Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

OPHIR

INVESTMENT UPDATE AND NAV REPORT – OCTOBER 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 Oct 19)	Net Return Since Inception (to 31 Oct 19)	Fund Size (at 31 Oct 19)
ASX:OPH	**19.6%**	**113.8%**	**$531.6**

OCTOBER 2019 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 Oct 2019	Amount
NAV	$2.66
Unit Price (ASX:OPH)	$2.49

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

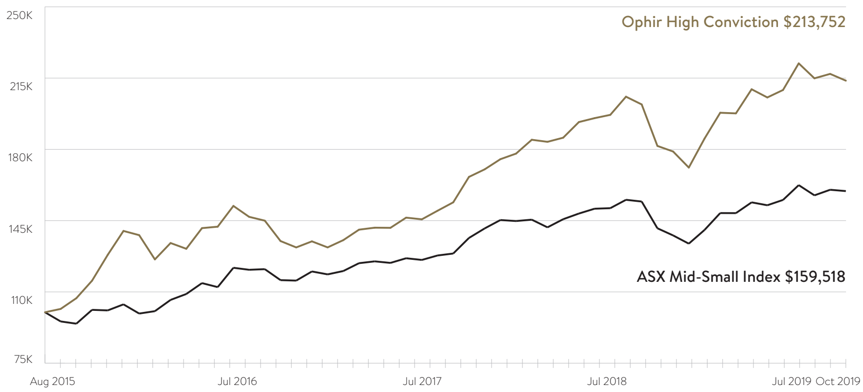

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future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

INVESTMENT PERFORMANCE

	1 Month	3 Month	1 Year	3 Years p.a.	Since inception p.a.
Ophir High Conviction Fund	**-1.6%**	**-3.9%**	**20.2%**	**19.0%**	**24.1%**
Benchmark	-0.4%	-1.8%	12.9%	11.3%	11.6%
Value Add (Gross)	-1.2%	-2.1%	7.3%	7.7%	12.5%
Fund Return (Net)	-1.5%	-3.8%	17.6%	16.6%	19.6%
ASX:OPH Unit Price Return	0.0%	-4.2%	n/a	n/a	n/a

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 Oct 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
Afterpay Touch Group	Information Technology	APT
AUB Group	Financials	AUB
Freedom Foods Group Limited	Food, Beverage, Tobacco	FNP
Resmed	Health Care	RMD
Xero	Information Technology	XRO
Average Portfolio Market Cap		**$4.24bn**

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	$531.6m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 Oct 2019)

Sector	31 Oct 19
Materials	7.59%
Financials	4.99%
Health Care	10.25%
Communication Services	2.93%
Consumer Staples	10.59%
Information Technology	16.88%
Industrials	12.64%
Consumer Discretionary	12.84%
Utilities	4.65%
Real Estate	0%
Energy	2.76%
[Cash]	13.87%
	100%

MARKET COMMENTARY

The month of October was generally risk on for markets, spurred on by news of a potential "phase one" trade deal between the world's two largest economies, the US and China, as well as a further rate cut by the US Fed. Major sharemarkets generally advanced with gains fairly broad based across most sectors. The largest bond markets typically saw long sovereign bond yields increase and further term premium inserted into yield curves, pushing away from yield curve 'inversion' levels that had been worrying investors of a potential impending global recession.

The US Federal Reserve cut interest rates again at the end of October, taking its key Federal Funds Rate to 1.50% as well as announcing a program of buying short dated treasury securities that it has been at pains to stress "is not QE". More positively it sees a pause in rate cuts now and potentially the bottom of this rate cutting cycle if its economic forecasts play out.

In Australia, after cutting rates to 0.75% in October, the RBA held rates steady in early November though maintains an easing bias. Markets are only ascribing about a 50% probability of another 0.25% cut this cycle by mid next year. However, we still think further cuts are a distinct possibility with the banks not passing rate cuts through in full and unemployment and inflation forecasts remaining above and below (respectively) the RBA's desired levels. Quantitative easing in Australia also remains a possibility in 2020 though it is too soon to confidently make this call. Australian house prices are complicating this picture after rising 1.2% in October, the fastest since 2015. Nationally house prices have risen for three consecutive months now at an 11% annualised pace with the gains mostly concentrated in Sydney and Melbourne (up 1.7% and 2.3% respectively in October). This however has been on weak volumes with reduced spillover to renovation activity expected. The RBA is likely to leave the heavy lifting on constraining any excess housing price or credit growth to APRA through macroprudential measures if necessary.

The MSCI World Developed Market Index was up 2.5% (in USD), underperforming the Emerging Markets Index which was up a strong 4.1% (in USD). Regionally, almost all of the major markets were up over the month in local currency terms with Japan (+5.4%) leading the way and logging its best monthly gain over the last 12 months, followed by the NASDAQ (+3.7%) in the US and Germany (+3.5%). The only major market to fall was the UK (-2.2%) giving back most of last month's gains as an appreciating British Pound (up 5.3% on the month) provided a headwind. Emerging Markets were a mixed bag with Russia (+7.8%), Brazil (+5.9%) and China (+4.0%) providing most of the support whilst Argentina (-5.3%) reversed a large portion of last month's rise and the volatile Turkey sharemarket (-7.5%) took another tumble.

