Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

OPHIR

INVESTMENT UPDATE AND NAV REPORT – DEC 2018

The Ophir High Conviction Fund seeks to provide investors with a concentrated exposure to a high quality portfolio of listed companies listed outside the S&P/ASX 50. Employing an extensive investment process that combines a rigorous company visitation schedule and fundamental bottom-up analysis, the Fund aims to identify businesses operating within structural growth sectors with the ability to meaningfully grow and compound earnings over time. Typically, the majority of businesses within the portfolio will already have well-established business models with large or growing end markets and a clearly identifiable pipeline of future growth opportunities. As a concentrated portfolio, the Fund seeks to identify the very best of these opportunities in order to ensure each portfolio position delivers a meaningful impact on overall portfolio returns.

ASX Code	Net Per Annum Return Since Inception (to 31 Dec 18)	Net Return Since Inception (to 31 Dec 18)	Fund Size (at 31 Dec 18)
ASX:OPH	**17.0%**	**71.1%**	**$444.5m**

DECEMBER 2018 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 December 2018	Amount
NAV	$2.13
Unit Price (ASX:OPH)	$2.24

To access daily NAV prices for the Ophir High Conviction Fund (ASX:OPH), historical ASX announcements and performance history, please visit www.ophiram.com

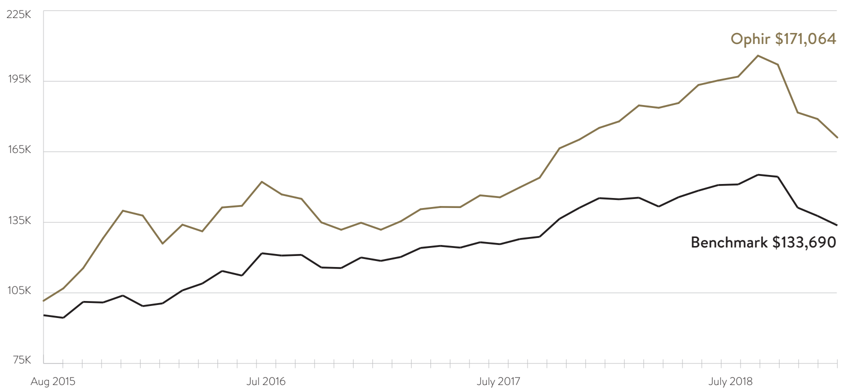

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future performance.

INVESTMENT PERFORMANCE

	1 Month	FYTD	1 Year	2 Years p.a.	3 Years p.a.	Since inception p.a.
Ophir High Conviction Fund	**-4.3%**	**-11.9%**	**0.3%**	**14.9%**	**9.0%**	**21.8%**
Benchmark	-2.9%	-11.4%	-8.0%	4.9%	8.8%	8.9%
Value Add (Gross)	-1.4%	-0.5%	8.3%	10.0%	0.3%	13.0%
Fund Return (Net)	-4.4%	-12.4%	-2.3%	12.6%	6.9%	17.0%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 Dec 2018, not the market price. Benchmark is the ASX Mid-Small Accumulation Index. Inception date of the Fund is 4 August 2015. Past performance is not a reliable indicator of future performance.

TOP 5 PORTFOLIO HOLDINGS (ALPHAETICAL)

Company	Industry	ASX Code
The A2 Milk Company	Consumer Staples	A2M
Cleanaway Waste Management	Industrials	CWY
NextDC	Information Technology	NXT
Reliance Worldwide Corp	Industrials	RWC
Tabcorp Holdings	Consumer Discretionary	TAH
Average Portfolio Market Cap		**$3.6bn**

KEY INFORMATION

Responsible Entity	The Trust Company (RE Services) Limited
Manager	Ophir Asset Management
Portfolio Managers	Andrew Mitchell & Steven Ng
Fund Inception	4 August 2015
Fund Size	$444.5m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 Dec 2018)

Sector	31 Dec 18
Materials	11%
Financials	0%
Health Care	2%
Communication Services	3%
Consumer Staples	10%
Information Technology	15%
Industrials	19%
Consumer Discretionary	27%
Utilities	0%
Real Estate	0%
Energy	0%
[Cash]	12%
	100%

MARKET COMMENTARY

The brief rally in global equity markets experienced through the closing weeks of November ultimately proved short-lived this month as risk assets and investor confidence again declined in December.

