

# Ophir High Conviction Fund

ASX: OPH

[www.ophiram.com](http://www.ophiram.com)



## INVESTMENT UPDATE AND NAV REPORT – FEBRUARY 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.

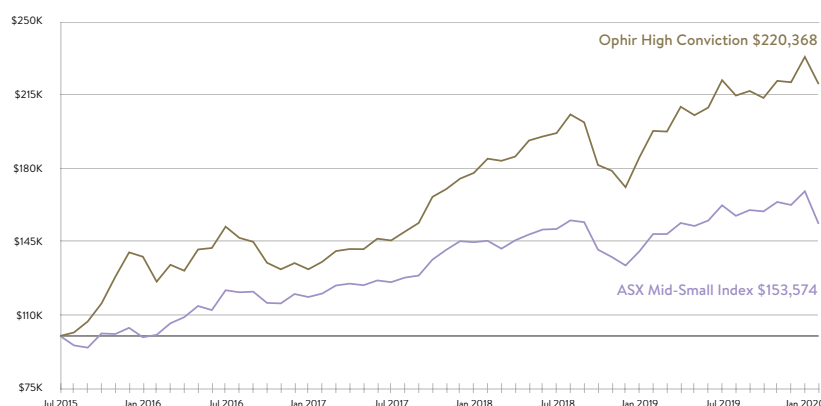
| ASX Code       | Net Per Annum Return<br>Since Inception (to 29 Feb 20) | Net Return<br>Since Inception (to 29 Feb 20) | Fund Size<br>(at 29 Feb 20) |
|----------------|--------------------------------------------------------|----------------------------------------------|-----------------------------|
| <b>ASX:OPH</b> | <b>18.9%</b>                                           | <b>120.4%</b>                                | <b>\$557.7</b>              |

### FEBRUARY 2020 PORTFOLIO SNAPSHOT

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

| As at 29 Feb 2020           | Amount        |
|-----------------------------|---------------|
| <b>NAV</b>                  | <b>\$2.74</b> |
| <b>Unit Price (ASX:OPH)</b> | <b>\$2.40</b> |

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.

### INVESTMENT PERFORMANCE

|                                   | Since Inception (p.a) | 3 Years p.a. | 1 Year       | 3 Month     | 1 Month      |
|-----------------------------------|-----------------------|--------------|--------------|-------------|--------------|
| <b>Ophir High Conviction Fund</b> | <b>23.6%</b>          | <b>20.8%</b> | <b>15.1%</b> | <b>1.4%</b> | <b>-4.3%</b> |
| <b>Benchmark</b>                  | 9.8%                  | 8.5%         | 3.3%         | -6.4%       | -9.2%        |
| <b>Value Add (Gross)</b>          | 13.8%                 | 12.3%        | 11.8%        | 7.7%        | 4.9%         |
| <b>Fund Return (Net)</b>          | 18.9%                 | 17.6%        | 11.3%        | -0.7%       | -5.6%        |
| <b>ASX:OPH Unit Price Return</b>  | n/a                   | n/a          | -6.3%        | -4.0%       | -11.8%       |

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 29 Feb 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                             | Industry               | ASX Code       |
|-------------------------------------|------------------------|----------------|
| <b>The A2 Milk Company</b>          | Consumer Staples       | A2M            |
| <b>Afterpay Touch Group</b>         | Information Technology | APT            |
| <b>AUB Group Limited</b>            | Insurance              | AUB            |
| <b>Resmed</b>                       | Health Care            | RMD            |
| <b>Xero</b>                         | Information Technology | XRO            |
| <b>Average Portfolio Market Cap</b> |                        | <b>\$7.0bn</b> |

#### KEY INFORMATION

|                           |                                         |
|---------------------------|-----------------------------------------|
| <b>Responsible Entity</b> | The Trust Company (RE Services) Limited |
| <b>Manager</b>            | Ophir Asset Management                  |
| <b>Portfolio Managers</b> | Andrew Mitchell & Steven Ng             |
| <b>Fund Inception</b>     | 4 August 2015                           |
| <b>Fund Size</b>          | \$557.7m                                |
| <b>Number of Stocks</b>   | 15-30                                   |
| <b>Cash Distributions</b> | Annually                                |

