Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

OPHIR

INVESTMENT UPDATE AND NAV REPORT – APRIL 2019

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 30 Apr 19)	Net Return Since Inception (to 30 Apr 19)	Fund Size (at 30 Apr 19)
ASX:OPH	**21.9%**	**109.5%**	**$527.2m**

APRIL 2019 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 30 April 2019	Amount
NAV	$2.61
Unit Price (ASX:OPH)	$2.56

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

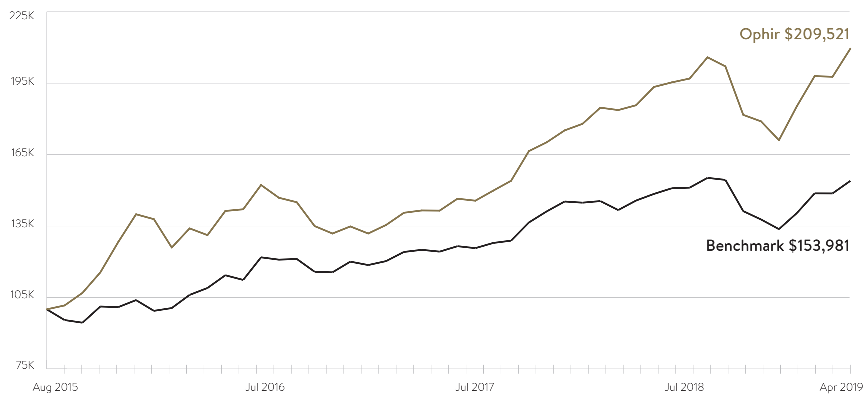

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future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

INVESTMENT PERFORMANCE

	1 Month	FYTD	1 Year	2 Years p.a.	3 Years p.a.	Since inception p.a.
Ophir High Conviction Fund	**6.7%**	**9.6%**	**16.0%**	**24.8%**	**19.5%**	**26.9%**
Benchmark	3.6%	2.1%	5.7%	8.4%	12.2%	12.2%
Value Add (Gross)	3.1%	7.5%	10.3%	16.4%	7.3%	14.7%
Fund Return (Net)	6.0%	7.3%	12.8%	21.7%	16.9%	21.9%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 30 Apr 2019, 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 (ALPHABETICAL)

Company	Industry	ASX Code
The A2 Milk Company	Consumer Staples	A2M
Afterpay Touch Group	Financials	APT
Cleanaway Waste Management	Industrials	CWY
NextDC	Information Technology	NXT
Reliance Worldwide	Industrials	RWC
Average Portfolio Market Cap		**$4.90bn**

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	$527.2m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 30 Apr 2019)

Sector	30 Apr 19
Materials	12.03%
Financials	0%
Health Care	5.64%
Communication Services	2.17%
Consumer Staples	11.06%
Information Technology	16.95%
Industrials	14.80%
Consumer Discretionary	20.36%
Utilities	2.72%
Real Estate	0%
Energy	0%
[Cash]	14.27%
	100%

MARKET COMMENTARY

After a more subdued March, global equities markets continued their 2019 resurgence during April, buoyed by continued low interest rates, a better than expected US earnings season and strong US economic data. The S&P 500 index climbed +4.0% during April with the MSCI Developed Markets index rose +3.8%.

In the first four months Of 2019 the Dow Jones Industrial Average (up +13%) and NASDAQ (up +17%) have now had their best start to a calendar year since 1987 and 1999 respectively. Some media commentators have drawn comparisons between the current trajectory of markets and the trajectory which preceded the 1987 Black Monday crash and the 1999 dot com bubble. We believe that this comparison is unwarranted. In the lead up to the 1987 crash both the US and Japanese economy, the world's two largest at the time, were booming and the S&P 500 Index was trading at 29 times earnings (compared to 15.5 currently). In the lead up to the 1999 dot com bubble it was touted that the internet would change the way we do everything and the NASDAQ was trading at an eye watering 175 times earnings (compared to 19 currently).

Whilst markets may be overheated and remain vulnerable to a decent pullback or correction, in our view low inflation and more dovish central banks means that continued market strength is likely in the absence of a macro-economic shock event like a full blown trade war. As investors, when valuations are elevated, it is important that we remain disciplined not only in respect of which companies we add to our portfolios but which ones we exit.

On local shores, there was nothing in the data emerging during March to suggest that there will be a rebound in domestic economic conditions and in our view the risk remains to the downside. The 2019-20 Federal Budget saw the Coalition government miss an opportunity to boost subdued business sentiment and ease the pressure on consumers feeling the impact of the negative wealth effect of falling house prices. In addition, the International Monetary Fund's latest outlook estimates that Australia's gross domestic product will cool from 2.8 per cent last year to 2.1 per cent in 2019.

