

19 November 2019

Ophir Asset Management - Business Update (ASX:OPH)

1. Our strategy to close the discount to NTA

As many of our investors in the Ophir High Conviction Fund (“the Fund”) would be aware, we converted the Fund from an open-ended unlisted investment trust to a closed-ended listed investment trust (LIT) in December 2018. This conversion required 75% unitholder approval and was undertaken due to the benefits we believe that this structure provides in our ability to meet our investment return objectives for the Fund over the long term. Importantly, through the conversion we didn’t raise any new capital from investors.

More recently there has been increased commentary in the financial media about the trading of Listed Investment Companies (LICs) and LITs and how discounts to Net Tangible Assets (NTA) for many are at cyclical highs. We note discounts started appearing or increasing earlier this year. Historically though, discounts have not been uncommon. Importantly, the larger the LIC or LIT, the smaller the discount has tended to be, generally due to its superior trading liquidity. Many reasons have been given for why this opening up in discounts has occurred including the pre-Federal election policy position of the ALP to scrap refundable franking credits, tax loss selling in June, and an influx of supply of LIC/LIT products through IPOs in the last couple of years.

The Fund has also been trading on a discount to NTA more recently in the 6-9% range. There are no doubt market wide factors at play here though we consider ourselves an outlier based on our size (at circa \$540mil making us the second largest Australian equity small/mid cap LIC/LIT in the market) and performance (strong absolute returns of 19.6% p.a. net of fees since inception) which alone would suggest the discount should be smaller, or should trade on a premium.

The vast majority of our fellow investors share our long-term investing philosophy, however should they decide for whatever reason to liquidate part of their holdings then we would like them to be able to do so as close to NTA as possible. We have set out below the strategy that we have committed to and are busily executing and would like to stress that this is a key focus for us.

One of the key reasons for the Fund trading at its current discount is the limited marketing and distribution efforts to financial advisors and private investors historically. The Ophir Funds, including the High Conviction Fund, have grown over time by word of mouth and reached capacity relatively quickly. Over recent months we have focussed on further enhancing our marketing and distribution capability. There are two key actions that we need to deliver on to ensure that OPH’s unit price on the ASX trades as close to its NTA as possible:

1. Continue to deliver strong long-term investment performance.
2. Broaden out our distribution of the fund to more financial advisers and private investors.

The investment team, including ourselves, are working as hard as ever to ensure that (1) above continues.

In terms of (2), to drive further buying support for the Fund we have hired 2 x additional distribution resources in the last four months to drive sustained engagement with existing and prospective investors. Going forwards Ophir will be dedicating significantly more time and money to our marketing and distribution efforts, focusing on increasing our engagement with financial advisers, a group that we have not largely engaged historically.

In our view, the current discount represents a strong buying opportunity to us given the Fund's market leading long-term performance and size relative to its listed Australian small and mid-cap competitors. We have committed further significant personal investment recently into the High Conviction Fund over October and November given the value we see on offer through the discount. Other staff have also been buying given the opportunity of the discount to buy a \$1 worth of assets in the Fund for \$0.91 to \$0.94 at present.

Should the discount persist despite the sustained increase in marketing and communications, we will signal to the market that we will be personally buying further units in the High Conviction Fund, and then will subsequently make further significant personal investments.

If this does not close the discount, then we will signal to the market that we will buy back stock within the Fund. If signalling does not close the discount sufficiently, then we will activate the buy back and shrink the size of the fund in an effort to bring the discount towards the NTA.

The only other thing that we would ask our investors is to judge us over the long term. There will be times when the fund trades at a discount and others when it will trade at a premium. We believe over the long-term horizon of the fund the stable capital base of a listed structure provides a net benefit to investors, as we have found from previous experience. Our single largest investment is our monies in the Fund, and our staff are also significant investors, so we are all working hard to ensure it trades as close to the NAV as possible.

2. Changing the Net Tangible Asset Backing (NTA) Disclosure from Daily to Weekly

Upon converting the Ophir High Conviction Fund from an unlisted unit trust to an ASX listed unit trust, we were eager to provide ongoing transparency on the value of the underlying investments to our fellow investors. As part of these efforts we committed to disclosing the NTA of the Fund on the ASX and on our website on a daily basis.

After engaging with a number of long-term investors, it has become apparent that this disclosure frequency is not consistent with the long-term nature of the Fund's investment strategy i.e. a minimum five years investment horizon.

As a result, we will be changing the disclosure of the NTA of the Fund to the ASX, and on our website, from daily to weekly. We believe this change in disclosure frequency is more likely to strike the right balance between keeping the focus on longer term investment returns of the portfolio (as reflected in the NTA), whilst providing ongoing transparency on the value of the underlying investments.

This weekly disclosure will occur on Monday morning to the ASX and on our website, providing the previous Friday's closing NTA.

3. Additional personal investments into the Fund

As Co-Founders and 50% owners each in Ophir Asset Management, one of our guiding principles and differentiating factors when establishing the business was that we would be highly aligned with our underlying investors. To this end, we have been continually investing funds from our business back into the Ophir Funds since we commenced in 2012. In October and November this year we have been investing further significant funds totalling approximately more than \$500,000 into the High Conviction Fund. All our liquid personal wealth remains invested in the Ophir Funds. We see Ophir Asset Management and the Ophir Funds as the Family Office for our respective families, close friends and our staff. We will continue to re-invest in the Ophir Funds as our chosen wealth creation vehicles as we seek to compound investment returns over the long term for ourselves and our fellow investors.

Your sincerely,

Andrew Mitchell & Steven Ng
Co-Founders & Senior Portfolio Managers
Ophir Asset Management