8 April 2022

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

Dear Investor,

On Friday 8th April 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

During March, the Federal Reserve raised interest rates by 25 basis points, signalling the start of an aggressive rate hiking cycle. More interest rate hikes are expected to occur throughout the rest of 2022 in the US and this continued to be a drag on performance domestically for Growth stocks vs. Value stocks (the MSCI Australia Growth index (+5.8%) returned less than the MSCI Australia Value index (+8.8%) during March). The Russia/Ukraine conflict continued, with share market participants remaining anxious as inflation numbers creep higher due to disruptions in supply chains and broadly higher commodity prices. Energy and Materials sectors were the standout performers during the month which was a headwind to performance given we are typically underweight in these sectors.

For the month ending 31 March 2022, the Net Asset Value (NAV) of the Fund was up +6.5% (net of fees) with the OPH ASX unit price up +7.7%, compared to the benchmark which was up +6.2%.

## 2. Observations

During the month we witnessed shorter term US government interest rates (2 years) move higher than longer term interest rates (10 years) in the US. This phenomenon, known as an "inversion" of the yield curve, can be a very earlier predictor of an impending recession. We think investors should be alerted (not alarmed) by this as share markets have typically produced good returns for 12-18 months after an inversion. Yield curve inversions generally occur when the economy is doing well and this is the cause of the latest inversion.

We are also seeing attractive valuations in small cap stocks in Australia. The cyclically adjusted P/E ratio (or "CAPE ratio") for the ASX Small Ords index is now in line with its long-term average. A CAPE ratio is calculated by dividing Price by the average real earnings over 10 years and historically has been a good predictor of future returns. By this measure the ASX Small Ords index is trading cheap enough to suggest attractive returns from the segment of the market we invest in over the long term.

Lithium and Resource companies were at the top of the share price leader board during March due to the upwards pressure on commodity prices and we note the AUD appreciated against most major currencies during March, including the US Dollar and the Euro.

## 3. Portfolio positioning

We continue not to make major macroeconomic calls nor make significant changes to our portfolios in anticipation for these specific outcomes. We continue to invest in high quality companies that can continue to grow and win market share, whilst maintaining good balance sheets and can appropriately manage cost input pressures. The team has maintained their ability to select companies that are growing above market expectations and we note the current level of volatility is presenting great opportunities. The team has been ramping up travel to visit and find those stocks that can be the foundation of great returns over the long term.

4. **Stock updates**

Uniti Wireless (ASX:UWL) is a telecommunication products and services provider and is a competitor to the National Broadband Network. The company received multiple takeover bids during March which resulted in its share price surging.

Elders (ASX:ELD) is a provider of livestock, real estate, and wool services to rural and regional customers in Australia. The agricultural business has been benefitting from heavy rainfall across Australia recently and was a top share price performer during March.

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 stock price fell during March primarily due to concerns around higher inventory levels and whether these could be sold. We think the business is still growing at a strong rate and find it attractive given its low valuation. We remain confident the deliberate investment in higher inventory levels by management is the right move and will help protect them from any supply chain issues. Given the "staples" nature of their clothing we think the high levels of inventory will be able to be sold as it holds enduring appeal for their customer base.

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,

Andrew Mitchell & Steven Ng

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