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Dear Fellow Investors,

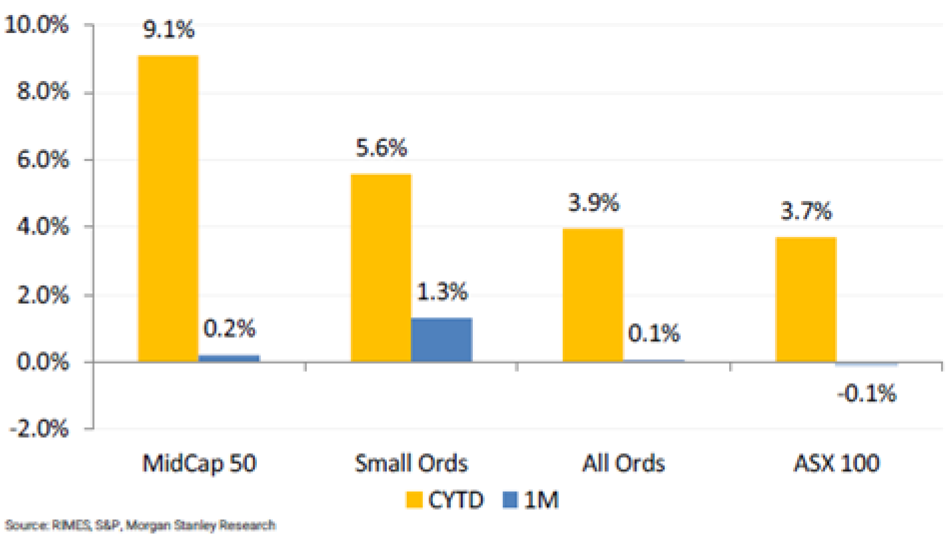
Welcome to the **September 2017** Ophir Letter to Investors – thank you for investing alongside us for the long term.

**Month in Review**

September 2017 marks the one-year anniversary of the beginning of what was a fairly vicious period in Australian small and mid-cap growth businesses through the final quarter of last year. The combined short-term impact of "the three R's" (reflation, rotation and redemptions) across smaller capitalised, higher-growth businesses has been well documented in these Letters and the resultant recovery through calendar year 2017 has been pleasing.

While some degree of volatility in emerging company investments can always be expected, it has been interesting this month to reflect on how little, in fact, has changed in the broader economic environment. Expectations for a broad-based recovery in Australian economic growth have ultimately been short-lived, while earnings from domestic-facing cyclical businesses have similarly underwhelmed. While the market had been quick to cover long-held underweights across the major banks, resources and larger-cap cyclical businesses, it has been these 'old-world' industries that have ultimately underperformed the market through calendar year 2017 as the domestic tailwind of an improving economic environment failed to materialise.

