Ophir Asset Management
Level 2, 139 Macquarie Street
SYDNEY NSW 2000

Dear Fellow Investors,

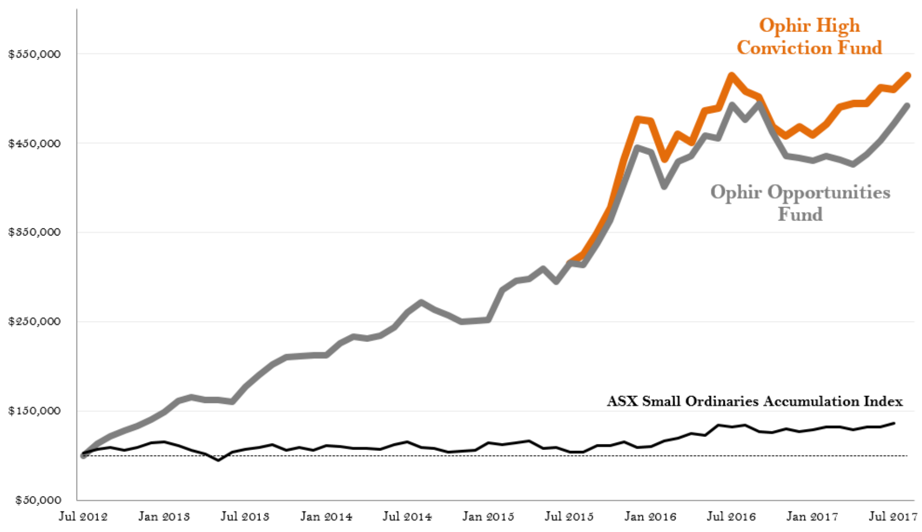
Welcome to the **August 2017** Ophir Letter to Investors – thank you for investing alongside us for the long term.

A Letter of Thanks

This month marks the **5-year anniversary** of the inception of our first investment fund, the Ophir Opportunities Fund and the **2-year anniversary** of the Ophir High Conviction Fund. When compared to the Fund Manager surveys, the Opportunities Fund is the number one performing fund in Australia over the five years, whilst the High Conviction Fund is the top performing fund in its category over the last two years. We're incredibly proud of the performance to date and for the support we have received since we made the decision to establish Ophir Asset Management in August 2012.

It's been a hugely satisfying experience and we wanted to take this opportunity to thank our supporters (and readers of these Letters) for their continued dialogue, words of support and feedback over the last 5 years. It is very much appreciated. We look forward to continuing to work hard to deliver strong returns for our co-investors in the years ahead.

Ophir Funds' Performance Since Inception



** Chart represents gross value of $100,000 invested since inception in the Ophir Opportunities Fund from August 2012. Ophir High Conviction Fund has been added to represent performance of the Fund assuming equal investment size as Opportunities Fund at inception date August 2015. Please note past performance is not a reliable indicator of future performance.*

Given the 5-year milestone, we recently had the pleasure of sitting down with long-time financial journalist Alan Kohler, publisher of www.theconstantinvestor.com to reflect on the past 5 years and what we have learnt through the process. We'll be sharing the Q&A in full next week and this will replace our regular 'Strategy Notes' this month. Thank you again to everyone for your continued support.

The Ophir High Conviction Fund – Launch of PDS and Move to Daily Unit Pricing

We're excited this month to announce some new developments for the **Ophir High Conviction Fund**. Following the recent appointment of The Trust Company (RE Services) as Responsible Entity for the Fund, we're now pleased to be able to launch a PDS offering for the product and have also moved the fund to daily unit pricing.

We've been incredibly fortunate since our inception to have received the early backing of a number of institutional superannuation funds and private family offices who entrusted us with the capital of their members and family groups. As a result, we historically structured the Funds as unregistered schemes with monthly unit pricing, however over time we have received a number of requests to make the Fund available via a PDS.

This essentially allows the product to be more easily accessible for the underlying clients of financial advisory groups, in addition to elevating the compliance and regulatory framework existing around the fund.

This will be the first Ophir Fund offered via a PDS and we're excited to allow this easier access for the groups that have looked to invest in the Funds for some time. Importantly, the High Conviction Fund remains a wholesale-only offering and the change **hasn't altered either the capacity limits or underlying fee structure** of the fund in any way.

