Ophir High Conviction Fund

ASX: OPH

www.ophiram.com

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INVESTMENT UPDATE AND NAV REPORT – MARCH 2021

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 21)	Net Return Since Inception (to 31 Mar 21)	Fund Size (at 31 Mar 21)
ASX:OPH	**18.5%**	**161.3%**	**$648.5m**

MARCH 2021 PORTFOLIO SNAPSHOT

NET ASSET VALUE (NAV) PER UNIT

As at 31 March 2021	Amount
NAV	$3.26
Unit Price (ASX:OPH)	$3.48

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

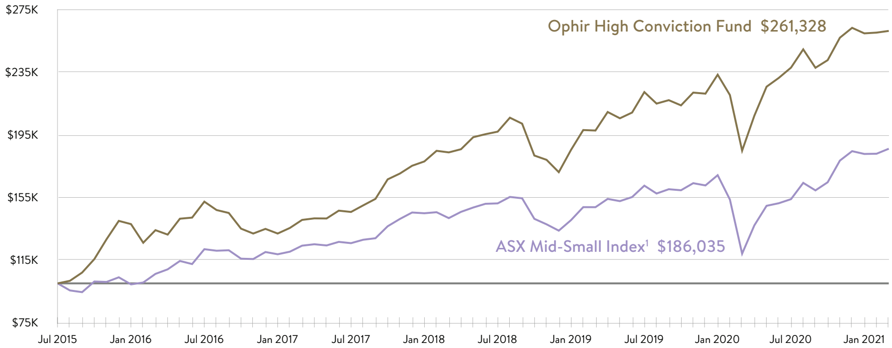

*Chart represents the value of $100,000 invested since inception after all fees and before tax and assuming distributions are reinvested in the Fund. Performance of the Fund is calculated using Net Asset Value (NAV), not the market price. Please note past performance is not a reliable indicator of future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

[1] The Fund's benchmark is the S&P/ASX Mid-Small Index, being the composite benchmark of 50% of the S&P/ASX MidCap 50 Accumulation Index and 50% of the S&P/ASX Small Ordinaries Accumulation Index.

INVESTMENT PERFORMANCE

	Since Inception (p.a)	5 Years p.a.	3 Years p.a.	1 Year	3 Month	1 Month
Ophir High Conviction Fund	**23.1%**	**17.3%**	**15.8%**	**42.5%**	**-0.4%**	**0.5%**
Benchmark	11.6%	11.9%	9.5%	56.4%	1.1%	1.7%
Value Add (Gross)	11.5%	5.4%	6.3%	-13.9%	-1.5%	-1.2%
Fund Return (Net)	18.5%	14.3%	12.5%	41.4%	-0.7%	0.4%
ASX:OPH Unit Price Return	n/a	n/a	n/a	74.9%	-1.7%	-2.0%

Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 March 2021, 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
Corporate Travel Management	Consumer Discretionary Services	CTD
Credit Corp Group	Financial Services	CCP
Elders Limited	Consumer Staples	ELD
Seek Limited	Communication Services	SEK
Tyro payments	Information Technology	TYR
Average Portfolio Market Cap		**$7.2bn**

KEY INFORMATION

Responsible Entity	The Trust Company (RE Services) Limited
Manager	Ophir Asset Management Pty Ltd
Portfolio Managers	Andrew Mitchell & Steven Ng
Fund Inception	4 August 2015
Fund Size	$648.5M
Number of Stocks	15-30
Cash Distributions	Annually
Investment Objective	Outperform benchmark (after fees) over long term (5+ yrs)

ALLOCATION OF INVESTMENTS

PORTFOLIO SECTOR EXPOSURES (as at 31 March 2021)

Sector	31 March 2021
Materials	6.4%
Financials	17.8%
Health Care	7.4%
Communication Services	11.9%
Consumer Staples	5.3%
Information Technology	17.3%
Industrials	1.0%
Consumer Discretionary	24.3%
Utilities	0.0%
Real Estate	3.2%
Energy	0.0%
[Cash]	5.4%
	100%

MARKET COMMENTARY

Equity markets didn't suffer any indigestion in March, comfortably 'swallowing' the rapid increase in US bond yields, or what our friend Hasan Tevfik at MST Marquee has dubbed the "Bondcano". This saw sizable gains across most equity market regions and countries. The US share market continued its charge, hitting new highs courtesy of the Federal Reserve, who during the month was quite happy peddling their lower for longer interest rate mantra that has whipped markets into a frenzy since March last year. President Biden's enormous U$1.9tril stimulus plan, that was approved during the month, will also be like a shot of adrenaline into the veins of the US consumer, and this was not lost on investors last month. In fact, as a result many economists have recently revised up output forecasts this year for the US economy to incredibly ABOVE its predicted trajectory pre-COVID! Talk about governments not wasting a crisis.