**Australian Index Performance – September 2017 and CYTD**



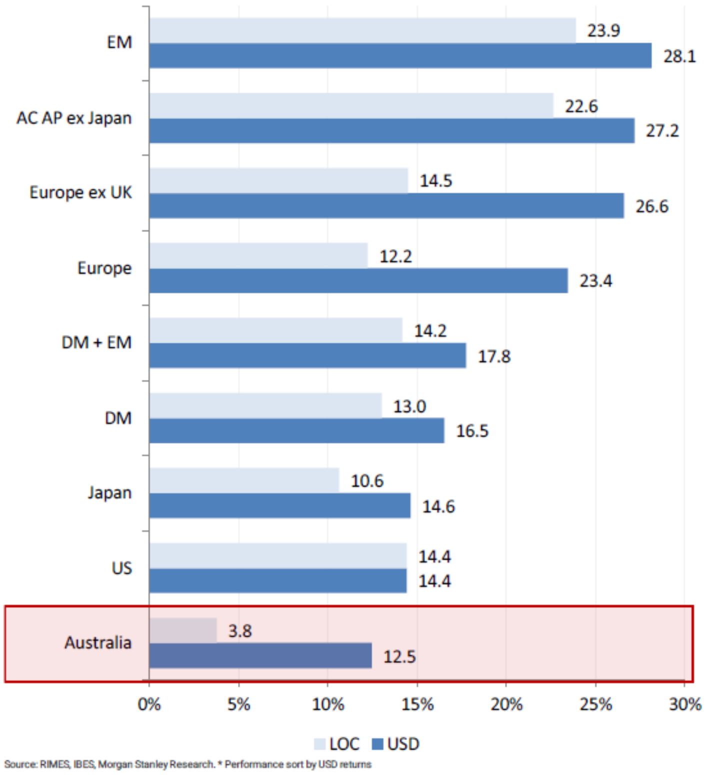

The market will always play 'Devil's Advocate' with investors' minds daily and, in doing so, will continually re-test one's conviction on their portfolio positioning with every daily price movement. The four-month period from September 2016 through to January 2017 certainly served to test the mettle of investors that were unconvinced of the emergence of near-term cyclical recovery and subsequently positioned in more defensive growth type businesses. Looking back, the period provided one of the few opportunities over the last 36 months to buy good-quality, higher-growth businesses cheaply and we're pleased to have been well-positioned to benefit from the subsequent recovery. Since the end of January 2017, both the Ophir portfolios have returned in excess of 16.8% after fees.

We should be quick to caution that conditions in the Australian economy are far from diabolical. Australian employment data released this month broadly surprised on the upside (adding 56k jobs versus consensus forecast for 51k), whilst the NAB monthly survey data on local business conditions also came in ahead of expectations. Rather than stalling to a grinding halt, it has simply been the case that expectations for a broad-based local recovery were simply too optimistic. One might also argue expectations for the ability of the larger index weights to participate in any further recovery may also have seem stretched given their lack of leverage to the new-world economy.

At a global level, the forward-looking indicators continue to look fairly robust – while we continue to overlay some caution around survey-based, forward looking data (see "Reality vs Expectations" – October Letter to Investors), it's difficult to dismiss the fact that none of the major global manufacturing powers reported a PMI below 50 (i.e. all expanding) this month. This is the first such occasion of completely synchronised global expansion since 2010, a time when the world economy was growing at twice the current growth rate of ~3% quarter on quarter.

The question then for investors is finding the appropriate investment vehicle to access that growth. Without the tailwind of a local economy firing, it has been difficult for either domestic or offshore investors to get excited about the growth prospects for the larger cap end of the Australian market. September was the fifth consecutive month of negative absolute returns for the ASX 200 and the sixth consecutive month the index has underperformed the MSCI World. As a share market heavily weighted to domestic facing, older-world businesses (retail banks, resources and traditional retail), we are again seeing capital recycling out of the lower growth larger-cap space and deployed into opportunities either offshore or further down the market-cap curve.

**MSCI Global Country/Regions Indicies Performance – USD and Local Currency CYTD**




With little earnings growth on offer at the larger end, emerging companies operating either in niche growth industries domestically or growing their businesses into more attractive international regions continue to be well supported. Our current portfolio positioning is not dissimilar, with a handful of exciting local businesses establishing new business models mixed with a definitive tilt toward businesses that are growing their earnings streams offshore. **The opportunities for emerging companies operating in overseas markets continue to grow and we discuss some of this further in this months 'Strategy Notes.'**

The outperformance of smaller cap businesses continued in September, with the ASX Small Ordinaries finishing the month +1.3%. On a relative basis, this forms the sixth consecutive month of outperformance of the smaller names versus the ASX 100.