	Ophir Opportunities Fund	**Ophir High Conviction Fund**
Portfolio	Diversified portfolio of **30-50** positions	Concentrated "best ideas" portfolio of **15-30** positions
Index	Small cap growth companies listed outside the ASX 100	Small & mid-cap growth companies listed outside ASX 50
Minimum Company Size	> $100 million market cap	> $500 million market cap
Status	**Closed** due to capacity constraints	**Open** to new investors

- ✓ **Same investment team and process across both Funds**
- ✓ **Stock ownership overlap between funds ~40-60%**

The move to **daily pricing** will provide added liquidity for current investors with the unit price now available daily on the Ophir website (with application and redemption requests also processed on a daily basis). We would ask those interested in more information to contact their Financial Advisor should they wish to understand the process of accessing the Fund through this channel.

Alternatively, please feel free to contact our Investment Director, Rob Saunders, who is more than happy to talk through the funds in more detail and the application process. Rob is available on (02) 8188 0397 or email rob.saunders@ophiram.com.

Month in Review – The August 2017 Reporting Season

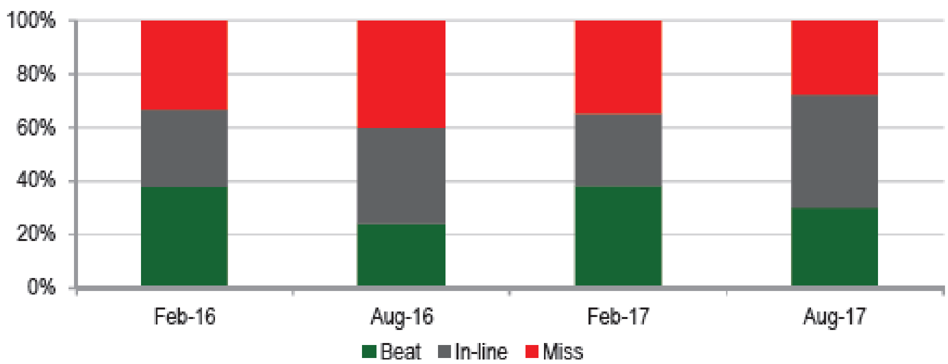
The August reporting period provided its usual mass download of company updates, earnings and outlook statements, with the team meeting with a cumulative 65 companies one-on-one through the month in addition to a further 98 meetings in smaller group environments. With management teams free to discuss their most up to date financials, this is a fantastic period for bottom-up managers to dig deeper into businesses to determine how key earnings drivers are faring and whether the underlying conditions align with current forward expectations. While certainly a busy time for us, it's a period that the team greatly enjoys and we'd like to extend a warm thank you again to all the management teams that visited the Ophir offices this month to provide an update. It is greatly appreciated.

In terms of overall outcomes from the reporting period, the underlying themes didn't differ materially from the expectations outlined in our July Letter. As expected, the consensus estimates for aggregate earnings growth (ex-resources) were ultimately too optimistic and the net result was for consensus revisions to heavily skew to the downside. Using Macquarie Research's estimates, the aggregate expected earnings growth for FY18 across the ASX 200 Industrials, for example, fell from +11.1% coming into August, to just +6.3% a month later.

The almost halving in earnings per share estimates has been driven by a consensus earnings revision ratio of almost 2:1 to the downside across the ASX 200, with ~37% of companies reporting numbers below the consensus estimate (statistically one of the weakest performances in over 20 years, on Goldman Sachs numbers). The numbers at face value would certainly suggest a fairly dour reporting period and the depressed level of sentiment amongst investors and market commentators was certainly notable through the month. We would caution, however, that the numbers paint a picture that is somewhat more bleak than perhaps the underlying reality, particularly across the small and mid-cap growth names.

While consensus revisions heavily favoured downgrades, we must remember this is an indicator of where aggregate sell-side expectations sat and not a measure of changes to a company's actual earnings forecast. The ***actual*** upgrade/ downgrade ratio (i.e. the ratio of companies that upgraded or downgraded their earnings forecasts relative to their own company guidance) was roughly 1:1, while the ratio of earning 'beats' came in at a level higher than the August reporting period in 2016. While investor sentiment certainly was anecdotally softer through the month, 113 of the ASX 200 companies still finished August at levels higher than where they started (its highest rate for an August reporting period in five years). The depressed mood perhaps was more a function of a number of high-profile misses and a disappointing performance across the index-heavy retail banks, general insurers and telco's.

