Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

INVESTMENT UPDATE AND NAV REPORT – JAN 2019

The Ophir High Conviction Fund seeks to provide investors with a concentrated exposure to a high quality portfolio of listed companies listed 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 Jan 19)	Net Return Since Inception (to 31 Jan 19)	Fund Size (at 31 Jan 19)
ASX:OPH	**19.3%**	**85.3%**	**$462.0m**

JANUARY 2019 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 January 2019	Amount
NAV	$2.31
Unit Price (ASX:OPH)	$2.31

To access daily NAV prices for the Ophir High Conviction Fund (ASX:OPH), historical ASX announcements and performance history, please visit www.ophiram.com

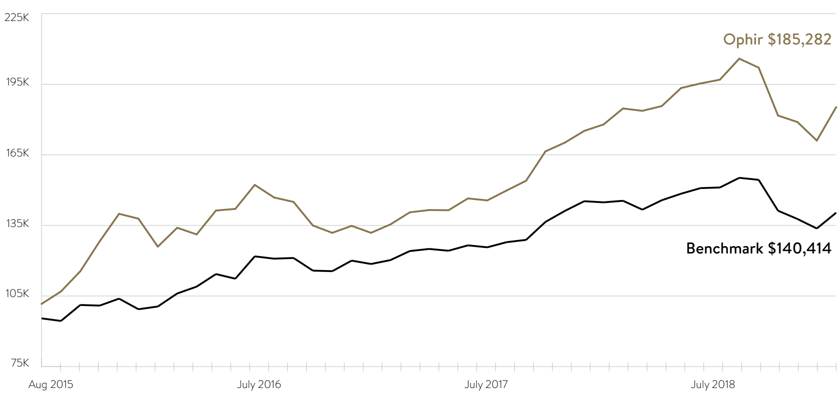

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future performance.

INVESTMENT PERFORMANCE

	1 Month	FYTD	1 Year	2 Years p.a.	3 Years p.a.	Since inception p.a.
Ophir High Conviction Fund	**8.90%**	**-4.00%**	**7.20%**	**21.20%**	**12.40%**	**24.20%**
Benchmark	5.00%	-6.90%	-3.00%	7.50%	12.20%	10.20%
Value Add (Gross)	3.90%	2.90%	10.20%	13.70%	0.20%	14.10%
Fund Return (Net)	8.30%	-5.10%	4.10%	18.50%	10.30%	19.30%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 Jan 2019, 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 (ALPHAETICAL)

Company	Industry	ASX Code
The A2 Milk Company	Consumer Staples	A2M
Afterpay Touch Group	Financials	APT
Cleanaway Waste Management	Industrials	CWY
NextDC	Information Technology	NXT
Reliance Worldwide	Industrials	RWC
Average Portfolio Market Cap		**$3.99bn**

KEY INFORMATION

Responsible Entity	The Trust Company (RE Services) Limited
Manager	Ophir Asset Management
Portfolio Managers	Andrew Mitchell & Steven Ng
Fund Inception	4 August 2015
Fund Size	$462.0m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 Jan 2019)

Sector	31 Jan 19
Materials	11.8%
Financials	0%
Health Care	1.6%
Communication Services	3.2%
Consumer Staples	10.8%
Information Technology	15.5%
Industrials	19.0%
Consumer Discretionary	26.5%
Utilities	0%
Real Estate	0%
Energy	0%
[Cash]	11.6%
	100%

MARKET COMMENTARY

Despite registering their worst December monthly performance since the Global Financial Crisis, global equity markets roared back to life in January, the MSCI World Index surging +7.8% for the month to register its strongest monthly move since October 2011 and the best start to a calendar year since 1987.

Unsurprisingly, it was the global equity market indices and industry sectors that had suffered the most amount of pain through the 4Q18 sell down that led the outperformance. US small cap stocks and global tech names were the most notable advancers, the US small cap Russell 2000 index climbing +11.2% for the month, while the NASDAQ added +9.7%.