**Performance of Small Ordinaries Index relative to ASX100 Index**

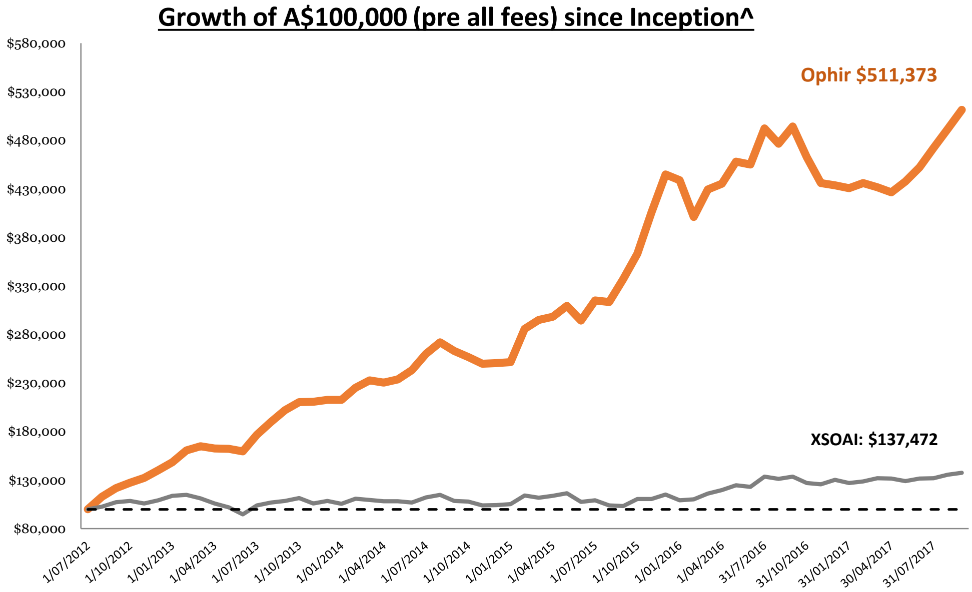

*Source: UBS Investment Research*

Having an increasingly international flavour to the portfolio's does open up some degree of currency risk and the rise in the $A in recent months has provided some headwind to the offshore earners. The release of a more detailed US tax reform package in September has served to spur the US dollar to recover some of its recent lost ground, with the $A depreciating -1.4% versus the greenback over the month. A further softening in the $A into early October following a less hawkish RBA statement has continued the trend, whilst the declining spot iron ore price (-21.4% in September alone) has applied some further downward pressure. At any rate, we remain comfortable that the earnings growth on offer for businesses facing higher growth international markets more than compensates for any nearer-term translation impacts from a higher local currency.

**Looking across the Ophir Funds, both strategies performed well for the month**. As detailed in our Letter last month, we have historically found that portfolios well represented by businesses that have upgraded their earnings in the recent results season tend to benefit for some months afterward as the market rotates capital into businesses that surprised to the upside. To demonstrate this tailwind, across the 12 businesses held in the Ophir Funds that delivered earnings upgrades in August (and excluding the day of the upgrade itself), 10 of these companies have gone on to provide a further positive return from that point (with an average return across the companies of 3.04% to end of September). Importantly, this measure is taken from the day *after* the reported upgrade and excludes the benefit from the re-rating on the day (which, in some cases, has obviously been fairly material).

We continue to feel excited about the opportunities ahead for the companies represented across both portfolios, in addition to a number of new ideas that the team has been working on over the last month. One of the true benefits of being smaller company investors is the diverse range of businesses and industries on offer to deploy capital at any one time and in recent weeks we have spent some considerable time on a number of newer potential portfolio inclusions. We look forward to providing an update on these new additions in the months ahead.

# The Ophir Opportunities Fund




The **Ophir Opportunities Fund** returned +4.0% for the month, outperforming the benchmark by 2.7%. Since inception, the Fund has returned +411.4%, outperforming the benchmark by +373.9%.

