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Dear Fellow Investors,

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

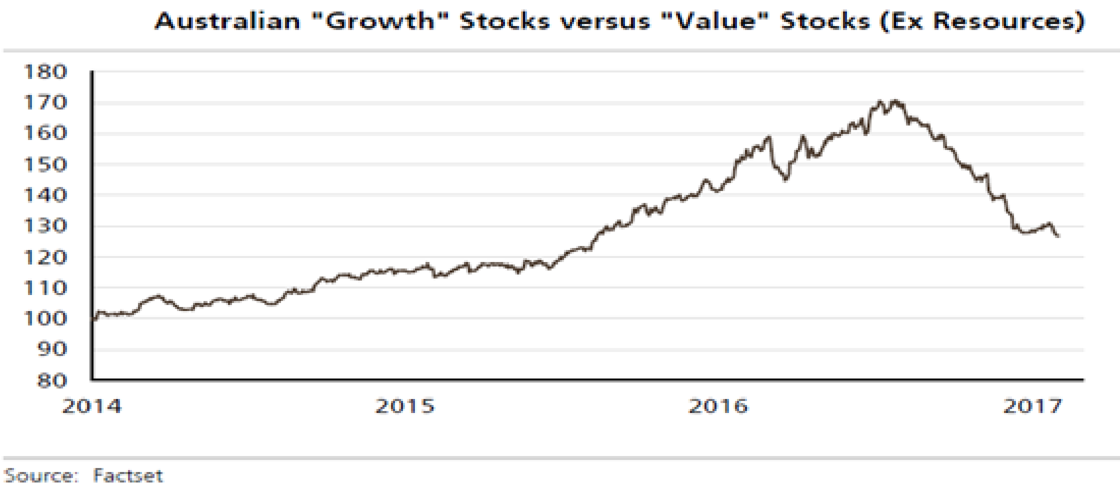
Month in Review

An internet blog post that went viral in mid-2016 claimed to have distilled the formula for individual happiness into a single equation: *Happiness = Reality minus Expectations.* Put simply, if one's reality exceeds their expectations, then the individual is generally broadly satisfied with their situation, and vice versa if the present doesn't meet their initial forecasts.

Perhaps we could have had a future in pop psychology, as any long serving equity market participant will certainly recognise the formula. Investor sentiment (and the shorter-term valuations of asset prices as a function thereof) are everyday driven by the oscillating swing between the markets expectations and the delivered reality for any given event.

The coming few months for equity markets will again see this phenomenon play out - perhaps in a more magnified fashion - given how quickly some corners of the market have moved to price in various macroeconomic expectations. With US equity markets up 9% since the Trump election win, investors are now already attempting to reconcile their initial reflation and fiscal stimulus expectations with the reality of what a Trump Government can deliver.

On our own shores, **ASX investors enter a crucial reporting season** that will serve to provide the first real insight on the prospects for growth in the cyclical end of the market and in the underlying broader economy as a whole. The internal market rotation away from defensive growth and into cyclicals has been well documented (and material – see chart below), and the pending company updates will provide an opportunity to determine whether the PE de-rate across growth has been deserving. Our view remains that growth remains hard to find and those businesses that can deliver it will continue to command a market premium.



Source: UBS Investment Research

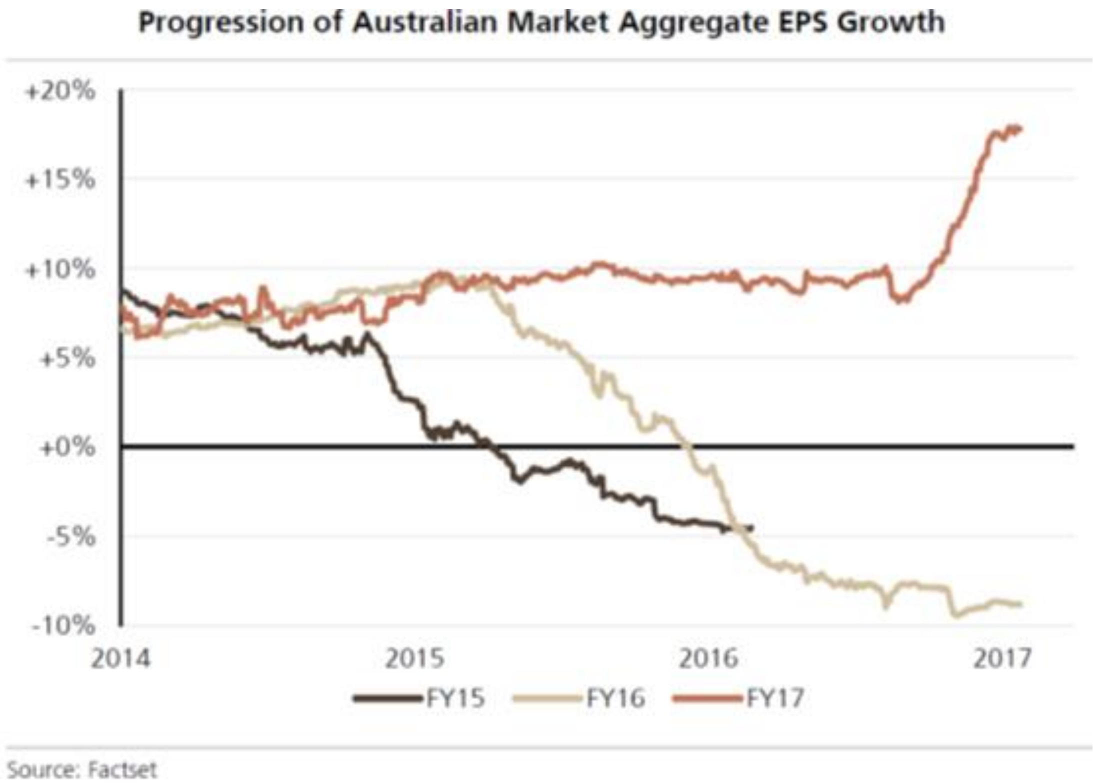
January, as always, was a relatively benign month for news flow and the team has used this time to prepare and debate existing portfolio positions ahead of the February half-year reports. The Australian market suffered some lethargy toward the end of the month, following global markets lower as a number of policy decisions out of the Trump Administration caused the market to question whether initial expectations for immediate fiscal-driven stimulus may have looked overly optimistic.

A strong commodity complex however continues to provide the market with hopes that global growth remains apparent. The ASX 200 finished the month -0.8%, while the Resources Index closed +5.2%. It was a similar story in the small caps, the Small Ords losing -2.4% in January while Small Resources added +2.9%. The top 10 performing companies in the Small Ords for the month were all resources or resources-related names aside from Bega Cheese (BGA), that saw a solid market re-rate following the company's acquisition of the Vegemite brand.

While all reporting seasons obviously carry significant weight, the numbers delivered in the coming weeks will serve to answer a number of crucial questions the market is keenly anticipating:

- Given the dramatic move in global bond yields and forward inflation expectations, have cyclical businesses seen any meaningful top line growth to reflect these expectations?
- Will the higher quality/higher growth names deliver earnings as expected and what multiple is the market now willing to pay for those earnings?
- Is growth in the local and broader global economy ultimately easier to come by?

The outperformance of large cap businesses versus smaller companies is reflecting a view that (after two years of negative earnings) a return to growth is now on the horizon - the FY17 Earnings Per Share (EPS) expectations for the ASX 200 now sit at a stellar +18%, albeit the majority is still driven primarily by the resource names. Excluding resources, the market is expecting a more meagre +6% EPS growth – putting the ASX 200 on a Price to Earnings ratio (PE) of 17.6x (ex-resources / ex-financials basis). This compares to the Small Industrials on 15.5x currently for +8% EPS growth.



Source: UBS Investment Research

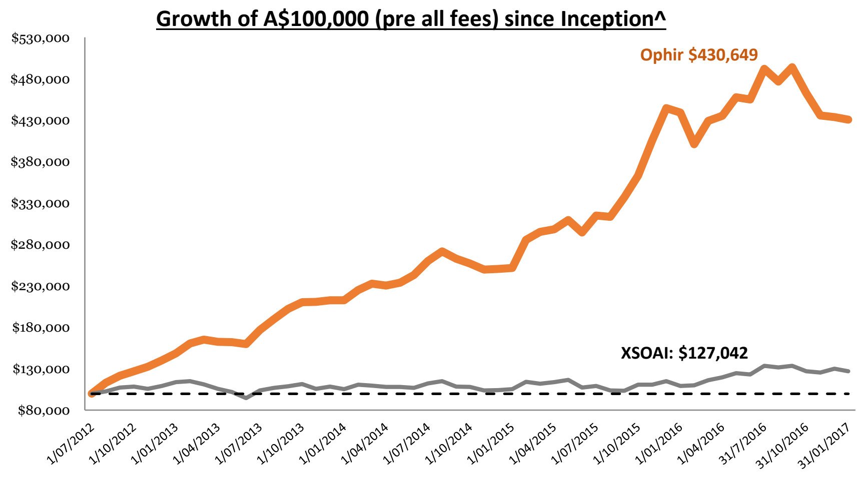
The market will need to see further positive EPS revisions from here to get comfortable with where valuations have moved to, particularly at the larger market cap end. The growth-to-value move has been significant and one can only caution that some of that movement is based on expectations of growth to materialise in sectors where growth has been hard to come by for some time.

