

Ophir's secret of success: be on your toes

Ophir Asset Management co-founders Andrew Mitchell and Steven Ng. Picture: Hollie Adams

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Burning shoe leather paid off for Ophir Asset Management last year.

The small-cap fund manager, founded by Andrew Mitchell and Steven Ng, has more than \$600 million under management and beat large caps last year when it wasn't easy to pick the winners.

Ophir's Opportunities Fund returned 38.2 per cent before fees for the year — even stronger than Bennelong's large-cap return of 30.7 per cent, which topped the Mercer large-cap rankings.

Whereas the total return of the ASX Small Ordinaries benchmark beat the S&P/ASX 200 by 8.2 per cent, the median small-cap manager underperformed their benchmark by almost 3 per cent.

To really shoot the lights out, fund managers needed to have exposure to battery metals, mining services, energy and fintech, and avoid the bombshells like Retail Food Group, Myer, G8 and Isentia.

“It was a particularly tough year to be a small-cap manager, so we weren't surprised to see many were unable to beat the index,” Mr Mitchell said.

“You had lower-quality resource names ripping and several of well-owned industrials significantly underperforming, making it very hard for any manager that focuses on industrials to outperform.”

While synchronised global economic growth is expected to make this a great year for some of Australia's largest companies — particularly in the resources sectors — Mr Mitchell doesn't think that will necessarily mean small caps should be left behind by economic growth plays.

“We try to be agnostic to economic growth,” he said. “We invest in companies that are going to grow their market share no matter what.

“In small caps, we believe there have never before been so many opportunities to invest in companies that are selling their products globally. Technology is enabling them to get bigger a lot faster than before and that's why we think small cap investing is such an exciting place to be.”

But his fund will have to work even harder to match its average return since inception of 39 per cent. “The market is getting more competitive so we continually working on improving,” Mitchell said.

“We spend a lot of time reflecting on the mistakes we have made to learn from them. We need to work out how we get better each year to make sure we can keep giving our investors a good return.”

In his experience it's as much about avoiding the pitfalls as it is about picking the winners.

Ophir did manage to avoid the downgrades in companies like Isentia, Retail Food Group and G8 Education last year, but Mr Mitchell laments that he still made quite a few mistakes.

“We are one of very few investors who could say they lost money investing in lithium,” he said.

“We were early investors in the space after we looked at the growth in demand for batteries globally, but we sold our positions in Mineral Resources and Pilbara Minerals when we became worried about the amount of extra lithium supply that was coming on. We didn't hold our nerve.” But at the same time, Mr Mitchell said countless meetings with corporates here and overseas helped his team identify the emerging trends and companies to invest in.

“Technology and globalisation is allowing small companies to grow very fast,” he said. One that paid off handsomely was Afterpay Touch, which almost trebled after listing last year.

Mr Mitchell believes improvements in technology will spawn more companies like Afterpay that grow into billion dollar sales businesses in short time frames, disrupting the incumbents faster than ever.

“As an investor you need to be on your toes like never before,” Mitchell says.

A2 Milk — an Infant milk formula company selling to the Chinese market — was another great investment for Ophir after its share price more than quadrupled last year.

Pushpay — which develops mobile payments applications used by 50 of the top 100 churches in the US to effectively disrupt the offering plate — was another winner. Its share price more than trebled.

Mr Mitchell feels many of the largest companies in Australia are under threat from overseas (think Amazon), whereas in small caps there's growth potential in internationally exposed companies.

“I think we are going to see more and more of this,” he says.



Ophir keeps picking winners

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Burning shoe leather paid off for small-cap fund manager Ophir Asset Management last year.