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

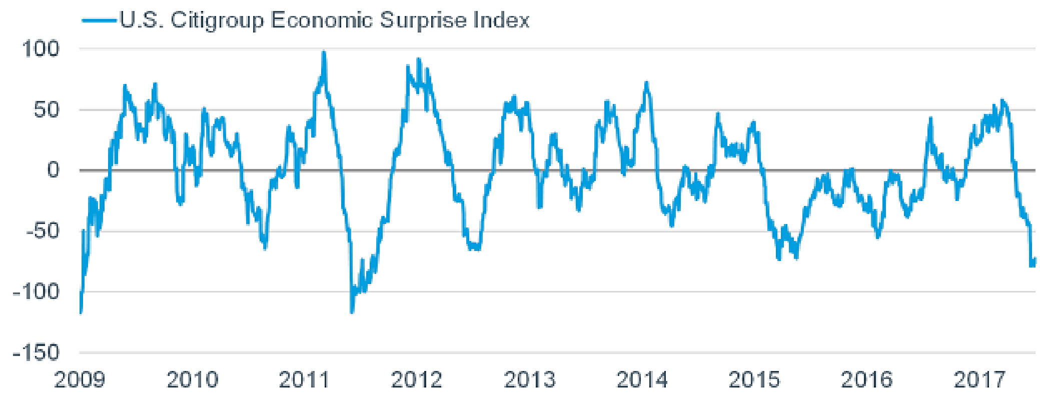
Dear Fellow Investors,

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

Month in Review

The conclusion of the fiscal year always brings with it a chance to reflect on the previous 12 months' performance for investors and investment management teams alike. For investors in higher quality, growth-focused smaller cap companies, the 2017 financial year certainly provided a year of conflicting halves. The "three R's" of reflation, rotations and redemptions provided significant headwinds for smaller cap names through the first six months as defensive growth equities were sold off in anticipation of a return to global inflation and a recovery in the fortunes of deeper value and cyclical-type businesses.

While the global economy has improved, the rate at which this growth materialised ultimately underwhelmed initial market expectations. In the US particularly, forecasts for higher inflation, higher interest rates and a stronger US dollar have ultimately proven overly optimistic. Where the US 10-year bond yield expanded to 2.6% in the months following Donald Trump's election, the second half of the year saw yields compress to 2.15%, while core US PCE inflation has fallen to just 1.5% year on year. After a period of relatively buoyant sentiment, the US economic surprise index has subsequently fallen to levels last seen in 2011.

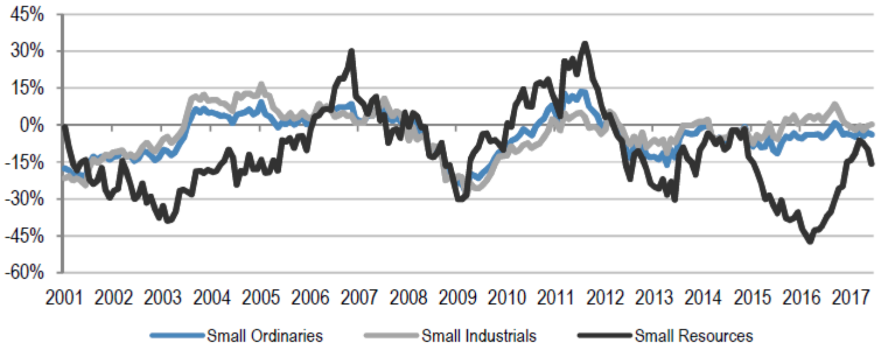


Source: FactSet, as of June 30, 2017.

On local shores, the economic landscape has remained similarly patchy, where some pockets of industry are enjoying expansion, yet growth at the aggregate level still remains relatively benign (Australian GDP grew by +0.3% in the March quarter). The expected earnings recovery from companies in the more cyclical sectors has yet to really take hold, **the February reporting season instead proving the catalyst for a re-rating in growth companies** that delivered on their expected earnings. In a market that remains largely devoid of broad-based growth options, it is the businesses that are generating above market earnings growth that will continue to attract a premium. While these businesses came under pressure through the sell-off and large cap rotations of the first half of the financial year, they have again led performance through the second half.

