Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

INVESTMENT UPDATE AND NAV REPORT – MARCH 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 31 Mar 19)	Net Return Since Inception (to 31 Mar 19)	Fund Size (at 31 Mar 19)
ASX:OPH	**20.5%**	**97.7%**	**$494.7m**

MARCH 2019 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 March 2019	Amount
NAV	$2.46
Unit Price (ASX:OPH)	$2.55

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

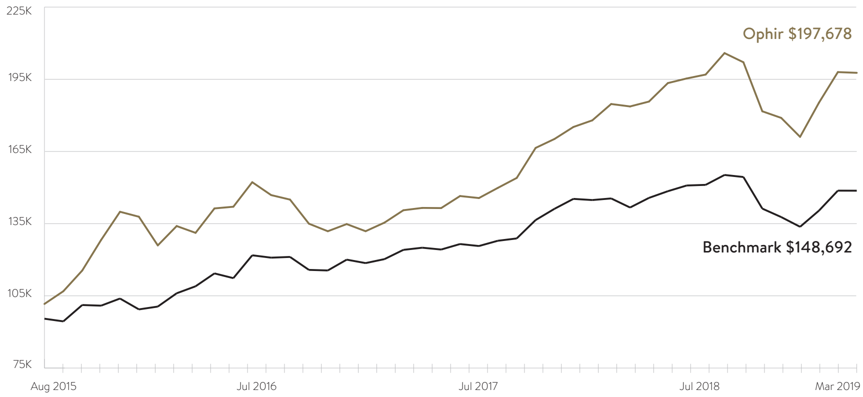

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future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

INVESTMENT PERFORMANCE

	1 Month	FYTD	1 Year	2 Years p.a.	3 Years p.a.	Since inception p.a.
Ophir High Conviction Fund	**-0.1%**	**2.8%**	**9.6%**	**21.3%**	**16.2%**	**25.4%**
Benchmark	0.0%	-1.4%	4.9%	7.5%	11.9%	11.4%
Value Add (Gross)	-0.1%	4.2%	4.6%	13.8%	4.3%	13.9%
Fund Return (Net)	-0.2%	1.2%	7.6%	18.6%	13.8%	20.5%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 Mar 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	Information Technology	APT
Cleanaway Waste Management	Industrials	CWY
NextDC	Information Technology	NXT
Reliance Worldwide	Industrials	RWC
Average Portfolio Market Cap		**$4.40bn**

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	$494.7m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 Mar 2019)

Sector	31 Mar 19
Materials	12.34%
Financials	0%
Health Care	4.74%
Communication Services	0%
Consumer Staples	10.11%
Information Technology	18.10%
Industrials	16.00%
Consumer Discretionary	25.90%
Utilities	0%
Real Estate	0%
Energy	0%
[Cash]	12.81%
	100%

MARKET COMMENTARY

Whilst unable to keep pace with the surge since the turn of 2019, global equity markets have still managed to enjoy moderate gains during March. Momentum has seemingly been unfazed by the backdrop of an inverted US yield curve, the UK Parliament's rejection of Theresa May's umpteenth Brexit deal and an ongoing US-China trade deal Mexican standoff. The FTSE 100 and the Euro Stoxx 50 led the charge among developed markets climbing 3.3% and 1.9% respectively.

On local shores the gains in March were less notable. Whilst the ASX 200 gained only 0.2% it still delivered its strongest quarterly return since September 2009 with the index adding 9.5% to the end of March. Within the smaller company space the S&P/ASX Small Ordinaries fell -0.1%. Significantly, sector returns both in the large cap and small cap space were influenced heavily by sharp falls in 10 year US Treasury bond yields which were down 33bps to 2.42% and 10 year Australian bond yields which were down 33bps to 1.77%. This benefitted the yield sensitive REIT sector which rose 6.0% within the ASX 200 but negatively impacted those sectors dependent on the underlying economic cycle to generate earnings such as energy and financials which fell 4.7% and 2.8% respectively within the ASX 200. We continue to remain cautious of businesses exposed to the Australian economic cycle and focus on those businesses that can grow irrespective of economic conditions.

With a federal election looking likely in May, Australian political watchers were focussed on the New South Wales state election. The election pitted the Premier and Coalition leader Gladys Berejiklian campaigning on the strong recent performance of the NSW economy including record low unemployment rate against newly elected Labor leader Michael Daley's 'schools and hospitals before stadiums' ticket. New South Wales voters ultimately returned the Coalition by a slim one seat majority in what was seen as both an endorsement of the Premier's sensible government approach as much as a riposte to the Labor leader's series of gaffes during the campaign's final weeks. Despite the New South Wales state election result, the Bill Shorten led Labor opposition remain firm favourites to clinch power with a majority of seats at the federal election. In fact, the odds of a Labor Government have only 'Shorten'ed since the New South Wales state election and at the time of writing Australian online bookmaker Sportsbet was offering odds of $1.15 for a Labor majority and $5.00 for a Coalition majority.

