Ophir Asset Management
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Dear Fellow Investors,

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

Month in Review

October delivered a strong month of performance for Australian equities, the local market getting its first real taste of the bull market euphoria that has encapsulated US and European stock exchange participants over recent months. The ASX 200 shrugged of six consecutive months of relative underperformance versus the global equity benchmark to post gains of +4.0% for the month. Across the developed markets, only Japanese and Korean equities managed a better performance, the Nikkei 225 eclipsing its previous all-time high achieved some 21 years' prior in the process (including an intra-month run of 16 consecutive positive trading sessions in October, a new record). Risk assets globally continue to find ongoing support, as investor sentiment across the US and Eurozone remains elevated.

While larger cap businesses in Australia went some way this month to make up for recent underperformance, the smaller and mid-cap end of the Australian market continues to lead the Australian rally. The ASX Small Ordinaries Index posted gains of +6.0% in October, outperforming the ASX 100 by 2.2% (its now seventh consecutive month of relative outperformance). **Both the Ophir portfolios delivered equally pleasing returns for the month**, with the Ophir Opportunities Fund adding +7.0% and the Ophir High Conviction Fund adding +8.2% (on a gross return basis).

	1 month	6 Months	1 Year	5 year p.a.	Inception p.a.
Ophir Opportunities Fund^	**7.0%**	**28.3%**	**18.3%**	**33.9% p.a.**	**38.2% p.a.**
Benchmark*	6.0%	10.6%	14.6%	6.1% p.a.	7.4% p.a.
Value Add (Gross)	1.0%	17.8%	3.7%	27.8% p.a.	30.8% p.a.
Fund Return (Net)	6.9%	27.5%	16.7%	25.9% p.a.	29.8% p.a.

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

	1 month	6 Months	1 Year	2 Year p.a.	Inception p.a.
Ophir High Conviction Fund^	**8.2%**	**18.4%**	**25.0%**	**24.4% p.a.**	**31.7% p.a.**
Benchmark*	5.9%	9.2%	17.9%	5.9% p.a.	14.9% p.a.
Value Add (Gross)	2.3%	9.2%	7.1%	18.6% p.a.	16.8% p.a.
Fund Return (Net)	8.1%	17.6%	23.3%	20.0% p.a.	25.5% p.a.

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

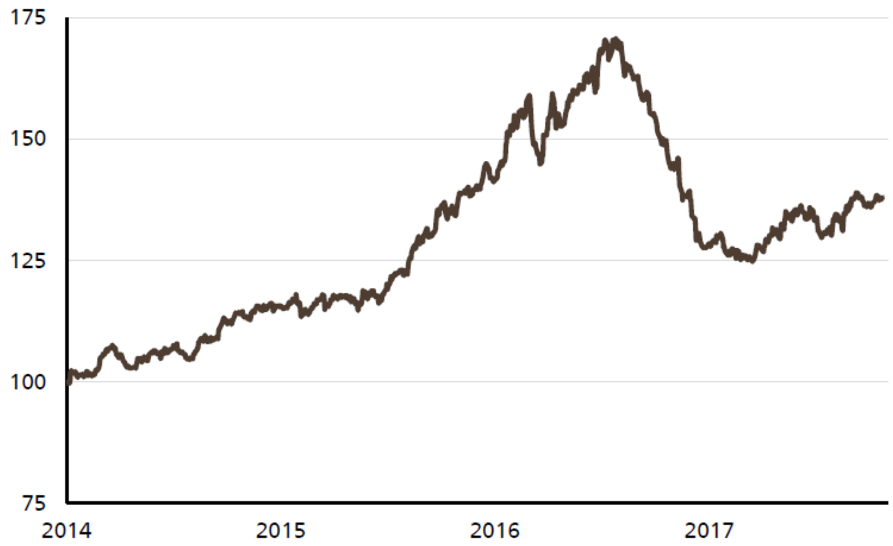
With both Ophir Funds having now delivered annualised returns in excess of 25% per annum since inception (after all fees), we continue to retain confidence in the investment strategy and process the team is applying in identifying new growth opportunities for our investor base.

While the performance of the local equity market has been strong this month, **October surprisingly lacked any outright catalyst to which one could solely attribute the move**. Global equity markets continue to remain well supported in response to an increasingly palatable backdrop of improving economic growth data and accommodative central bank commentary. Combined with an encouraging US corporate earnings season, recovering global commodity markets and growing optimism around potential US tax reform, Australian equities look to have caught a whiff of the growing optimism that has engendered market participants offshore since the beginning of the year.

Portfolio positioning will likely have gone some way to explain the velocity of share price appreciation this month, given cash levels across the Australian fund manager community appear to have been somewhat elevated through the beginnings of the recent rally. While global equity markets have been the beneficiary of improving investor sentiment for some months, institutional investors in Australia have remained more defensively positioned and have likely being forced to deploy some of that cash buffer rapidly in an attempt to avoid relative under-performance.

Smaller capitalised growth-orientated businesses have continued their recovery from the sell-off experienced through 2016, while 'growth' as an overall style continues to outperform the value end of the market. While one would expect this outperformance to mean-revert at some juncture, it is difficult to pinpoint a catalyst near-term given the relatively tepid outlook for the Australian economy at present. We continue to hold the investment thesis that in a low-growth domestic economic environment it is the businesses that are proving successful in sustainably delivering above-market earnings growth that will continue to attract a valuation premium. As a collective of businesses more naturally skewed towards companies earlier in their growth cycle (and increasingly more toward those leveraged to new opportunities within 'new world' industries), **we continue to expect the small and mid-cap sector to attract new net inflows for some time.**

Performance of ASX 'Growth' relative to 'Value' (excluding resources)



Source: UBS, Factset

While the index performance has been strong, it hasn't been across the board and stock selection continues to remain critical across smaller cap industrials. While overall market returns in October were exceptional, a lot of the heavy lifting came from a relatively concentrated group of businesses. Current portfolio holding **A2 Milk (A2M)**, for example, appreciated 30.03% in value over the month in response to the company's manufacturing partner Synlait Milk receiving licensing approval to continue their export into China. As a business that represented 3.4% of the Small Industrials Index at the start of October, the share price appreciation of A2M alone accounted for more than 17% of the total performance of the Small Industrials Index.

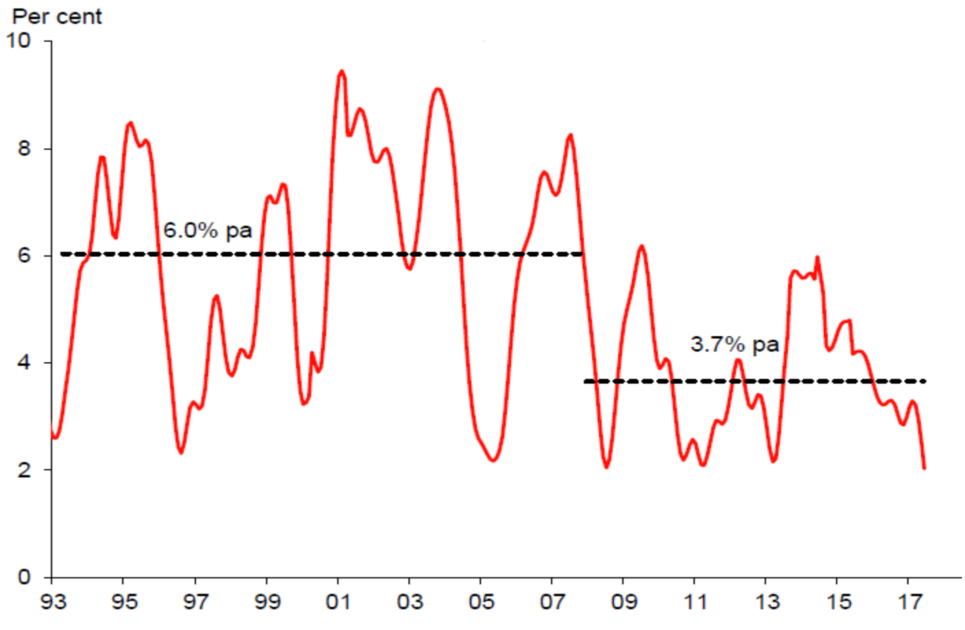
On the other side of the equation, while the AGM season so far has proven to be relatively benign (remembering the AGM period this time last year produced ~21 material earnings downgrades across small caps), it hasn't been without incident. Media and data technology business **iSentia (ISD)**, for example, saw its shares fall -50% this month following a profit downgrade, while finance provider **Thorn Group (TGA)** declined -34% after a disappointing trading update. While neither company is held in the Ophir portfolio's, the share price response to negative earnings updates serves as a reminder that disappointing news flow continues to not be well tolerated by market.

