Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

INVESTMENT UPDATE AND NAV REPORT – NOVEMBER 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 Nov 19)	Net Return Since Inception (to 30 Nov 19)	Fund Size (at 30 Nov 19)
ASX:OPH	**20.2%**	**121.9%**	**$552.4m**

NOVEMBER 2019 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 30 Nov 2019	Amount
NAV	$2.76
Unit Price (ASX:OPH)	$2.50

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

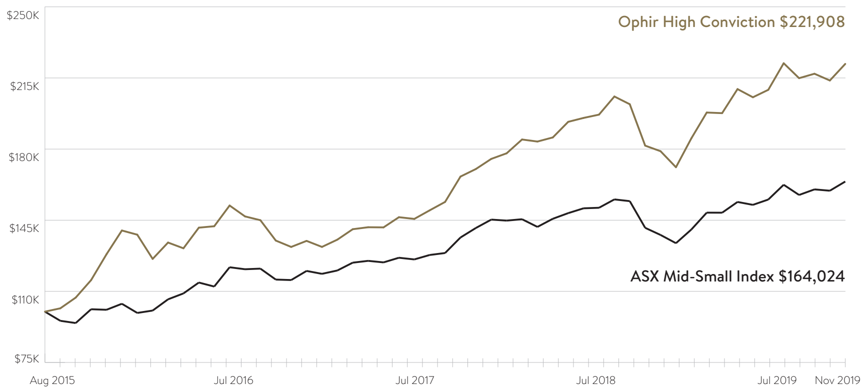

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future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

INVESTMENT PERFORMANCE

	Since Inception (p.a)	3 Years p.a.	1 Year	3 Month	1 Month
Ophir High Conviction Fund	**24.7%**	**21.5%**	**26.8%**	**3.3%**	**4.0%**
Benchmark	12.1%	12.4%	19.1%	4.2%	2.8%
Value Add (Gross)	12.6%	9.1%	7.7%	-0.9%	1.2%
Fund Return (Net)	20.2%	19.0%	24.0%	3.3%	3.8%
ASX:OPH Unit Price Return	n/a	n/a	n/a	2.9%	0.4%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 30 Nov 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
The A2 Milk Company	Consumer Staples	A2M
Afterpay Touch Group	Information Technology	APT
Freedom Foods Group Limited	Food, Beverage, Tobacco	FNP
Resmed	Health Care	RMD
Xero	Information Technology	XRO
Average Portfolio Market Cap		**$6.7bn**

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	$552.4m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 30 Nov 2019)

Sector	30 Nov 19
Materials	5.73%
Financials	4.55%
Health Care	9.06%
Communication Services	2.99%
Consumer Staples	12.82%
Information Technology	18.02%
Industrials	11.82%
Consumer Discretionary	13.08%
Utilities	4.77%
Real Estate	0.00%
Energy	2.76%
[Cash]	14.41%
	100%

MARKET COMMENTARY

The 2019 calendar year to date has been one of 'don't fight the Fed' as sharemarkets have been spurred on by US Federal Reserve and other central bank easing, despite global economic growth slowing to post GFC lows. The Australian and many other sharemarkets are on track to register their largest calendar year gains since the GFC. This has occurred as lower central bank policy rates and longer-term bond yields saw investors bid up the price of shares as they looked forward to the growth benefits that lower rates might provide in 2020. And so it was for the month of November as most of the major sharemarkets rose +1.5-3.5%, with monetary policy stimulus globally now at it strongest since the GFC.

Economic data for the major economies was mixed over November with the Institute of Supply Management's (ISM) manufacturing Purchasing Manager Index (PMI) for the United States coming in below expectation for both October and November, with latter part of the reason for the pull back in share markets seen in early December. Employment data however was better in the world's largest economy, though CPI and consumption expenditure were a little soft. On the weight of evidence though, over the last few months, it appears that globally we are seeing tentative signs of a very modest recovery in activity as central bank interest rate cuts starts to gain some traction and US-China trade tensions and no-deal Brexit concerns ease

In Australia, the RBA has recently kept the Cash Rate at 0.75% and maintains a conditional easing bias as it waits to see how much traction its recent cuts have provided. In a key speech during November, Governor Lowe confirmed that the Cash Rate would have to go to 0.25% before the RBA would consider quantitative easing (QE) in Australia, though if its baseline forecasts turn out to be true QE won't be needed. Market pricing currently agrees with the Governor with a 50/50 chance of either a 0.25% or 0.50% Cash Rate priced in at interest rate cycle lows in December 2020. On the growth front, September quarter GDP growth domestically had not much to crow about, rising +0.4% to be +1.7% higher over the year. Whilst the annual rate increased from the June quarter, spurred on by government spending and exports, household consumption remains near recessionary levels with its growth over the quarter the lowest since the GFC. In tough signs for retailers, retail volumes were weaker than expected and yearly growth
(-0.2%) has been the worst since the 1991 recession.

The MSCI World Developed Market Index was up 3.2% (in local currency terms), outstripping the Emerging Markets Index which saw more modest gains at +0.6% (in local currency terms). Regionally, of the majors the US led the way up +3.6%, followed up Europe (+2.8%), the UK (+1.8%) and Japan (+1.6%). In developed markets, the growth orientated IT (+5.6%) and Healthcare (+5.0%) led the way whilst bond proxy Utilities (-2.1%) and REITS (-1.6%) were the only two sectors to not participate in the gains as US 10yr sovereign yields moved higher.