Faced with the same combination of macroeconomic and geopolitical concerns that have continued to create material headwinds to equity market performance in recent months (continued signs of slowing global economic growth, tightening global financial conditions and ongoing US-China trade anxieties), global equities registered their worst December monthly performances since the GFC, the MSCI World Equity Index falling -7.0% for the month.

Australian equities were unable to avoid the broader market malaise, the ASX 200 falling -0.4% through December, while the ASX Small Ordinaries retreated -4.2%. Despite finishing the month in the red, the monthly return figures for Australian equities looked comparatively pedestrian to those experienced by a number of larger developed markets offshore, including the S&P 500 that fell –9.0% to record its worst monthly decline since February 2009 (and its worst December monthly performance since the Great Depression).

Higher growth technology names unsurprisingly succumbed to the rotation toward more safe haven assets, with the US NASDAQ contracting -9.5% over the month, while the Japanese Nikkei recorded its worst December monthly move in over 50 years, falling -10.5%.

Quite incredibly, global equity market performances could have been significantly worse had it not been for a spectacular single-day rally late in December, culminating in the largest positive one-day move in the S&P 500 since 2009. The Dow Jones Industrials added 1,050 points in a single day, while the S&P 500 saw more than 500 stocks within the index finish positive on the day for the first time in history (in a strange quirk, there are actually 505 stocks currently in the S&P 500 - only one, Newmont Mining Corp, finished the day lower). While less exuberant than North American markets, the ASX 200 still managed a single-day gain of +1.88% following the Boxing Day rally, while the ASX Small Ordinaries increased +1.6%.

While global equity markets have since begun the 2019 calendar year on broadly more attractive footing, the tepid market performance experienced through the December month served to deliver one of the more tepid quarterly performances for Australian equities for some time. The ASX Small Ordinaries Index finished the quarter -13.7% (its largest quarterly decline in five years), while the ASX Small Industrials Index registered its worst performance since the Global Financial Crisis, -13.3%.

While such significant price compression is dramatic, it is worth highlighting that the vast bulk of share price declines this quarter have largely come from a contraction in valuation multiples, rather than the result of any broad-based retreat in underlying earnings. Unlike the GFC period (where smaller companies were ultimately facing a significant contraction in forward earnings), the most recent sharemarket swoon has ultimately been manufactured by a short term reduction in investor confidence and subsequent re-alignment in price-earnings multiples as a result.

Such market-driven events tend to create opportunities for active fundamental investors that have the ability to look through shorter term periods of market dislocation (and have adequate access to capital to exploit them). Indeed, as a result of recent share price movements, we are fortunate enough to begin the 2019 calendar year with equity market valuations across the ASX Small Ordinaries Index (as measured by one-year forward price/earnings multiples) now sitting at a slight discount to their five-year averages.

Safe haven assets, such as gold, have been keenly sought in recent months, again providing another example of the compressed levels of investor sentiment across asset markets globally. At the current time of writing, the AUD gold price had rallied +9.6% from September 27th to AUD$1,800/oz, outperforming the ASX 200 by some +16.6%. Indeed, for Australian investors, the top three performing assets classes for the 2018 calendar year were AUD gold, investment-grade fixed income and cash – a sobering outcome given the historically low rate of return offered by all three.

While investor confidence is undoubtedly cautious at present, one should always remember that underlying market sentiment can often turn on a dime and the coming months will present a number of obvious catalysts. Most important will be the corporate earnings seasons (the US 4Q earnings season begins 14 Jan, while the ASX 1H19 earnings season commences in February), providing markets with real-time insights as to whether the current crop of macro concerns have affected corporate profitability to the extent that current equity valuations would suggest.

For US markets, a slowing in earnings growth is already anticipated somewhat, with consensus profit per share estimates for the S&P 500 now sitting at 11.4% annualised for the 4Q (or more than half the growth rate recorded earlier in the year), down from expectations in September for ~16.6%. Should earnings hold at that level, the S&P 500 would be trading on a one-year forward multiple of 14.1x, a fairly significant 16.3% discount to its five-year average.

In Australia, despite the day-to-day gyrations in share prices over recent months, underlying business conditions across our current group of portfolio companies have remained relatively resilient, outside of some weakness in companies exposed to the East Coast housing sector. With a November AGM season that produced no more than the average number of earnings downgrades across the market, the current outlook for earnings growth across emerging Australian equities hasn't changed dramatically in recent months (albeit share prices, in some cases, have).

