

19 March 2020

Ophir High Conviction Fund (ASX:OPH)

Investor Teleconference Summary

Dear Investor,

Given the recent volatility on share markets as a result of the coronavirus (COVID-19), on the 17th March 2020 we held a 30 minute investor teleconference to give an update on our funds, including the Ophir High Conviction Fund (ASX:OPH, “the Fund”).

Please find below the key points we conveyed at the teleconference relating to the Fund.

1. The importance of our business model and the Fund structure in times like these

We, as a team at Ophir, are very positive about the opportunities on offer during this current significant and sharp market downturn. We are prepared for market sell-offs, and this starts with our business model and structure of the Fund.

Both of us have significant experience investing together during market downturns, including during the GFC, where we were able to generate significant outperformance versus peers and the market. We are, and will remain, very aligned with our fellow investors, with very high levels of our own personal wealth invested across the three Ophir investments strategies including the Fund. This sees us and the team working very hard to navigate this downturn and position the portfolio for the inevitable recovery. Importantly, through deliberately limiting the capacity of the Fund, it enables us to be very nimble, responding quickly to the volatility present in the current market. It has, and will likely continue, to allow us to swiftly and without significant market impact, sell overexposed companies where prices don't fully reflect their risks, and buy companies that are less, or not exposed, that we believe have been unfairly sold off.

2. Our thoughts on the coronavirus and its impact

In January and early February our initial focus was on the supply chain impact for Australian companies originating in China. This has now moved to broader supply chain impacts originating overseas as well as a very material near term (likely at least next two quarters) impact on demand globally as a result of social containment measures to slow the spread of the virus. Fiscal and monetary policy stimulus has, and will be, released globally to combat the drop in demand, but its offset it likely to be only partial. Ultimately, as this issue is biological, it is important to monitor the virus's spread, and then how governments are balancing its level of containment measures against its impact on economic demand over time. It's not a one size fits all approach, and different nations are taking different approaches. It will be important that lending is maintained to otherwise creditworthy businesses and households over this period, and measures by central banks and financial institutions on this front will be key.

3. Current portfolio positioning

Going into this downturn we had been holding higher than normal levels of cash in the Fund (circa 15%) due to the higher level of valuation we saw for companies in the market. This has provided a buffer to performance. As during the GFC, and other material downturns, we have been reducing or avoiding exposure to those companies with earnings risk, high leverage or require access to funding markets. As a result, we have been selling or reducing weights to companies in this current episode with exposure to industries such as travel, discretionary retail and financials whilst redeploying that capital into companies that are less or not affected, at valuations that we couldn't access before, and are very happy with over the medium term. We have also been using this market weakness to top up current holdings that are only marginally impacted or even beneficiaries of the virus. A2 Milk is an example here, with it signalling increased demand from consumers in China as they stock up in anticipation of shortages.

4. Benefit of a stable capital base

When we converted the Fund to a listed investment trust (LIT) in December 2018, after receiving over 75% of unitholder approval, the key reason for the shift was the benefit a stable capital base can provide during market downturns and dislocations. This is because during extended market falls, other funds without this benefit, often go through a cycle of having to sell companies they hold at inopportune times and prices to fund redemptions, subsequently impacting performance. A stable capital base allows us to follow Warren Buffett's advice of 'being greedy when others are fearful', putting capital to work in our best ideas without the worry of having to sell quality companies to fund any redemption requests. We see this LIT structure as a competitive advantage for our own capital and our fellow investors' capital during market environments like this.

5. Performance to date during March

Whilst no one likes to see falls in performance, including ourselves, we are pleased that during February when the downturn started in Australia, the Fund protected capital compared to the market with the portfolio value falling just -5.6% (post fees) when the benchmark fell -9.2% over the month.

During March to date at the close of trading on Tuesday 17th March, the Fund is down around -12% compared to the benchmark which is down around -20%, generating about 8% outperformance (pre fees). Again, while we never like to report negative returns, we are pleased to have protected capital more than the market to date in an environment in which selling by investors has often been indiscriminate and across the board.

6. Buyback activity in the Fund

We recently enacted our buyback for the Fund and have bought back almost each day since we started in earnest on Friday 6th March. We have said we will utilise the buyback mechanism when we believe there is good value on offer, and we have used it consistently during the recent market falls. We like being able to buyback units in the fund at a discount to Net Tangible Assets, which is then performance accretive to all unitholders, including ourselves.

We have a process and rules in place for the buyback, though we should note we are also governed by the ASX guidelines, which limits the amount of volume we can buyback on any particular day. We have been happy with buying back at the discounted levels we have seen since we started buying and are monitoring the Fund's trading and the impact of the buyback closely.

We thank all our fellow investors for their continued support, which we do not take lightly. We are working as hard as ever to find and hold great companies that we believe can compound earnings over the medium to long term and are excited by some of the opportunities this market is providing.

Your sincerely,

Andrew Mitchell & Steven Ng

Co-Founders & Senior Portfolio Managers

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