

22 July 2020

Ophir High Conviction Fund (ASX:OPH) – Monthly Webinar

Dear Investor,

At 2pm (AEST), Wednesday 22nd July 2020, we will hold a 30 minute investor webinar to provide an update on our funds, including the Ophir High Conviction Fund (ASX:OPH, “the Fund”).

Please find below the key points we will convey at the webinar relating to the Fund.

1. Fund performance

Considering the significant volatility induced by COVID-19 during the second half of the 2019/2020 financial year, most major share markets surprisingly concluded the financial year at levels near the start of the financial year. For the month of June 2020, the Net Asset Value (NAV) of the Fund was up 2.5% (net of fees) and the OPH ASX unit price up 7.7% compared to the benchmark which was up 1.1%. For the 2019/2020 financial year, the NAV of the Fund returned 10.6% (net of fees) while the index returned -2.6%.

Since its inception in August 2015, the NAV of the Fund has returned 18.6% p.a. (net of fees) while the index has returned 8.8% p.a.

We note the Fund was converted to a listed investment trust in December 2018 to replicate the closed-capital environment Andrew Mitchell and Steven Ng used to their advantage when they successfully managed an Australian small cap fund together during the GFC. In our view, it is in these volatile times we see the advantages of this structure, in that we can focus on investing for the long term with a stable capital base. We believe this stable capital base can increase the probability of generating superior returns.

2. Capital Preservation

We are delighted that we have protected material wealth during these extraordinary times. Over the 6-month period to 30 June 2020, the NAV of the Fund returned 4.5% (net of fees) while the benchmark returned -7.0%. We largely attribute this to our investment process, which can be conducive to capital preservation during times of extreme volatility.

Firstly, we conduct our due diligence and calculate valuations both in normal market conditions as well as extreme bear market scenarios. This serves as preparation for the inevitable tough periods the future holds and also enables us to act quickly when we need to. Additionally, we tend to invest in companies with lower gearing levels. We believe, all else being equal, these companies pay less interest and therefore are less likely to see profits fall during a downturn. We also look for companies which we believe have long term structural tailwinds. These businesses tend to provide resilient growth during slower parts of the business cycle. Finally, we strictly manage the weights of each of our holdings so that our highest weights reflect our best ideas which we believe are most likely to beat market expectations. These companies tend to get sold off less during bear markets.

3. Distributions

Distributions tend to be an output of our investment process as opposed to an input. The Fund's investment process looks to identify the businesses that can grow and compound earnings over time. These companies typically reinvest free cash flow as opposed to paying dividends to shareholders, an action we generally encourage these businesses to do if it is the best use of their capital. As a result, the Fund's distributions are heavily skewed towards realised capital gains as opposed to dividends. This means distributions can be inconsistent, especially in years where performance is driven by unrealised capital gains.

4. OPH buy-back facility

We note we commenced utilising the buy-back facility for OPH during March as markets sold off during the early stages of COVID-19. We have continued to use the facility where we see good value on offer in the OPH unit price. We have a process and rules in place for when we use the facility in the market to buy back OPH units. We remain committed to this facility and process and will continue to use this mechanism where we believe it is in the best interests of all unitholders and accretive to performance of the Fund over the long term.

We remain as hard working as ever to find and allocate to those small and mid-cap businesses listed in Australia that we believe can significantly grow earnings and provide attractive risk-adjusted returns over the medium to long term.

Your sincerely,

Andrew Mitchell & Steven Ng

Co-Founders & Senior Portfolio Managers
Ophir Asset Management

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This information has been prepared by Ophir Asset Management (ABN: 88 156 146 717, AFSL 420082) the Investment Manager of the Ophir High Conviction Fund and is issued by The Trust Company (RE Services) Limited (ABN: 45 003 278 831, AFSL 235 150) as responsible entity and the issuer of units in the Trust. It is general information only and is not intended to provide you with financial advice and has been prepared without taking into account your objectives, financial situation or needs. You should consider the product disclosure statement (and any ASX Announcements) prior to making any investment decisions. If you require financial advice that takes into account your personal objectives, financial situation or needs, you should consult your licensed or authorised financial adviser. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. We note past performance is not a reliable indicator of future performance.

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