ASX 200 'Beats' & 'Misses' – Past 4 Reporting Seasons

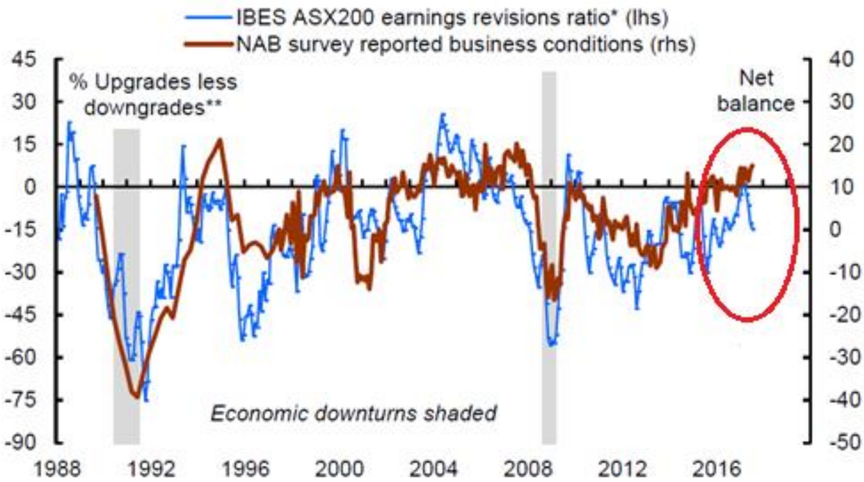


Source: JP Morgan, Bloomberg

Consensus estimates drifting higher at the beginning of a financial year certainly isn't a new phenomenon. Sell-side analysts will tend to re-base company earnings expectations for the year ahead at a slightly optimistic level and (more often than not) adjust these numbers as the year progresses. The drift higher this year has arguably been further compounded by elevated expectations for a cyclical recovery that has yet to materialise and, as a consequence, earnings estimates across a number of the more cyclical businesses subsequently required to be adjusted lower. We have outlined our concerns in a number of recent Letters that the expectation for a US or Eurozone-style earnings recovery in Australia continues to look premature and we see little evidence at the current juncture to change this view.

What perhaps confused the market further is a number of forward looking economic indicators had begun to suggest that business conditions in Australia were broadly improving. With the global reflation trade already spurring a fairly aggressive move out of growth businesses and into the cyclical names through the second half of 2016, signs of improving business confidence look to have ultimately led aggregate forward estimates higher. The NAB business conditions data, for example, entered August sitting at its highest level since pre-2008, with consensus ASX 200 earnings revisions seeming to follow the data higher. Unfortunately, the profit growth has yet to materialise and the market must now reconcile with a fairly wide divergence between the positive forward data and the actual delivered earnings.

ASX 200 Consensus Earnings Revisions vs Business Confidence



Source: Citi Research

In contrast to the experience of the larger end of the market, our own summation of the reporting period has been broadly positive. On aggregate, small and mid-cap growth businesses experienced a fairly pleasing reporting period and the sector again looks to be one of the few areas of the market where opportunities for earnings growth can continue to be uncovered. The market broadly remains relatively theme-agnostic at present and it is in the identification of specific individual companies that are displaying an ability to deliver compounding earnings growth that will continue to provide the best opportunities for alpha. The ASX Small Ordinaries finished August +2.7% for the month (its third consecutive month of positive performance), whereas the ASX 200 fell -0.88% (its fourth consecutive decline) with the large cap ASX 20 falling -2.82%.

