

16 September 2020

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

Dear Investor,

At 2pm (AEST), Wednesday 16th September 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

Share markets continued upwards for the month of August 2020. The Fund’s benchmark recorded its fifth consecutive positive month, with March 2020 being the last month the benchmark fell. Much of the rally came as leading economic data continued to rebound, hopes rose on fast-tracked vaccines and therapeutics for COVID-19 and an important announcement from the Fed, indicating that it would be keeping rates lower for longer even when/if inflation starts to recover.

For the month of August 2020, the Net Asset Value (NAV) of the Fund was up 4.9% (net of fees) with the OPH ASX unit price up 11.7%, compared to the benchmark which rose 6.8%.

In our previous webinar we mentioned the Fund reached its 5-year anniversary at the end of July 2020, which was a particularly important milestone as it is the minimum recommended investment period as per the Fund’s Product Disclosure Statement. We are delighted that the 5-year return of the NAV of the Fund placed 2nd, only trailing behind the Ophir Opportunities Fund, when compared to the Mercer Australian Small Companies (Ex 100) survey July 2020 (gross of fees). Please note past performance is not a reliable indicator of future performance.

2. Reporting Season

The month of August is an especially busy period as companies report their results from the recently concluded financial year. In general, the results from this reporting season were slightly better than expectations, albeit expectations were low due the impact on earnings brought on by COVID-19 and the ensuing uncertainty.

The average excess return (return above benchmark) from stocks in the ASX200 that reported during August was 1.8% and 59.5% of stocks that reported generated positive excess returns in their share price. IT and Health Care sectors had the most earnings beats while Consumer Staples and Real Estate had the most misses in the ASX200. In the small cap space, which consists of stocks included in the ASX300 but not in the ASX100, we saw more companies beat expectations than miss expectations.

We expect earnings recovery to be largely flat until the second half of 2021. Generally, share market recoveries precede earnings recoveries and this is what we’ve seen so far in the COVID-19 recovery.

We estimate a peak to trough fall of approximately 20% for corporate earnings due to COVID-19. Encouraging signs during the reporting period included the breadth of profit upgrades and a greater emphasis on cost cuts and restructuring.

3. Government Assistance

We estimate that ASX200 companies collected approximately \$1.5bn in government assistance to 30 June 2020. Roughly a third of this amount was given to Qantas with the largest portion being in JobKeeper subsidies. The biggest beneficiaries of government assistance were largely from the travel and entertainment sectors and a few key landlords. These landlords, while being a beneficiary of stimulus, also provided assistance of their own to their tenants in the form of rental relief.

4. Valuations

The average cyclically adjusted price to earnings ratio ("CAPE ratio") for the ASX200 over the last 80 years is approximately 20.8x. When uncertainty from COVID-19 was at its peak during March 2020, the same metric reached as low of 13.4x and at the time of writing is approximately 17.7x. This represents a 15% discount to the average historical CAPE ratio and indicates that the Australian sharemarket looks cheap on this metric. Historically when valuations have been at this level, we've seen returns of 15% per annum on average for the subsequent 5 years, a level substantially above the long term returns on the Australian sharemarket. While we acknowledge there are a range of possible outcomes for the ASX moving forward, we still see good value on offer.

5. OPH buy-back facility

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
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