The Australian sharemarket also soldiered on higher (ASX200 +1.8%), but underperformed most of its developed market peers, particularly in the small caps space (Small Ords +0.2%), as the local market felt the blow more from its greater exposure to falling commodity prices during the month, which notably saw iron ore (-5.4%), nickel (-13.5%), gold (-1.5%), Brent oil (-3.9%) and natural gas (-5.3%) all pull back.

The US sharemarket performance though (S&P500 +4.2%) was particularly impressive in light of US 10 year treasury yields increasing sharply again by 0.34% over March to 1.74%. The equivalent Australian government bond yield actually took a breather during March, falling -0.13% to 1.79% as the RBA sped up its QE program to smooth volatile trading in bond markets and to put some more downward pressure on the AUD. This almost totally wiped out the difference between US and Australian 10 year rates by month end. We still see long term bond yields likely have further to climb as growth and inflation improves throughout developed economies in 2021, with pre-COVID cyclical highs of 2.5-3% potentially tested over the next couple of years for Australian and US 10 year yields.

For now though, equity investors are loving the combination of reopening economies courtesy of vaccine distribution, pent up consumer demand, lower for longer central bank policy rates and loose 'war time' sized fiscal policy. This has seen a record-breaking amount of inflows into equity funds globally over the March quarter, reversing all the outflows that occurred over the last 1-2 years.

PORTFOLIO COMMENTARY

During March, the Ophir High Conviction Fund's investment portfolio returned +0.4% (net of fees) versus the index which returned +1.7%. Since its inception in August 2015, the Fund has returned 18.5% p.a. (net of fees) while the index has returned 11.6% p.a.

During March the Ophir High Conviction Fund's ASX listing provided a total return of -2.0% for the month.

An underweight position to the Materials sector has held back relative performance over the last year with four of the top five performing companies in the Mid Cap index and three of the top five in the Small Cap Index coming from the sector which has benefited from the rebound in global demand.

Absolute performance has been very strong over this time period in the Fund and we are happy to ride the relative performance given the difficulty in picking the commodity cycle.

The part of the universe that we are more cautious on though at present is the highest valued 'growth' and 'tech' names, particularly where their earnings are only likely to come in line with expectations or register small 'beats', and they are still trading near the top of their valuation bands. These are the types of companies that are unlikely to find favour in a reflationary and rising bond yield environment.

If you're going to invest in high growth businesses at present and expect the market to reward you, we think you need two conditions to be met: 1. The earnings 'beats' need to be big; and 2. Valuations still need to have some meaningful headroom to the top of their trading bands. These are your reasonably valued growth business. These tend to be your growth businesses with lower so called 'PEG' ratios – those with lower price-to-earnings ratios divided by its earnings growth.

In Australia this means we might see continued headwinds for the local tech sector compared to other sectors near term, but better prospects as we look out a year or two. Australian tech may also underperform its US peers near term given its lower levels of profitability and relative immaturity against a backdrop of rising bond yields.

As an example domestically in the IT space, a couple of companies we continue to favour are Tyro Payments (ASX: TYR) and NextDC (ASX: NXT).

Tyro made headlines earlier this year with outages at some of its merchant terminals for a couple of weeks in January, but to date seems to have not been materially impacted by any abnormal turnover of merchants as a result. Tyro's payments processing business is focussed on the hospitality, retail and health sectors and is benefitting from the recovery trade as customer spend in these sectors gets its mojo back. Tyro continues to take significant market share, winning new merchants with top line revenue growth of around 30% pa, and is the clear fifth biggest player, after the big banks, in merchant payment terminals in the country.

NextDC, the major data centre operator in Australia, has seen share price weakness during the most recent tech sell off that started in mid-February. We see significant upside from here though as new data centres come online and they continue to win new enterprise contracts. COVID has accelerated companies moving their IT to the cloud and needing the infrastructure and services of companies like NextDC. We also see the company as having some essentially free overseas growth options in Asia that we believe is not captured in the share price, but this is highly dependent on the company securing sites and appropriate zoning to construct there.

We maintain a preference for these types of tech businesses where COVID has been an 'accelerator into the future', rather than simply 'borrowing growth from the future'. Examples in the former bucket include the aforementioned businesses, and also Afterpay (ASX: APT), which we have been a long-time investor in, whilst those we would include in the latter bucket are businesses such as JB HiFi (ASX: JBH) and Fisher & Paykel (ASX: FPH). These preferences stem from the uncertainty that still hangs over what normalisation looks like as economies begin reopening.

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 $2.0bn in capital across three investment strategies on behalf of institutional superannuation funds, family offices, private wealth groups and individual investors. The investment team comprises 12 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 Opportunities Fund.

KEY INVESTOR CONTACTS

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