Elevated share prices create an inevitably greater risk of businesses missing market expectations and in **this month's 'Strategy Notes' we discuss how the team is currently viewing broader market risk at this stage of the cycle**.

While not of direct consequence to the Australian small and mid-cap space, some mention this month should be made of the continuing dominance of the US tech majors given the extraordinary level of market capitalisation the group now commands and the effect the sector now holds over broader investor sentiment as a whole. Following a round of better-than-expected earnings releases this month, the trio of **Amazon, Microsoft** and **Alphabet (Google)** experienced a collective appreciation in market cap of US$144bn *in one trading session alone*. For some perspective, the equity value generated in one day across the three is equivalent to the entire market capitalisation of fellow tech multinational **IBM**. For another bewildering example of the size of these businesses, the US$268.9bn of cash reported as sitting on **Apple's** balance sheet at their third quarter update this month is equivalent to 2.5x the entire market cap of Australia's largest listed business, the **Commonwealth Bank.**

Economic data in Australia continues to remain mixed and it was no surprise to see the RBA maintain rates on hold again on Melbourne Cup Day (marking seven years to the day from the last upward move in the Australian cash rate). Retail sales have remained particularly weak, with current data indicating an annualised growth rate of just 1.4% year-on-year. This marks the weakest rate of retail sales growth in Australia since mid-2013 and runs equivalent to the growth rates experienced through the depths of the GFC in late 2008.

Growth in Australian Retail Trade Values (Year-ended, trend)



Source: ABS, Macquarie Research

While the Australian consumer continues to face the headwinds of rising mortgage and energy costs, the business community (ex-retail) appears to be faring better with business confidence indicators remaining elevated while employment data again looked surprisingly resilient. **From a global perspective, the world economy continues to look more positive** as growth projections remain buoyant and inflation trends marginally positive. US economic data has continued to remain relatively firm with GDP now annualising at close to 3% year-on-year and consumer confidence readings recently eclipsing a 17-year high. In the U.K., the Bank of England moved to lift interest rates for the first time in a decade, while the Eurozone industrial sector is now running at its strongest levels since 2000.

As discussed in more recent Letters, **the improving growth profile internationally has resulted in a current portfolio bias towards businesses exposed to offshore growth options** and our travel schedules have reflected this growing global tilt. This month we travelled to both the US and UK to visit the offshore operations of a number of current and prospective portfolio holdings, in addition to a brief visit over the Tasman to catch-up with a handful of current investments in New Zealand.

The surprise elevation of NZ Labour leader Jacinda Arden to the Prime Ministership of New Zealand this month reminds us that global political outcomes continue to remain far from predictable, with the NZD/AUD cross rate falling to near 4-year lows immediately following the result. Both Ophir portfolios currently retain investments in a number of dual ASX-NZX listed businesses, although the comfortable majority derive the bulk of their revenues outside NZ (and will be beneficiaries of a lower NZ dollar as a result). The political climate under the Labour-NZ First coalition has become somewhat more uncertain near-term, however, and we continue to monitor the situation and impact (if any) on our current portfolio businesses.