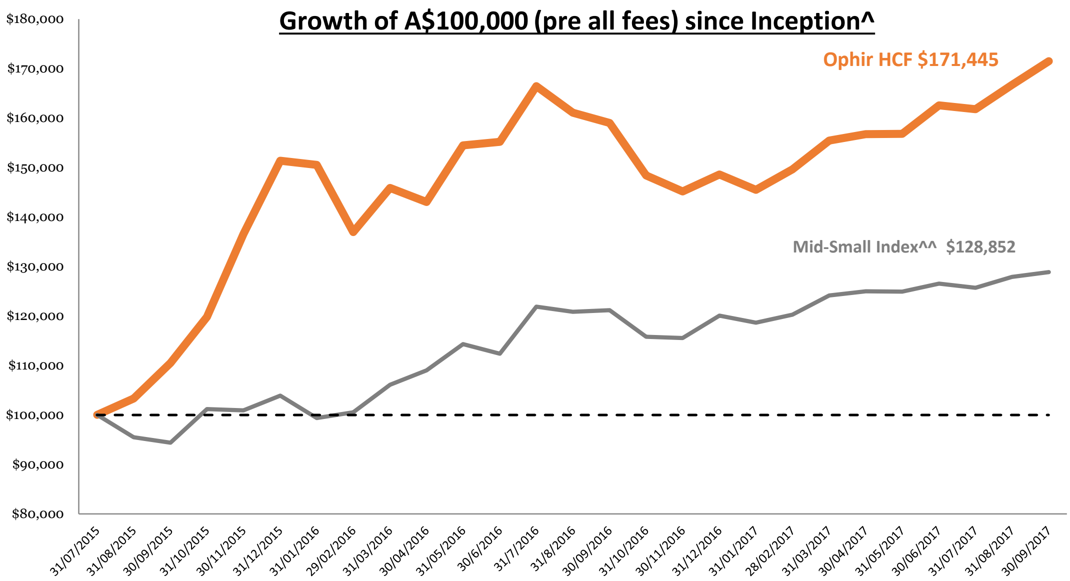
| | 1 Month | 6 Months | 1 Year | Inception (p.a) | Since Inception |
|---|---|---|---|---|---|
| **Ophir Opportunities Fund (Gross)** | 4.0% | 18.5% | 3.5% | 37.2% | 411.4% |
| Benchmark* | 1.3% | 4.0% | 3.0% | 6.4% | 37.5% |
| Gross Value Add | 2.7% | 14.4% | 0.5% | 30.8% | 373.9% |
| Net Fund Return | 3.9% | 17.7% | 2.1% | 28.7% | 267.8% |

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

| | Buy Price | Mid Price | Exit Price |
|---|---|---|---|
| **September 2017 Unit Price – Opportunities Fund** | 2.4116 | 2.4032 | 2.3948 |

Key contributors to the Opportunities Fund performance this month included **The A2 Milk Company (A2M), MacMahon Holdings (MAH) Skydive the Beach (SKB**). Key detractors included **Melbourne IT Limited (MLB), Regis Resources (RRL**) and **Webjet Limited (WEB).**

# The Ophir High Conviction Fund




The **Ophir High Conviction Fund** returned 2.9% for the month, outperforming the benchmark by 2.1%. Since inception, the Fund has returned +71.4%, outperforming the benchmark by +42.6%.

| | 1 Month | 6 Months | 1 Year | Inception (p.a) | Since Inception |
|---|---|---|---|---|---|
| **Ophir High Conviction Fund (Gross)** | 2.9% | 10.3% | 7.7% | 28.3% | 71.4% |
| Benchmark* | 0.8% | 3.8% | 6.3% | 12.4% | 28.9% |
| Gross Value Add | 2.1% | 6.5% | 1.3% | 15.9% | 42.6% |
| Net Fund Return | 2.8% | 9.6% | 6.2% | 22.1% | 54.0% |

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

| | Buy Price | Mid Price | Exit Price |
|---|---|---|---|
| **September 2017 Unit Price – High Conviction Fund** | 1.5326 | 1.5280 | 1.5234 |

Key contributors to the High Conviction Fund performance this month included **The A2 Milk Company (A2M), Afterpay (APT) and Xero Ltd (XRO)**. Key detractors included **Regis Resources (RRL), Sirtex Medical (SRX) and Webjet Limited (WEB)**