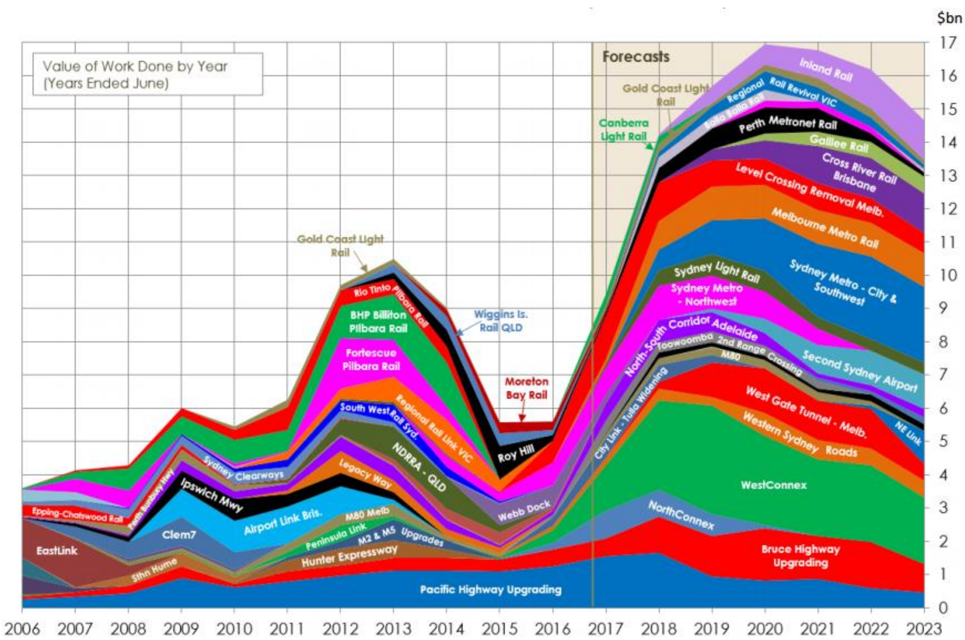
Pleasingly, the Ophir portfolio's performed well, with **the Opportunities Fund adding +4.01% for the month and the High Conviction Fund adding +3.0%.** A number of stand-out results for us across both portfolios included A2 Milk (with earnings upgraded on a higher gross margin for their infant milk formula products), SG Fleet (upgrade to earnings and improving outlook) and Smart Group (upgrade to acquisition synergies). In terms of detractors, the biggest misses at our end were iSelect (missing consensus estimates due to an increased marketing spend), CBL Corp (earnings downgrade on increased provisioning costs) and Challenger Limited (miss to consensus estimates for their FY17 earnings).

On a cumulative basis, the Funds held a combined 46 positions across both portfolios coming into August, with 12 companies delivering earnings results ahead of company guidance and 4 coming in under either our own expectations or previous company guidance. To compare with the broader market experience above, this equated to a 3:1 beat/miss ratio across the portfolios in aggregate – a pleasing result. After meeting with the 41 businesses in the portfolio that reported in August, another 24 other businesses directly and 98 other Group meetings, the net portfolio movement across both the portfolios was just one new portfolio addition and one wholesale exit.

This is an interesting statistic and points to the level of confidence the team has in the portfolio positioning of both funds currently. While we met with a good number of well-run companies through the month, we have found it difficult to uncover opportunities that offer better risk-adjusted upside than the businesses currently represented across both portfolios. It's worth highlighting also that of the four businesses that missed our expectations, only one of these companies we took as a signal to exit completely (meaning the other three, whilst missing our near term estimates, continue to hold favourable upside from their current position in our view).

In terms of key themes, there were a small number of takeaways worthy of mention. From a sector perspective, resources were the clear standout with sector earnings more than doubling year-on-year for FY17. The large miners have meaningfully benefited from the culmination of extensive cost-out and efficiency programs in recent years, alongside the tailwind of improving global commodity prices. As a result, cash-flow from the sector has been strong and the mining services space has served as a beneficiary of this. While the mid-cap contractors have already seen an average +58% boost to their share prices this year, the sector continues to look buoyant with the added tailwind of a surging East Coast infrastructure spend over the next 5 years. Tellingly, company management of these businesses have taken the opportunity to capitalise on the improved outlook with a number of contractors raising additional equity capital this month (Ausdrill, RCR Tomlinson, NRW Holdings) to fund further growth opportunities.

Major Australian Transport Infrastructure Projects



Source: Macromonitor via Cimic HY17 Results Presentation

Rising input costs was another key theme that will need to be closely monitored for domestic businesses, particularly for the more energy-intensive industries. Domestic steel producer Bluescope Steel, for example, forecast total utility cost increases of 75% between FY2016 to FY2018, while Coles Supermarkets observed a 14% increase in energy costs for the 1H of 2017 alone. Consumer-facing businesses like Coles will face a two-pronged impact from higher utility costs given their underlying customers have also not been spared the cost increases and will likely continue to impact their discretionary expenditure habits. Of interest this month was consumer advocacy group CHOICE's August Consumer Pulse Report highlighted 82% of Australians now list 'rising energy costs' as their key cost of living concern.

