

Ophir High Conviction Fund

ASX: OPH

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INVESTMENT UPDATE AND NAV REPORT – DECEMBER 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.

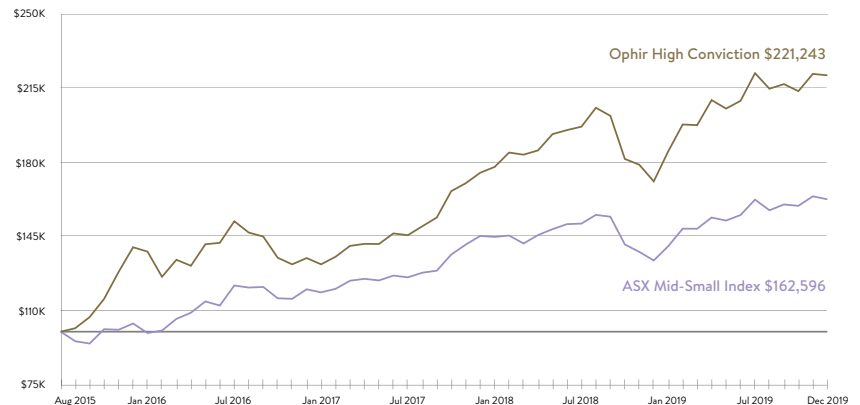
ASX Code	Net Per Annum Return Since Inception (to 31 Dec 19)	Net Return Since Inception (to 31 Dec 19)	Fund Size (at 31 Dec 19)
ASX:OPH	19.7%	121.2%	\$551.6

DECEMBER 2019 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 Dec 2019	Amount
NAV	\$2.80
Unit Price (ASX:OPH)	\$2.49

To access historical 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	24.2%	20.5%	32.5%	2.3%	0.0%
Benchmark	11.6%	10.6%	21.6%	1.5%	-0.9%
Value Add (Gross)	12.5%	9.9%	10.8%	0.8%	0.8%
Fund Return (Net)	19.7%	18.0%	29.3%	1.9%	-0.3%
ASX:OPH Listing Total Return	n/a	n/a	11.2%	0.0%	-0.4%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 Dec 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		\$6.4bn

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	\$551.6m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 Dec 2019)

Sector	31 Dec 19
Materials	6.18%
Financials	6.42%
Health Care	7.66%
Communication Services	3.03%
Consumer Staples	13.00%
Information Technology	20.11%
Industrials	11.13%
Consumer Discretionary	13.02%
Utilities	4.63%
Real Estate	0.00%
Energy	3.61%
[Cash]	11.21%
	100%

MARKET COMMENTARY

Sharemarkets globally ended 2019 on a high with gains seen across the major markets (though Australia was an exception) in December despite an economic and geopolitical backdrop that could best be described as 'mixed'. Donald Trump became only the third US President in history to be impeached, a key lead indicator of economic growth in the US was a little softer than expected and Australian GDP growth logged its slowest pace since the GFC with private sector demand falling into recession. This of course doesn't include escalating tensions between the US and Iran over the US's elimination of the highest-ranking Iranian military General as the new year began. In contrast there was more positive news with greater certainty for the UK and a Brexit deal after Boris Johnson's Conservative Party election win, a "Phase One" trade deal between the US and China to be agreed in mid-January and still continued signs overall that 2020 is overall likely to be a better one for global economic growth, albeit only modestly, than the one we just left behind.

Calendar year 2019 was one in which central banks turned on the monetary policy spigots in response to signs of slowing economic growth in the second half of 2018 and the market correction that ensued in the December 2018 quarter. This saw an about face in central bank purchases of securities, most notably from the US Federal Reserve and the European Central Bank, that turned balance sheet tapering back into expansion.

Looking into 2020, given the higher starting point for valuations of sharemarkets, as well as the still subdued though stable economic growth outlook, it is likely returns for major sharemarkets, including those for Australia, will not be as strong as those seen in 2019. And whilst it is impossible to accurately forecast near term sharemarket returns, most warning signs of a near term major bear market for shares are not flashing red. As an example, Citi Research track 18 major warning signs for an impending bear market for shares globally, and its checklist is currently registering a score of just 3.5. This is compared to a score of 13 and 17.5 respectively at the start of the GFC in 2007 and tech-wreck in 2000. Also supporting the case for more modest but reasonable gains ahead for sharemarkets and cyclical assets is that in historical cases where leading indicator Purchasing Manager Indices have troughed (as they appear to have recently), these assets have tended to go on rallying in the short to medium term.