On the back of this rotation of sentiment, the ASX Small Ordinaries Index experienced a 657-point trading range through FY17, yet still managed to finish the year comfortably in the positive. The index added an incremental +7.01% in value for the year, though significantly underperforming the larger cap ASX 200 by 7.09%. On Macquarie Research's numbers, expected aggregate earnings per share growth for FY18 for the Small Ordinaries now sits at +17.6% growth, versus expectations for ASX 100 EPS growth of +2.0%. Despite the earnings differential, the market is currently pricing both smaller and larger companies at roughly similar multiples.

Consensus 1 Year Forward PE – Premium/Discount to Large Caps



Source: JP Morgan

As mentioned in our May monthly letter, the rotation period through the first half of the year created some excellent opportunities to buy high quality growth companies cheaply. While the period has ultimately placed our Funds in good stead for the resultant recovery, it didn't make the experience any more pleasant at the time. Nothing tests a manager's conviction more than a falling stock price and no doubt the same can be said for investors monitoring the unit prices of their managed funds. Investing is a game that requires the greatest of patience at times and we have been grateful to have a group of co-investors that equally share this view.

To illustrate the theme of investment patience, we have tabled below the best performing companies in the ASX All Ordinaries over the past 3 and 5 years, including a metric called the 'maximum drawdown' – the greatest fall in equity value that investors would have had to endure through the investment timeframe.

Top 20 Performers over 3 Years – All Ordinaries (with market caps >$100m as at 01 July 14)

CODE	STOCK	PERFORMANCE	MARKET CAP AS AT 1 JULY 2014	MAX DRAWDOWN
A2M	a2 Milk Company Ltd (ASX Listing)	565%	$366m*	-39%
BAL	Bellamy's Australia Ltd	440.52%	$100m*	-75%
WEB	Webjet Limited	407.88%	$196m	-28%
SIQ	Smartgroup Corporation Ltd	396.19%	$162m*	-31%
ALL	Aristocrat Leisure Limited	328.08%	$2906m	-15%
QAN	Qantas Airways Limited	326.28%	$2767m	-49%
CTD	Corporate Travel Management Ltd	263.66%	$574m	-29%
NST	Northern Star Resources Ltd	262.60%	$769m	-64%
ALU	Altium Limited	257.08%	$271m	-29%
EVN	Evolution Mining Ltd	254.50%	$525m	-46%
BLA	Blue Sky Alternative Investments Ltd	253.06%	$157m	-29%
BKL	Blackmores Limited	250.16%	$468m	-60%
NAN	Nanosonics Ltd	225.64%	$205m	-38%
CDA	Codan Limited	222.76%	$128m	-56%
API	Australian Pharmaceutical Industries Ltd	214.88%	$295m	-27%
IRI	Integrated Research Limited	214.15%	$173m	-35%
HSN	Hansen Technologies Limited	210.77%	$209m	-33%
IFN	Infigen Energy Ltd	204.17%	$187m	-40%
CKF	Collins Food	189.30%	$191m	-27%
NXT	NextDc	176.11%	$329m	-36%

<u>Top 20 Performers over 5 Years – All Ordinaries (with market caps >$100m as at 01 July 12)</u>

CODE	STOCK	PERFORMANCE	MARKET CAP AS AT 1 JULY 2012	MAX DRAWDOWN
MFG	Magellan Financial Group Ltd	1318%	$349m	-28%
CTD	Corporate Travel Management Ltd	1128%	$144m	-29%
ALL	Aristocrat Leisure Limited	717.39%	$1510m	-15%
BSL	BlueScope Steel Limited	633.89%	$1000m	-58%
FPH	Fisher & Paykel Healthcare Corp Ltd	613.82%	$806m	-23%
A2M	a2 Milk Company Ltd (ASX Listing)	565.49%	$366m*	-39%
BTT	BT Investment Management Ltd	541.13%	$475m	-44%
NST	Northern Star Resources Ltd	516.88%	$309m	-64%
API	Australian Pharmaceutical Industries Ltd	444.29%	$170m	-27%
CKF	Collins Food Ltd	444.25%	$101m	-27%
BAL	Bellamy's Australia Ltd	440.52%	$100m*	-75%
XRO	Xero Limited (ASX Listing)	439.96%	$498m*	-71%
DMP	Domino's Pizza Enterprises Ltd	431.21%	$702m	-35%
QAN	Qantas Airways Limited	399.64%	$2435m	-49%
NAN	Nanosonics Ltd	398.04%	$133m	-38%
SIQ	Smartgroup Corporation Ltd	396.19%	$162m*	-31%
TNE	Technology One Limited	394.42%	$355m	-20%
REA	REA Group Limited	384.32%	$1800m	-28%
IRI	Integrated Research	384.21%	$111m	-43%
NCK	Nick Scali	368.46%	$105m	-26%

