

# Ophir High Conviction Fund



ASX: OPH

[www.ophiram.com](http://www.ophiram.com)

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## INVESTMENT UPDATE AND NAV REPORT – MAY 2020

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.

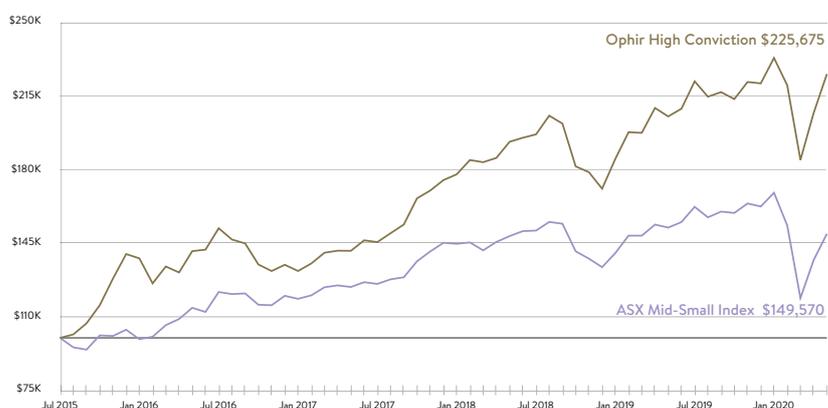
ASX Code	Net Per Annum Return Since Inception (to 31 May 20)	Net Return Since Inception (to 31 May 20)	Fund Size (Gross) (at 31 May 20)
<b>ASX:OPH</b>	<b>18.4%</b>	<b>125.7%</b>	<b>\$576.0</b>

### MAY 2020 PORTFOLIO SNAPSHOT

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

As at 31 May 2020	Amount
NAV	\$2.81
Unit Price (ASX:OPH)	\$2.48

To access 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

	Since Inception (p.a)	3 Years p.a.	1 Year	FYTD	3 Month	1 Month
<b>Ophir High Conviction Fund</b>	<b>23.4%</b>	<b>20.7%</b>	<b>15.4%</b>	<b>13.2%</b>	<b>4.6%</b>	<b>8.9%</b>
<b>Benchmark</b>	8.7%	6.4%	-2.0%	-3.6%	-2.6%	9.1%
<b>Value Add (Gross)</b>	14.7%	14.3%	17.3%	16.8%	7.2%	-0.2%
<b>Fund Return (Net)</b>	18.4%	16.8%	9.8%	7.9%	2.4%	9.0%
<b>ASX:OPH Unit Price Return</b>	n/a	n/a	-1.2%	0.0%	3.3%	5.1%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 May 2020, 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	Sector	ASX Code
<b>The A2 Milk Company</b>	Consumer Staples	A2M
<b>Dominos Pizza Enterprises</b>	Consumer Discretionary	DMP
<b>Evolution Mining Limited</b>	Materials	EVN
<b>NEXTDC Limited</b>	Information Technology	NXT
<b>Resmed</b>	Health Care	RMD
<b>Average Portfolio Market Cap</b>		<b>\$6.7bn</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 (Gross)</b>	\$576.0m
<b>Number of Stocks</b>	15-30
<b>Cash Distributions</b>	Annually
<b>Investment Objective</b>	Outperform benchmark (after fees) over long term (5+ yrs)

## ALLOCATION OF INVESTMENTS

### PORTFOLIO SECTOR EXPOSURES (as at 31 May 2020)

Sector	31 May 20
Materials	9.6%
Financials	17.2%
Health Care	8.1%
Communication Services	2.2%
Consumer Staples	8.9%
Information Technology	22.0%
Industrials	6.7%
Consumer Discretionary	9.7%
Utilities	3.1%
Real Estate	0.0%
Energy	3.4%
[Cash]	9.2%
	<b>100%</b>

## MARKET COMMENTARY

May will go down in history as the month much of the world started re-opening as many countries had gained some control of active COVID-19 cases. This re-opening, as well as some improving leading economic data, saw global sharemarkets generally follow up April's very strong gains with further, albeit smaller, rises in May.

The benchmark global share index (MSCI ACWI USD) rose 4.4%, following April's 10.8% gain, whilst the local Australian sharemarket (ASX200 Index) rose the same 4.4% after gaining 8.8% the month before.

May continued a similar path to April with the market moving higher but masking high daily and intraday volatility and meaningful divergence of returns from particular sectors and investing styles. As we discussed last month this kind of volatility is not uncommon as economies enter recessionary environments and simply reflect a market trying to actively price in a wide range of future outcomes.

This volatility is perhaps even more elevated in the current environment given the unique causation and the market's limited history or reference points to price in forced economic shutdowns and subsequent reopening.

