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Dear Fellow Investors,

Welcome to the **March 2018** Ophir Letter to Investors – thank you for investing alongside us for the long term.

Month in Review

A veritable "trifecta of T's" combined forces this month to bring global markets unstuck as concerns around Trump, Tariffs and Tech lead global equity markets to their weakest aggregate quarterly performance since September 2015. The Australian equity market equally struggled to hang on to its brief moment of relative global outperformance in February, the ASX 200 instead falling -4.3% in March to record its worst monthly performance since January 2016. Smaller companies fared somewhat better, though in aggregate still finished the month in the red with the ASX Small Ordinaries finishing the month -2.3%.

	1 month	6 Months	1 Year	5 year p.a.	Inception p.a.
Ophir Opportunities Fund^	**(0.9%)**	**17.7%**	**39.5%**	**29.5%p.a.**	**37.3%p.a.**
Benchmark*	(2.3%)	10.5%	15.0%	6.5% p.a.	7.7% p.a.
Value Add (Gross)	1.4%	7.2%	24.5%	23.1% p.a.	29.6% p.a.
Fund Return (Net)	(1.0%)	17.0%	37.7%	23.0% p.a.	29.4% p.a.

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

	1 month	6 Months	1 Year	2 Year p.a.	Inception p.a.
Ophir High Conviction Fund^	**0.1%**	**21.8%**	**34.4%**	**19.6%p.a.**	**31.9% p.a.**
Benchmark*	(2.6%)	10.0%	14.2%	5.2% p.a.	14.0% p.a.
Value Add (Gross)	2.7%	11.9%	20.2%	14.4% p.a.	17.9% p.a.
Fund Return (Net)	(0.5%)	19.3%	30.7%	17.1% p.a.	25.7% p.a.

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

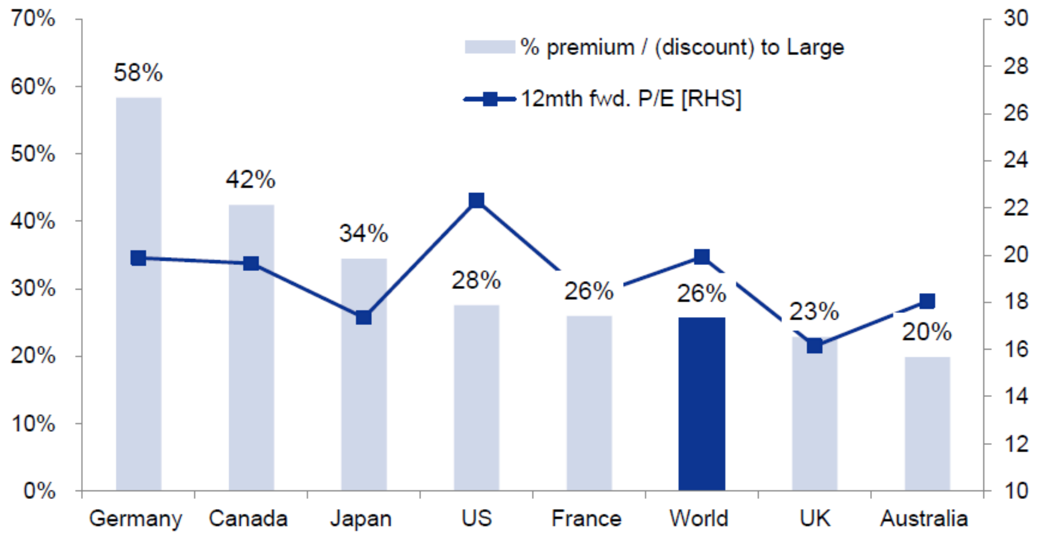
March brought to a close another quarter of relative underperformance from Australian equities versus global counterparts and, unfortunately, another quarter of negative absolute returns at the index level. With a broader economic recovery still in relative infancy versus other developed markets, the lack of excitement from global capital allocators toward larger-capitalised Australian companies continues to remain. The ASX 200 finished March -5.04% for the quarter (taking the annualised outperformance of global shares versus the ASX 200 for the past five years to over 9% per annum in Australian dollar terms). While the Small Ordinaries delivered an absolute negative return of -3.78% for the quarter, **the relative outperformance from the smaller company space has continued in earnest.** At the end of March, the ASX Small Ordinaries rolling one-year absolute return sits at 11.44%, versus the ASX 200 -1.80% (or +2.54% including dividends).

Despite a relatively softer equities background, **we have been pleased with the performance of both Ophir Fund's for the opening quarter**, with the Ophir Opportunities Fund delivering +0.43% return (relative outperformance of +3.2% gross) and the Ophir High Conviction Fund +6.8% (relative outperformance of +9.3% gross). While price volatility within the smaller cap space has been noticeably higher through the period (helped by the wider dispersion of returns through February's reporting period), we have been pleased that the core portfolio holdings across both Funds have delivered strong returns.

Divergent performance between larger and smaller businesses brings with it an obvious continued divergence in valuations and we remain conscious that price to earnings multiples across some segments in small caps sit in the *'fair to full'* category. While the recent pullback across larger cap businesses saw the forward price earnings multiple for the ASX 200 retreat from 15.7x in February to a more palatable 14.8x at end of March (now roughly in line with longer term averages), the ASX Small Ordinaries continues to trade at a fairly material ~25% premium to its own historical average. This is largely reflective of the fact that it is across the smaller company space where the bulk of earnings growth is currently being generated, however we continue to retain a strong focus on ensuring sensible valuations are maintained within the portfolios.

Perhaps reflective of how quickly smaller companies are now beginning to achieve scale and the growth rates that are being experienced as a result, the trend toward fairly substantial valuation premiums for smaller capitalised businesses is not a phenomenon exclusive to Australia. