching this listing and some others will be likely to go down the same route.

Mitchell and Ng saw the benefits of closed-end structures in the global financial crisis.

"At Paradice Investment Management, we generated a 20 per cent outperformance from 2007 to 2011, which made that fund the best-performing fund over that period," Mitchell explains.

"But there was a key advantage that we had. David Paradice had a high-quality investor base who didn't withdraw funds during the crisis.

"That was a huge advantage because it enabled us to take a long-term approach, rather than being forced to meet the capital requirements of investors.

"We were able to deploy most of our capital at the bottom of the global recession."

Not that Mitchell thinks another global recession is imminent. Indeed, the listing doesn't have anything to do with the timing of where the market is now after a 12 per cent correction.

A key benefit of the LIT structure in particular is that it will allow management to keep the fund small enough to stay agile — because it's closed-ended — while also returning capital via security buybacks.

An open-ended small-mid-cap fund in Australia can soon get too big to stay nimble enough to enter and exit shares without driving the price up and down before transactions are completed.

"The whole business model of Ophir is to keep our funds small so they can have high performance," Mitchell says.

"Steven and I have all our money invested in Ophir funds, so we are completely aligned to make sure this goes well. But because we closed the funds, we had nowhere to put our money.

"As we get bigger we need to return capital. In these structures, if you're prepared to buy back stock if it trades at a discount, it's a great way of returning capital."

The listing gives investors an opportunity to increase exposure to high-conviction funds in the small-mid-cap space — an area where active funds in Australia have consistently outperformed.

It may also be an opportune time for stock pickers after the recent sharemarket correction, particularly with the outlook for markets expected to stay volatile and challenging in 2019.

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David Rogers began writing on financial markets in 1987, having worked for Standard & Poor's, Thomson Financial, BridgeNews, Dow Jones Newswires, Tolhurst Noall and The Wall Street Journal. David has extensive ... Read more