Australian equities enjoyed similarly buoyant conditions, albeit not to the extent of their offshore counterparts. In a similar vein to the US experience, small and mid-cap stocks lead the Australian advance, with the S&P/ASX Small Ordinaries Index delivering a +5.6% gain in January, outperforming the larger cap S&P/ASX 100 by +1.9%.

A decidedly more doveish tone from the US Federal Reserve provided the ultimate catalyst for the resurgence in animal spirits, as equity markets took comfort in commentary from US Fed Governor Jay Powell that further tightening in monetary policy would now be unlikely in the short term. Additional suggestions that further balance sheet reduction (or 'quantitative tightening') would also be adjusted to suit prevailing market conditions provided a soothing elixir for equity markets that had grown increasingly sensitive to the ramifications of an overly aggressive Fed at a time of slowing economic growth.

In any instance, the performance of global risk assets through January should remind investors that market sentiment has a tendency to turn excessively quickly during later-cycle economic environments. Attempting to time market entry and exit points can be fraught with difficulty and, unfortunately, often tends to deliver sub-optimal investment returns. According to TrimTabs Investment Research, retail investors withdrew a record US$43.9bn in capital from US equity mutual funds in December 2018, the largest cumulative monthly outflow since the height of the global financial crisis in 2008. With the MSCI US All Cap Index subsequently rising +8.65% in January, the outflow effectively represents ~US$3.8bn in value left on the table by US retail investors this month alone.

While the about-face from the US Fed will undoubtedly provide much-needed clear air for equity markets in the short term, economic releases this month have continued to indicate an ongoing slowdown in global aggregate demand and overall business confidence. The JP Morgan-IHS Markit Global Purchasing Manager Index (a measure of business activity levels across 18,000 firms in 40 countries) recorded its slowest pace of output in 28 months this month, while China's reported GDP for the final quarter of 2018 declined to an annualised growth rate of 6.4% year-on-year, a new 28-year low.

China's recent deceleration will certainly remain a focus for global and Australian investors over coming months, given the enormous influence the country exerts over global growth and trade figures. A continued softening in Chinese consumer-related data will be of particular concern to Australian businesses selling higher-end goods into the Asia-Pacific region. New car sales in China fell -5.8% in 2018, its first annual decline in 20 years, while casino revenues in Macau this month registered their first monthly contraction in two years.

For now, however, global equity markets will embrace the 'bad news is good news' rhetoric for China, on the assumption that further economic weakness will likely compel the Chinese government to launch further stimulative measures. The desire for President Xi to ensure this year's celebrations of the 70th anniversary of the People's Republic of China this year are conducted amongst sound economic conditions shouldn't be underestimated - recent cuts to bank reserve requirement ratios to promote lending and promises of further tax cuts and government spending measures will likely support global growth expectations and, with it, the pricing of risk assets..

On Australian shores, the economic picture continues to face some challenges, with consumer and housing-related sectors again registering further signs of a slowdown in activity. December retail trading data released in January pointed to a softer Christmas trading period, with overall retail sales declining -1.4% (excluding food and hospitality). In a similar vein to anecdotes delivered by listed US retailers during the recent quarterly earnings period, the impact of November's Black Friday and Cyber Monday sales events appear to have drained consumer's wallets into December and left less spending capacity for the more traditional Christmas and Boxing Day sales periods.

While the November 'pull forward' in sales will have contributed to the softer December retail numbers, there is little doubt that conditions in Australian retail remain exceptionally tough. Data tracking shopping mall foot traffic fell a further -4% in the first week of January after registering its worst December on record, while new car registrations fell -7.4% versus the same period last year. Earnings downgrades from listed Australian retailers PAS Group (PGR) and Kathmandu Holdings (KMD) both cited weaker trading conditions, while the reported demise of a variety of retail fashion chains have continued in earnest in recent months (Laura Ashley, Roger David and Crabtree & Evelyn some of the more recent announced closures).

