OPHIR

Ophir Asset Management
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Dear Fellow Investors,

Welcome to the **January 2019 Ophir Letter to Investors** – thank you for investing alongside us for the long term.

Update on Ophir High Conviction Fund (ASX:OPH) – Ophir Staff Purchases

As most would be aware, a close alignment of interests between portfolio managers and unitholders has long been a key pillar of the Ophir business.

The recent listing of the Ophir High Conviction Fund (ASX:OPH) has provided us with an ability to once again allocate additional personal investments into the Fund, with both Senior Portfolio Managers recently purchasing an additional $500k in OPH units on-market.

These purchases come in addition to further increased investments from the wider Ophir staff since the listing of the fund, ensuring your capital continues to be managed in the same way that we manage our own.

Month in Review

Despite registering their worst December monthly performance since the Global Financial Crisis, global equity markets instead roared back to life in January, the MSCI World Index surging +7.8% for the month to register its strongest monthly move since October 2011 and the best start to a calendar year since 1987. Unsurprisingly, it was the global equity market indices and industry sectors that had suffered the most amount of pain through the 4Q18 sell down that led the outperformance. US small cap stocks and global tech names were the most notable advancers, the US small cap Russell 2000 index climbing +11.2% for the month, while the NASDAQ added +9.7%.

	1 month	FYTD	1 Year	5-Year p.a.	Inception p.a.	Since Inception
Ophir Opportunities Fund^	**9.3%**	**(3.1%)**	**0.5%**	**23.1%**	**31.8%**	**500.8%**
Benchmark*	5.6%	(7.9%)	(3.1)%	7.4%	6.5%	50.7%
Value Add (Gross)	3.7%	4.8%	3.6%	15.7%	25.2%	450.1%
Fund Return (Net)	9.2%	(3.8%)	(0.7%)	18.4%	24.9%	324.8%

* S&P/ASX Small Ordinaries Accumulation Index (XSOAI)

	1 month	FYTD	1 Year	3-Year p.a.	Inception p.a.	Since Inception
Ophir High Conviction Fund^	**8.9%**	**(4.0%)**	**7.2%**	**12.4%**	**24.2%**	**113.7%**
Benchmark*	5.0%	(6.9%)	(3.0%)	12.2%	10.2%	40.4%
Value Add (Gross)	3.9%	2.9%	10.2%	0.2%	14.1%	73.3%
Fund Return (Net)	8.3%	(5.1%)	4.1%	10.3%	19.3%	85.3%

* 50% S&P/ASX Small Ordinaries Accumulation Index (XSOAI), 50% S&P/ASX Midcap 50 Accumulation Index (XMDAI)

Australian equities enjoyed similarly buoyant conditions, albeit not to the extent of their offshore counterparts. In a comparable outcome to the US experience, small and mid-cap stocks lead the Australian advance, with the S&P/ASX Small Ordinaries Index delivering a +5.6% gain in January, outperforming the larger cap S&P/ASX 100 by +1.9%. Both Ophir Funds delivered pleasing returns, with the **Ophir Opportunities Fund gaining +9.2% net of fees for the month and the Ophir High Conviction Fund rising +8.3% net.**