The small cap universe on the other hand has already seen a rebase in expectations, therein lowering the expectation hurdle somewhat. As we have discussed previously, a number of high quality businesses have seen their market caps contract 30-40% over the last few months on PE de-ratings alone. Should these companies deliver a growth outcome in line with our current expectations, we would argue the risk/reward continues to look more favourable in the small cap defensive growth space. **As a general observation at least, the relative valuations between Growth and Value businesses have moved considerably closer since the August reporting season.**

That being said, we still need to ensure the growth from our portfolio holdings is delivered – January and early February have already seen a number of downgrades in industrial growth businesses that have produced sell-offs not dissimilar to the November AGM season. **Aconex (ACX), GBST (GBT), Virtus (VRT)** and **OFX (OFX)** are businesses that all came under significant pressure this month after missing expectations. Again, we take comfort in our process in being able to have avoided these negative moves thus far.

It would be of no surprise to investors that we haven't changed strategy or process coming into February – we recognise there is downside risk for growth companies that miss estimates, however we continue to feel that companies that deliver will be rewarded. Both portfolio's retain a strong quality tilt with a bias toward defensive growth and companies that we feel confident will deliver meaningful earnings growth over the next few years. We have raised a small amount of cash to provide some optionality into reporting season should any opportunities to deploy capital into growth cheaply presents itself.

The Ophir Opportunities Fund



The **Ophir Opportunities Fund** returned -0.7% for the month, outperforming the benchmark by +1.7%. Since inception, the Fund is up +330.6%, outperforming the benchmark by +303.6%.

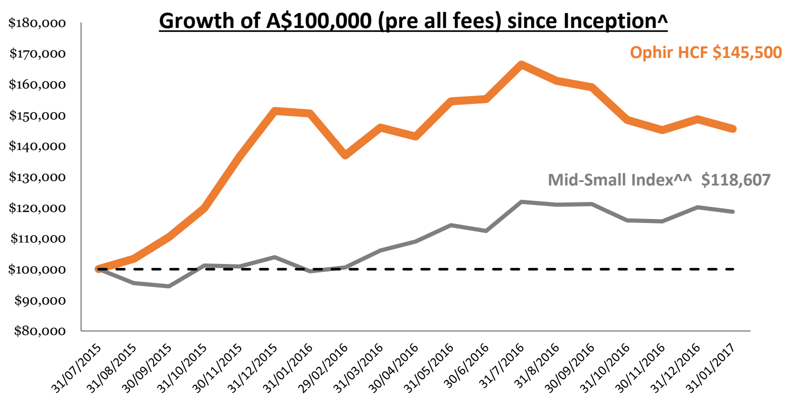
The January 2017 Unit Price is **$2.3518**

	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
Ophir Opportunities Fund (Gross)	-0.7%	-12.5%	-1.9%	38.3%	330.6%
Benchmark*	-2.4%	-4.9%	16.4%	5.5%	27.0%
Value Added	1.7%	-7.6%	-18.3%	32.9%	303.6%

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

Key contributors to the Opportunities Fund performance this month included **Atlas Iron (AGO), Metals X (MLX)** and **Huon Aquaculture (HUO).** Key detractors included **Airxpanders (AXP), NextDC (NXT)** and **Netcomm Wireless (NTC).**

The Ophir High Conviction Fund



The **Ophir High Conviction Fund** returned -2.1%% for the month, underperforming the benchmark by -0.9%. Since inception, the Fund is up +45.3%, outperforming the benchmark by +26.9%.

The January 2017 Unit Price is **$1.3167**

	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
Ophir High Conviction Fund (Gross)	-2.1%	-12.7%	-3.3%	28.4%	45.5%
Benchmark*	-1.2%	-2.7%	19.4%	12.1%	18.6%
Value Added	-0.9%	-10.1%	-22.7%	16.4%	26.9%

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

Key contributors to the High Conviction Fund performance this month included **Galaxy Resources (GXY), Steadfast Group (SDF)** and **Webjet (WEB).** Key detractors included **NextDC (NXT), Bapcor (BAP)** and **G.U.D Holdings (GUD).**