The strong possibility of a federal Labor government is something we are factoring into the sectors and business that we choose to allocate capital to within the Ophir portfolios. Whilst there has been much media attention on the potential impact of long standing Labor policies of limiting negative gearing to new housing only and halving the capital gains discount to 25% on newly acquired assets, our analysis indicates that the impact of these reforms on the housing sector are unlikely to be significant.

We are more concerned, however, with the impact that Labor's 'living wage' policy could have on Australian retailers at a time when the sector is already facing multiple headwinds in the form of the negative wealth effect of falling house prices acting as a drag on householder consumption and continued disruption from online retailers such as Amazon. When viewed in a global context, this policy further disadvantages retailers on our shores where the minimum wage already compares favourably to peers in other developed economies. As a result, whilst we continue to hold some retail businesses within the Ophir portfolios where we hold conviction that the valuation represents the available growth on offer, overall we currently view the retail sector with some caution despite the sector's relatively low price/earnings multiple.

On Friday March 19th Google searches for the phrase 'yield curve' spiked when the yield on the US 10-year Treasury note fell below the 3-month Treasury yield for the first time in over a decade. When long term bond yields fall below short term rates you have what is called an 'inverted' yield curve. This was sparked by comments from the Federal Open Market Committee that it won't be raising rates again this year and that it would halt the decline of its balance sheet in September in response to signs of an economic slowdown.

Despite an inverted US yield curve preceding every US recession since World War II, in our view any concerns that a US recession is imminent are exaggerated as we are currently not witnessing any of the exuberance that foreshadows a US recession such as inflationary pressure, wage growth and household indebtedness. A flattening yield curve is more likely to be foreshadowing continued subdued economic growth and macroeconomic uncertainty which for us as investors means a continued focus on businesses which are more economically resilient.

PORTFOLIO COMMENTARY

After a strong February, the Net Asset Value (NAV) of the Ophir High Conviction Fund was marginally down (-0.1%) over the month of February (net of fees and before tax), against a flat benchmark. Since inception in August 2015, the Fund has returned +20.5% per annum (net of fees and before tax), outperforming its benchmark by 9.0% per annum.

For March, the top contributors to fund performance were 'buy now pay later' technology company Afterpay Touch (APT), waste management solutions provider Cleanaway Waste Management (CWY) and mining services and processing company Mineral Resource (MIN).

Key detractors to fund performance were diversified investment company Seven Group Holdings (SVW), diversified food company Freedom Foods (FNP) and digital travel business Webjet (WEB).

Given our expectations that the outlook for equity markets remains choppy and the outlook for the Australian economy near-term remains challenging, within the portfolio we continue to focus on those businesses which display an ability to grow offshore or independently of the economic cycle. We feel that the broader small and mid-cap equities space continues to provide attractive investment opportunities in this regard. An example of a business we believe is economically resilient is portfolio holding **Reliance Worldwide Corporation Ltd (ASX:RWC)**.

For those unfamiliar with their business, Reliance is a plumbing parts business which manufactures and distributes 'push to connect' (PTC) plumbing components. By allowing plumbers to simply cut both sides of a damaged brass pipe (used in the US) or plastic pipe (more common in Australia and the UK) and connect, these components are disrupting the plumbing industry by providing a quicker and more efficient solution than the traditional, more labour intensive soldering process.

The combination of structural growth tailwinds and exposure to the defensive repair and remodelling segment of the market is what attracted us to the company. Reliance owns the dominant PTC brands in each of Australia and the US ('SharkBite') and the UK ('John Guest') and there is significant opportunity for continued growth, particularly in offshore markets. For instance, in the US PTC brass fittings only have ~13% market penetration and is growing at a double digit rate vs low single digit growth in the overall plumbing catregory. Given the value equation to plumbers who use PTC vs traditional methods, we exepect further market share gains for many years to come, particularly as labor costs continue to rise.

The company has de-rated signficantly from the highs reached soon after the acquisition of John Guest in the UK. The company has been caught up in a general melaise surrounding a slowdown in US housing, Brexit and concerns of potential destocking by a key customer after RWC made the decision to cut its exclusivity. We initiated our position following this initial de-rate however the stock has de-rated further following the recent former Chairman's selldown and retirement. To put it into context, RWC rolling 1-year forward price earnings multiple has fallen from a high of ~25x to currently ~18x.

Importantly, we believe theses concerns are unfounded and there has been no discernable change in the earnings power of the company to warrant this level of de-rate. Reliance is a resilient business that we believe has limited exposure to the US economic cycle given it is mainly used in emergency repairs and its exposure to new house builds is very low. Furthermore the decision to broaden its presence in the US to more customers (now sold in Lowes and not just Home Depot) has improved the overall growth prospects of the business, particualrly considering the market share gains being made by Lowes in recent quarters. Discussions with key customers have further re-enforced our view of the quality of brand, franchsie and management's capabilities.

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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