20 October 2021

Ophir High Conviction Fund (ASX:OPH) – Quarterly Webcast

Dear Investor,

At 2pm (AEDT), Wednesday 20th October 2021, we will hold an investor webcast to provide an update on our funds, including the Ophir High Conviction Fund (ASX:OPH, "the Fund").

Please find below the key points we will convey at the webcast relating to the Fund.

1. Fund performance

Covid-19 was the biggest obstacle for Australian companies over the last quarter as major parts of the country plunged into lockdown as the delta variant of Covid-19 swept across the nation. In August, most Australian companies reported their full year earnings results although many refrained from providing guidance around their expectations on future earnings. Overall, the results of the reporting season were broadly strong. Earnings downgrades for FY22 of -1.4% were seen during reporting period though, above the average reporting season downgrade of -0.7% which was no doubt correlated to the aforementioned lockdowns in Australia. The market surged in August (ASX Small Ords up +5.0% and ASX200 up +2.7%) before taking a sharp U-turn in September with the ASX Small Ords and ASX200 returning -2.0% and -1.5% respectively. Factors that contributed to the September market fall include a surge in bond yields, concerns around the Chinese real estate market, US debt ceiling issues and soaring energy prices.

For the quarter ending 30 September 2021, the Net Asset Value (NAV) of the Fund was up +8.0% (net of fees) with the OPH ASX unit price down -0.2%, compared to the benchmark which was up +3.7%.

2. Observations

Consumer mobility unsurprisingly fell off a cliff as state governments failed to control the spread of the delta variant, however, we look forward to the "revenge spending" phenomenon from pent up demand as we'd witnessed in the US as freedoms were restored. Importantly, studies have now shown that vaccines are working. They're reducing the severity of Covid-19 and ultimately the hospital and death rates of patients have dropped significantly. Research has also shown that hospitalisation rates in the US and UK are now less per capita than the common flu so we think economies will learn to live with Covid (in the absence of new, more worrisome variants), shifting Covid from a pandemic to an endemic.

After discussions with a very large number of companies in September after they reported their earnings, we observed a shortage in labour and an increase in cost pressures across the supply chain. In particular, we saw an exponential rise in freight costs along the major transport corridors. Companies are now not only dealing with the increased freight costs, but due to the challenges and delays in moving goods, they are having to invest in greater buffers in inventory.

We also observed that in the domestic market, companies have generally decided to plow money into capital expenditure plans as confidence builds and hold onto current staff, in contrast to 2020. With the continuation of company spending and higher consumer savings, we believe economies are well positioned over the next couple of quarters as demand is sustained and supply costs begin to normalise.

3. Portfolio positioning

We would like to reiterate that we do not make major macroeconomic calls and nor make significant changes to our portfolios in anticipation for these specific outcomes. We continue to find well managed businesses with long run rates for growth that we can purchase at attractive prices.

We have a modest bias towards businesses that are benefitting from economies reopening, cash levels are relatively low as ideas are plentiful, and we remain underweight cyclical companies and interest rate sensitive stocks.

4. Stock update

Codan (CDA) is a company based in Adelaide which develops and distributes class-leading metal detection equipment. CDA is a company held in our Australian strategies and post its recent result, the stock has fallen circa 30% after the CEO announced his retirement. We think the company is still in an upgrade cycle and can maintain its growth of 15 to 20% per year. It has 35% return on capital, spends 10% of its revenue on R&D and it's maintaining its leadership in terms of the technology it possesses. We think the company is cheap given they are growing at twice the rate as the market, expanding into new geographies, have a strong management team and is a monopoly with pricing power. Hence we retain a core position in the company within OPH.

5. OPH trading at a premium

We note the OPH share price has continued to trade at a premium to its Net Tangible Asset per share (NTA). Our goal is for the OPH share price to trade as close to the NAV of the Fund as possible.

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

Ophir Asset Management
Level 26, Governor Phillip Tower
One Farrer Place
SYDNEY NSW 2000
ophiram.com

For further information, please contact:
George Chirakis
Chief Executive
Ophir Asset Management
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.

The Trust Company (RE Services) Limited (Level 18, 123 Pitt St, Sydney, NSW, 2000) is a part of the Perpetual group of companies. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital.