

# Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

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## INVESTMENT UPDATE AND NAV REPORT – APRIL 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 30 April 22)	Net Return Since Inception (to 30 April 22)	Fund Size (at 30 April 22)
<b>ASX:OPH</b>	<b>14.9%</b>	<b>155.6%</b>	<b>\$608.0m</b>

### APRIL 2022 PORTFOLIO SNAPSHOT

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

As at 30 April 2022	Amount
<b>NAV</b>	\$2.85
<b>Unit Price (ASX:OPH)</b>	\$2.89

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>19.0%</b>	<b>15.6%</b>	<b>9.8%</b>	<b>-6.7%</b>	<b>-4.0%</b>	<b>-3.2%</b>
<b>Benchmark</b>	11.5%	10.8%	10.6%	6.7%	4.4%	-1.5%
<b>Value Add (Gross)</b>	7.5%	4.8%	-0.9%	-13.3%	-8.4%	-1.7%
<b>Fund Return (Net)</b>	14.9%	12.5%	6.8%	-8.3%	-4.3%	-3.3%
<b>ASX:OPH Unit Price Return</b>	n/a	n/a	n/a	-10.3%	-5.9%	-9.7%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 30 April 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>\$6.1bn</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>	\$608.0m
<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 30 April 2022)

Sector	30 April 2022
Materials	9.5%
Financials	11.7%
Health Care	7.0%
Communication Services	10.4%
Consumer Staples	6.5%
Information Technology	12.5%
Industrials	14.7%
Consumer Discretionary	11.7%
Utilities	0.0%
Real Estate	0.0%
Energy	2.3%
[Cash]	14.0%
	<b>100%</b>

## MARKET COMMENTARY

Most stock markets around the world concluded the month in the red in April. This was most pronounced in the US, with the S&P 500, Nasdaq and Russell 2000 falling by -8.7%, -13.2% and -9.9% respectively. The Nikkei was down a more modest -3.5% whilst the Australian stock market relatively outperformed the aforementioned markets considerably yet again, with the ASX 200 and ASX Small Ords returning -0.9% and -1.5% respectively. The MSCI Europe index only fell by -0.5% despite the ongoing conflict in the region and its flow on impacts. Worries about a China slowdown off the back of further lockdowns, slowing economic growth globally and higher interest rates in key economies appeared to weigh on investor sentiment.

Towards the end of April, the Federal Reserve commented that economic activity had expanded at a moderate pace since mid-February. Consumer spending, specifically in retail and non-financial service firms, accelerated and whilst manufacturing activity was strong overall, ongoing issues such as supply chain backlogs, labour market tightness and elevated input costs continued to be an impediment. These factors are holding up inflation although there were some reports of early signs that the pace of wage growth had begun to slow. The Federal Reserve also mentioned that its outlook on future economic growth was uncertain due to rising cost prices and the ongoing conflict in Ukraine/Russia.

To combat these inflationary pressures, the Federal Reserve began its rate hiking cycle in March and consequently Value stocks outperformed Growth stocks yet again. The MSCI World Value Index returned -4.9% in April whilst the MSCI World Growth Index returned -11.9%, underperforming materially by 7%. Surprisingly, the Australian market bucked this trend with the MSCI Australia Value and MSCI Australia Growth indices returning -1.5% and +0.7% respectively.

The timing for rates lift off by the RBA is predicted by the market to have also been brought forward as inflation has been stronger than expected. Ultimately the RBA delivered with a relatively hawkish 0.25% rate increase in early May and the start of quantitative tightening.

Looking at the ASX Small Ords Index, the Energy (+9.1%), Consumer Staples (+7.5%) and Real Estate (+0.4%) sectors were the best performers while the Information Technology (-12.5%), Financials (-4.2%) and Industrials (-2.4%) sectors led the laggards.

## PORTFOLIO COMMENTARY

During April, the Ophir High Conviction Fund's investment portfolio returned -3.3% (net of fees) versus the index which returned -1.5%. Since its inception in August 2015, the Fund has returned +14.9% p.a. (net of fees) while the index has returned +11.5% p.a.

The Ophir High Conviction Fund's ASX listing provided a total return of -9.7% for the month.

In light of the recent short-term underperformance of the Fund, we'd like to reiterate that we are not changing our investment process in terms of how we pick stocks or the market segments we typically invest in. Our ratio of picking companies that are upgrading earnings versus companies that are downgrading their earnings remains strong and over the long term, we believe stock prices follow earnings growth.

All investment styles go through cycles and our style has faced strong headwinds in the current environment. Recently we have made some modest changes to positioning as forwarding-looking indicators of global growth suggest a slowing environment ahead. We have decreased our consumer discretionary exposure, increased our exposure to defensive growers at a reasonable price and have favoured companies further up the market cap spectrum. Although we continue to believe in the quality and leadership positions of the underlying businesses, we are conscious that the flow of funds away from these types of companies can persist for extended periods of time.

In terms of our portfolio positioning, cash levels increased during April and the number of holdings increased from 29 to 32 over the month. We remain underweight in interest rate sensitive and bond proxy sectors (Real Estate, Utilities, Infrastructure).

One of the largest contributors to performance for the month was Elders (ASX:ELD). ELD is a provider of livestock, real estate, and wool services to rural and regional customers in Australia. The agricultural business has continued benefiting from good growing conditions and from investors looking for exposure to counter cyclical businesses to the broader economy.

One of the largest detractors to performance was Life360 (ASX:360). 360 is a technology company in the business of tracking the mobility of family members. 360 delivered a strong update in Q1 but due to a misclassification of its cashflow and because it's

considered a non-profitable tech company, the stock price underwent a material sell off despite it providing a solid operational update. We think the business has sufficient cash to breakeven on an EBITDA basis and will ultimately be profitable in the near term. Any perceived misses by the market however continue to be treated very harshly.

## **OUTLOOK**

To echo the remarks by the Federal Reserve, the outlook on future economic growth is uncertain due to rising cost prices, recent lockdown in China and the ongoing conflict in Ukraine/Russia. We still expect the Federal Reserve to be 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.

After a very severe correction in valuations for small cap growth orientated businesses, we believe the direction of valuations from here will be determined by economic growth and hence how current uncertainties are resolved. A slowing overall economic and corporate earnings environment suggests investors may ultimately get back to caring about company fundamentals more and finding growth given it will likely become scarcer. Our experience tells us that vicious sell offs create the best opportunities and ultimately leads to significant future returns, as long as you can handle the volatility and display patience.

## 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 \$2.0bn in capital on behalf of institutional superannuation funds, family offices, private wealth groups and individual investors. The investment team comprises 12 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 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.



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