3 February 2022

Ophir High Conviction Fund (ASX:OPH) – Investor Update

Dear Investor,

On Thursday 3rd February 2022, we will be providing a video update on our Funds, including the Ophir High Conviction (ASX:OPH, "the Fund").

Please find below the key points we will convey in the update relating to the Fund.

1. **Fund performance**

Over the last quarter, Covid-19 and forecasted interest rate hikes dominated news headlines. During November, a new variant of the virus coined "omicron" swept the world. In response, many parts of the world, including Australia, reintroduced measures to reduce the spread of the virus and uncertainty in markets dialled up a notch. Turning to the Fed, towards the end of 2021 they pivoted, seeing inflation as more persistent, shadowing an earlier end to quantitative easing and a bring forward of interest rate hikes into 2022. Markets have had to digest this hawkish pivot as it was only a few months ago many forecasters didn't see rates lift off until 2023 or 2024.

For the quarter ending 31 January 2022, the Net Asset Value (NAV) of the Fund was down -16.3% (net of fees) with the OPH ASX unit price down -21.9%, compared to the benchmark which was down -5.8%.

2. **Thoughts around recent performance**

A significant portion of the negative return of the NAV of the Fund over the last 3 months we believe has been caused by investors trading on broader macroeconomic news (i.e., no company specific news). Specifically, this relates to interest rate hike expectations being brought forward and recent moves higher in longer term bond yields.

With bond yields moving higher, this has disproportionately impacted valuations of businesses reinvesting their cashflow for future growth. The businesses that will be tomorrow's winners are amongst this pool and these are the types of businesses we generally look for and hold in the portfolio.

Additionally, the top performing sectors for the Small cap portion of the ASX over the 3 months have been Materials and Real Estate. These sectors comprise about 35% of the ASX Small Ordinaries Index and the exposure in the portfolio to these sectors is around 6% at the time of writing.

We typically do not invest significantly in the Mining and Real Estate sectors of the ASX and this has created a recent relative headwind for performance.

Importantly, the majority of the recent underperformance has not been from estimating the earnings trajectory of businesses incorrectly but from macroeconomic factors causing headwinds for our company valuations and tailwinds for sectors and company types we typically have reduced exposure to or avoid. This includes companies with weaker balance sheets that have outperformed more recently and that we generally avoid. We remain steadfast about not changing our investment philosophy and process to seek out companies with weaker business models and higher levels of debt.

In the medium to long term company share prices follow the earnings growth of businesses and should we continue to find those with superior earnings growth, as we believe we have historically, and as we strongly believe we will continue to, then share prices and hence portfolio performance will follow.

We are excited to be heading into the February reporting season at present where share prices in the Fund will have a chance to trade off company specific news as opposed to the broader economic environment.

3. Portfolio positioning

Cash levels remain around average levels, we see valuations as fair to full and ideas are plentiful. In the most recent market sell off we have reduced allocations to those whose prices have held up better to fund positions in company's whose valuations have de-rated but their fundamentals remain strong.

Our focus on valuations remains front of mind to ensure we are not overpaying in an environment where pressure could remain if longer term interest rates continue to head higher. We are also ensuring portfolio companies can manage cost input pressures in the current environment to preserve margins and cash flow generation

4. Stock update

City Chic (ASX:CCX) is a plus size women clothing company with sales occurring predominately online in Australia, the US, the UK and Germany. The company's share price fell with analysts pointing to softer website traffic data in December. In January, the company came out and reported a beat on revenue expectations as CCX invested significantly in inventory and were able to weather supply constraints. With our analysis, we were able to look through the issues with the disappointing website traffic data which allowed us to purchase the company when the share price dipped. We believe the earnings trajectory of the business has not deteriorated, and the business is in line to hit or exceed consensus full year earnings.

5. OPH trading at a premium

We note the OPH share price has continued to trade at a premium to its Net Tangible Asset per share (NTA), though the size of the premium has recently decreased. Our goal is for the OPH share price to trade as close to the NAV of the Fund as possible.

6. OPH buy-back facility

We commenced utilising the buy-back facility for OPH during March 2020 as markets sold off during the early stages of COVID-19. We recently renewed the facility and will continued to utilise this 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,

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