Initially we saw the rally in share markets from the March bottom was led by more defensive and growth orientated sectors of the market as investors added risk in safer areas. Through the second half of May though there was evidence that investors had become bolder as cyclical and value sectors such as Industrials, Materials and Financials started leading the way, along with lower quality companies with higher debts levels. An example of this in Australia has been seen with the Big Four banks. Over the last week of May we saw Westpac

outperforming Resmed and ANZ outperforming CSL by around 25% each.

This general sector rotation saw our investment strategies pair back some of their relative performance that they had put on earlier in May.

These rotations are typical coming out of bear markets though ultimately we think will be constrained by the low/no growth and low inflation world we are in and constraints on spending as some forms of social distancing stay with us for some time yet.

## PORTFOLIO COMMENTARY

During May, the Ophir High Conviction Fund's investment portfolio rose 8.9% (net of fees) versus the index which rose 9.1%. Since its inception in August 2015, the Fund has returned 18.4% p.a. (net of fees) while the index has returned 8.7% p.a. since inception. During May the Ophir High Conviction Fund's ASX listing provided a total return of +5.1% for the month.

Whilst we haven't been trying to time the sector and style rotations described above, we have become slightly more aggressive in our portfolio positioning as it's become clearer that spending is starting to improve in some parts of the world. We are currently being very selective, looking for companies with greater earnings certainty that are less or even positively impacted by COVID-19, have high confidence that they will be able to grow those earnings on a 3-5 year basis and that are trading at reasonable valuations.

We believe now is probably not the time to be making bold calls on exactly what the new normal is going to look like for those companies most negatively impacted by COVID-19 now and into the future.

In key stock news for the Fund, Afterpay (ASX: APT) (52.0%), Omni Bridgeway (ASX:OBL) (22.1%) and Evolution Mining (ASX:EVN) (19.4%), were three of the strongest contributors, whilst Freedom Foods (ASX:FNP) (-14.1%) and A2 Milk (ASX:A2M) (-2.8%) saw the most significant negative contribution to monthly performance.

Afterpay (ASX:APT), after falling below \$10 in May on COVID-19 uncertainty, built on April's gains, reaching new all time highs in May before cracking \$50 for the first time in early June. This came on the back of improved sentiment towards the company as some COVID-19 uncertainty eased and the Tencent equity stake bolstered confidence. Towards the end of the month the company also announced to the market it had recently passed 5 million active customers in the United States with 1 million joining in just the last 10 weeks during COVID-19 which was a 30-40% boost from their customer acquisition run rate from earlier in the year.

Omni Bridgeway (ASX:OBL), a global leader in litigation funding, steadily rose during May from \$4.02 to \$4.91, continuing to find support at a time when investors are willing to pay up for uncorrelated growth in a low growth world. It's portfolio of close to 300 investments (case funding) is highly diversified and spread across cases in its 18 offices globally, but with a focus in the United States and Australia.

Evolution Mining (ASX:EVN), the gold miner with operations in Western Australia, followed up April's strong gains with more of the same in May, breaching \$6 briefly for the first time in corporate history as it continues to benefit from a higher gold price. This thematic has seen the ASX All Ords Gold index rise 24.1% over the three months ending May.

Freedom Foods (ASX:FNP) saw a sell off at the end of the month on the back of a trading update. A number of one off impacts to profit resulted in a more meaningful downgrade but the main news was a bigger hit than expected to the higher margin "Out-of-home" channel as destocking occurred in its milk products at cafes and the like, as well as lower foods services revenue on lower demand for its cream products used in cafes, restaurants and bakeries. This impact is likely to be short term though there still is uncertainty over its duration.

A2 Milk (ASX:A2M) gave back a fraction of its April gains on no material news and still remains up over c.20% over the last 12 months. The small retraction in the stock was likely the result of investors pausing post the strong relative run the company's share price has had during 2020 compared to the broader market, especially during COVID-19.

## 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 \$1.3bn in capital across two investment strategies on behalf of institutional superannuation funds, family offices, private wealth groups and individual investors. The investment team comprises 9 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, Ophir High Conviction Fund and Ophir Global Opportunity Fund.

## KEY INVESTOR CONTACTS

### INVESTOR ADMIN QUERIES

**Boardroom Limited** (Registry)

T: 1300 737 760

E: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

### INVESTOR & ADVISER INFORMATION

**George Chirakis** (Chief Executive)

T: 02 8006 5476

E: [george.chirakis@ophiram.com](mailto:george.chirakis@ophiram.com)

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 and is issued by The Trust Company (RE Services) Limited (ABN: 45 003 278 831, AFSL 235 150) as responsible entity and the issuer of units in the Trust. The information is of general nature only and has been prepared without taking into 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.



### CONTACT DETAILS

**George Chirakis** (Chief Executive)

T: 02 8006 5476

E: [george.chirakis@ophiram.com](mailto:george.chirakis@ophiram.com)