Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

INVESTMENT UPDATE AND NAV REPORT – MARCH 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 Since Inception (to 31 Mar 20)	Net Return Since Inception (to 31 Mar 20)	Fund Size (Gross) (at 31 Mar 20)
ASX:OPH	**14.1%**	**84.8%**	**$478.5**

MARCH 2020 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 Mar 2020	Amount
NAV	$2.30
Unit Price (ASX:OPH)	$1.99

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

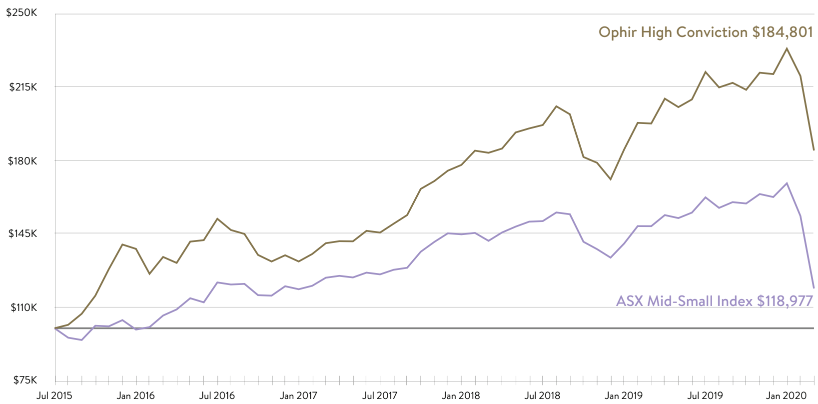

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future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

INVESTMENT PERFORMANCE

	Since Inception (p.a)	3 Years p.a.	1 Year	3 Month	1 Month
Ophir High Conviction Fund	**19.3%**	**13.5%**	**-0.6%**	**-12.5%**	**-13.7%**
Benchmark	3.8%	-1.4%	-20.0%	-26.8%	-22.5%
Value Add (Gross)	15.5%	14.9%	19.4%	14.3%	8.8%
Fund Return (Net)	14.1%	9.5%	-6.5%	-16.5%	-16.1%
ASX:OPH Unit Price Return	n/a	n/a	-22.0%	-20.1%	-17.1%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 Mar 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
The A2 Milk Company	Consumer Staples	A2M
NEXTDC Limited	Information Technology	NXT
NIB Holdings Limited	Financials	NHF
Resmed	Health Care	RMD
Xero	Information Technology	XRO
Average Portfolio Market Cap		**$5.9bn**

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 (Gross)	$478.5m
Number of Stocks	15-30
Cash Distributions	Annually

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 Mar 2020)

Sector	31 Mar 20
Materials	7.9%
Financials	14.6%
Health Care	6.5%
Communication Services	0%
Consumer Staples	14.9%
Information Technology	17.4%
Industrials	6.4%
Consumer Discretionary	10.2%
Utilities	4.6%
Real Estate	0%
Energy	3.7%
[Cash]	13.6%
	100%

MARKET COMMENTARY

March saw the swiftest share market falls on record, punctuated by an unprecedented level of volatility. It was almost as if we were watching some aspects of the GFC repeated again on fast forward. Sharemarket falls were followed up by new lows in many government bond yields as key central banks returned interest rates to 0% and resumed quantitative easing, fiscal stimulus packages were hastily put together by governments to plug the demand hole, many companies came to market with capital raisings to stay afloat and we have seen a plummeting of the oil price as OPEC+ negotiations fell apart.

Whilst many elements of this will seem similar to the GFC, there is good reason to believe the impact of the COVID-19 crisis will be much shorter and sharper on the economy and financial markets. The recent market falls (and subsequent partial recovery at writing) have been precipitated by a biological event leading to a severe but time limited economic downturn and which hopefully, and most likely, will not lead to a financial crisis. The GFC began with a severe financial crisis, which in line with the history of other financial crises, led to a deep and prolonged economic recession. Whilst there are many uncertainties about how and when countries will be able to contain and supress the virus which has precipitated this downturn, history gives us comfort that this too shall pass. Moreover, recent experience in certain countries provides evidence of a timeline when those regions most impacted may begin returning, at least some way, towards normality in the weeks and months ahead.

For the month of March, global shares, as measured by the MSCI Developed Market Index in local currency terms, fell -12.8% and into bear market territory during the month. The MSCI Emerging Market Index dropped a little heavier down -17.4% as investors worried how successful social distancing measures would be in lower income countries where communal living is more prevalent. As some indicators of economic activity in China began returning to normal during the month, its sharemarket was the clear relative outperformer, falling only -4.5%. The other relative outperformer was the tech-heavy NASDAQ index (-9.0%) where some of its constituents are likely to see a net positive impact of more consumers working from home.

