Ophir High Conviction Fund

ASX: OPH

Figures as at 31 August 2024
Date of Issue: 18 September 2024

OPHIR

About The Fund

The Ophir High Conviction Fund (the Fund) seeks to provide investors with a concentrated exposure to a high quality portfolio of listed companies outside the S&P/ASX 50. Employing an extensive investment process that combines a rigorous company visitation schedule and fundamental bottom-up analysis, the Fund aims to identify businesses operating within structural growth sectors with the ability to meaningfully grow and compound earnings over time. Typically, the majority of businesses within the portfolio will already have well-established business models with large or growing end markets and a clearly identifiable pipeline of future growth opportunities. As a concentrated portfolio, the Fund seeks to identify the very best of these opportunities in order to ensure each portfolio position delivers a meaningful impact on overall portfolio returns.

ASX Code	Net Return Since Inception (p.a.)	Fund Size
ASX: OPH	+13.1%	$665.5m

Ophir Asset Management

- Privately owned investment management business established by founders Andrew Mitchell and Steven Ng in 2012
- Fundamental bottom-up research approach combining rigorous company visitation and detailed proprietary analysis
- Strict management of Fund capacity in order to protect performance
- Highly experienced investment team with extensive track record of high performance through all market cycles
- Complete alignment of interests - Senior Portfolio Managers are substantial investors in the Fund

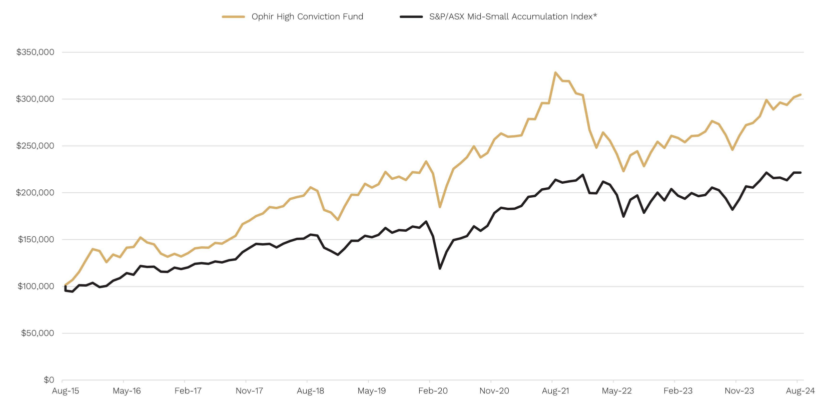

Chart represents net value of $100,000 invested since inception and assumes distributions reinvested.
Please note past performance is not a reliable indicator of future performance.
*The Fund's benchmark is the S&P/ASX Mid-Small Index, being the composite benchmark of 50% of the S&P/ASX MidCap 50 Accumulation Index and 50% of the S&P/ASX Small Ordinaries Accumulation Index.

	Since Inception (p.a.)	5 Years (p.a.)	3 Years (p.a.)	1 Year	3 Months	1 Month
Fund Return (Net)	13.1%	7.2%	-2.5%	11.5%	2.8%	0.9%
Benchmark*	9.1%	7.0%	1.2%	9.2%	2.4%	0.0%
ASX: OPH Unit Price Return	N/A	6.9%	-7.0%	7.7%	5.2%	2.3%

The figures in the table above assume reinvestment of distributions. Performance figures are calculated using the Net Asset Value (NAV) of the Fund as at 31 August 2024, not the market price. Past performance is not a reliable indicator of future performance.

*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.

Senior Portfolio Managers

Andrew Mitchell B Ec (Hons), MAppFin
Portfolio Manager

20+ years experience in financial markets, previously Paradice Investment Management and Commonwealth Treasury Department.

Steven Ng B Acc, CFA
Portfolio Manager

23+ years experience in financial markets, previously Paradice Investment Management and ING Investment Management

Key Information

Responsible Entity:	The Trust Company (RE Services) Limited
Investment Manager:	Ophir Asset Management Pty Ltd
Fund Inception:	August 2015
Number of Stocks:	20-40
Cash Distributions:	Annually
Redemptions:	Daily
Investment Objective:	Outperform benchmark (after fees) over long term (5+ yrs)

Allocation of Investments

Portfolio Sector Exposures

Top 5 Portfolio Holdings (Alphabetical) (as at 30 June 2024)

Company	Industry	ASX Code
AUB Group	Insurance	AUB
Infratil Ltd	Industrial	IFT
Life360 Inc	Software	360
NextDC Ltd	IT Services	NXT
Technology One	Software	TNE
Average Portfolio Market Cap		$7.7bn

Net Asset Value (NAV) & Unit Price

As at 30 August 2024	Amount
NAV	$2.99
Unit Price (ASX:OPH)	$2.66

Market Commentary

In August, despite a shaky start, the global share market generally saw gains across the major regions. Two factors caused the less than stellar start, a somewhat unexpected rate increase by the Bank of Japan saw the unwind of the "carry trade" and a very sluggish non-farm payrolls report in the U.S. raised recession fears in the world's largest economy.

While the S&P 500 was down just over -6% in the first few business days of the month, the Japanese stock market, as measured by the MSCI Japan Index was down just over -20% (!!!). Fortunately, a recovery took hold over the second week of August with the S&P 500, MSCI World and MSCI Europe up +2.3%, +2.5% and +1.4% respectively by month end. The Aussie market was a laggard though, with the ASX 200 flat (+0.0%), and despite a mammoth recovery the Japan stock market ended down -2.8% (MSCI Japan). Small caps also fared worse than large caps with the Russell 2000 Index and the ASX Small Ordinaries Index down -1.6% and -2.2% respectively.

Growth outperformed Value in the domestic market for the third consecutive month. The MSCI Australia Growth index returned 1.2% while the MSCI Australia Value index returned -0.2%. Growth stocks have outperformed value stocks in the Australian market over the last year by 7.9%.

Australian July CPI, released at the end of August, indicated that while inflation continues to slow, it remains higher compared to many other advanced economies. CPI rose 3.5% in the 12 months to July, which was 0.3% lower than the previous month but +0.1% above expectations. During the month the RBA meeting minutes revealed that it considered raising rates and as at writing, market pricing suggests the first RBA rate cut will not occur until the February 2025 meeting.

Australian full year reporting season finished in August, and we saw two key takeaways: 1. Growth companies had a disproportionately high level of earnings beats as investors were looking for growth in a slow growth environment, and 2. Defensive type businesses that missed earnings estimates had their share prices hit hard, such as A2 Milk (ASX:A2M) and NIB Holdings (ASX:NHF).

Looking at the ASX Small Ords Index, the Financials (+1.7%), Real Estate (+1.3%) and Materials (-0.7%) sectors were the best relative performers whilst the Energy (-13.0%), Industrials (-5.2%) and Information Technology (-4.6%) sectors were the worst performers, with Energy in particular facing a tough time as energy/uranium commodity prices were softer.

Portfolio Commentary

During August, the Ophir High Conviction Fund's investment portfolio returned +0.9% (net of fees) versus the index which returned +0.0%. Since its inception in August 2015, the Fund has returned +13.1% p.a. (net of fees) while the index has returned +9.1% p.a.

The Ophir High Conviction Fund's ASX listing provided a total return of +2.3% for the month.

In terms of portfolio positioning, the number of holdings decreased to 29 and cash levels increased to 7.3%. In response to rising soft landing probabilities in Australia and the U.S. through the early part of this year, we have incrementally increased allocations to select holdings within the cyclical portion of our portfolio, though cautiously and with a keen eye on ongoing economic uncertainties. We will await further evidence before materially increasing cyclical allocations further as recent leading economic data globally has in generally disappointed and growth concerns in the U.S. and Australian in particular have increased.

One of the largest contributors to performance for the month was the family safety company Life360 (ASX:360). At its August results, the company beat on earnings and raised guidance but surprised us also with a revenue beat versus expectations. Its core subscription business continues to go from strength to strength. 360's share price rose +15.5% in August.

One of the largest detractors to performance for the month was Johns Lyng Group (NZX: JLG). JLG works with insurers on building and restoration services and saw its "business as usual" revenue disappoint as benign weather conditions saw a reduction in the need for its services during the period. JLG's share price fell -36.0% during the month.

Outlook

Market attention regarding the U.S. economy has shifted from falling inflation to concerns around the health of the labour market. Whilst not falling off a cliff, labour market indicators suggest that rate hikes by the U.S. Federal Reserve are finally starting to bite. This has seen the Fed, and market pricing, indicate that a U.S. rate cutting cycle is about to begin in September. The key question for markets is - will this be a gradual "soft landing" rate cutting cycle or will greater emergency "hard landing" cuts be needed to support demand?

Market pricing has about 2.5% of Fed Funds Rate (FFR) cuts priced in by the end of 2025 taking the FFR to about 2.9%. Given the lags in monetary policy though, the effects of restrictive policy should still be felt throughout much of 2025, keeping recession risks alive. We also expect heightened volatility near term as the U.S. approaches its 5th November election date.

Australia is likely to be the laggard in terms of rate cuts given stickier inflation. This is despite economic growth remaining quite weak (elongated GDP per capita recession) with younger consumers in particular feeling the pinch of high inflation and rents.

The portfolio remains balanced with a mixed of cyclical and defensive growth companies, with an incremental bias at present for adding companies with less macro sensitive and more resilient earnings streams, which we believe is appropriate given the current market environment.

Given our focus on earnings growth, our portfolio is poised to benefit from positive market news. Smaller growth companies remain cheap relative to large caps which provides opportunity for the portfolio.

Investment Philosophy

Investment Process

Ophir employs a fundamental, bottom-up research approach aimed at identifying businesses with the ability to meaningfully grow and compound earnings over time. Typically, the investment process will look to uncover businesses that are operating within, or about to enter, a period of structural growth and are generating cash or have a clearly identifiable pathway toward free cash flow generation. In order to identify these opportunities, the Ophir investment team spend a considerable amount of time understanding the quality of the business and the environment in which it operates.

About Ophir Asset Management

Ophir Asset Management is a specialist small and mid-cap equities investment manager established by founders Andrew Mitchell and Steven Ng in 2012. The business currently manages approximately $2.0bn in capital on behalf of institutional superannuation funds, family offices, private wealth groups and individual investors.

The investment team comprises 11 investment professionals drawn from a diverse range of backgrounds working across all Ophir funds.

Key Investor Contacts

Investor Services

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Investment Enquiries

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