Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

INVESTMENT UPDATE AND NAV REPORT – AUGUST 2019

The Ophir High Conviction Fund seeks to provide investors with a concentrated exposure to a high quality portfolio of listed companies outside the S&P/ASX 50. Employing an extensive investment process that combines a rigorous company visitation schedule and fundamental bottom-up analysis, the Fund aims to identify businesses operating within structural growth sectors with the ability to meaningfully grow and compound earnings over time. Typically, the majority of businesses within the portfolio will already have well-established business models with large or growing end markets and a clearly identifiable pipeline of future growth opportunities. As a concentrated portfolio, the Fund seeks to identify the very best of these opportunities in order to ensure each portfolio position delivers a meaningful impact on overall portfolio returns.

ASX Code	Net Per Annum Return Since Inception (to 31 Aug 19)	Net Return Since Inception (to 31 Aug 19)	Fund Size (at 31 Aug 19)
ASX:OPH	**20.6%**	**114.9%**	**$536.4**

AUGUST 2019 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 Aug 2019	Amount
NAV	$2.68
Unit Price (ASX:OPH)	$2.43

To access daily NAV prices for the Ophir High Conviction Fund (ASX:OPH), historical ASX announcements and performance history, please visit www.ophiram.com

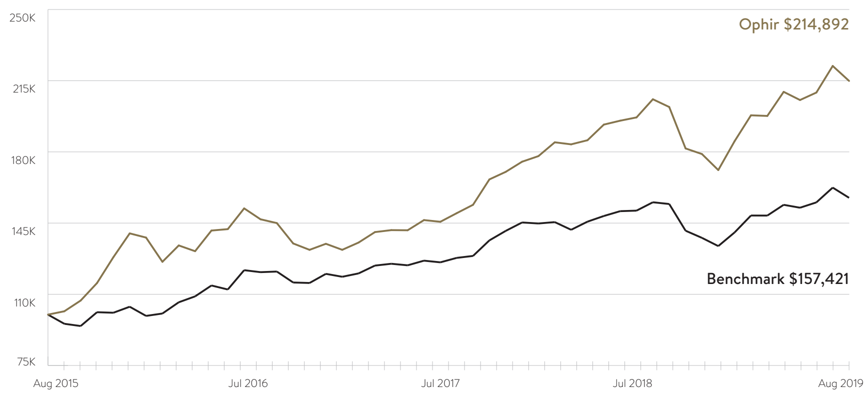

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future performance.

INVESTMENT PERFORMANCE

	1 Month	3 Month	1 Year	3 Years p.a.	Since inception p.a.
Ophir High Conviction Fund	**-3.2%**	**5.3%**	**6.4%**	**16.0%**	**25.4%**
Benchmark	-3.1%	3.2%	1.4%	9.2%	11.8%
Value Add (Gross)	-0.1%	2.1%	5.0%	6.8%	13.6%
Fund Return (Net)	-3.3%	4.6%	4.4%	13.5%	20.6%
ASX:OPH Unit Price Return	-6.5%	-3.2%	n/a	n/a	n/a

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 Aug 2019, not the market price. Benchmark is the ASX Mid-Small Accumulation Index. Inception date of the Fund is 4 August 2015. Past performance is not a reliable indicator of future performance.

TOP 5 PORTFOLIO HOLDINGS (ALPHABETICAL)

Company	Industry	ASX Code
Afterpay Touch Group	Information Technology	APT
Cleanaway Waste Management	Industrials	CWY
NextDC	Information Technology	NXT
Resmed	Health Care	RMD
Xero	Information Technology	XRO
Average Portfolio Market Cap		**$4.57bn**

KEY INFORMATION

Responsible Entity	The Trust Company (RE Services) Limited
Manager	Ophir Asset Management
Portfolio Managers	Andrew Mitchell & Steven Ng
Fund Inception	4 August 2015
Fund Size	$536.4m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 Aug 2019)

Sector	31 Aug 19
Materials	3.30%
Financials	2.95%
Health Care	7.98%
Communication Services	0.00%
Consumer Staples	9.95%
Information Technology	19.20%
Industrials	12.39%
Consumer Discretionary	14.00%
Utilities	5.31%
Real Estate	2.59%
Energy	8.29%
[Cash]	14.05%
	100%

MARKET COMMENTARY

Geopolitical tension was a major influence on global equity returns during August. The US-China Trade War escalated with both President Xi and President Trump announcing increased tariffs with any negotiated agreement now highly unlikely until 2020. In addition, Boris Johnson's political manoeuvring increased the odds of a no-deal Brexit and anti-extradition bill protests in Hong Kong raised fears of capital outflows. This uncertainty resulted in money pouring into bonds with US 10-year yields falling 52bps to 1.5%

In response global equity markets fell during August with the MSCI World Developed Markets index finishing -1.9% lower. Not surprisingly sharp falls were felt on UK and HK markets with the FTSE 100 index and Hang Seng index plunging -4.1% and -7.4% respectively.