While retail conditions are undoubtedly tough, equity market investors should remain cognisant that expectations for the sector are low, with a large majority of the sector already trading at bottom of the cycle valuations. This likely sets up the space for a 'what can go right?' scenario, where even the slightest indications of improving or stabilising conditions can be met with aggressive share price re-ratings. Furniture wholesaler Nick Scali (NCK), for example, recently reported a first half result broadly in line with market expectations, while conceding that providing any forward guidance was difficult given continued unpredictable trading conditions. The stock, however, had materially de-rated coming into the result (contracting from ~15x forward earnings to a historical low of ~9x) in expectation of a further deterioration in outlook. The share price subsequently rose +8.3% on the day.

Some relief for both the housing and retail sectors appears forthcoming from the RBA, however, with Reserve Bank governor Philip Lowe beginning the 2019 year with comments confirming a shift in stance within the bank towards a more neutral position on interest rate direction. The recognition of a 'loss of momentum' in the business sector and continued weakness in East Coast home prices has quickly led to heightened expectations for more accommodative policy settings next year, with interest rate futures markets now fully pricing in a 0.25% cut in the RBA cash rate to a new record low of 1.25% before February 2020.

All eyes, however, will now move to the pending ASX reporting season, with a raft of new data points and company updates shortly due to be revealed. While conditions have certainly been soft in some sectors of the economy, the quantum of material negative updates from the listed company space has been fairly limited in recent months and valuations continue to look attractive versus 12 months prior. Whilst a busy period, this is an exciting time for the investment team and we are certainly looking forward to the opportunity to meet with the management teams of our portfolio companies and gain an update on trading conditions, earnings and outlook.

PORTFOLIO COMMENTARY

The Net Asset Value (NAV) of the Ophir High Conviction Fund increased by +8.3% over the month of January (net of fees and before tax), outperforming its benchmark by 3.3%. Since inception in August 2015, the Fund has returned +19.3% per annum (net of fees and before tax), outperforming its benchmark by 9.1% per annum.

For January, the top contributors to fund performance were modern day layby provider Afterpay Touch Group (APT), dairy and infant milk formula marketer The A2 Milk Company (A2M) and data centre operator NextDC (NXT).

Key detractors to portfolio performance versus index this month were retailing conglomerate Premier Investments (PMV), iron ore and lithium miner Mineral Resources (MIN) and packaging manufacturer Orora Group (ORA).

While the strong gains delivered across the Ophir High Conviction Fund this month have certainly been pleasing, it is worthwhile noting that a large degree of performance this month has simply been a reward for doing nothing. Retaining conviction in a portfolio investment at a time when the underlying share price is declining is certainly one of the more uncomfortable aspects of investing – so too is attempting to separate share price performance from the underlying operational performance of a particular company investment over the short term.

Indeed, the equity market volatility of recent months has served as another clear example that share prices over the short term don't often reflect actual operating business conditions, but rather tend to simply reflect short term investor sentiment. This can offer up wonderful opportunities for more patient investors willing to exercise a slightly longer term view, assuming one has the ability to withstand the inevitable periods of volatility that equity market investing ultimately demands.

The portfolio has materially benefited this month from simply retaining confidence in a number of underlying holdings that had come under pressure during the recent sell-off in risk assets (and have subsequently re-rated) and, in some cases, holding enough conviction in those businesses to deploy additional capital into those investments at increasingly attractive prices.

Additionally, while the overall economic growth outlook both domestically and offshore continues to look challenging, we are continuing to find businesses with an ability to thrive in the current environment (alongside those with an ability to capitalise on the opportunities that a period of prolonged contraction in economic activity may present). Through periods of tighter economic conditions, we naturally gravitate towards companies with a higher quality of business franchise (i.e. companies not heavily reliant on the underlying economic cycle to generate earnings), those that are well-capitalised or self-funding (and don't require immediate access to capital markets to grow) and, generally, are slightly further up the market cap curve.

While size of business doesn't automatically equate to a more sustainable or defensive business, market capitalisation can often reflect business maturity and a company's ability to continue to operate during periods of economic downturn. While the portfolio has the ability to invest in businesses down to $500m market cap, the current average market capitalisation of companies held within the portfolio was $3.99bn at the end of January.