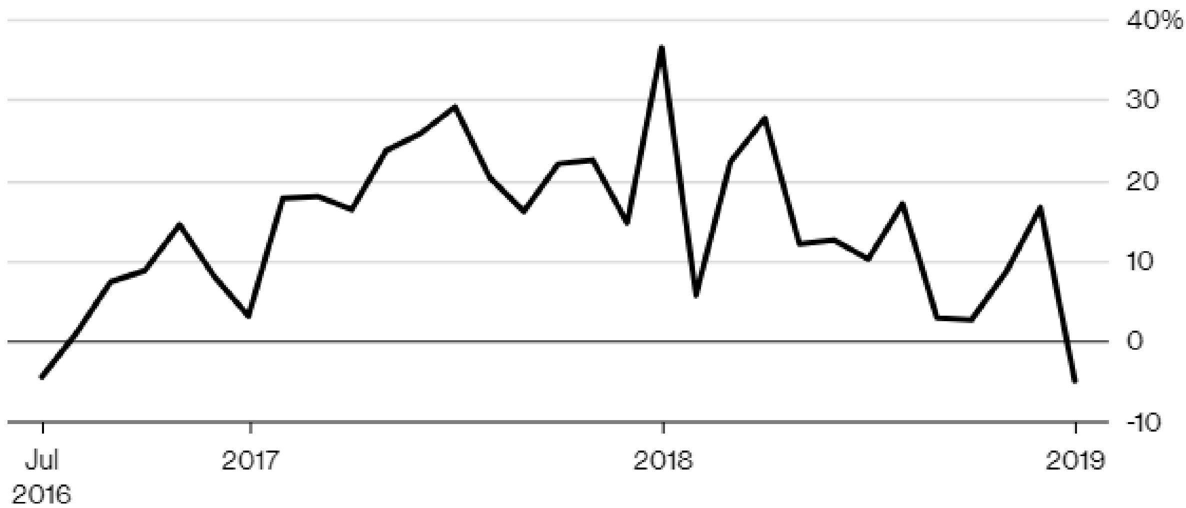
A decidedly more doveish tone from the US Federal Reserve provided the initial catalyst for the resurgence in animal spirits, as equity markets took comfort in commentary from US Fed Governor Jay Powell that further tightening in monetary policy would now be unlikely in the short term. Additional suggestions that further balance sheet reduction (or 'quantitative tightening') would also be adjusted to suit prevailing market conditions provided a soothing elixir for equity markets that had grown increasingly sensitive to the ramifications of an overly aggressive Fed at a time of slowing economic growth.

In any instance, the performance of global risk assets through January should remind investors that market sentiment has a tendency to turn excessively quickly during later-cycle economic environments. Attempting to time market entry and exit points can be fraught with difficulty and, unfortunately, often tends to deliver sub-optimal investment returns. According to TrimTabs Investment Research, **retail investors withdrew a record US$43.9bn in capital from US equity mutual funds in December 2018, the largest cumulative monthly outflow since the height of the global financial crisis in 2008.** With the MSCI US All Cap Index subsequently rising +8.65% in January, the outflow effectively represents ~US$3.8bn in value left on the table by US retail investors this month alone.

While the about-face from the US Fed will undoubtedly provide much-needed clear air for equity markets in the short term, economic releases this month have continued to indicate an ongoing slowdown in global aggregate demand and overall business confidence. The JP Morgan-IHS Markit Global Purchasing Manager Index (a measure of business activity levels across 18,000 firms in 40 countries) recorded its slowest pace of output in 28 months this month, while China's reported GDP for the final quarter of 2018 declined to an annualised growth rate of 6.4% year-on-year, a new 28-year low.

China's recent deceleration will certainly remain a focus for global and Australian investors over coming months, given the enormous influence the country exerts over global growth and trade figures. A continued softening in Chinese consumer-related data will be of particular concern to Australian businesses selling higher-end goods into the Asia-Pacific region. New car sales in China fell -5.8% in 2018, its first annual decline in 20 years, while casino revenues in Macau this month registered their first monthly contraction in two years.

Macau Gaming Revenues – First Monthly Decline in 29 Months



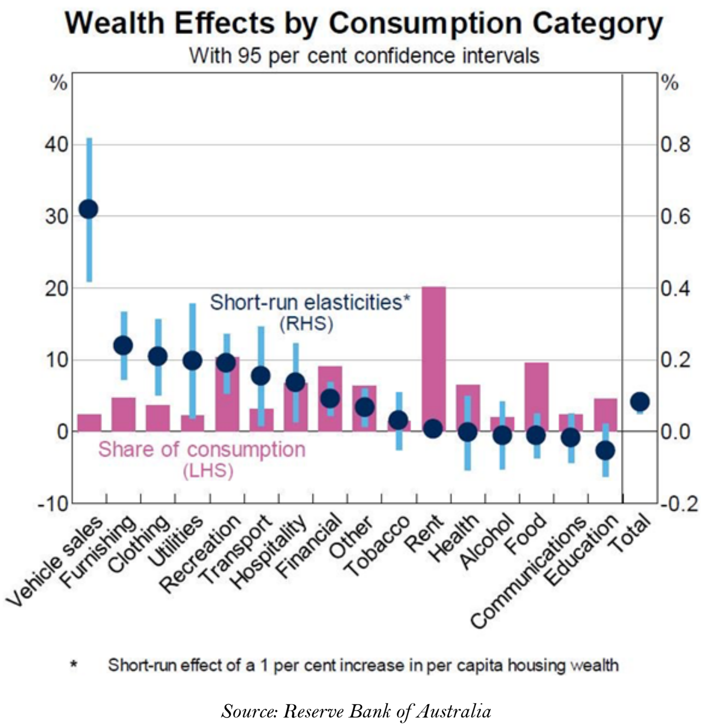
Source: Macau Gaming Inspection & Coordination Bureau

