

# Ophir High Conviction Fund

ASX: OPH

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## INVESTMENT UPDATE AND NAV REPORT – SEPTEMBER 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.

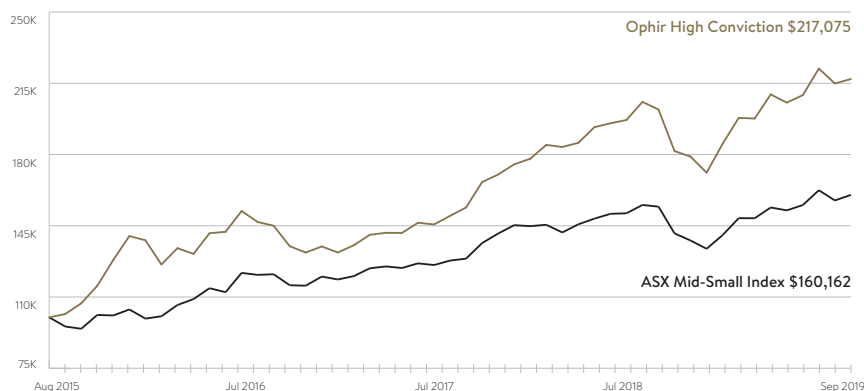
ASX Code	Net Per Annum Return Since Inception (to 30 Sept 19)	Net Return Since Inception (to 30 Sept 19)	Fund Size (at 30 Sept 19)
<b>ASX:OPH</b>	<b>20.5%</b>	<b>117.1%</b>	<b>\$540.8</b>

### SEPTEMBER 2019 PORTFOLIO SNAPSHOT

#### NET ASSET VALUE (NAV) PER UNIT

As at 30 Sept 2019	Amount
<b>NAV</b>	\$2.70
<b>Unit Price (ASX:OPH)</b>	\$2.49

To access daily NAV prices for the Ophir High Conviction Fund (ASX:OPH), historical ASX announcements and performance history, please visit [www.ophiram.com](http://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.
<b>Ophir High Conviction Fund</b>	<b>0.9%</b>	<b>4.2%</b>	<b>9.6%</b>	<b>16.8%</b>	<b>25.1%</b>
<b>Benchmark</b>	1.7%	3.2%	3.7%	9.7%	12.0%
<b>Value Add (Gross)</b>	-0.8%	1.0%	5.9%	7.1%	13.1%
<b>Fund Return (Net)</b>	1.0%	3.8%	7.4%	14.4%	20.5%
<b>ASX:OPH Unit Price Return</b>	2.5%	0.4%	n/a	n/a	n/a

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 30 Sept 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. The historical performance of the Fund is based on the Fund's performance when it was structured as an unlisted and (for the most part) open-ended fund and is net of fees applicable to the Fund but excluding individual tax. The historical performance of the Fund is calculated based on the movement in the NAV per Unit and assumes all distributions have been reinvested in additional Units in the Fund. Fees were not charged for the first three months after issue of the initial Units. However, historical performance of the Fund has been measured as if fees had been charged in respect of those Units from the Fund's inception

#### TOP 5 PORTFOLIO HOLDINGS (ALPHABETICAL)

Company	Industry	ASX Code
<b>Afterpay Touch Group</b>	Information Technology	APT
<b>Cleanaway Waste Management</b>	Industrials	CWY
<b>Resmed</b>	Health Care	RMD
<b>Freedom Foods Group Limited</b>	Food, Beverage, Tobacco	FNP
<b>Xero</b>	Information Technology	XRO
<b>Average Portfolio Market Cap</b>		<b>\$5.87bn</b>

#### KEY INFORMATION

<b>Responsible Entity</b>	The Trust Company (RE Services) Limited
<b>Manager</b>	Ophir Asset Management
<b>Portfolio Managers</b>	Andrew Mitchell & Steven Ng
<b>Fund Inception</b>	4 August 2015
<b>Fund Size</b>	\$540.8m
<b>Number of Stocks</b>	15-30
<b>Cash Distributions</b>	Annually