Our UK visit this month produced some mixed views on the current opportunities available to Australian businesses in the 'Old Dart'. While the benchmark equity index (FTSE 100) continues to nudge new record highs, the underlying economic environment is somewhat more patchy at present, with consumer-facing businesses particularly seeing some recent weakness. UK auto sales, for example, fell for their seventh consecutive month in October, whilst department store chain **Marks & Spencer** and online retailer **Next** both recently missed their respective sales forecasts.

Our visits to the UK operations of **Premier/Smiggle (PMV)** appear to be performing well despite the slowdown, the business buffered by their differentiated product offering and smaller average ticket sizes. **Breville Group's (BRG)** UK product offering 'Sage' also appears well placed to buck the trend, despite a recent slowing in the small home appliance market of more than 10%. The home coffee space has remained a comfortable outperformer in the segment, with market growth still running at greater than 10% per annum despite the recent softness. The brand has a noticeable in-store presence within their department store offering, with sales conversion being further helped by the presence of dedicated Sage sales reps in-store (one of only two companies with external reps active on the sales floor).

Outside of the retail space, there are a number of businesses that are seeing attractive opportunities open up across both the U.K. and the US and we'll look to share a couple of these new ideas from our recent international trips in the coming months.

An Update on the High Conviction Fund – Approaching Soft Close

As many would be aware, a key foundation of the Ophir Funds lies in the underlying investment structure we implemented when we started the business in 2012: we invest personally in both funds to maintain alignment with our investors and we limit the amount of capital (or "capacity") we manage in each fund to ensure the best possible environment to generate strong performance.

Our first fund, the Ophir Opportunities Fund, reached its capacity limit in mid-2015 and was closed to all additional investment from that point in order to ensure future returns for current unitholders would not be impacted by the size of the fund. Investors have benefited from this decision, with the Fund generating +29.8% return per annum after fees over the last five years.

We have always maintained that we would follow a similar process for the High Conviction Fund, which we opened to investors in August 2015. Through a combination of capital inflows and market movements, **we are now approaching a point where we are reviewing the appropriate time to close the High Conviction Fund to additional external investor applications.**

As such, while the High Conviction Fund remains **open currently** for new investment, this is now under review. We will continue to process new and additional investment applications until such time that we feel it is appropriate to enact a soft close and we will communicate this to existing unitholders at such time.

If you are interested in accessing the fund and would like to discuss the avenues available to current or new investors, please contact Investment Director Rob Saunders on 02 8188 0397 or rob.saunders@ophiram.com for an update on the process. Thank you for your support.