*Market capitalisation at time of IPO / ASX listing. Source Bloomberg.

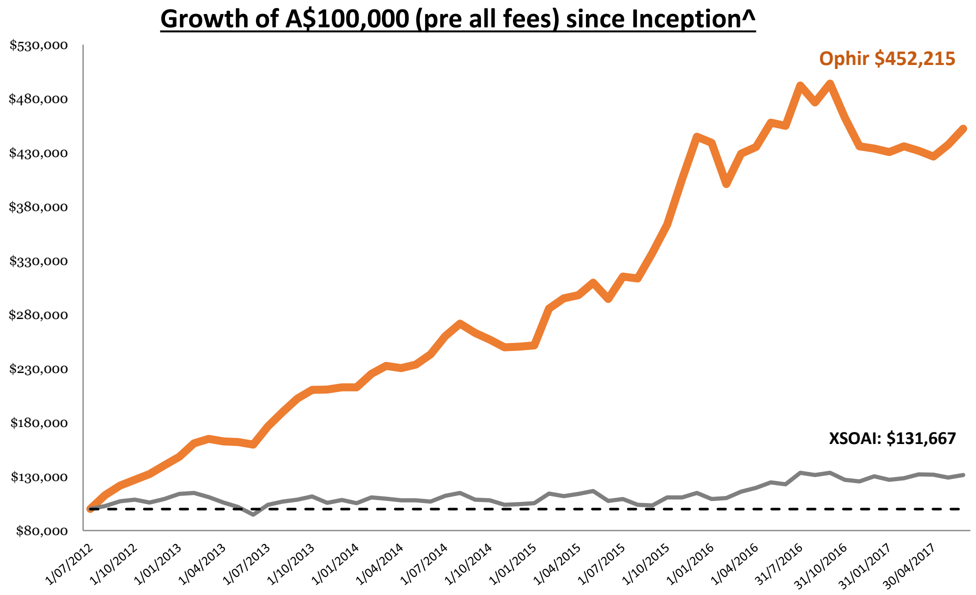
It reminds us that growth is never linear and there will always be periods when invested in good companies that short term events will test one's resolve. Investors in **Corporate Travel Management (CTD),** for example enjoyed a stellar +1128% return (excluding dividends) through the last five years, yet in the six-month period from March 2015 to September 2015 they saw the value of their investment fall by more than a quarter in a six month period. The tables highlight some stellar returns for investors that have stayed the course. It's unsurprising that just three businesses in the above are outside the ASX Small Ordinaries. The small and mid-cap sector in Australia continues to provide wonderful opportunities to uncover businesses early in their growth trajectory and we look forward to finding a few more in the year ahead.

In this month's **Strategy Notes**, we have a look at disruption in the Funds Management industry and how investment managers will need to provide value in the years ahead. While investment performance and product differentiation remain paramount for us, investors are also increasingly wanting more from their managers in regards to transparency, access to information and opportunities to meet directly with the managers of their capital.

We understand this need and are excited to be announcing some developments ourselves over the next few months. This will start with the launch of a new website shortly that will include some additional detailed investment and administrative content for investors. We're also pleased to be hosting our first round of **<u>Ophir 'Meet the Manager' Information Evenings</u>** this coming August.

We look forward to seeing you there to provide an update on the Funds, our portfolio positioning and thoughts for the year ahead.

