

# Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

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## INVESTMENT UPDATE AND NAV REPORT – SEPTEMBER 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.

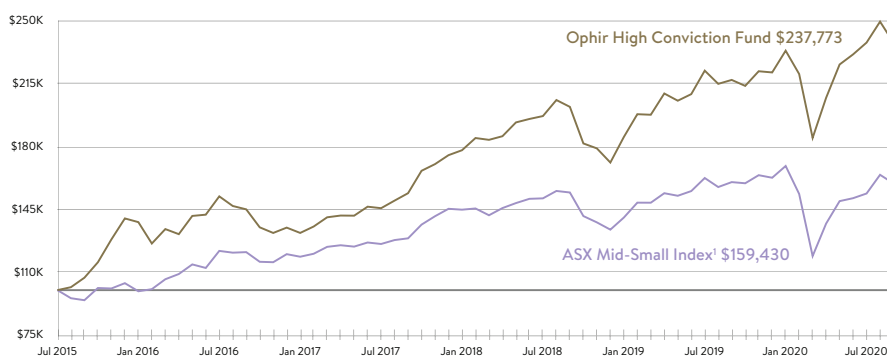
ASX Code	Net Per Annum Return Since Inception (to 30 Sep 20)	Net Return Since Inception (to 30 Sep 20)	Fund Size (at 30 Sep 20)
<b>ASX:OPH</b>	<b>18.3%</b>	<b>137.8%</b>	<b>\$589.6m</b>

### SEPTEMBER 2020 PORTFOLIO SNAPSHOT

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

As at 30 September 2020	Amount
<b>NAV</b>	\$2.96
<b>Unit Price (ASX:OPH)</b>	\$3.04

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.

<sup>1</sup> 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
<b>Ophir High Conviction Fund</b>	<b>23.1%</b>	<b>21.5%</b>	<b>19.5%</b>	<b>15.3%</b>	<b>3.2%</b>	<b>-4.6%</b>
<b>Benchmark</b>	9.5%	11.0%	7.3%	-0.5%	5.4%	-2.9%
<b>Value Add (Gross)</b>	13.6%	10.5%	12.2%	15.8%	-2.2%	-1.7%
<b>Fund Return (Net)</b>	18.3%	17.3%	15.6%	9.5%	2.8%	-4.7%
<b>ASX:OPH Unit Price Return</b>	n/a	n/a	n/a	22.1%	13.9%	2.7%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 30 September 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>Afterpay</b>	Information Technology	APT
<b>Dominos</b>	Consumer Discretionary	DMP
<b>NEXTDC Limited</b>	Information Technology	NXT
<b>Xero</b>	Information Technology	XRO
<b>Average Portfolio Market Cap</b>		<b>\$7.2bn</b>

#### KEY INFORMATION

<b>Responsible Entity</b>	The Trust Company (RE Services) Limited
<b>Manager</b>	Ophir Asset Management Pty Ltd
<b>Portfolio Managers</b>	Andrew Mitchell & Steven Ng
<b>Fund Inception</b>	4 August 2015
<b>Fund Size</b>	\$589.6m
<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 30 September 2020)

Sector	30 September 2020
Materials	8.8%
Financials	14.6%
Health Care	7.2%
Communication Services	5.5%
Consumer Staples	4.7%
Information Technology	21.4%
Industrials	13.3%
Consumer Discretionary	14.3%
Utilities	0%
Real Estate	0%
Energy	2.9%
[Cash]	7.3%
	<b>100%</b>

## MARKET COMMENTARY

After five steps forward it was a case of one step back for equity markets in September. That is to say, major sharemarkets fell last month after five months in a row of gains following the COVID-19 induced rout in March this year.

Volatility returned to financial markets with daily moves in sharemarket indices of +/- greater than 1%, a frequent occurrence during the month of September. The major equity markets generally fell in the 1-4% range during the month with the Australian (ASX200) and US sharemarket (S&P500) falls at the top end down -4.0% and -3.9% respectively. Much was attributed to concerns over renewed lockdowns in Europe on COVID-19 second waves, reduced probability of further fiscal stimulus this year in the US and the timing for an effective virus vaccine pushed out.

The tech sector was particularly hard hit with the NASDAQ down over 5%, as investors reassessed whether the sector has risen too hard, too fast.

One of the key reasons markets have continued to march higher since their March lows is the building confidence that a COVID-19 vaccine will come to market in record time. The Good Judgement Project earlier this year forecast a widely available vaccine not being likely until after April 2022. The timing though has changed dramatically over the last few months with the most likely forecasted timeframe now being sometime before the end of March 2021. The probability for this timeframe has recently rolled over though as delays and some side effects in trials has increased the likelihood of the vaccine's arrival in the US not until later in 2021. This seems to have played a part in the equity market pullback

in September with investors searching for a catalyst to move the market higher but were found wanting.

## PORTFOLIO COMMENTARY

During September, the Ophir High Conviction Fund's investment portfolio returned -4.7% (net of fees) versus the index which fell -2.9%. Since its inception in August 2015, the Fund has returned 18.3% p.a. (net of fees) while the index has returned 9.5% p.a. since inception.

During September the Ophir High Conviction Fund's ASX listing provided a total return of +2.7% for the month.

A much talked about risk in investor circles is how to position portfolio's for when/if a widely available and effective vaccine is ready. Many so-called "value" investing stalwarts are wondering whether this will be the much awaited prompt they need for their "style" to return to favour. After such a sustained period of underperformance of this style over recent years you can understand why.

If you look at which styles or types of investing have done well when vaccine optimism has increased you can see that value, high leverage and "out-and-about" stocks have tended to perform better in Australia (this is also generally true globally). This is not surprising given they are the one's that suffered the most from COVID-19.

As a manager we often have some investors that try to pigeonhole us a "growth" style investor. They have heard of some of our early investments into A2 Milk, Afterpay and Xero and assume all or most of our investments are into companies trading on high price-to-earnings (P/E) valuations that many see as defining the growth style. This is far from the truth.

Whilst we do look for companies that we believe can structurally grow earnings over the long term at rates faster than the market, we have a strict discipline about not overpaying for that growth. Ideally, we'd like to pay "below market" earnings multiples (P/E ratio or our preferred metric EV-to- EBITA) for "above market" earnings growth. We will pay above market earnings multiples, and sometime significantly above market, where we have a high confidence of outstanding long-term growth. The portion of our funds though in those companies trading on valuation ratios materially above market will always be limited and importantly, where one of those companies comes into an Ophir fund, one must come out.

Around 30-50% of our stocks in the Fund typically trade at below market price-to-earnings valuation multiples. On average at a portfolio level we believe we are obtaining multiples of the market's rate of earnings growth whilst not paying significantly more than the market's valuation.

As a result, we are not particularly concerned if the “value” style does well for a period of time on the release of a vaccine. We have significant exposure to companies we believe are trading at value prices, but most importantly, that we believe can grow and take market share irrespective of the macro environment or vaccine status. Crucially, staying small and nimble lets us flex the proportion of our Funds we have in more value orientated companies through time.

Ultimately in a low interest rate, low growth world that we were in pre-COVID-19, and will likely return to, we believe investors will be willing to pay up for earnings growth where it can be found. Our challenge, that gets us out of bed everyday, is hopefully to be one of the first, if not the first, to find these structurally growing companies, before the market does and its true value is realised.

## 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

### INVESTOR ADMIN QUERIES

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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 authorised for release 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 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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