

# Ophir High Conviction Fund



ASX: OPH

www.ophiram.com

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## INVESTMENT UPDATE AND NAV REPORT – MARCH 2022

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.

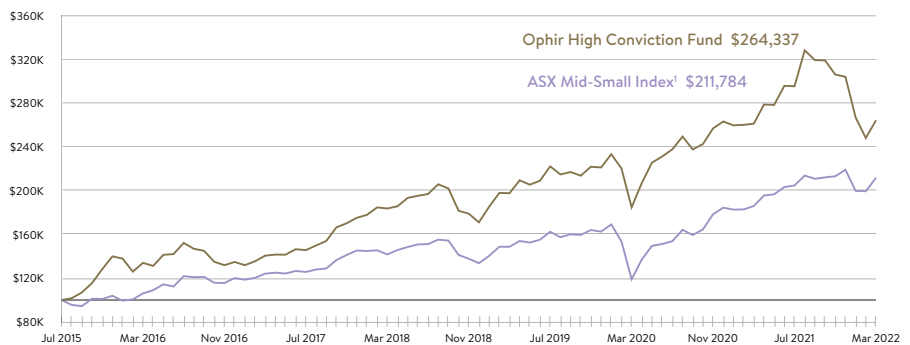
ASX Code	Net Per Annum Return Since Inception (to 31 March 22)	Net Return Since Inception (to 31 March 22)	Fund Size (at 31 March 22)
<b>ASX:OPH</b>	<b>15.7%</b>	<b>164.3%</b>	<b>\$628.8m</b>

### MARCH 2022 PORTFOLIO SNAPSHOT

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

As at 31 March 2022	Amount
<b>NAV</b>	\$2.95
<b>Unit Price (ASX:OPH)</b>	\$3.20

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>19.8%</b>	<b>16.5%</b>	<b>13.4%</b>	<b>3.0%</b>	<b>-12.8%</b>	<b>6.6%</b>
<b>Benchmark</b>	11.9%	11.3%	12.5%	13.8%	-3.4%	6.2%
<b>Value Add (Gross)</b>	7.9%	5.2%	0.9%	-10.9%	-9.4%	0.4%
<b>Fund Return (Net)</b>	15.7%	13.5%	10.2%	1.2%	-13.1%	6.5%
<b>ASX:OPH Unit Price Return</b>	n/a	n/a	n/a	-4.4%	-14.2%	7.7%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 March 2022, 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) (as at 31 March 2022)

Company	Industry	ASX Code
<b>ALS</b>	Industrial Services	ALQ
<b>Corporate Travel Management</b>	Consumer Discretionary Services	CTD
<b>IDP Education</b>	Consumer Discretionary Services	IEL
<b>Seek Limited</b>	Communications	SEK
<b>Uniti Group</b>	Communications	UWL
<b>Average Portfolio Market Cap</b>		<b>\$6.9bn</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>	\$628.8m
<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 March 2022)

Sector	31 March 2022
Materials	8.9%
Financials	9.1%
Health Care	8.0%
Communication Services	15.1%
Consumer Staples	5.2%
Information Technology	15.6%
Industrials	12.4%
Consumer Discretionary	15.8%
Utilities	0.0%
Real Estate	0.0%
Energy	0.0%
[Cash]	10.0%
	<b>100%</b>

## MARKET COMMENTARY

After a meaningful pullback in markets across the world in February, March fared much better with the Nikkei (+5.7%), S&P 500 (+3.7%), Nasdaq (+3.5%), MSCI Europe Index (+1.0%) and Russell 2000 (+1.2%) closing the month in the green. The Australian market provided relatively stronger returns for the second month in a row with the ASX 200 and ASX Small Ords returning +7.0% and +5.5% respectively.

During March, the Federal Reserve raised interest rates by 25 basis points, signalling the start of an aggressive rate hiking cycle. More interest rate hikes are expected to occur throughout the rest of 2022 in the US and this continued to be a drag on performance for Growth stocks vs. Value stocks in the small cap part of the market. The Russia/Ukraine conflict continued and with the endgame still unclear, share market participants are closely watching inflation numbers as supply chains continue to be disrupted and commodity prices move broadly higher. The Energy sector was the standout performer globally during the month as share prices rose alongside key energy prices such as oil and gas.