The local S&P/ASX200 Index in Australia continued to underperform developed markets for the third month in a row, falling -0.4% and not participating in the broad-based gains seen in most other major markets. The Small Ordinaries index also had a tough time falling -0.7% for the month. 12 month total returns for the S&P/ASX200 stand at a very healthy +19.3% with Japan (+6.9%) and the UK (+6.5%) the relative underperformers. All sectors of the Australian sharemarket have had 15%+ gains over the last year with the exception of Energy (+2.0%) that has struggled on the back of an oil price that is at similar levels to where it was a year ago.

PORTFOLIO COMMENTARY

During October the Ophir High Conviction Fund's investment portfolio returned -1.5% after fees, underperforming the benchmark by -1.1%. Since inception in August 2015, the Fund's investment portfolio has returned 19.6% per annum, outperforming its benchmark by 8.0% per annum.

During October the Ophir High Conviction Fund's unit price returned 0.0% for the month.

Key contributors to the High Conviction Fund performance this month included Xero (XRO), Resmed (RMD) and Domino's Pizza (DMP). Key detractors included Afterpay Touch (APT), Clinuvel Pharmaceuticals (CUV), and Contact Energy (CEN).

In key stocks news both Cleanaway Waste (ASX:CWY) (-5.4%) and Afterpay (ASX: APT) (-19.5%) lost ground on AGM and broker report announcements respectively.

Cleanaway Waste, Australia's largest waste management company, provided a trading update at its AGM towards the end of October which was below market expectations with 1H20 earnings forecast to be flat compared to the previous period last year. This was on the back of weak economic activity, reduced recycled cardboard prices and lower Queensland landfill volumes after the introduction of state levies in July this year.

After a strong run up in price prior to its full year results released in mid-August, it is now trading back around levels of early in the year. Longer term we remain attracted to Cleanaway's market leading position in an industry undergoing transformation at the present, partly in response to China's National Sword policy that was implemented almost two years ago. This policy sees China no longer accepting contaminated waste from western countries. This is providing shorter term headwinds for the industry, but it also provides Cleanaway with the opportunity to consolidate smaller uneconomic competitors, helping it to grow market share and to benefit from the structural trends of a growing population and popularity of single use products.

Cleanaway is also leading the evolution of the Australian waste management industry in creating a circular waste management economy that isn't reliant on China. An example being the manufacturing in-house for Sharpsmart containers that manage healthcare waste. Here Cleanaway can control the recycling of Australian plastic bottles all the way through to the production of the end repurposed sharps containers without input from raw materials recycled in China. We also like the barriers to entry in certain waste streams (commercial and municipal) which require very large scale to make the economics work. Moreover, waste has a lot of potential to be repurposed for the benefit of the community including through Waste-to-Energy projects that Cleanaway is leading the market on in Australia.

Afterpay, which continues to receive much media attention, has seen more volatile trading over September and October, unrelated to any fundamental news flow from the company about its underlying operations. After rising on the back of a broking analyst upgrade report during September, it fell during October after a downgrade from another analyst, as well as concerns that have been highlighted around the RBA's 2020 review of payments regulation, including surcharging practices in Australia. Whilst volatility in share prices of fast growing business is inevitable as investors try to conduct price discovery, we are looking through the noise and remain focussed on conducting research on the drivers of operational performance of the company. On this score, we continue to remain impressed with its growth trajectories in the US and UK markets and are keeping a keen eye on regulatory, competition and financing risks that the company faces.

A strong positive return was seen by cloud-based accounting software provider Xero (ASX: XRO) (10.8%) over the month of October. This came ahead of its first half result for financial year 2020 which was released in early November. On the day of release the share price jumped more than 10% as revenue and earnings growth beat expectations. The result detailed strong software subscriber growth in the UK and Australia which are its two key markets at present.

UK subscriber growth at 51% was a standout. This is especially pleasing given cloud accounting adoption in the UK is underpenetrated at 28%, providing a long run way for growth in cloud market for Xero to be able to compete in.

Revenue growth of 30% over the year has been complemented by expanding gross margin which is now 85.2%, up 2.4% on the same period last year. This is feeding through to profitability where net profit became positive this first half.

It was also pleasing to see sales of adjacent products outside of core accounting are becoming a larger part of the business and growing rapidly, diversifying its revenue streams. This is important as Australia and New Zealand subscriber's growth for core accounting software matures and Xero shifts to emphasising its goal of being "beautiful business software" which includes other modules for sale on its software platform (such as for payroll, expense and compliance needs). We look forward to seeing its future success in the larger US market, which provides longer term upside for the company.

Xero represents an example of the type of structurally growing company that we like to identify early and hold, as long-term owners of the business. It operates a market leading software solution that can grow into big markets globally. This is the type of exciting opportunities we are continually searching the market for, both in Australia and overseas, to own in the Ophir High Conviction Fund.

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 and 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 and the Ophir High Conviction Fund.

KEY INVESTOR CONTACTS

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