The local Australian sharemarket saw some of the largest losses with the S&P/ASX200 index down -21.2% for the month. Small caps were down even more at -22.9% as investors at the margin sought the greater liquidity in large cap names. Sector wise in Australia, all were down for the month, though the spread of performance was wide and mirrored the result seen in major overseas sharemarkets. Energy, unsurprising on the back of historic falls in the oil price, was down the most, falling -38.0%. This was closely followed by Real Estate Investment Trusts (REITs) which fell -35.1% as serious concerns were raised about the ability of tenants to meet their rental obligations when many have seen their business revenues dry up. The best performing sectors were Consumer Staples (-4.4%) and Healthcare (-5.6%) that saw more modest declines as demand for necessities and health related products and services remain less impacted, and in fact for some constituent companies, demand has increased.

PORTFOLIO COMMENTARY

During March the Ophir High Conviction Fund's investment portfolio returned -16.1% for the month after fees, outperforming its benchmark by +6.4%. Since inception, the Fund's investment portfolio has returned +14.1% per annum after fees, outperforming its benchmark by 10.3% per annum.

During March the Ophir High Conviction Fund's ASX listing provided a total return of -17.1% for the month.

In key stock news for the Fund, NextDC (ASX: NXT) (+13.1%), A2 Milk (ASX:A2M) (+7.7%), and Freedom Foods (ASX:FNP) (+7.6%) were three of the strongest performers, whilst Afterpay (ASX:APT) (-43.3%) saw a significant fall during the month, though its impact was blunted as we reduced our exposure to the Buy Now Pay Later (BNPL) company during February and March.

We are cognizant that such a large fall in equity prices has historically been a time to capitalize rather than capitulate, however we remain somewhat cautiously positioned given we expect continued volatility in the near term as the world adjusts to a recessionary environment.

That said, we are highly focused on participating when the eventual recovery occurs, and the Fund continues to look for opportunities that provide attractive risk-adjusted returns for our investors. As always, we focus on cash generative businesses with structural or secular growth opportunities and strong balance sheets that trade on reasonable valuations.

We have been redeploying capital from those companies with greatest earnings risk and higher debt or refinancing risks, to those companies less/neutrally/positively impacted by the virus, but oversold. Pairwise correlations between stocks in Australia has recently doubled and gone back to GFC levels indicating the relatively indiscriminate nature of selling that has been occurring. This has been providing opportunities in the recent market volatility to top up existing positions, and add new positions, in companies we believe have been unfairly sold during the downdraft, as investors seek liquidity. We have been happy to provide them with this liquidity, particularly in our favourite type of opportunity: those that we already like for their structural growth characteristics but are also seeing a cyclical boost at present.

An example in the Fund is NextDC, Australia's leading Data Centre operator. The company is benefitting from the increasing use of online digital technologies including those that support working from home, and video streaming and gaming, that are seeing increased use at present. After initially being sold off like the rest of the market in early March, the company re-affirmed earnings guidance in the middle of the month and initiated a capital raising in early April to help fund its growth agenda. After dropping to $6.58 in the middle of the month during peak fear in the market, the share price is above $8.70 and around all-time highs in early April.

Afterpay fell heavily during the month, as did the entire BNPL sector. The sector faces the triple whammy of potentially reduced availability of funding, higher funding costs and reduced consumer demand through higher unemployment as social containment measures bite.

Reduced discretionary spending sees Australian BNPL sector leader Afterpay's investors focusing in March on temporary brick and mortar store closures to stop the spread of the virus and as reduced foot traffic in open stores. An example is Urban Outfitters, the cornerstone Afterpay client that took them into the US and UK, which has closed all its stores in those countries for the time being. That said Afterpay's online business, which makes up more than 75% of revenue is likely to be a beneficiary from a transfer from some in-store sales, though still faces the general headwinds for discretionary spending.

The falls for BNPL versus traditional financials have generally been steeper as reduced consumer demand and higher unemployment would likely be focussed in younger millennials who make up a disproportionate share of the retail workforce and BNPL users. Regarding Afterpay, its user base has been moving higher in age over time (33yo globally) and income which is positive from a credit perspective.

We believe the bad debt increase should be manageable for Afterpay, on current information, as unemployment increases are mitigated by the low duration of each transaction at < 30 days, low average transaction values (A$150) and outstanding balances ($210), high repeat customers, strict default rules and a very diversified merchant and customer base.

We have always highlighted the risks to Afterpay to a downturn in discretionary spending and have monitored this closely. We have reduced our weighting to the company as the size of the near-term headwinds became clearer though still hold a lower weight position at writing. We would rather reallocate some of this capital to companies where we have better visibility of the earnings trajectory over the next year or two.

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 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, Ophir High Conviction Fund and Ophir Global Opportunity Fund.

KEY INVESTOR CONTACTS

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