During the month we witnessed shorter term US government interest rates (2 years) move temporarily higher than longer term interest rates (10 years) in the US. This phenomenon, known as an “inversion” of the yield curve, can be a very early predictor of an impending US recession. We think investors should be alerted (not alarmed) by this as share markets have typically produced good returns for 12-18 months after an inversion. Yield curve inversions generally occur when the economy is doing well and this is the cause of the latest inversion.

Domestically, Value stocks continued to outperform Growth stocks on the back of interest rate hike expectations as noted above. Over the month, the MSCI Australia Value index returned +8.8% while the MSCI Australia Growth index returned +5.8%.

Looking at the ASX Small Ords Index, the Energy (+12.3%), Materials (+11.4%) and Communication Services (+9.5%) sectors were the best performers while the Financials (+0.7%), Consumer Discretionary (+1.4%) and Consumer Staples (+1.6%) sectors were the relative underperformers.

## PORTFOLIO COMMENTARY

During March, the Ophir High Conviction Fund’s investment portfolio returned +6.5% (net of fees) versus the index which returned +6.2%. Since its inception in August 2015, the Fund has returned +15.7% p.a. (net of fees) while the index has returned +11.9% p.a.

The Ophir High Conviction Fund’s ASX listing provided a total return of +7.7% for the month.

The continued rotation from Growth to Value and relative outperformance of the Energy and Materials sectors were once again a headwind to performance for the Fund. Given the drag on the Fund’s performance from these factors we are pleased with the outcome in March. The underlying operating fundamentals of portfolio companies in the Fund remained strong during the month as we received feedback from management teams.

Cost input pressures continue to remain a key theme in conversations with companies. We continue to review our existing holdings and identify new companies that are able to maintain revenue growth whilst also maintaining margins. We believe any business that can do this will be scarce and will ultimately be rewarded by the market.

In terms of our portfolio positioning, cash levels increased during March and are now in line with our long-term average levels (i.e. 10%). The number of holdings increased from 26 to 29 over the month however no notable changes were made to the Fund’s core positions. We remain underweight in interest rate sensitive and bond proxy sectors (Real Estate, Utilities, Infrastructure).

The biggest contributor to performance in March was Uniti Wireless (ASX:UWL), which was on the other side of the fence last month as one of the Fund’s biggest detractors. UWL is a telecommunication products and services provider and is a competitor to the National Broadband Network. The company received multiple takeover bids during the month which resulted in its share price surging by +43.8%, more than making up for its -21.3% fall in February.

One of the biggest detractors to performance in March was City Chic (ASX:CCX). CCX is a plus size women’s clothing company with sales occurring predominately online in Australia, the US, the UK and Germany. The stock price fell during March primarily due to concerns around higher inventory levels and whether these could be sold. We think the business is still growing at a strong rate and find it attractive given its current valuation. We remain confident the deliberate investment in higher inventory levels by management is the right move and will help protect them from any supply chain issues. Given the “staples” nature of their clothing we think the high levels of inventory will be able to be sold as it holds enduring appeal for their customer base. The company’s share price fell -13.0% in March.

## **OUTLOOK**

We can expect the US Federal Reserve to be slightly more aggressive with future interest rate hikes and we're closely watching how it manages inflation given it is arguably already behind in terms of normalizing monetary policy.

We continue not to pick the macro or time its impact on markets and are maintaining our focus on stocks whose operational performance continue to excel that are cheaper than ever. We have a high level of concentration in our highest conviction positions.

Whilst growth orientated businesses have seen their valuations compress over the last few months which has been painful for shorter term performance, we believe as the year progresses the market will return to focusing more on the strong underlying fundamentals of the companies we own.

## 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 \$3.0bn in capital on behalf of institutional superannuation funds, family offices, private wealth groups and individual investors. The investment team comprises 11 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

**Automic Group** (Registry)  
T: 02 8072 1478  
E: ophir@automicgroup.com.au

### INVESTOR & ADVISER INFORMATION

**George Chirakis** (Chief Executive)  
T: 02 8006 5476  
E: 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 Pty Ltd ABN 88 156 146 717 AFSL 420 082 (Ophir), the investment manager of the Fund and is authorised for release by The Trust Company (RE Services) Limited 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 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 document constitute judgements of Ophir as at the date of the document 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