

8 March 2023

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

Dear Investor,

On Wednesday 8th March 2023, 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*

After a roaring start in January 2023 equities got a reality check in February from higher-than-expected inflation numbers and a stronger-than-expected labour market in the U.S.. The Australian market trailed most other developed markets with the ASX 200 and ASX Small Ords indices falling by -2.3% and -3.6% respectively.

The catalyst for the falls were economic datapoints coming out from the U.S. suggesting that the interest rate hikes to date have not taken enough demand out of the economy. As a consequence, analysts are projecting the Federal Funds Rate in the U.S. to peak higher and stay in restrictive territory for longer.

For the month ending 28 February 2023, the Net Asset Value (NAV) of the Fund was down -0.9% (net of fees) with the OPH ASX returning -5.1%, compared to the benchmark which was down -3.5%.

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

2. Reporting season update

February is an important month for the Fund as portfolio companies announce their half yearly results. In this reporting season, 46% of the Fund beat expectations, 37% provided results in line with expectations and 17% missed expectations. In terms of guidance, 30% of the Fund raised, 37% maintained, 4% downgraded and 28% didn't provide guidance. These figures are reweighted to only include stocks that reported in the latest reporting season.

We continue to identify companies that can still grow and exceed market expectations with nearly half of the portfolio beating expectations. However, the number of companies missing earnings are increasing too and this is not unexpected with economic growth slowing.

Going forward, particularly for the next reporting season in August, we are likely to see two dynamics:

1. Increasingly tougher economic conditions as interest rates bite. The quantity of companies downgrading guidance either prior to or at the time of their result should increase.

2. A more uncertain environment means companies will be more reticent to give guidance.

As a result, the team is working hard to analyse the changing macroeconomic backdrop and the impact on earnings for the companies we own in the portfolio.

3. Stocks in focus

AUB Group (ASX:AUB) – provides insurance broking and agency services in Australasia and is represented by approximately 135 businesses. AUB delivered on three fronts in its latest report: upgraded 1H earnings, upgraded FY earnings and upgraded medium term margin guidance. Mike Emmett (CEO) and the team continue to execute strong operational disciplines in the Australian and NZ businesses, turning around underperforming brokers as well as investing in IT and services to improve existing brokers. The stock price rose +17.4% in February.

Seven Group Holdings (ASX:SVW) – engages in heavy equipment sales and service, equipment hire, building products and construction materials, media, broadcasting and energy assets businesses. SVW produced a good earnings update and upgraded guidance, resulting in its share price rising by +8.0% over the month.

IDP Education (ASX:IEL) – engages in the placement of students into leading education institutions internationally with leading position in Australasia, UK and Canada. IEL also administers the leading high stakes English language test IELTS throughout much of the world. The company delivered over 25% growth but this result was marginally lower than market expectations and IEL's share price fell -8.0% in February.

NIB Holdings (ASX:NHF) – underwrites and distributes private health insurance to Australian and New Zealand residents. NIB's overall earnings result was marginally softer than market expectations. Its core insurance business result was a little lower than expectations but more importantly continues to grow above system growth. Other business lines in the group outperformed as they recovered from Covid lockdowns. Excitingly, NHF continues to execute on its new investment in the plan managers for NDIS – its foundation asset of Maple Plan was complemented by acquisitions of Peak Plan Management and Connect Plan Management. We remain excited about the longer term opportunities in this area. We note the share price fell -3.4% over the month.

4. Portfolio positioning and outlook

We continue not to make major macroeconomic bets and have a skew towards growth stocks vs. cyclicals/resources companies in line with our style of investing. Our focus remains on earnings, valuations, balance sheets and resilience of demand given the uncertain macro backdrop. We're still somewhat cautious and deploying capital carefully but we continue to find opportunities at valuations that are much more attractive than 12-18 months ago.

5. OPH trading at a discount

We note the OPH share price traded at a discount to its Net Tangible Asset per share (NTA) for February 2023.

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 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
Ophir Asset Management

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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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