PORTFOLIO COMMENTARY

We were delighted with the performance of the Ophir High Conviction Fund during April with the Net Asset Value (NAV) of the Fund rising 6.0% (net of fees and before tax) for the month. Since inception in August 2015, the Fund has returned +21.9% per annum (net of fees and before tax).

For April, the top contributors to fund performance were 'buy now pay later' technology company Afterpay Touch (APT), A1 protein-free dairy product provider a2 Milk (A2M) and plumbing parts manufacturer and distributor Reliance Worldwide (RWC).

Key detractors to fund performance were gold producer and explorer Northern Star Resources (NST), gold producer and explorer Evolution Mining (EVN) and electricity provider Mercury NZ (MCY).

We continue to rebalance our portfolios into those companies whose earnings are more economically resilient. One portfolio holding we have held for a while is Jumbo Interactive (ASX:JIN), the only authorised online reseller of lottery tickets in Australia. In our view Jumbo is in a unique position being a smaller capitalisation stock that not only has revenue dynamics that are more normally accustomed to a defensive blue chip stock (i.e. Tabcorp ASX:TAH) but also the structural tailwinds of the shift to online consumption habits.

Lottery ticket sales in Australia has traditionally been considered a boring, mature but dependable low single digit growth industry. However, FY19 has seen this view significantly challenged with industry growth accelerating to over 20%. The acceleration has not been by chance (pardon the pun). The rules/odds of the Powerball lottery have undergone their most significant change in its history. The two most important effects have been the creation of mega jackpots - we have seen 2x $100m drawn this financial year - and the chance of players winning smaller payouts more frequently.

The buzz and excitement around mega jackpots has both lured more people into playing and interestingly enticed people to play more when the jackpot is larger. For example, if you were a typical player of the Powerball and you didn't win on any given draw and the jackpot was then doubled, you would most likely buy more than double the amount of games for the next jackpot. So the creation of these mega jackpot runs has seen a parabolic like increase in game sales.

The way people play the lottery is also changing with online ticket sales taking significant market share from traditional offline retailers, predominantly newsagents. Outside of Tabcorp, Jumbo is the only authorised reseller of lottery tickets online. The penetration of online ticket sales has also grown exponentially in the last 12 months to over 20% of all game sales aided by the frenzy surrounding the mega jackpots.

Whilst we expect the rate of growth to slow in future years as the industry cycles the emergence of mega jackpots and the increase penetration of online tickets sales should remain an important tailwind for Jumbo. It's interesting to note that online penetration growth has likely seen engagement with a younger demographic supporting an improvement in the quality and potential lifetime value of Jumbo's users. It should be noted that in April and early May we chose to exit most of our holding in Jumbo on valuation grounds as the share price surged.

Exercising discipline as investors during times like the present when markets are vulnerable to a decent pullback or correction is crucial and one investing discipline that does not receive the attention it should is the discipline to sell. When speaking to our investors the focus of conversations is inevitably on those companies that we have added to the portfolio and our rationale for doing so, but internally at Ophir we spend just as much time discussing those companies that we are considering either selling or reducing our position in.

Broadly speaking, there are four reasons that we would exit or materially reduce a position in our portfolio:

1. Excessive valuation – This involves exercising the same valuation discipline when selecting companies and not being afraid to recycle capital when an investment thesis successfully plays out and a resulting elevated valuation no longer provides enough margin for safety should market expectations not be met.
2. Earnings risk – Our investment process focuses on identifying high quality businesses whose earnings are typically more resilient to a weaker economic environment or whose underlying earnings drivers are well protected (either through high operating margins, a deep competitive advantage or a dominant market position). Where a portfolio company's earnings quality is threatened for any reason, we will assess the potential impact and depending on its significance, may decide to exit our position.
3. Change of stock thesis – Before we deploy our investors' capital into a new position, we will always articulate reasons why we believe the underlying business will deliver a meaningful return on investment. Rigorous debate among our investment team is a fundamental part of our investment process and no new investment is made unless underlying assumptions have been challenged and risks sufficiently considered. When subsequent events take place which change our stock thesis we act swiftly to reassess the investment and this may result in us exiting the position.
4. A better stock comes along – Our investment process is designed to build high conviction in the companies we hold in our portfolios such that each position represents a meaningful portion of the overall portfolio. As a result, when we identify a company which is growing more quickly, represents better value than an existing position and has a less leveraged balance sheet, we will challenge ourselves as to why we shouldn't exit an existing position and replace it with the 'better stock'. This discipline ensures that we always maintain a philosophy to hold the "best of" investment opportunities rather than amass a long tail of mediocre investment ideas.

With periods of volatility likely to persist, exercising strong selling discipline will be important to ensure we continue to recycle our investors' capital into businesses that will deliver the best return on investment at that time.

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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