## ALLOCATION OF INVESTMENTS

### PORTFOLIO SECTOR EXPOSURES (as at 30 Sept 2019)

Sector	30 Sept 19
Materials	8.61%
Financials	3.96%
Health Care	7.66%
Communication Services	3.52%
Consumer Staples	10.56%
Information Technology	19.43%
Industrials	13.79%
Consumer Discretionary	13.44%
Utilities	5.18%
Real Estate	0.00%
Energy	2.84%
[Cash]	11.02%
	<b>100%</b>

## MARKET COMMENTARY

September was all about global macroeconomic news, the bond markets reaction and flow on effects to the performance of different investing styles. With a de-escalation in US-China trade conflict, supportive monetary policy moves by key central banks and some slightly better than expected economic data releases in the US, risk-on sentiment returned to financial markets. This saw many developed market long term government bond yields in early September reverse much of their steep falls that were seen during August, and a modest steepening return to yield curves. As an example, the US and Australian 10-year bond yields rose 0.45% and 0.32% respectively by mid-September from their August lows. Such monthly volatility in bond market yields is uncommon and had material ramifications for what parts of the equity markets did well or not, during the month.

Equity markets took the few economic bright spots mentioned above and ran with them during September, generally partially reversing August's falls in most markets. The MSCI World Developed Market Index was up 1.9%, outperforming the Emerging Markets Index which was up 1.7%. Regionally, of the major markets Japan (+5.1%) and Germany (+4.1%) led the way, whilst the US large cap S&P500 (+1.7%) and tech heavy NASDAQ (+0.5%) were the relative laggards. Emerging Markets were held back by falls in Indonesia (-2.8%) and South Africa (-2.0%), though the Argentinian stockmarket (+8.5%) recovered somewhat after falling just over 50% in August post the election defeat of its market friendly President.

At home, the S&P/ASX200 Index underperformed its developed market counterparts but still rose 1.3% and is a global standout performer over the last 12months, up 12.5% in total return terms. Small stocks clawed back

some of their lost ground over the last year to larger companies with the Small Ordinaries Index up 2.0% for the month.

Not only did equity markets in general move higher over the month, but it was value stocks that were the key beneficiary both globally and in Australia. In fact, September represented the second largest monthly outperformance globally of value stocks compared to growth stocks over the last decade. The outperformance was even more striking in Australia (3.8% outperformance compared to 3.0% globally). This occurred in the context of value underperforming significantly for much of the last 5-10 years. Notably, the month also saw momentum stocks (those whose stock prices have done well recently) underperform by even more than growth as recent winners tended to be sold off strongly. A rise in correlations during the month of stocks representing a certain style suggest macro factors were driving markets more as distinct from stock specific factors.

Predictably, a key value sector, Financials, was one of the best performing globally over the month, with higher long-term interest rates and a steeper yield curve benefitting the net interest margins banks earn. This came after a difficult results month for the Australian banks in August. Other standout sectors in the ASX200 during September were Energy and Materials. This came as oil and iron ore were higher in the month, with cyclicals also tending to do better during a risk on month for markets. Defensives and bond sensitive sectors such as Healthcare and REITs struggled falling -3.2% and -2.8% respectively.

## PORTFOLIO COMMENTARY

During September the Ophir High Conviction Fund's investment portfolio returned 1.0% after fees, underperforming the benchmark by -0.7%. Since inception in August 2015, the Fund's investment portfolio has returned 20.5% per annum, outperforming its benchmark by 8.5% per annum.

During September the Ophir High Conviction Fund's unit price returned 2.5% for the month.

Key contributors to the High Conviction Fund performance this month included Afterpay Touch (APT), Domino's Pizza Enterprises Limited (DMP) and AUB Group (AUB). Key detractors included A2 Milk Company Ltd (A2M), Evolution Mining Limited (EVN) and Webjet Limited (WEB).

As a small and mid-caps manager, at Ophir we are searching for growth companies that have large markets that they can grow into and compound earnings over time. This typically means looking for companies that can grow earnings at 15%+ over a long period compared to the market's long-term average of around 5-6%. A trap

however is to pay too much for high earnings growth, so we maintain a keen focus on valuations to ensure we are not overpaying.

