

11 October 2022

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

Dear Investor,

On Tuesday 11th October 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 insights & Fund performance*

Equity markets felt the full brunt of the “September Effect” this year. Larger companies in Australia fell meaningfully with the ASX 200 returning -5.7% whilst smaller Australian companies fared even worse with the ASX Small Ordinaries index falling by a significant -11.0% in September. Similarly in the U.S., the S&P 500, Nasdaq and Russell 2000 indices fell by -9.2%, -10.4% and -9.6% respectively.

There was a notable divergence of returns for Growth vs. Value stocks in Australia with the MSCI Australia Growth index underperforming the MSCI Australia Value index by 4.3% over the month and in the U.S. large cap market, Growth also underperformed Value with the S&P 500 Growth index underperforming the S&P 500 Value index by 1.5%. This result was reversed for U.S. small caps, with the Russell 2000 Growth index beating the Russell 2000 Value index by 1.2%.

In early October, the RBA came out and raised interest rates by 25 basis points which surprised some market spectators who were expecting a 50 basis point increase. The RBA’s target rate is now 2.6% which is the highest level since 2013. This was a positive for the Australian share market which rallied on this news.

For the quarter ending 30 September 2022, the Net Asset Value (NAV) of the Fund was up +2.4% (net of fees) with the OPH ASX returning -6.3%, compared to the benchmark which was up +2.4%.

*We note past performance is not a reliable indicator of future performance.

2. Stock updates

Top contributors for the quarter

AUB Group (ASX:AUB) provides insurance broking, underwriting and risk services in Australasia. It reported results at the top end of market expectations for FY22 and provided solid guidance for next year which was better than expectations. AUB’s share price rose +9.2% for the quarter.

Life360 (ASX:360) is a technology company in the business of ensuring the safety of family members. It delivered a strong recurring earnings beat for FY22 and, importantly, for the latter half of the year announced price increases for its membership base. We believe the business will reach break even in the near term and 360’s share price surged +74.3% for the quarter.

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. MIN is a producer of iron ore and lithium, and its lithium result was very strong for

FY22. MIN also announced plans for its Ashburton project which should increase the production rate of iron ore whilst also materially reducing average costs. MIN's share price rose +38.4% for the quarter.

Top detractors for the quarter

Codan (ASX:CDA) is a communications and metal detection business based in Adelaide. In its latest earnings report, CDA managed to meet expectations on earnings but missed on revenues. It also acknowledged that over the last two years it was a beneficiary of Covid and its share price fell -16.8% over the quarter.

Kelsian (ASX:KLS) operates public infrastructure transport systems (land and marine) and tourism services in Australia, Singapore and the U.K. It delivered earnings in line with market expectations but its margins were soft and its outlook was constrained mainly due to the lack of availability of labour. KLS's share price fell -13.8% for the quarter.

NextDC (ASX:NXT) provides data centre outsourcing solutions, connectivity services and infrastructure management software. It reported at the top end of guidance but silence on major contract wins disappointed the market. The company's share price fell -17.1% for the quarter.

Stock in Focus

AUB Group (ASX:AUB) provides insurance broking, underwriting and risk services in Australasia as noted earlier. A unique aspect of AUB is that it partners with local management teams of acquired businesses and adopts an owner-driven model to attempt to deliver the best outcomes for its clients. It services almost one million clients in over 500 locations.

One of the elements we like about AUB is the resilience of its earnings. Small to medium enterprises are unlikely to cancel their insurance cover in market downturns as it is a core pillar of any business, much like accounting. During the GFC, whilst the ASX Small Ordinaries index fell -34.6% from June 2007 to December 2009, AUB rose 21.9% during the same period.

Whilst being resilient, AUB has also been able to grow earnings strongly. AUB's earnings have increased over 4x since its listing in late 2005, and some of its peers in the insurance space have also grown at a similar rate. These businesses can grow through organic growth as well as strategic acquisitions. Providing upside we believe AUB has room to improve its broker and agency margins which lag competitors such as Steadfast Group and PSC Insurance.

Finally, we see a valuation gap that has opened up recently for AUB compared to peers. AUB has historically traded relatively in line with Steadfast Group and PSC Insurance in terms of its P/E ratio, but in 2022 the valuation gap has widened considerably, likely due to AUB's recent acquisition of Tysers. We believe there is more upside than expectations from this acquisition as management have been conservative with its guidance and stated synergies.

3. OPH trading at a premium

We note the OPH share price traded at a single digit discount to its Net Tangible Asset per share (NTA) for the majority of September 2022.

4. 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 have 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

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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. The PDS and target market determination can be obtained by calling +612 8188 0397 or visiting our website ophiram.com.au.

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