

Ophir High Conviction Fund

ASX: OPH

www.ophiram.com



INVESTMENT UPDATE AND NAV REPORT – MAY 2019

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.

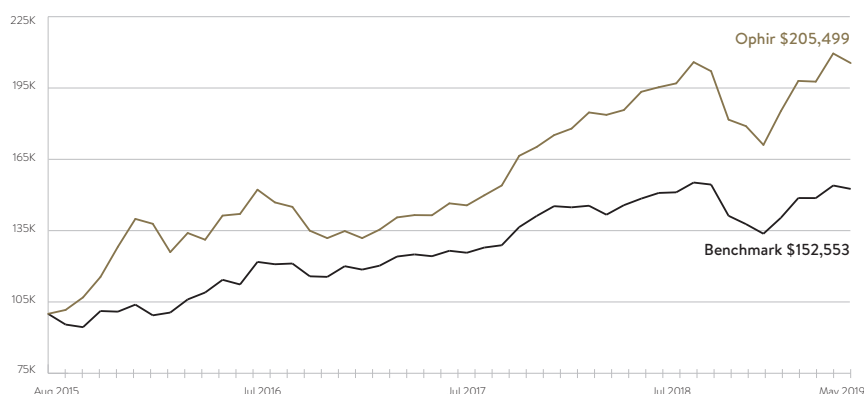
ASX Code	Net Per Annum Return Since Inception (to 31 May 19)	Net Return Since Inception (to 31 May 19)	Fund Size (at 31 May 19)
ASX:OPH	20.7%	105.5%	\$516.3m

MAY 2019 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 May 2019	Amount
NAV	\$2.56
Unit Price (ASX:OPH)	\$2.51

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	-2.1%	7.4%	8.4%	23.5%	15.7%	25.6%
Benchmark	-0.9%	1.1%	2.7%	10.8%	10.1%	11.7%
Value Add (Gross)	-1.1%	6.2%	5.6%	12.7%	5.6%	13.9%
Fund Return (Net)	-1.9%	5.2%	6.2%	20.5%	13.3%	20.7%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 May 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 (ALPHABETICAL)

Company	Industry	ASX Code
The A2 Milk Company	Consumer Staples	A2M
Afterpay Touch Group	Information Technology	APT
Cleanaway Waste Management	Industrials	CWY
NextDC	Information Technology	NXT
ResMed	Healthcare	RMD
Average Portfolio Market Cap		\$5.0bn

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	\$516.3m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 May 2019)

Sector	31 May 19
Materials	12.45%
Financials	1.94%
Health Care	6.05%
Communication Services	2.24%
Consumer Staples	10.96%
Information Technology	18.05%
Industrials	14.42%
Consumer Discretionary	16.69%
Utilities	4.19%
Real Estate	0%
Energy	0%
[Cash]	13.01%
	100%

MARKET COMMENTARY

The resurgence in animal spirits that have seen global equity markets post a remarkable rally during the first four months of 2019 were dampened during May by escalating trade tensions between the US and China. In a continuation of the 'tit for tat' approach by both countries to the trade talks, the US increased tariffs on USD 200 billion worth of Chinese goods from 10% to 25% with China retaliating by announcing tariffs on USD 60 billion worth of US goods. This led to deep declines throughout the course of May in the majority of global equity markets with the MSCI World Index declining -6.2%, the S&P 500 declining -6.6% and the deepest pain felt in China where the MSCI China fell -13.6%.

With President Trump's fixation on tariffs to achieve his trade goals and President Xi's determination not to bow to US pressure, a protracted battle could be on the cards. On its face the US economy is in good shape with unemployment at a 50-year low, soaring consumer confidence and wages starting to tick up. However the uncertainty caused by the trade war is having an affect with bond markets now estimating three rate cuts by the end of 2020. Only 6 months ago bond markets were predicting three rate rises.

Local markets significantly outperformed their global equity counterparts during May with the larger cap S&P/ASX 100 leading the charge by posting a positive return of +1.1% and the smaller cap S&P/ASX Small Ordinaries Index registering a modest decline of -1.3%.