On local shores these same geopolitical concerns and a volatile reporting season ended seven consecutive months of gains with the S&P / ASX 200 recording its first negative month falling -2.4% while the S&P / ASX Small Ordinaries Accumulation fell -3.9%.

The August reporting season proved to be one of the more challenging ones to navigate in recent times for investors. Earnings beats were harder to come by with the 'beat-to-miss' ratio of 0.8 significantly below the long run average of 1.2.

In light of the backdrop of growing geopolitical tensions and concerns of a slowing global economy, the main focus of investors during reporting season was squarely on company outlook statements. Whilst meeting earnings forecasts was important, even more important was delivering a positive outlook statement that reassured investors about the company's growth prospects in an increasingly challenging earnings environment. For example, Altium's (ASX:ALU) share price surged on management's positive outlook statement that it was on track to deliver both subscriber and revenue targets for FY20 and FY25 despite missing FY19 consensus earnings targets by 3%.

With the challenges facing the domestic economy, cyclical stocks have been doing it tough in recent times. A few weeks of positive FY20 trading data however sent share prices skyrocketing in some cyclical names. For example, Domain Group (ASX:DHG) surged over 8% when it announced encouraging signs of buyer activity in the first weeks of FY20 and JB Hi-Fi (ASX:JBH) climbed over 9% on the strength of +4.1% like-for-like annual sales growth to July 19. On the flip side, investors reacted savagely when Boral (ASX:BLD) announced that net profit after tax was expected to be lower in FY20 than FY19 sending the share price tumbling more than 20%.

Despite recent measures designed to stimulate domestic consumption including interest rate and tax cuts, our view is that any 'sugar hit' from these measures will be short lived and that the outlook for the Australian economy in the medium to longer term remains challenging. As a result, we have resisted the temptation to deploy capital into more cyclical companies.

PORTFOLIO COMMENTARY

During August the Ophir High Conviction Fund's investment portfolio returned -3.3% after fees, underperforming its benchmark by -0.2%. Since inception in August 2015, the Fund's investment portfolio has returned +20.6% per annum, outperforming its benchmark by 8.9% per annum.

During August the Ophir High Conviction Fund's unit price returned -6.5% for the month.

Key contributors to the Ophir High Conviction Fund performance this month included Afterpay Touch Group Ltd (APT), Nanosonics Ltd (NAN) and Resmed Inc (RMD). Key detractors included A2 Milk Company Ltd (A2M), Cleanaway Waste Management Ltd (CWY) and Next DC Ltd (NXT).

When we reflect on the performance of our portfolio companies during reporting season it is with a sense of satisfaction and frustration, in equal measure! Satisfaction because for the most part we have been able to accurately forecast market share and earnings growth as good or if not better than previous reporting seasons. Frustration because despite beating their earnings targets, the share price of a few portfolio companies were impacted negatively by delivering slightly weaker outlook statements.

For example, portfolio company Cleanaway (ASX:CWY) posted double digit growth in FY19 driven by strong EBITDA growth across all its sectors. However, Cleanaway called out a slightly more moderate growth outlook than consensus had been expecting (high single digit EPS compared with low double digit expectations). This lead to a large and what believe was an overly harsh share price response. We have maintained our conviction in the stock. The company continues to win market share with strong operating leverage and cash flow in a growing industry. We see Cleanaway as the key beneficiary of the short-term pressures facing the domestic recycling industry caused by China's ban on recycled waste imports. Industry structure is improving, with the forced exit of marginal operators. Cleanaway is at the forefront of the consolidation. Longer-term the company is also in a very strong position to benefit from the large opportunity in the conversion of waste into energy.

Similarly, long term portfolio company A2 Milk (ASX:A2M) fell more than 13% when it announced a lower margin outlook in FY20. Investors have taken a dim view as to whether increasing investments in marketing and consultants costs in FY20 will drive an uptick in top-line growth in the two largest consumer markets in the world – China and the USA. We believe that judging the performance of the company on the FY20 margin outlook in isolation is premature. Not only because it includes significant losses from its emerging fresh milk business in the US, but more importantly it fails to capture the impressive quality and momentum in top line revenue growth.