For now, however, global equity markets will embrace the 'bad news is good news' rhetoric for China, on the assumption that further economic weakness will likely compel the Chinese government to launch further stimulative measures. The desire for President Xi to ensure this year's celebrations of the 70th anniversary of the People's Republic of China this year are conducted amongst sound economic conditions shouldn't be underestimated - recent cuts to bank reserve requirement ratios to promote lending and promises of further tax cuts and government spending measures will likely support global growth expectations and, with it, the pricing of risk assets.

On Australian shores, the economic picture continues to face some challenges, with consumer and housing-related sectors again registering further signs of a slowdown in activity. December retail trading data released in January pointed to a softer Christmas trading period, with overall retail sales declining -1.4% (excluding food and hospitality). In a similar vein to anecdotes delivered by listed US retailers during the recent quarterly earnings period, the impact of November's Black Friday and Cyber Monday sales events appear to have drained consumer's wallets into December and left less spending capacity available for the more traditional Christmas and Boxing Day sales periods.

While the November 'pull forward' in sales will have contributed to the softer December retail numbers, there is little doubt that conditions in Australian retail remain exceptionally tough. Data tracking shopping mall foot traffic fell a further -4% in the first week of January after registering its worst December on record, while new car registrations fell -7.4% versus the same period last year. Earnings downgrades from listed Australian retailers **PAS Group (PGR) and Kathmandu Holdings (KMD)** both cited weaker trading conditions, while the reported demise of a variety of retail fashion chains have continued in earnest in recent months (Laura Ashley, Roger David and Crabtree & Evelyn some of the more recent announced closures).

This isn't wholly unsurprising – incremental increases in costs of living, a stubbornly stagnant wages environment and continued negative anecdotes from the East Coast housing market have all combined to ensure the Australian consumer remains on the back foot. The hyperbolic media commentary around deteriorating housing prices in recent months, particularly, will continue to keep sentiment weak in sectors most linked to the impact from negative wealth effects (namely auto sales, discretionary retail and hospitality).



Source: Reserve Bank of Australia

While retail conditions are undoubtedly tough, equity market investors should remain cognisant that expectations for the sector are low, with a large majority of the sector already trading at bottom of the cycle valuations. This likely sets up the space for a *'what can go right?'* scenario, where even the slightest indications of improving or stabilising conditions can be met with aggressive share price re-ratings. Furniture wholesaler Nick Scali (NCK), for example, recently reported a first half result broadly in line with market expectations, while conceding that providing any forward guidance was difficult given continued unpredictable trading conditions. The stock, however, had materially de-rated coming into the result (contracting from ~15x forward earnings to a historical low of ~9x) in expectation of a further deterioration in outlook. The share price subsequently rose +8.3% on the day.

Some relief for both the housing and retail sectors appears forthcoming from the RBA, however, with Reserve Bank governor Philip Lowe beginning the 2019 year with comments confirming a shift in stance within the bank towards a more neutral position on interest rate direction. The recognition of a 'loss of momentum' in the business sector and continued weakness in East Coast home prices has quickly led to heightened expectations for more accommodative policy settings next year, with interest rate futures markets now fully pricing in a 0.25% cut in the RBA cash rate to a new record low of 1.25% before February 2020.