Australian equity markets were able to buck the global trend due to a trifecta of domestic measures. These measures are designed to stimulate domestic demand by increasing household disposable income, improving credit availability and reducing interest costs. Firstly, the Coalition's surprise election victory which is likely to deliver income tax cuts, subject to Senate crossbench support. Secondly, the banking regulator APRA's easing of interest-servicing buffers. Thirdly, the Governor of the RBA indicated that interest rates would need to fall to lift inflation towards target. Communication services (+7.3%), bank (+3.1%) and retail (2.6%) sectors were all beneficiaries of these measures during May.

PORTFOLIO COMMENTARY

During May the Net Asset Value of the Ophir High Conviction Fund returned -1.92% (net of fees and before tax) underperforming its benchmark by -1.14%. Since inception in August 2015 the Fund has returned +20.7% per annum (net of fees and before tax).

For May, the top contributors to fund performance were gold producer and explorer Evolution Mining (EVN), gold producer and explorer Northern Star Resources (NST) and sleep-related breathing disorder medical equipment company ResMed (RMD). Key detractors included plumbing parts manufacturer and distributor Reliance Worldwide (RWC), A1 protein-free dairy product provider A2 Milk (A2M) and 'buy now pay later' technology company Afterpay Touch (APT).

Whilst predicting how the trade war plays out is anyone's guess, we have been holding slightly higher levels of cash in the portfolio so that we can take advantages of the more pronounced gyrations in valuations caused by heightened levels of uncertainty.

The recent domestic stimulus measures will provide some short term relief to cyclical companies that are heavily reliant on the strength of the Australian consumer. However, it is unlikely that it will act as a cure in the longer term to the structural headwinds impacting both the Australian and global economy. For this reason, we continue to recycle out of companies that are more exposed to the Australian consumer and add companies that are more defensive in nature whilst still having the ability to meaningfully grow.

We are also cognisant that while the current bull market is the longest on record, its trajectory has been much flatter than previous rallies and the backdrop for equities remains favourable. As a result, we still retain exposure to some higher beta stocks in the portfolio that can participate in the upside.

Ensuring that the portfolio has exposure to the right balance of defensive and growth companies is something we are currently focusing on heavily. An example of a more defensive company we have recently added to the portfolio is sleep-related breathing disorder medical equipment company ResMed (ASX:RMD). We have been closely monitoring RMD for the last few years and had previously missed an opportunity to buy in at what was in hindsight a favourable price.

RMD is a serial compounder having grown normalised EPS from 3.9cps in 1995 to \$3.35 in June 2018, a compound growth rate in excess of 20%. Despite this impressive historic growth, we still remain excited about RMD's future growth prospects as it still operates in an undiagnosed industry whereby over 80% of potential patients still don't know that they have sleep apnoea.

In addition, the industry is evolving at a faster rate with an increasing focus on data and IT. "Connected care" and the communication and analysis of patient data is now imperative to ensure compliance and ultimately reimbursement by insurers. It's increasingly becoming an industry where only the larger players can sufficiently invest in the R&D to fund these developments that are being demanded by customers.

In a related area, RMD has started to invest in the Chronic Obstructive Pulmonary Disease market, which is the third leading cause of death worldwide. The company has invested capital in new offerings as well buying businesses. It's currently too early to see the payback but we believe the end prize is significant and will continue to monitor the company's progress and development.

Finally, we also like RMD's market position where it is one of only 3 major participants operating in its industry. Moreover, the industry itself is defensive in nature which helps balance cyclicity of the portfolio.

As mentioned previously, we do continue to hold some higher growth companies within the portfolio including Afterpay (ASX:APT). Whilst valuations for many of these higher beta stocks can appear stretched, in our view when a company's operating metrics are accelerating like APT's and they are dominating their industry vertical, then the equity market at some point is willing to shift from a valuation based on this year's earnings to discounting its future potential earnings in a couple of years.

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 Paradise Investment Management. Under their stewardship, the fund managed by Andrew at 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 (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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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 ABN 88 156 146 717 AFSL 420 082 (Ophir), the investment manager of 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 Perpetual 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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