## ALLOCATION OF INVESTMENTS

### PORTFOLIO SECTOR EXPOSURES (as at 29 Feb 2020)

| Sector                 | 29 Feb 20   |
|------------------------|-------------|
| Materials              | 7.1%        |
| Financials             | 8.2%        |
| Health Care            | 8.3%        |
| Communication Services | 1.1%        |
| Consumer Staples       | 12.0%       |
| Information Technology | 19.7%       |
| Industrials            | 9.6%        |
| Consumer Discretionary | 15.1%       |
| Utilities              | 4.4%        |
| Real Estate            | 0.0%        |
| Energy                 | 3.5%        |
| [Cash]                 | 11.0%       |
|                        | <b>100%</b> |

## MARKET COMMENTARY

It was a month to remember as GFC type panic gripped markets during February as news the coronavirus was spreading faster outside of China panicked some investors. The number of infected cases of the virus globally jumped from 9,927 at the start of the month to 86,013 by its end in February, with over 4,000 deaths in early March at the time of writing. Whilst over 68% of cases and nearly 73% of deaths have been seen in China, investors are worried about:

1. Despite it appearing the growth rate of the virus has peaked in China, it's accelerating rapidly elsewhere.
2. The economic impact is beginning to spread primarily through containment measures which is impacting both demand and supply for goods and services.

As expected, central banks have begun to move to assist the global economy which has included the US Federal Reserve announcing a 0.5% out of cycle policy rate cut and the Australian RBA a 0.25% Cash Rate reduction to help support demand and ease financial conditions. We expect more global monetary easing, supplemented by fiscal support from governments over the days and weeks ahead. Whilst it remains a fluid situation, and still much is unknown about exactly how it will unfold, the global economy has weathered many severe events in the past, going on to become stronger and more prosperous over time. The virus is unlikely to permanently dent the long term productive capacity of the global economy and the ability of individuals and companies to develop better and more efficient ways of delivering current and new goods and services. That is why we see this most recent pull back in the sharemarket as an opportunity to high grade our investment portfolios, increasing exposure to high quality

companies at better prices, that we remain confident will be able to compound earnings at high rates over the long term.

For the month of February, global shares, as measured by the MSCI Developed Market Index in local currency terms, fell a very heavy -8.1%, though perhaps somewhat surprisingly the MSCI Emerging Markets Index dropped only -3.8%, with the MSCI China index of the Chinese equity market up 1.3%! Clearly some investors are looking through the immediate impact in China to the slowing growth rate of the virus there and the stimulatory policies recently enacted by the government. Investors didn't differentiate across the large developed economy sharemarkets with the US, Japan and European share markets down all very close to -8% for the month. On a sector basis globally, Energy (-14.3%), Materials (-9.8%) and Industrials (-9.5%) fell the most for the second month in a row, whilst Communication Services (-5.7%), REITS (-6.6%) and Healthcare (-6.8%) fell the least.

The local Australian sharemarket followed the lead of its global peers with the S&P/ASX200 index down -8.2% for the month. Small caps were hit a little harder down -8.7%. On a sector basis it was similar to that seen globally with Energy (-18.2%) down the most, followed by IT (-17.6%) for company specific reasons, with Materials (-11.9%) seeing the next biggest falls on virus impacts to the large domestic miners.

## PORTFOLIO COMMENTARY

During February the Ophir High Conviction Fund's investment portfolio returned -5.6% for the month after fees, outperforming its benchmark by +3.6%. Since inception, the Fund's investment portfolio has returned +18.9% per annum after fees, outperforming its benchmark by 9.0% per annum.

During February the Ophir High Conviction Fund's ASX listing provided a total return of -11.8% for the month.

In key stock news for the Fund, IDP Education (ASX:IEL) (19.6%), Cleanaway Waste Management (ASX: CWY) (11.3%), and Evolution Mining (ASX:EVN) (8.9%) were three of the strongest performers.

