

4 April 2023

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

Dear Investor,

On Tuesday 4th April 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\***

Equity markets tracked down for the second month in a row.

In key news, two major banks in the U.S. (Silicon Valley Bank and Signature Bank) collapsed during the month, with the former being the second largest bank failure in U.S. history. Regulators made a swift decision to provide funding to depositors which stemmed investor concerns around the impact of the bank collapses. Analysts have increased the chances of a recession which ultimately saw Financials lead share markets down over the month.

For the month ending 31 March 2023, the Net Asset Value (NAV) of the Fund was down -1.7% (net of fees) with the OPH ASX returning -3.8%, compared to the benchmark which was down -1.6%.

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

### **2. OPH trading at a discount**

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

We like the opportunity to buy low throughout the cycle, whether that is stocks in our own Funds, or OPH itself with our own personal investments.

During the month, Senior Portfolio Managers and Founders, Andrew Mitchell and Steven Ng, personally purchased units in the Fund at a material discount.

### **3. Stocks in focus**

#### Top contributors for the quarter ending 31 March 2023

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. The stock price rose +13.2% over the quarter.

Domain Holdings (ASX:DHG) – offers residential and commercial property marketing services through its listings portals on desktop and mobile. Despite a tough property market at present, in our view the market looked through to some signs of life on the other side and its stock price rose +29.5% over the quarter.

Webjet (ASX:WEB) – provides online travel booking services in Australia and internationally. Webjet delivered very strong results on the back of travel recovering. The stock price rose +13.6% over the quarter.

Viva Energy (ASX:VEA) – manufactures, imports, blends and distributes fuels, lubricants, solvents and bitumen in Australia and internationally. VEA benefited from stronger refining margins and its stock price rose +11.0% over 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 benefited from increasing lithium prices over the quarter. MIN's share price rose +4.4% for the quarter.

#### Top detractors for the quarter ending 31 March 2023

Omni Bridgeway (ASX:OBL) – litigation funding business that 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. OBL delivered an earnings report that was weaker than expectations and its stock price fell -26.5% over the quarter.

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 and its stock price fell -9.0% over the quarter.

A2 Milk (ASX:A2M) – sells A2 protein type branded milk predominately in Australia, New Zealand and China. Concerns around China's birth rates resulted in the stock price falling by -15.6% over the quarter.

Genesis Minerals (ASX:GMD) – Australian gold exploration and mine development company with projects in Western Australia. GMD experienced timing issues around its merger with St Barbara Mines and its stock price fell -11.2% over the quarter.

Challenger (ASX:CGF) – publicly listed investment management business and Australia's largest provider of annuities. CGF received collateral damage from banking issues that have ensued in Europe and the U.S. The stock price fell -18.1% over the quarter.

## **4. Risk Management**

Risk management is an imperative part of our investment process. Our risk management consists of several factors beginning with a 'meltdown' score for each business. The meltdown score is made up of 7 components and a score between 1 and 5 is allocated for each, with 1 being the best and 5 being the worst, giving a total meltdown score between 7

and 35. The total meltdown score is then weighed against other factors before making an investment decision.

In addition, we seek to protect the portfolio through (1) stock, sector and geographic diversification, (2) a quality bias in the companies we select, which typically sees them having lower levels of debt than average and with higher quality management teams, and (3) limiting the size of our funds which allows us to remain nimble which is especially important during volatile times to take advantage of opportunities and mitigate risk.

## 5. Debt levels of portfolio holdings

Given the recent issues in the U.S. regional banking sector and the prospect for credit tightening, naturally investors have been asking questions of the gearing levels of our portfolio companies. In terms of the debt profile of our portfolio holdings, looking at Net Debt/EBITDA, the constituents of the Fund have a lower Net Debt/EBITDA ratio than the benchmark (ASX Mid-Small Accumulation Index (Net) (AUD), being the composite benchmark of 50% of the S&P/ASX MidCap 50 Accumulation Index and 50% of the S&P/ASX Small Ordinaries Accumulation Index).

## 6. Portfolio positioning and outlook

The chances of a recession in the U.S. have increased. 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. The positioning of the portfolio in our perspective is balanced and positioned well for a range of outcomes.

## 7. 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**  
Level 27, Governor Phillip Tower  
One Farrer Place  
SYDNEY NSW 2000  
[ophiram.com](http://ophiram.com)

Ophir Asset Management

For further information, please contact:

George Chirakis

Chief Executive

Ophir Asset Management

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

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

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

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