For the month of December, the MSCI World Developed Market Index was up 2.3% (in local currency total return terms), though substantially trailed the Emerging Markets Index which was up a robust +5.8% (in local currency terms). This order of results was reversed over the year though with developed markets (+28.4%) victorious over its emerging markets (+18.9%) counterpart. All the major sharemarkets were in the green with the US again leading the pack this month up 3.0%, closely followed by the UK (+2.8%), with Japan (+1.7%) and Europe (+1.2%) a little further behind. All sectors in developed sharemarkets participated in the month's rally with Energy (+5.4%) reversing some of its relative sector underperformance over 2019, followed by IT (+4.2%) and Materials (+4.1%).

The local Australian sharemarket was the sole blight on an otherwise unblemished record for global sharemarkets in December with the S&P/ASX200 falling -2.2% in total return terms. Investors would still be happy over the year though with a return of 23.4% logged for 2019, the highest since 2009. The Small Ordinaries Index protected wealth better than its larger cap counterpart, only falling -0.3% for the month. Smalls cap marginally underperformed large caps over 2019, registering a still very bullish 21.4%. On a sector basis over the month for the S&P/ASX200, 9 fell and only 2 gained with the leading sector being Materials (+1.5%) as commodities gained on the month, including iron ore that was up 5.4%. Bond proxy sectors struggled the most as long maturity Australian government bond prices fell (yields rose) seeing the largest falls in Consumer Staples (-8.1%), Communication Services (-5.8%), IT (-4.6%) and REITs (-4.4%).

PORTFOLIO COMMENTARY

During December the Ophir High Conviction Fund's investment portfolio returned -0.3% for the month after fees, outperforming its benchmark by +0.6%. Since inception, the Fund's investment portfolio has returned +19.7% per annum after fees, outperforming its benchmark by 8.1% per annum.

During December 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 Cooper Energy (COE), Northern Star Resources (NST) and Service Stream (SSM). Key detractors included Afterpay (APT), Austal (ASB), and IDP Education (IEL).

In key stock news for the Fund, Northern Star Resources (ASX:NST) (17.9%) and Cooper Energy (ASX: COE) (13.1%) both had strong months on the back of strong years where they each outperformed the market.

Northern Star Resources, the Perth based gold miner, benefitted from the rise in the gold price over the month as well as the announcement of its acquisition of 50% of the Kalgoorlie Consolidated Gold Mine for US\$800mil, funded through a debt and equity placement. This is a significant acquisition for NST and is expected to be earnings accretive from its first full financial year (FY2021).

Cooper Energy rose on news that construction has now been completed of the Orbost Gas Plant and the reins have been handed over to the operator (APA Group) who will begin processing gas from the COE owned Sole Gas Field in February this year.

In terms of detractors for the month, we largely avoided any major landmines such as Jumbo Interactive (ASX:JIN) (-27.3%) and Perenti Global (ASX:PRN) (-16.7%) that saw more meaningful falls on results below expectations. JIN noted increased business development, merchant and marketing costs and one-off fees from the acquisition of Gatherwell, whilst PRN downgraded guidance for FY20 by circa 15% over contact losses and increased costs.

Significant holding Afterpay (ASX:APT) (-7.3%) fell on the month on general volatility with news of its UK brand Clearpay signing online mega retailer Asos.com, offset by headlines around global competitor Klarna's pending entry into Australia. We remain encouraged by APT's ability to expanded the market in its three geographies (Australia, US and UK) and take market share in a broadly subdued retail environment.

More generally we note that correlations between share price returns of stocks in the Australian small cap space are back around post GFC lows, indicating that macro factors are having less of an impact on performance. This is a good sign for active fundamental bottom up small cap stock pickers such as ourselves, with performance being determined more by idiosyncratic stock specific factors. These are the factors that we are seeking to understand better than the market, looking for opportunities where we believe the business is either misunderstood and/or mispriced when compared to its future prospects. Kicking off 2020 we remain as excited as ever to uncover the next company to add to our portfolios that we believe can build wealth for both ourselves, and you our fellow investors.

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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