The Ophir Opportunities Fund



The **Ophir Opportunities Fund** returned +3.4% for the month, outperforming the benchmark by 1.4%. Since inception, the Fund has returned +352.2%, outperforming the benchmark by +320.5%.

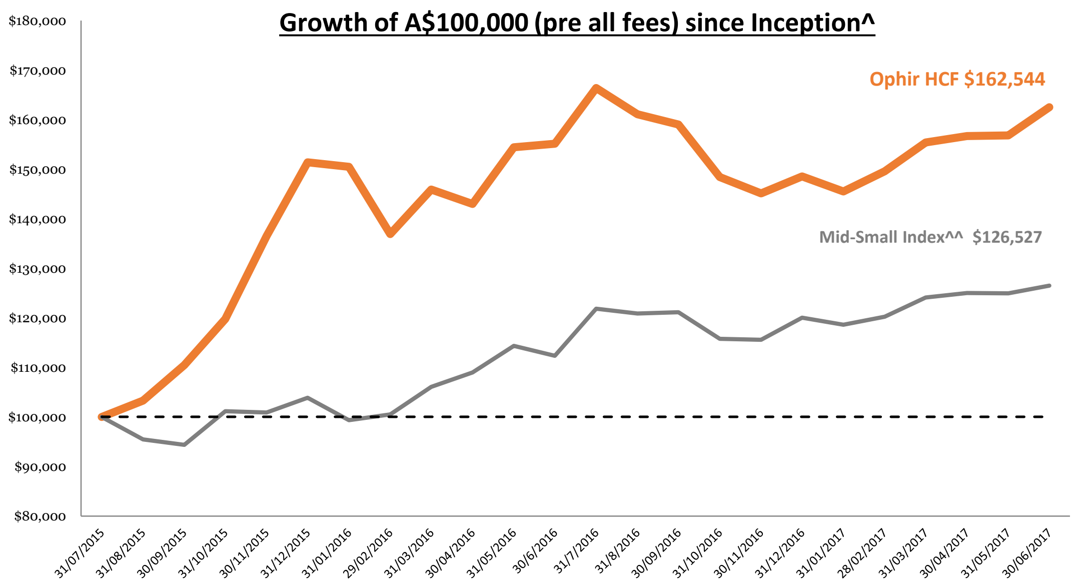
	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
Ophir Opportunities Fund (Gross)	3.4%	4.3%	-0.6%	36.0%	352.2%
Benchmark*	2.0%	1.1%	7.0%	5.8%	31.7%
Gross Value Add	1.4%	3.1%	-7.7%	30.2%	320.5%
Net Fund Return	3.3%	3.6%	-2.0%	27.2%	226.3%

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

	Buy Price	Mid Price	Exit Price
June 2017 Unit Price – Opportunities Fund	2.4646	2.4560	2.4474

Key contributors to the Opportunities Fund performance this month included **Pinnacle Investment (PNI), A2 Milk Company (A2M), Collins Foods (CKF)**. Key detractors included **Adacel Technologies (ADA), iSelect Ltd (ISU)** and **Metals X Limited (MLX)**

The Ophir High Conviction Fund



The **Ophir High Conviction Fund** returned 3.7% for the month, outperforming the benchmark by 1.8%. Since inception, the Fund has returned +62.5%, outperforming the benchmark by +36.0%.

	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
Ophir High Conviction Fund (Gross)	3.7%	9.4%	4.7%	29.0%	62.5%
Benchmark*	1.8%	5.4%	12.6%	13.1%	26.5 %
Gross Value Add	1.8%	4.0%	-8.0%	15.9%	36.0%
Net Fund Return	3.5%	8.6%	3.1%	22.2%	46.5%

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

	Buy Price	Mid Price	Exit Price
June 2017 Unit Price – High Conviction Fund	1.4678	1.4627	1.4576

Key contributors to the High Conviction Fund performance this month included **A2 Milk Company (A2M)**, **Magellan Financial Group Ltd (MFG)** and **IDP Education Ltd (IEL)**. Key detractors included **NextDC Limited (NXT), Credit Corp Group (CCP)** and **Steadfast Group Ltd (SDF).**