Whilst months like September for equity markets, which are more about the macro news and strong rotations in performance across different investment styles, are important to understand, they have little impact on the way we manage the Funds at Ophir. We don't profess to have expertise in timing different investment styles and remain focussed on finding the next growth stock early that can go on to become a household name.

That said, whilst September saw a spike in bond yields, we believe we are likely to be in a lower for longer interest rate environment for some time yet. Though there are key risks to this outlook, on balance we believe this will likely extend the current cycle and be a positive for growth stocks. This stems from our belief that key central banks will maintain, and act on as appropriate, their current easing biases to combat low inflation and economic risks currently skewed to the downside. History suggests from the Japanese and European sharemarkets that very low long-term interest rates are disproportionately good for growth stocks. This comes from two key factors:

1. Lower discount rates boost valuations for growth stocks more than value
2. In a lower growth world, companies that can grow earnings derive a scarcity premium

In Australia, the biggest risk to this low growth and interest rate outlook is a strong rebound in house prices preventing the RBA from cutting interest rates further. On this score we believe macro prudential measures by APRA to stem house price risks may allow the RBA to keep cutting. Tax cuts also might help reflate the domestic economy in FY20, but the scale of the tax cuts means only a modest affect at best and with the savings rate already low a significant portion of this might be saved or used to repay debt. Fiscal stimulus is also likely to be absent as the Federal government has committed to a surplus this financial year. Globally the biggest risk we see to this outlook is a resolution to the US-China trade war, though with the US election still over a year away, we see President Trump wanting to maximise the political capital from any deal closer to election day.

A company we remain attracted to post reporting season is Freedom Foods (ASX: FNP). It is the largest player in the healthy, low allergy and 'free from' section of supermarkets. Leading positions are held in gluten free cereals and plant-based milks which are some of the fastest growing categories in stores, earning high margins and are being allocated more shelf space over time. This is happening due to the structural trend of health-conscious consumers willing to spend more on healthier staples as living standards improve. It is transitioning from a private label manufacturer to a branded manufacturer with around 50% of sales now from branded products. Brands include Australia's Own, MilkLab, Messy Monkeys and Vital Strength, and excitingly it is the fastest growing branded supply in the Australian grocery market. These branded products earn high margins and returns for investors. Investors have had to be patient as the company has spent more than \$500m on capex over the last five years expanding capacity particularly in UHT and dairy nutritionals from its Shepparton facility. Much of this spend is complete and plant production is ramping up which is very positive for incremental margins given high fixed costs. A lot of the capacity expansion has been underwritten by contracts at favourable prices.

Drought has been a concern for the milk industry, but Freedom have locked in their supply with only a minimal step up in cost given the long-term supply contract nature of 3+ years. Demand for its milk products is very high, particularly in export markets in China and South East Asia where growth is accelerating fastest. Domestically there is a need for supermarkets to respond to higher input costs and the struggles of the dairy industry. Despite private label fresh milk prices rising from \$1/lt to \$1.20-1.30/t, UHT milk prices haven't moved but we expect this will happen soon. A key undervalued part of the business for us is the branded plant-based milk MilkLab. It has been growing at 30%+ for many years and is a very high margin business, with very strong penetration in the café channel in Australia but still lots of runway to grow overseas.

## 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 Paradise Investment Management. Under their stewardship, the fund managed by Andrew and Steven at Paradise 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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The Trust Company (RE Services) Limited ABN 45 003 278 831 AFSL 235150 (Responsible Entity) is the responsible entity of Ophir High Conviction Fund (the Fund). This document has been prepared by Ophir Asset Management ABN 88 156 146 717 AFSL 420 082 (Ophir), the investment manager of the Fund. The information is of general nature only and has been prepared without taking into your account your objectives, financial situation or needs. Before making an investment decision, you should consider obtaining professional investment advice that takes into account your personal circumstances and should read the current product disclosure statement (PDS) of the Fund. Neither Perpetual nor Ophir guarantees repayment of capital or any particular rate of return from the Fund. All opinions and estimates included in this report constitute judgements of Ophir as at the date of the report and are subject to change without notice. Past performance is not a reliable indicator of future performance. Ophir accepts no liability for any inaccurate, incomplete or omitted information of any kind or any losses by using this information.



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