

9 March 2022

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

Dear Investor,

On Wednesday 9th March 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 month, Covid-19 took a backseat from headlines as geopolitics returned to the fore. Tensions between Russia and Ukraine boiled over towards the end of February with Russian troops invading Ukraine. Beyond the tragic human toll associated with war, the US stock market opened the day after the invasion in the red and prices surged for oil and other commodities on worries the conflict could disrupt supply chains – both countries are major producers of energy, grains and other commodities. These moves reverted after President Joe Biden said he wanted to limit any economic pain for Americans, and he also announced new sanctions on Russia.

For the month ending 28 February 2022, the Net Asset Value (NAV) of the Fund was down -7.1% (net of fees) with the OPH ASX unit price down -3.3%, compared to the benchmark which was down -0.2%.

2. Observations

The rotation from Growth to Value stocks was the key driver behind the Fund’s soft performance during February. Energy and Materials were the top performing sectors as they surged alongside commodity prices due to concerns over supplies from the Russia-Ukraine conflict.

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

Whilst on a humanitarian side the outcomes to date in Ukraine are shocking, we believe markets are more likely to be influenced this year by the US Federal Reserve and their actions in seeking to bring inflation back towards its 2% target rate.

In terms of our observations of the current reporting season, supply chain and labour cost issues are persisting across the board. Companies’ stock prices are also being punished severely for any surprises on the downside, irrespective of materiality. The upgrades versus downgrades ratio for our portfolio companies remains in line with our historical average although this hasn’t been reflected in the Fund’s performance in the current environment.

3. Portfolio positioning

Cash levels increased slightly during February albeit they remain at low levels and the number of holdings reduced from 28 to 26 over the month with no changes made to the Fund’s core positions. We have rotated capital from our lowest conviction holdings to our highest conviction calls and the earnings growth profile of the portfolio continues to remain strong while valuations have become even cheaper.

4. Stock updates

Lovisa (ASX:LOV) designs, develops, sources and merchandises fast fashion jewellery for the younger age demographic. The company released its earnings and delivered 21% growth in like for like sales as economies reopened and, importantly, they rolled out 42 new stores. Its share price rose +13.0% in February. The new CEO has invaluable experience in Asia (though is previous role at Zara) which is a region that has exceptional capacity for growth and we believe the business has the potential of becoming a global brand as store rollouts continue to accelerate.

Corporate Travel Management (ASX:CTD) manages the purchase and delivery of travel services for the corporate market. CTD missed earnings expectations due to Omicron curtailing travel in the fourth quarter of 2021 (particularly in the US and Europe) and elevated expenses as investments in the Sales and Client Services divisions were made on the back of strong demand prior to Omicron. The company still rose +4.9% as the market looked forward to a strong rebound in travel. We think the business is in a fantastic position with net cash, strong customer service and good technology versus peers and believe CTD can reach their pre-Covid levels of profitability in the short to medium term though its winning of new customers.

Uniti Wireless (ASX:UWL) is a telecommunication products and services provider and is a competitor to the National Broadband Network. The business reported their earnings which met expectations, however, analysts downgraded future earnings as UWL noted it expects construction to slow in the first half of 2022 on the back of labour shortages. We don't think there will be any earnings downgrades even with construction slowing and believe UWL will benefit over time from economies reopening. We topped up our holding in UWL after its stock price fell -21.3% in February.

City Chic (ASX:CCX) is a plus size women clothing company with sales occurring predominately online in Australia, the US, the UK and Germany. CCX reported at the top end of their earnings guidance but the stock price slid -20.4% in February as the market did not anticipate a rise in inventory costs over supply chain fears. The company is growing around 30% in the US and 20% online in Australia. We believe the company has been unfairly sold and we have topped up our holding during the month.

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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