For the retailers, the underlying economic environment continues to remain tough, with an increasingly cost-constrained Australian consumer coupled with the continued perceived overhang from the pending arrival of Amazon. That being said, the sector has materially de-rated in recent months to factor in a number of these downside risks and it was positive to see a number of the speciality niche retailers navigate the period reasonably well. A higher AUD will provide a much needed tailwind for the sector as currency hedges roll off. We were surprised that a number of management teams were beginning to feel somewhat more optimistic about the broader outlook for their business. The sector as a whole fell a further -6.1% on average through the month and we are watching the sector closely for any potential opportunities in businesses where share prices have more than adequately factored in the current environment.

Finally, the other overarching theme observed from the team was a general unwillingness for management teams to commit to any meaningful forward looking guidance. The underlying business environment continues to remain relatively opaque and managers could be forgiven for not wanting to commit to a number too early into the financial year. That being said, the number of managers that didn't provide guidance was well down on average and this should be taken as signal that corporate Australia continues to feel the near-term outlook remains patchy. It highlights to us again that growth continues to remain hard to uncover at the aggregate level and we continue to favour those businesses that are proving to generate above market growth regardless of the underlying cycle.

In summary, we continue to feel very comfortable with the current portfolio positioning. History tells us that companies that deliver good results tend to be well supported in the following months (the so-called "earnings drift effect") as the investment management community reduce positions that underwhelmed and rotate into those with earnings momentum behind them. This effect is often exacerbated further through periods of lower growth and we continue to feel the portfolios are well placed to capitalise on this momentum.

As always, thank you for entrusting your capital with us.

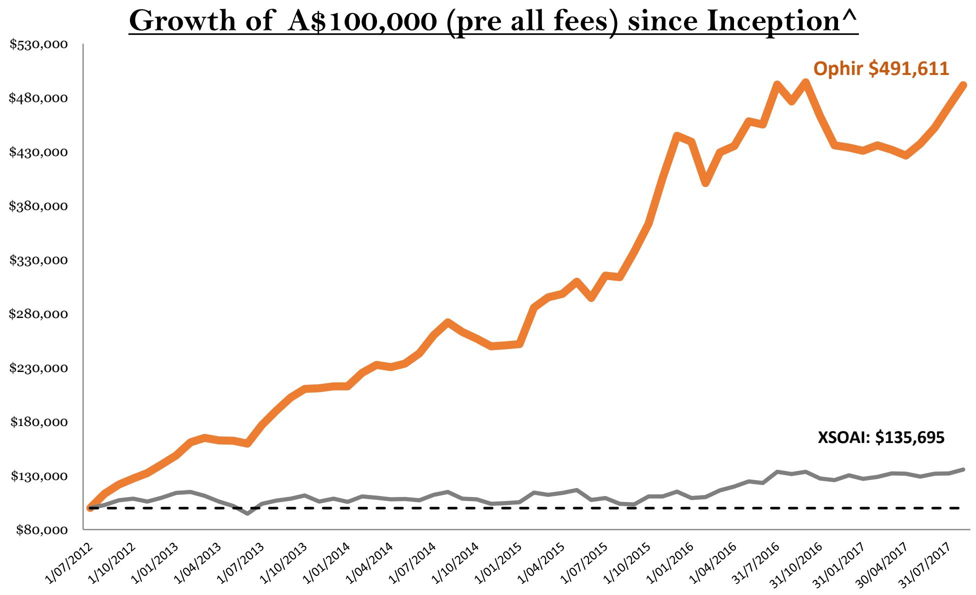
Kindest regards,

Andrew Mitchell & Steven Ng

Co-Founders & Portfolio Managers

Ophir Asset Management

The Ophir Opportunities Fund



^Please note past performance is not a reliable indicator of future performance

The **Ophir Opportunities Fund** returned +4.1% for the month, outperforming the benchmark by 1.4%. Since inception, the Fund has returned +391.6%, outperforming the benchmark by +355.9%.