Market share continues to grow with the latest disclosure in June at 6.4% on a rolling year basis vs 6% in March. Offline sales in China have increased 100% with A2 now available in ~17,000 stores up from ~12,000 at the end of H1. There have also been some recent price rises put through in both fresh milk and infant formula. A2 clearly has some very strong momentum heading into FY20 even before the full benefits of these increased investments have had time to kick in.

A2 is a very cash generative, high growth company. The market appears to be ignoring that A2 has signalled that it sees significant opportunity to accelerate growth and will invest accordingly. We see this growth potential as a big positive for the share price longer-term and for these reasons it remains a material portfolio holding.

Strong momentum in all geographies underpinned Afterpay's FY19 earnings announcement with the share price surging in anticipation of and following the announcement. The company's share price rose by over 15% during August. There was a lot in the announcement that excited us about the company's long term growth trajectory.

Firstly, the company's operating metrics continued to accelerate in its key offshore growth markets (i.e. the US and UK). The US is scaling faster than the Australian business did, both in terms of underlying sales and return customer spend. Pleasingly, merchant margins in the US are now in line with Australia, which will underpin long-term profitability. The news from the UK was even more impressive and with the Clearpay offering, the company is outpacing the growth seen in the early stages of the US, with active users in the UK already over 200,000. This is a fantastic result when you remember that it only launched in the UK 17 weeks ago.

Secondly, underlying sales in Australia and New Zealand almost doubled for FY19 to $4.3 billion showing that there is still strong growth in the local business. Driving this growth is customer repeat usage which continues to increase and actually improve over time. For example, customers who have been using the platform for more than 1 year are transacting more than 4 times per annum but customers who have been using the platform for more than 3 years are transacting more than 20 times per annum. Early experiences in the US indicate that this is not just a local phenomenon with US customers also transacting more frequently the longer they use the platform. This is significant as it is changing customer behaviour in that they like using Afterpay and continue to use it more over time i.e. it's not a fad.

Afterpay's FY19 results highlighted management's continued focus on execution discipline and the impressive progress the company is making in its offshore growth strategy in line with its FY22 objective of $20bn gross merchant value and 2% net transaction margin. The company continues to remain one of our largest portfolio holdings.

While in some instances we have adjusted our portfolio weightings following information that has come to light during reporting season, we haven't made any material changes to our portfolios. We continue to focus on businesses that are structurally growing and taking market share and we believe that our portfolios comprise a number of high quality companies doing exactly that.

There are clearly some overvalued high growth companies in the small and mid-cap segment. However, we believe that high quality companies that can demonstrate their ability to grow into big markets and take market share will continue to attract investor capital – particularly while interest rates have further to fall and these companies continue to meet, or beat, growth expectations. This is where we will be continuing to focus our investing efforts.

INVESTMENT PHILOSOPHY

INVESTMENT OBJECTIVE

The Fund seeks to provide Unitholders with a concentrated exposure to a high quality portfolio of listed companies outside the S&P/ASX 50. Employing an extensive investment process that combines a rigorous company visitation schedule and fundamental bottom-up analysis, the Fund aims to identify businesses operating within structural growth sectors with the ability to meaningfully grow and compound earnings over time. The Fund aims to generate long-term returns in excess of the Benchmark (after fees and before tax) and provide consistent, sustainable returns for Unitholders.

INVESTMENT PROCESS

Ophir employs a fundamental, bottom-up research approach aimed at identifying businesses with the ability to meaningfully grow and compound earnings over time. Typically, the investment process will look to uncover businesses that are operating within, or about to enter, a period of structural growth and are generating cash or have a clearly identifiable pathway toward free cash flow generation. In order to identify these opportunities, the Ophir investment team spend a considerable amount of time understanding the quality of the business and the environment in which it operates.

ABOUT OPHIR ASSET MANAGEMENT

Ophir Asset Management is a specialist small and mid-cap equities investment manager established by founders Andrew Mitchell and Steven Ng in 2012. The business currently manages approximately $1.0bn in capital across two investment strategies on behalf of institutional superannuation funds, family offices, private wealth groups and individual investors. The investment team comprises 5 investment professionals drawn from a diverse range of backgrounds working across all Ophir funds.

ABOUT THE PORTFOLIO MANAGERS

Senior Portfolio Managers Andrew Mitchell and Steven Ng co-founded Ophir Asset Management in 2012 after previously managing capital together at Paradice Investment Management. Under their stewardship, the fund managed by Andrew and Steven at Paradice was the top performing equities fund in Australia from 2007-2011 versus the fund manager surveys (inclusive of the GFC). At Ophir, Andrew and Steven are Senior Portfolio Managers for the Ophir Opportunities Fund and the Ophir High Conviction Fund.

KEY INVESTOR CONTACTS

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