All eyes, however, will now move to the pending ASX reporting season, with a raft of new data points and company updates shortly due to be revealed. While conditions have certainly been soft in some sectors of the economy, the quantum of material negative updates from the listed company space has been fairly limited in recent months and valuations continue to look attractive versus 12 months prior. Whilst a busy period, this is an exciting time for the investment team and we are certainly looking forward to the opportunity to meet with the management teams of our portfolio companies and gain an update on trading conditions, earnings and outlook.

Update on Ophir High Conviction Fund (ASX:OPH)

We have been pleased with the performance of the ASX-listed Ophir High Conviction Fund (ASX:OPH) since listing in December and are, once again, thankful for the support of all investors in undertaking the conversion to a listed vehicle. At ~$506m market cap, the Fund is the second-largest listed small-mid cap vehicle on the ASX, with average daily turnover of over $350,000 per day.

Utilising a 'best in breed' investment structure, the Fund provides a daily Net Asset Value (NAV) to the market to ensure transparency in pricing (these releases can be viewed on the ASX Announcements portal or at our website at http://www.ophiram.com.au/ophir-high-conviction-fund) and has recently announced the launch of a daily on-market buyback facility.

We'd encourage any investors, advisors or family office groups interested in learning more about the Fund to contact Ophir Investment Director Rob Saunders on (02) 8188 0397 or ophir@ophiram.com.

As always, thank you for entrusting your capital with us.

Kindest regards,

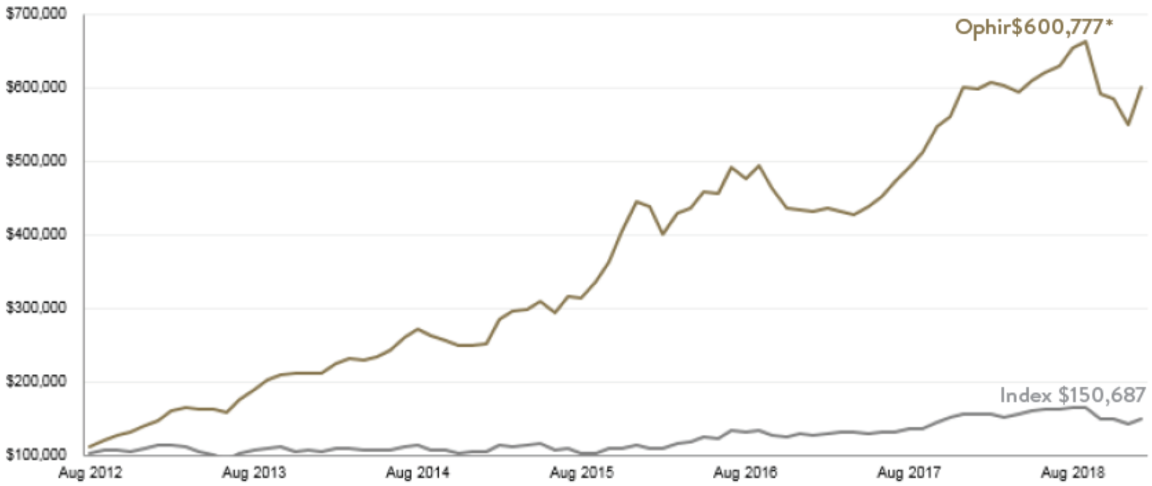
Andrew Mitchell & Steven Ng

Co-Founders & Portfolio Managers

Ophir Asset Management

The Ophir Opportunities Fund

Growth of A$100,000 (pre all fees) since Inception



* Chart represents gross value of $100,000 invested since inception and assumes dividends reinvested.
Please note past performance is not a reliable indicator of future performance.

The **Ophir Opportunities Fund** returned +9.3% for the month, outperforming the benchmark by 3.7%. Since inception, the Fund has returned +31.8% per annum, outperforming the benchmark by 25.2% per annum.