The local market was one of the best performing for the month with the S&P/ASX 200 up +3.3%, taking 12 month returns to a very bullish +26.0%. The Small Ordinaries Index lagged on the month but was still up a strong +1.6%, and +16.6% on the year. Sector wise for the ASX200 it was much the same trend as global markets however to a greater extent with IT (+11.0%) and Healthcare (+8.9%) rising the most with Utilities and REITs trailing. The worst performing sector however was Financials, as Westpac dragged down the sector as AUSTRAC applied for a civil penalty order against the bank for over 23 million breaches of the AML/CTF Act, ultimately resulting in the departure of the CEO and Chairman during the month.

PORTFOLIO COMMENTARY

During November the Ophir High Conviction Fund's investment portfolio returned +3.8% for the month after fees, outperforming its benchmark by +1.0%. Since inception, the Fund's investment portfolio has returned +20.2% per annum after fees, outperforming its benchmark by 8.1% per annum.

During October the Ophir High Conviction Fund's ASX listing provided a total return of 0.4% for the month.

Key contributors to the High Conviction Fund performance this month included A2Milk (A2M), Afterpay Touch Group (APT) and Cleanaway (CWY). Key detractors included Nufarm (NUF), AUB Group (AUB), and Service Stream (SSM).

In key stocks news A2Milk gained +22.7% on the month after improved guidance on its profit margin, whilst Afterpay rose +9.5% from a positive AGM update and the release of the Final Audit Report to AUSTRAC on AML/CTF compliance which found historic non-compliance based on incorrect legal advice but its current program in line was in line with the Act.

We have spoken at length about these stocks before and instead we'd like to focus this month on one of our poorest performing stocks for the month, Nufarm (ASX:NUF) (-16.4%), what we got wrong in its analysis and what this can reveal about our investment process.

For those unfamiliar with the company, Nufarm is a global crop protection business with its main exposure through herbicides, but also with exposure to high margin insecticides and pesticides formulations. The business has historically been 'cheap' for a reason. Despite being geographically diverse, it has been very much subject to the vagaries of the agriculture cycle making earnings visibility poor and volatility high. Compounded by high financial leverage Net Debt/Operating Profit > three times, it had not offered us much appeal. However, by agreeing to sell its South American business in September this year to Sumitomo for a very attractive price (>$1bn) the company would be able to finally pay down its excessive debt levels. We took the view that the company would transform into something more investment grade leading to a sustainable rerate in its price/earnings (P/E) multiple, and a reduction in its then high level of short selling. We then believed we had a free option on an improvement in weather conditions, coupled with the development of its Omega 3 seeds business which the market was yet to ascribe significant value to. However, we decided to exit our position after our thesis was derailed with the company cutting its earnings guidance less than 2 months after initially providing it. We began to question the quality of the financial year 2019 result, which was likely flattered by inventory build in the market, though hard to ascertain due to the opaqueness of the business. With the company still on the lower end of the quality curve, and more question marks over its earnings power, we determined it was better to cut our losses. Ultimately, the probability of the company re-rating through P/E valuation expansion as it shored up its balance sheet and had growth options through its Omega 3 business and a potential upturn in the agriculture cycle was outweighed by the surprising worsening in seasonal conditions, mainly in the US. What this said to us is we didn't understand how seasonality was affecting the business better than the market. Seasonality was a key factor driving share price performance currently, and without superior insight into its earnings path we chose to exit the position.

Every fund manager knows they are not going to have every stock outperform the market. In competitive financial markets, where trading by professionals dominates turnover, over the long term the best might have 55-65% of their portfolio outperform. Firstly, from a process perspective its important to be honest with yourself that if it turns out you don't have unique insight on a variable that it central to the underlying performance of the company, that you recognise this, and redeploy the capital into other areas where you believe you do. Secondly, it is important that your lowest conviction holdings, of which Nufarm was, are reflected in lower holding weights. As we didn't believe our particular insight on the company was large and that there were significant risks to the outcome, we did not hold a large position in the company. As a result, this limited its negative contribution to performance for the month.

At Ophir, we know we are not going to get 100% of stocks right. If our original investment thesis turns out to be incorrect, then one of the worst things we can do is invent a new thesis as to why we should continue holding this now cheaper company. As we do for ourselves, we encourage all our investment team to be honest with themselves and transparent with the team on why a particular investment thesis may not have worked out. The market is full of new investment ideas, if only we look hard enough. We want to continue to make sure we are redeploying capital into our best ideas to keep the quality of the Fund high, and this sometime involves cutting our losses when things don't go to plan.

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

INVESTOR ADMIN QUERIES

Boardroom Limited (Registry)
T: 1300 737 760
E: enquiries@boardroomlimited.com.au

INVESTOR & ADVISER INFORMATION

George Chirakis (Chief Executive)
T: 02 8006 5476
E: george.chirakis@ophiram.com

OPHIR

CONTACT DETAILS

George Chirakis (Chief Executive)
T: 02 8006 5476
E: george.chirakis@ophiram.com