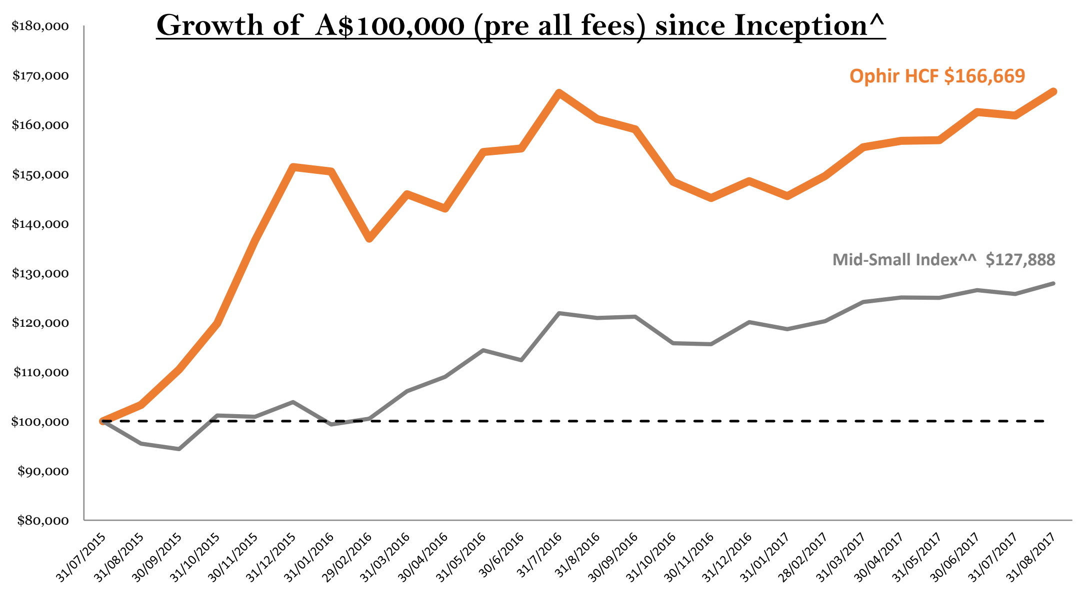
	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
Ophir Opportunities Fund (Gross)	4.1%	12.8%	3.2%	36.8% p.a.	391.6%
Benchmark*	2.7%	5.4%	3.2%	6.2% p.a.	35.7%
Gross Value Add	1.4%	7.4%	0.0%	30.6% p.a.	355.9%
Net Fund Return	4.0%	12.0%	1.8%	28.2% p.a.	253.9%

* S&P/ASX Small Ordinaries Accumulation Index (XSOAI)

	Buy Price	Mid Price	Exit Price
August 2017 Unit Price – Opportunities Fund	2.3207	2.3126	2.3045

Key contributors to the Opportunities Fund performance this month **Moelis Australia (MOE), The A2 Milk Company (A2M)** and **Smart Group (SIQ).** Key detractors included **iSelect (ISU), NetComm Wireless (NTC)** and **CBL Insurance (CBL).**

The Ophir High Conviction Fund



^Please note past performance is not a reliable indicator of future performance

The **Ophir High Conviction Fund** returned +3.0% for the month, outperforming the benchmark by 1.3%. Since inception, the Fund has returned +66.7%, outperforming the benchmark by +38.8%.

	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
Ophir High Conviction Fund (Gross)	3.0%	11.4%	3.5%	27.8% p.a.	66.7%
Benchmark*	1.7%	6.3%	5.8%	12.6% p.a.	27.9%
Gross Value Add	1.3%	5.1%	-2.3%	15.3% p.a.	38.8%
Net Fund Return	2.9%	10.7%	2.0%	21.5% p.a.	49.9%

* 50% S&P/ASX Small Ordinaries Accumulation Index (XSOAI), 50% S&P/ASX Midcap 50 Accumulation Index (XMDAI)

	Buy Price	Mid Price	Exit Price
August 2017 Unit Price – High Conviction Fund	1.4922	1.4870	1.4818

Key contributors to the High Conviction Fund performance this month included **The A2 Milk Company (A2M), Smart Group (SIQ)** and **SG Fleet (SGF).** Key detractors included **CBL Insurance (CBL), Premier Investments (PMV)** and **Sirtex Medical (SRX).**