	1 Month	1 Year	5 Year (p.a.)	Inception (p.a.)	Since Inception
Ophir Opportunities Fund (Gross)	9.3%	0.5%	23.1%p.a.	31.8%p.a.	500.8%
Benchmark*	5.6%	(3.1%)	7.4%p.a.	6.5%p.a.	50.7%
Gross Value Add	3.7%	3.6%	15.7%p.a.	25.2%p.a.	450.1%
Net Fund Return	9.2%	(0.7%)	18.4%p.a.	24.9%p.a.	324.8%

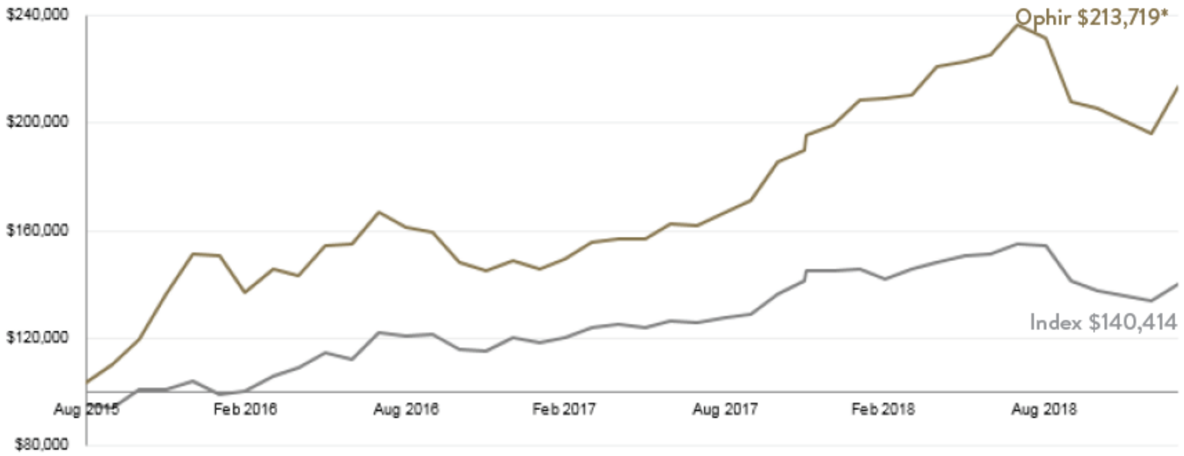
* S&P/ASX Small Ordinaries Accumulation Index (XSOAI)

	Buy Price	Mid Price	Exit Price
January 2019 Unit Price – Opportunities Fund	2.3645	2.3563	2.3481

Key contributors to the Opportunities Fund performance this month included **Afterpay Touch (APT), Nearmap (NEA)** and **Aurelia Metals (AMI).** Key detractors included **Experience Co (EXP), IMF Bentham (IMF)** and **Adairs (ADH).**

The Ophir High Conviction Fund

Growth of A$100,000 (pre all fees) since Inception



* Chart represents gross value of $100,000 invested since inception and assumes dividends reinvested. Please note past performance is not a reliable indicator of future performance.

The **Ophir High Conviction Fund** returned +8.9% for the month, outperforming the benchmark by 3.9%. Since inception, the Fund has returned +24.2% per annum, outperforming the benchmark by 10.2% per annum.

	1 Month	1 Year	3 Year(p.a.)	Inception (p.a.)	Since Inception
Ophir High Conviction Fund (Gross)	8.9%	7.2%	12.4%p.a.	24.2%p.a.	113.7%
Benchmark*	5.0%	(3.0%)	12.2%p.a.	10.2%p.a.	40.4%
Gross Value Add	3.9%	10.2%	0.2%p.a.	14.1%p.a.	73.3%
Net Fund Return	8.3%	4.1%	10.3%p.a.	19.3%p.a.	85.3%

* 50% S&P/ASX Small Ordinaries Accumulation Index (XSOAI), 50% S&P/ASX Midcap 50 Accumulation Index (XMDAI)

	Unit Price
31 Jan 2019 Unit Price – ASX:OPH	2.31

Key contributors to the High Conviction Fund performance this month included **Afterpay Touch (APT), The A2 Milk Company (A2M)** and **NextDC (NXT).** Key detractors included **Premier Investments (PMV), Mineral Resources (MIN)** and **Orora Group (ORA).**