

Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

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INVESTMENT UPDATE AND NAV REPORT – AUGUST 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 Aug 20)	Net Return Since Inception (to 31 Aug 20)	Fund Size (at 31 Aug 20)
ASX:OPH	19.7%	149.5%	\$620.1m

AUGUST 2020 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 August 2020	Amount
NAV	\$3.11
Unit Price (ASX:OPH)	\$2.96

To access 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.

¹ The Fund's benchmark is the S&P/ASX Mid-Small Index, being the composite benchmark of 50% of the S&P/ASX MidCap 50 Accumulation Index and 50% of the S&P/ASX Small Ordinaries Accumulation Index.

INVESTMENT PERFORMANCE

	Since Inception (p.a)	5 Years p.a.	3 Years p.a.	1 Year	3 Month	1 Month
Ophir High Conviction Fund	24.7%	24.3%	22.6%	22.0%	11.3%	4.8%
Benchmark	10.3%	11.4%	8.7%	4.3%	9.8%	6.8%
Value Add (Gross)	14.4%	12.9%	13.9%	17.7%	1.5%	-2.0%
Fund Return (Net)	19.7%	19.7%	18.5%	16.1%	10.6%	4.9%
ASX:OPH Unit Price Return	n/a	n/a	n/a	21.8%	19.4%	11.7%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 August 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	Industry	ASX Code
The A2 Milk Company	Consumer Staples	A2M
Afterpay Touch Group	Information Technology	APT
Mineral Resources Limited	Materials	MIN
NEXTDC Limited	Information Technology	NXT
Xero	Information Technology	XRO
Average Portfolio Market Cap		\$8.0bn

KEY INFORMATION

Responsible Entity	The Trust Company (RE Services) Limited
Manager	Ophir Asset Management Pty Ltd
Portfolio Managers	Andrew Mitchell & Steven Ng
Fund Inception	4 August 2015
Fund Size	\$620.1m
Number of Stocks	15-30
Cash Distributions	Annually
Investment Objective	Outperform benchmark (after fees) over long term (5+ yrs)

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 August 2020)

Sector	31 August 20
Materials	9.3%
Financials	14.8%
Health Care	6.6%
Communication Services	5.6%
Consumer Staples	6.2%
Information Technology	24.1%
Industrials	13.2%
Consumer Discretionary	10.0%
Utilities	0.0%
Real Estate	0.0%
Energy	2.6%
[Cash]	7.6%
	100%

MARKET COMMENTARY

Equity markets in August shrugged off what the history books say about the month typically being a poor one for returns. Positive returns were seen in almost every equity market around the world during the month with the US (S&P500), and in particular the large US tech stocks (heavily represented in the NASDAQ), leading the way again.

Despite the Aussie share market (ASX200 +2.2%) logging its best August returns in a decade (just goes to show you how poor August typically has been), and its fifth consecutive monthly gain, it was also its worst underperformance compared to developed equity markets this century (-4% underperformance). This relative underperformance has been a consistent theme this year largely off the back of poorer fundamentals (earnings and dividends have fallen more in Australia) as well as a less favourable market sector composition (smaller IT and healthcare sectors in Australia).

For those of us who fish in the small cap part of the Aussie equity market, August was a lot kinder with the ASX Small Ords Index up 7.3% on a total return basis.

If you thought only the US was throwing a tech party, our Aussie IT market, whilst dwarfed in size by the US, showed it knows how to mix in with the big boys, providing twice the return of the next best sector in the local market during the month.

Much of the rally in August came as leading economic data continued to rebound, hopes rose on fast-tracked vaccines and therapeutics for COVID-19 and an important announcement from the Fed, indicating that it would be keeping rates lower for longer even when/if inflation starts to recover.

On this last point Fed Chair Powell made the important announcement that the US Fed would be targeting average inflation of 2% over time and that instead of trying to head inflation off at a 2% limit, it would let inflation run “moderately” above the 2% target “for some time”. This pivot in strategy will now seek to “make up” for previous inflation undershoots such as we have seen over the last decade (see chart below). This means that the Fed’s punchbowl is here to stay for likely years and that more monetary stimulus may in fact be on its way at the September meeting – all positive for equities.

PORTFOLIO COMMENTARY

During August, the Ophir High Conviction Fund’s investment portfolio rose +4.9% (net of fees) versus the index which rose +6.8%. Since its inception in August 2015, the Fund has returned +19.7% p.a. (net of fees) while the index has returned +10.3% p.a. since inception.

During August the Ophir High Conviction Fund’s ASX listing provided a total return of +11.7% for the month.

This Australian reporting period just passed very likely will mark the depths of the earnings recession both in Australia and other developed economies. The catch up for lost growth though will likely take some time. In a sign investors were too pessimistic heading into reporting season on the back of high uncertainty and reduced company guidance, positive excess returns (market outperformance) was logged by about 60% of ASX200 companies in the three days post results announcement. This saw an average positive excess return of 1.8%, highlighting results were generally better than feared.

For us the Australian reporting season was a bit of a mixed bag, but this was not entirely unexpected. Holding less in re-opening thematic names no doubt held back headline performance a little but does not cause us concern longer term.

We say August’s result was not “unexpected” as this came on the back of significant market and peer outperformance over the previous 6 months to the end of July. In fact, our two Australian equity funds (including the High Conviction Fund) were the 1st and 2nd ranked compared to the Mercer survey of Australian Small Cap managers over that period and two of only five managers to generate a positive return.

This undoubtably led to much “good news” and high expectations to already be priced into core longer term positions in these funds. Examples here include A2 Milk and Resmed in our High Conviction Fund that were down -11.8% and -13.7% respectively in August but are up +25.5% and +19.4% on the year (in a period when the Australian market was down -4.1%).

We see A2 Milk as somewhat a victim of its own success after upgrading earnings guidance in March. The market had been expecting a beat but instead came in line with the midpoint of this upgraded guidance. Second half profits grew 32% indicating there is still plenty of momentum in the business. We see A2 Milk continuing to take market share with growth in its China label product a key highlight.

Resmed sees opposing forces impacting the company at present with higher ventilator sales for COVID-19 treatment a key positive. Recently it has offset declines in its core CPAP/sleep related sales as potential patients have reduced access to assessments during mobility restrictions and high unemployment provides less health care coverage for its products. On net we still like the business longer term given its leading position servicing the underdiagnosed sleep apnea market but expect it might be a rockier path near term as it navigates to growth ahead.

Interestingly, dispersion in analysts' earnings forecasts for companies in the Australian market have reduced as management of companies have provided some greater clarity on the outlook ahead, though it still remains at very elevated levels.

This is great news for us as it means given this lack of consensus the market is desperately looking for capital allocators who can correctly determine companies' earnings trajectories amongst this uncertainty. We remain hard at work doing just that. We continue to be excited by the opportunity this uncertainty provides and the rewards on offer for finding the companies the market has overlooked or misunderstood.

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 \$1.6bn in capital across three 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 Opportunities 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 Pty Ltd ABN 88 156 146 717 AFSL 420 082 (Ophir), the investment manager of the Fund and is issued by the Responsible Entity as the issuer of units in 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 the Responsible Entity 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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