Ophir Fund Performance Since Inception

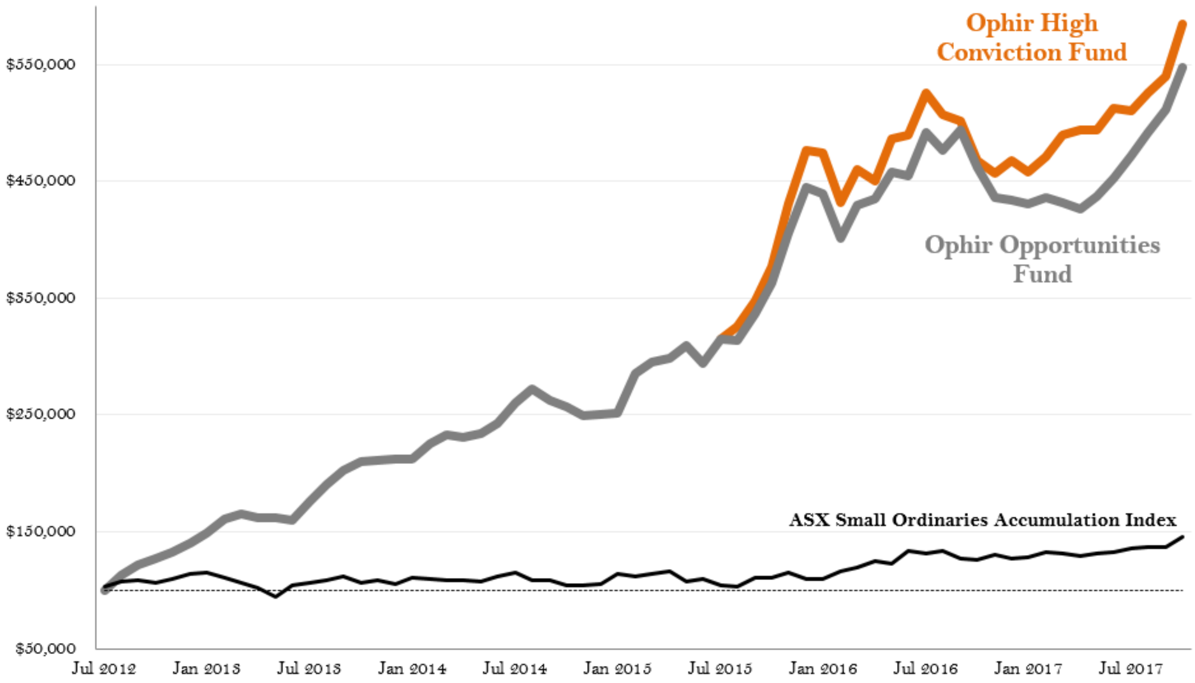
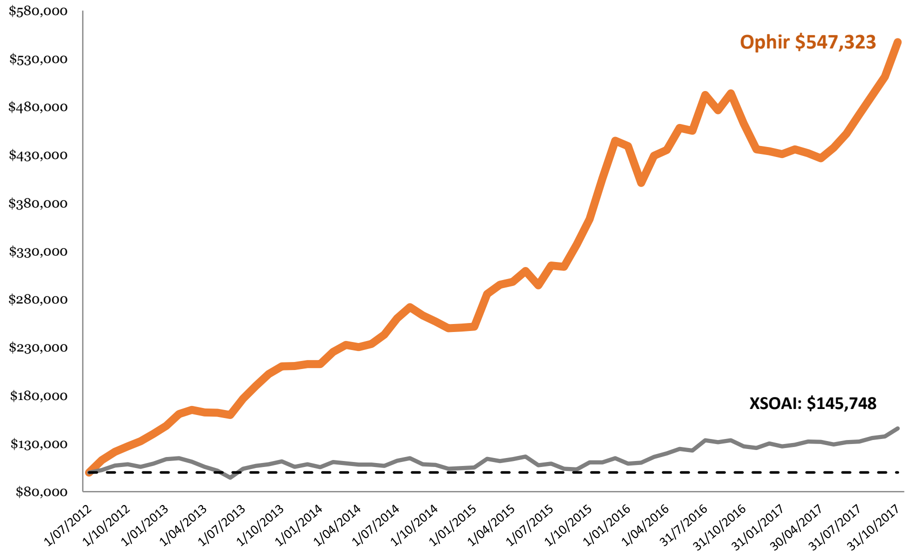


Chart above represents gross value of $100,000 invested since inception (August-2012) in the Ophir Opportunities Fund. For graphical purposes, the Ophir High Conviction Fund has been added to represent gross performance of the Fund assuming an investment of equal size as Opportunities Fund investment at the fund's inception date in August-2015.

The Ophir Opportunities Fund

Growth of A$100,000 (pre all fees) since Inception^



The **Ophir Opportunities Fund** returned +7.0% for the month, outperforming the benchmark by 1.0%. Since inception, the Fund has returned +447.3%, outperforming the benchmark by +401.6%.