Whilst the coronavirus was catching the headlines, many of our investment staff, us included, were busily seeing companies during reporting season in Australia for the first half of the 2020 financial year.

Overall for corporate Australia this reporting season was relatively 'normal'. According to UBS, the beat-to-miss ratio for first half results was 0.9 (with slightly more misses than beats) which was a bit below the long

term average of 1.2, but earnings guidance was better than expected for the second half with the upgrade-to-downgrade ratio at 1.2. Market earnings per share growth for FY20 has been revised down by 0.8% to a lackluster 1.7% by analysts. The downgrades are across the board across Resources, Financials and Industrials however, the level of earnings downgrades is slightly better than the long term average.

In key stock news for our Australian equity strategies, A2 Milk, Cleanaway, Dominos Pizza and IDP Education all logged good results that were rewarded by the market.

In particular, A2 Milk (ASX:A2M) delivered a very strong result which was slightly ahead of expectations given guidance was only provided late last year. The company rose 6.3% over the month on the result. What was particularly impressive was the result included a large number of one off costs, so it was a very high quality set of accounts in our view. These costs include paying material amounts for carbon credits, discontinued UK operations (for which a small loss was realised) and likely a large amount for the ex-CEO payout.

A2 Milk is perceived by customers as a very high quality brand which has seen demand for its products be relatively inelastic, protecting it somewhat from cyclicalities in consumer spending. We are not surprised that A2 Milk is seeing increasing demand due to the coronavirus, given it has the most flexible channels to market and is therefore positioned to take share from competitors who may rely on domestic manufacturing or single sales channels. Management have confirmed this, commenting they have seen switching into foreign brands as a result of the virus.

A2 Milk is now investing in its own manufacturing capacity and some have questioned whether we would like to see the group hand cash back to shareholders instead. We continue to see A2 as a growth company that earns exceptional returns and would like to see it continue to invest in growing its business ahead of dividends. Its capital light model has served it well to date however as it grows to a significant size, it also needs to balance the benefits of diversifying the risks of a concentrated supply base with any potential small increase in capital intensity.

IDP Education (ASX: IEL) was another company we own that posted good results and was rewarded by the market (+27.9%). It posted very strong first half growth and an improved underlying earnings outlook, assuaging investors concerns somewhat about outbound education business from China affected by the coronavirus.

Cleanaway (ASX:CWY) was a top contributor for February, rising 11.3% for the month, beating low market operating earnings expectations by 4%. Its Solid Waste Services division drove the result with revenue growing 5.4% and improved earnings guidance suggesting its ability to take market share is helping to protect it from general economic and commodity price weakness.

Afterpay (ASX:APT), which has historically been a volatility stock, fell -14.0% on the month, after what we saw was a solid result coming in the last week of February. Investors had already sold down the stock somewhat coming into the result. For us, we saw Afterpay's global expansion momentum pleasingly continue with acceleration in both the US and UK markets. Consumers in these new markets are following a similar adoption curve as in Australia which provides strong guidance for the future of the business.

Customer purchasing frequency continues to grow as older cohorts of customers are using the platform more and more. This says to us that consumers are embracing this payment method and it has undoubtedly changed consumer purchasing behaviour.

The maturing and highly cash generative nature of the Australian business is allowing Afterpay to invest significantly for the future. In big growth news Afterpay is going to launch instore in the USA in the second half of 2020 and the next regional expansion will be into Canada. This makes sense to us given the rapid growth seen in the neighbouring USA where retail partners often operate in both countries and there is already some brand awareness.

Reporting season also saw a number of companies withdraw guidance over uncertainty relating to the coronavirus, and/or suggest they may be in for a tougher second half. The challenge for analysts will be to see whether any companies are using this as cover for deteriorating underlying momentum (ex-coronavirus) or not.

## 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 \$1.3bn in capital across two 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 Opportunity Fund.

## KEY INVESTOR CONTACTS

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