STOCK NEWS

AFTERPAY TOUCH GROUP (APT)

Modern day layby provider Afterpay Touch Group (APT) provided a pleasing update this month, detailing over $2.2 billion in transactions completed over the platform through the first half of the 2019 financial year (a ~140% gain on the same period twelve months prior). After listing on the ASX in March 2016 with just 100 retail merchants offering the 'Buy Now, Pay Later' service, the platform is now offered by over 23,000 merchants globally with over 3.1 million active customers – an incredible growth trajectory in just three years. The company's launch into the US (an opportunity approximately 20x the size of the current Australian market) continues to gather incredible momentum and will remain the key driver for revenue growth near term. Despite only launching in May 2018, the US business is already processing transactions at an annualised run rate of over $500 million, with over 1,400 retailers now offering the service nation-wide (and a further 2,200 having signed agreements to launch). For some comparison, the initial eight months of launch in the Australian business generated just $560,000 in sales and ultimately took a further 20 months after that to reach the same levels of sales as currently being generated in the US.

We recently outlined to investors our thesis for our investment in Afterpay in our November Letter to Investors (this can be accessed at http://www.ophiram.com/insights-and-media). Afterpay finished January +28.3%.

NAVITAS (NVT)

After receiving an initial takeover offer for the business at $5.50/share in October 2018, global education provider Navitas Limited (NVT) climbed to a new two-year high this month following the receipt of an improved $5.825/share offer from the same private equity consortium (comprising BGH Capital, industry fund AustralianSuper and former Navitas chief executive Rod Jones). We had been drawn to the businesses ability to participate in a structurally growing industry leveraged to growing middle-class Asian incomes and added the company to the portfolio in August 2018 following an encouraging FY18 results release. The attractive combination of a reducing level of capital intensity in the business at a time when revenue opportunities were increasing was appealing to us – unfortunately it only took two months for a corporate bidder to come to the same conclusion.

While we feel the business still retains the ability to grow materially from here (highlighted by the recent confirmation of its full-year guidance in early February), it's likely the company will now exit the ASX company boards at the improved bid price following completion of BGH's due diligence. Navitas finished the month +11.3%.

COMPANY NEWS

OPHIR NEWSLETTER AND UPDATES

To receive monthly fund performance updates, market commentary and insights from the investment management team, investors are invited to add their details to the Ophir newsletter distribution list. Subscribers to the newsletter receive monthly fund performances, additional media content (including interviews, video and written updates from the Ophir team) and updates on events and opportunities to meet with the Ophir team.

Investors and interested parties can add their details at http://www.ophiram.com/newsletter

FINAL APPROVAL FOR CGT ROLLOVER RELIEF RECIEVED

We're pleased to announce this month that final approvals for unit-for-unit tax rollover relief for unitholders in the Ophir High Conviction Fund was received this month from the Australian Tax Office. The approval ensures Australian tax resident unitholders that held units in the Ophir High Conviction Fund prior to the conversion and ASX-listing will be granted capital gains tax (CGT) rollover relief should they elect for it to apply.

A full copy of the Class Ruling (CR2019/09) is available on the ATO website (www.ato.gov.au).

PODCAST WITH ANDREW MITCHELL

Senior Portfolio Manager Andrew Mitchell was invited to join Michael Puhle this month on the 'Words with Oz' podcast to discuss a variety of topics, including the Ophir investment process, the analysis of executive management teams and the attitudes, practices and beliefs that have delivered success in the Australian corporate sector. Investors can access the podcast at http://www.wordswithoz.com/podcast/2019/1/20/andrew-mitchell-words-with-oz-podcast-episode-72.

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 $1.0bn in capital across two investment strategies on behalf of institutional superannuation funds, family offices, private wealth groups and individual investors. The investment team comprises 5 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 Paradice Investment Management. Under their stewardship, the fund managed by Andrew at Steven at Paradice 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 (having returned 23.6% p.a. since inception after fees) and the Ophir High Conviction Fund (returning 17.0% p.a. since inception after fees).

KEY INVESTOR CONTACTS

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