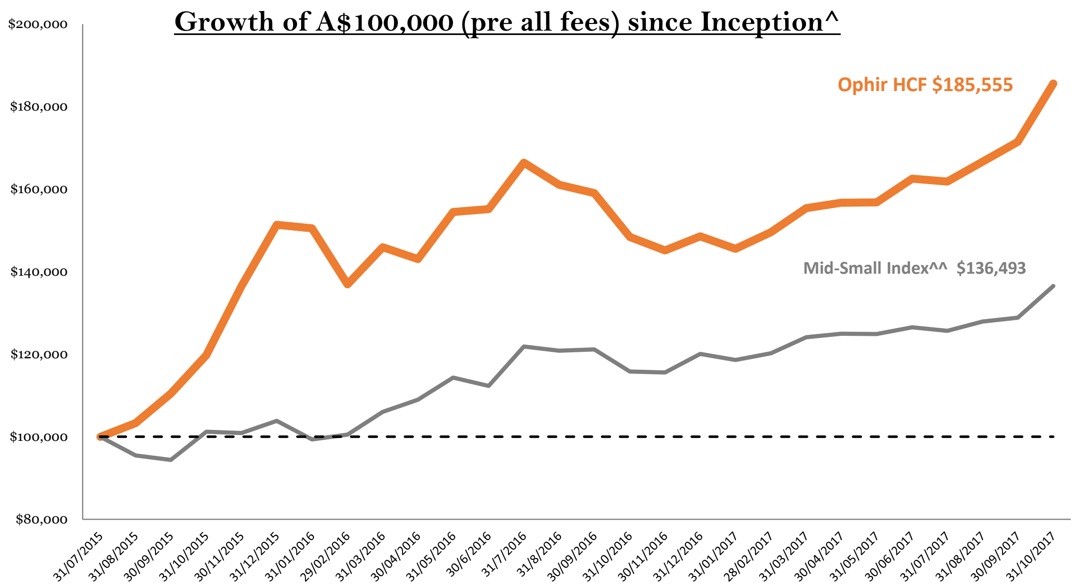
	1 Month	1 Year	5 Year (p.a.)	Inception (p.a.)	Since Inception
Ophir Opportunities Fund (Gross)	7.0%	18.3%	33.9%p.a.	38.2%p.a.	447.3%
Benchmark*	6.0%	14.6%	6.1%p.a.	7.4%p.a.	45.7%
Gross Value Add	1.0%	3.7%	27.8%p.a.	30.8%p.a.	401.6%
Net Fund Return	6.9%	16.7%	25.9%p.a.	29.8%p.a.	293.2%

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

	Buy Price	Mid Price	Exit Price
October 2017 Unit Price – Opportunities Fund	2.5783	2.5693	2.5603

Key contributors to the Opportunities Fund performance this month included **IPH Limited (IPH), Afterpay Touch (APT)** and **The A2 Milk Company (A2M).** Key detractors included **Adacel Technologies (ADA), Capitol Health (CAJ)** and **RCR Tomlinson (RCR).**

The Ophir High Conviction Fund



The **Ophir High Conviction Fund** returned 8.2% for the month, outperforming the benchmark by 2.3%. Since inception, the Fund has returned +85.6%, outperforming the benchmark by +49.1%.

	1 Month	1 Year	2 Year(p.a.)	Inception (p.a.)	Since Inception
Ophir High Conviction Fund (Gross)	8.2%	25.0%	24.4%p.a.	31.7%p.a.	85.6%
Benchmark*	5.9%	17.9%	5.9%p.a.	14.9%p.a.	36.5%
Gross Value Add	2.3%	7.1%	18.6%p.a.	16.8%p.a.	49.1%
Net Fund Return	8.1%	23.3%	20.0%p.a.	25.5%p.a.	66.5%

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

	Buy Price	Mid Price	Exit Price
31 October 2017 Unit Price – High Conviction Fund	1.6566	1.6518	1.6468

Key contributors to the High Conviction Fund performance this month included **IPH Limited (IPH), Afterpay Touch (APT)** and **The A2 Milk Company (A2M).** Key detractors included **RCR Tomlinson (RCR) IDP Education (IEL)** and **Steadfast Group (SDF)**