Ultimately, we retain the view that businesses that are displaying an ability to meaningfully grow earnings independent of the economic cycle and re-invest capital at high rates of return will continue to be rewarded by the broader market. Economic conditions domestically remain broadly resilient, though not spectacular, whilst opportunities for Australian businesses to access global growth opportunities continue to materialise. We remain confident in the current earnings outlook for the High Conviction portfolio and are looking forward to the beginning of the February results season for an update from our portfolio companies.

PORTFOLIO COMMENTARY

The Net Asset Value (NAV) of the Ophir High Conviction Fund decreased by -4.4% over the month of December (net of fees and before tax), underperforming its benchmark by -1.5%. Since inception in August 2015, the Fund has returned +17.0% per annum (net of fees and before tax), outperforming its benchmark by 8.2% per annum.

For December, the top contributors to fund performance were Australian-based gold miner Evolution Mining (EVN), dairy and infant milk formula distributor The A2 Milk Company (A2M) and cloud-based accounting software provider Xero (XRO).

Top detractors to performance this month were mining services and construction conglomerate Seven Group Holdings (SVW), fast-fashion retailer Lovisa Holdings (LOV) and modern day layby provider Afterpay Touch Group (APT).

Despite a heightened level of day-to-day volatility at present, overall portfolio composition hasn't changed materially in recent months. As regular readers of our investment newsletter would be aware, in August and September we moved to reduce some exposure to a handful of businesses within the portfolio where valuations had become excessive versus their current earnings opportunity, or where we felt near-term catalysts to sustain current earnings multiples were lacking. As a result, the portfolio has been running a historically higher-than-average cash weighting from late September, which has ultimately proved fortuitous given recent market declines.

In some cases, we have redeployed a portion of this cash back into existing portfolio investments that, despite seeing little change in their operating earnings outlook, have experienced price declines anywhere between 20-40% below where we had initially reduced our portfolio weightings. We're quite happy to maintain an active approach to portfolio construction during periods of higher volatility and will continue to look for opportunities to re-weight into current portfolio positions where we feel short term market sentiment has created attractive opportunities.

We have also used a portion of our capital to initiate a new position in a business with a relatively defensive earnings stream that we have followed for some time though previously hadn't been able to find a suitably attractive entry point. This purchase is still ongoing.

Portfolio cash levels at the end of December sat at 11.2% of the portfolio, a proportion of the Fund that is still historically high versus average cash weighting over the past three years. With volatility likely to continue in the immediate near term (and the Australian 1H results season now less than five weeks away), we will continue to maintain some cash buffer in order to ensure we have capital available to take advantage of any significant price movements.

Unsurprisingly, the current portfolio strategy hasn't changed. We continue to seek exposure to high-quality businesses operating within structural growth sectors with an ability to meaningfully grow and compound earnings over time. It is our view that in the current low-growth environment, businesses that are demonstrating an ability to deliver strong, sustainable, above-market returns will continue to be rewarded by the broader market.

STOCK NEWS

Individual corporate releases and updates tend to be fairly limited during the December period, with little significant announcements or activity worthy of specific mention across the portfolio this month.

While not impacting the Ophir High Conviction Fund portfolio directly in December, corporate activity has again continued to remain elevated across the smaller cap space, with a number of deals announced prior to books closing for the 2018 calendar year.

Personal care and hygiene product manufacturer Asaleo Care (AHY, +44%) announced the sale of its struggling tissue business to industry player Solaris Paper for $180m, bulk grain handler Graincorp (GNC, +29%) received a $2.4bn takeover from Long Term Asset Partners, while pharmacy distributor Sigma Pharmaceuticals (SIG, +20%) announced a merger with competitor Australian Pharmaceutical Industries (API).

While the bulk of takeover activity this month had been led by domestic buyers, it is most likely that 2019 will see the return of foreign raiders to Australian shores. As highlighted in our November note to investors, the combination of cheap and easy access to capital, a lower Australian Dollar and (in some industries) minimal organic growth opportunities being immediately available will likely drive continued interest in Australian assets from offshore buyers in the year ahead.

After beginning the 2018 year at US80c, the Australian dollar slipped to a US70-74c trading range for the bulk of the final quarter of 2018, while briefly slipping to US68c in the early weeks of January (its lowest level in more than 10 years). With little obvious near-term catalysts likely to drive the AUD higher, we continue to benefit from a fairly sizeable skew in the portfolio towards businesses with a large proportion of their earnings generated offshore. With a domestic economy that continues to remain sluggish at best, it has been Australian businesses that have successfully executed offshore growth strategies in recent years that have generated material amounts of earnings growth versus their domestic-only competitors.

In many cases, a number of these companies have not only benefited from exposure to larger and higher-growth end markets, but also the positive translation effect from earning revenues in US Dollars, Euro's or Pound Sterling at a time when the Australian Dollar remains under pressure. At present, across the 24 holdings in the portfolio, 7 businesses (representing ~25% of the portfolio by weight) will generate more than 50% of their expected FY19 earnings from offshore markets.

COMPANY NEWS

LISTING OF THE OPHIR HIGH CONVICTION FUND (ASX:OPH)

We have been delighted with the support received from both current and new investors in the conversion of the Fund from an unlisted unit trust to an ASX-listed investment trust. With an annualised after-fee return of +17.0% per annum since inception in August 2015, we have certainly been proud of the performance generated by the Fund to date. The next stage of this evolution was to ensure we have the best possible investment structure in place to continue to generate strong returns going forward. We feel this goal has been achieved with the conversion to the listed vehicle and look forward to continuing to strive to deliver strong returns for investors over the years ahead.

ASX:OPH AWARDED RECOMMENDED + RATING

The Ophir High Conviction Fund (ASX:OPH) has been awarded a 'Recommended +' research rating from independent research provider Independent Investment Research (IIR). The Fund has also retained its 'Recommended' rating from research provider Zenith Investment Partners. For Financial Advisers looking to access these reports, please contact Ophir Investment Director Rob Saunders on (02) 8188 0397.

REMINDER ON CONVERSION RATIO

For investors in the original unlisted Ophir High Conviction Fund unit trust looking for information on the calculation used to issue OPH units, we have provided a reminder on the conversion ratios below. Due to a consolidation of units prior to listing, investors in the Ophir High Conviction – Class A units will have received a lower amount of units at a higher price.

The conversion of units took place at the close of business on December 11th 2018. For investors in the Ophir High Conviction Fund – Class A units, the unit price differential between the unlisted an listed units is as per the below:

Old Unlisted Unit Price (11 Dec 2018):	$1.5737
New Unit Price post consolidation (11 Dec 2018):	$2.13122

Original investors in the unlisted Ophir High Conviction Fund – Class A unit trust will therefore have received approximately 0.7381 new units for every old unit (adjusted for rounding). Please check your statements via Boardrooms investor portal InvestorServe (www.investorserve.com.au).

INVESTMENT PHILOSOPHY

INVESTMENT OBJECTIVE

The Fund seeks to provide Unitholders with a concentrated exposure to a high quality portfolio of listed companies outside the S&P/ASX 50. Employing an extensive investment process that combines a rigorous company visitation schedule and fundamental bottom-up analysis, the Fund aims to identify businesses operating within structural growth sectors with the ability to meaningfully grow and compound earnings over time. The Fund aims to generate long-term returns in excess of the Benchmark (after fees and before tax) and provide consistent, sustainable returns for Unitholders.

INVESTMENT PROCESS

Ophir employs a fundamental, bottom-up research approach aimed at identifying businesses with the ability to meaningfully grow and compound earnings over time. Typically, the investment process will look to uncover businesses that are operating within, or about to enter, a period of structural growth and are generating cash or have a clearly identifiable pathway toward free cash flow generation. In order to identify these opportunities, the Ophir investment team spend a considerable amount of time understanding the quality of the business and the environment in which it operates.

ABOUT OPHIR ASSET MANAGEMENT

Ophir Asset Management is a specialist small and mid-cap equities investment manager established by founders Andrew Mitchell and Steven Ng in 2012. The business currently manages approximately $1.0bn in capital across two investment strategies on behalf of institutional superannuation funds, family offices, private wealth groups and individual investors. The investment team comprises 5 investment professionals drawn from a diverse range of backgrounds working across all Ophir funds.

ABOUT THE PORTFOLIO MANAGERS

Senior Portfolio Managers Andrew Mitchell and Steven Ng co-founded Ophir Asset Management in 2012 after previously managing capital together at Paradice Investment Management. Under their stewardship, the fund managed by Andrew at Steven at Paradice was the top performing equities fund in Australia from 2007-2011 versus the fund manager surveys (inclusive of the GFC). At Ophir, Andrew and Steven are Senior Portfolio Managers for the Ophir Opportunities Fund (having returned 23.6% p.a. since inception after fees) and the Ophir High Conviction Fund (returning 17.0% p.a. since inception after fees).

KEY INVESTOR CONTACTS

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OPHIR

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