

3 June 2022

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

Dear Investor,

On Friday 3<sup>rd</sup> June 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. Market & Fund performance

The Australian stock market concluded the month of May in the red. Larger Australian companies held up significantly better than their smaller counterparts, with the ASX 200 and ASX Small Ords indices returning -2.5% and -7.0% respectively.

The ongoing uncertainties impacting markets such as inflation, supply chain issues, lockdowns in China and the conflict between Ukraine and Russia persisted during the month. These uncertainties remain fluid and are continuing to weigh on investor sentiment. As such, we are witnessing capital rotate out of small cap companies and are seeing less liquidity in this part of the market.

The market’s earnings growth continues to hold but cracks are starting to emerge at the consumer level. We believe the bulk of the compression in small cap valuations globally has already occurred as longer term interest rates are now at more “normal” levels of around 3% in the U.S. In terms of the direction of markets from here, we believe this will be primarily determined by the path of company earnings, however, the persisting uncertainties may crimp company revenues and/or constrain margins. Given consumer spending is weakening, we expect to see a slowdown in demand and consequently inflation should moderate. This in turn should put less pressure on the Fed to increase interest rates and if they are able to engineer a soft landing, earnings should continue to increase.

For the month ending 31 May 2022, the Net Asset Value (NAV) of the Fund was down -5.6% (net of fees) with the OPH ASX unit price flat, compared to the benchmark which was down -5.2%.

### 2. Experience in down markets

Steven Ng and Andrew Mitchell (Co-Founders and Senior Portfolio Managers) started managing money together through the GFC from 2007 to 2011 at Paradise Investments. The fund they co-managed fell in value by over 50% as of February 2009. Steven and Andrew continued focussing on finding high quality businesses that were trading at very cheap multiples. From the low point in February 2009, the fund went on to return approximately 200% (gross of fees) by November 2011, significantly outperforming the ASX Small Ords index. Our experience tells us that viscous sell offs create the best opportunities and ultimately leads to significant future returns when the market starts focussing back on company fundamentals.

### 3. Portfolio actions & comments

We’d like to reiterate that we are not changing our investment process in terms of how we pick stocks or the market segments we typically invest in. Our ratio of picking companies that are upgrading earnings remains strong and over the long term, we believe, and history shows, stock prices follow earnings growth.

We continue to be underweight commodities, energy, utilities and REITS where we have less insights. We have also recently decreased our consumer discretionary exposure, increased our exposure to defensive growers at a reasonable price and also companies further up the market cap spectrum (but still in the small/mid cap space).

#### **4. Stock updates**

Mineral Resources (ASX:MIN) operates as a mining services and processing company in Australia, China, and Singapore. It is one of the few resources companies we own and we have been following the company since its IPO in 2006. We do not consider MIN to be a speculative business as it owns operating mines, generates cash, has expansion plans and pays a dividend. During the month it continued to benefit from lithium and iron ore prices rising and the company raised \$1.25bn USD via bonds overseas to fund expansion of its iron ore operations in Western Australia. As a result, we think this will alleviate any pressure on the company to raise further capital to fund its expansion.

Omni Bridgeway (ASX:OBL) is a litigation funder that's quite unique in that it provides financing for legal cases to plaintiffs in which it either receives a fee and/or a share of settlement amounts for any cases it is able to resolve. There was no significant news during the month but OBL announced a new debt facility which will decrease pressure to raise capital. Importantly, we consider this business to be non-correlated to the broader economy as it mainly operates on legal cases which can rise due to misbehaviour during more difficult times. We believe the transition of its business model, from self-funding all of its cases to managing capital on behalf of others and earning a fee on that capital, has not yet been fully appreciated by the market. We also note that OBL was a very strong performer during the GFC.

AUB Group (ASX:AUB) is an insurance broker located in Australia. This business was also a strong performer through the GFC but was down for the month as the market digested a capital raising for an acquisition of a wholesale broker in the UK called Tysers. The market has a level of scepticism regarding large cap raises or acquisitions of an overseas entity in the current environment. However, we believe that this acquisition is a strategically important one and if AUB can execute on its integration plans and deliver the growth/synergy benefits it has identified, we believe this acquisition can be very accretive for shareholders.

Corporate Travel Management (ASX:CTD) provides corporate travel services to predominantly medium to large size corporations globally. During May, the company gave a trading update at the Macquarie Conference and noted that while travel continues to recover very quickly, it announced its full year earnings forecast which was lower than market expectations. However, we believe CTD can recover its earnings not only to pre-Covid levels, but exceed this given the contract wins over the last few years on the back of its superior service offering, technology and sound balance sheet position.

#### **5. OPH trading at a premium**

We note the OPH share price traded at a discount for a very brief period during the month but has since traded at a premium to its Net Tangible Asset per share (NTA).

#### **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

Co-Founders & Senior Portfolio Managers  
Ophir Asset Management

For further information, please contact:

George Chirakis

Chief Executive

Ophir Asset Management

[george.chirakis@ophiram.com](mailto:george.chirakis@ophiram.com)

This information has been prepared by Ophir Asset Management (ABN: 88 156 146 717, AFSL 420082) the Investment Manager of the Ophir High Conviction Fund and is authorised for release by The Trust Company (RE Services) Limited (ABN: 45 003 278 831, AFSL 235 150) as responsible entity and the issuer of units in the Trust. It is general information only and is not intended to provide you with financial advice and has been prepared without taking into account your objectives, financial situation or needs. You should consider the product disclosure statement (and any ASX Announcements) prior to making any investment decisions. If you require financial advice that takes into account your personal objectives, financial situation or needs, you should consult your licensed or authorised financial adviser. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. We note past performance is not a reliable indicator of future performance. The PDS and target market determination can be obtained by calling +612 8188 0397 or visiting our website [ophiram.com.au](http://ophiram.com.au).

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**Ophir Asset Management**

Level 26, Governor Phillip Tower

One Farrer Place

SYDNEY NSW 2000

[ophiram.com](http://ophiram.com)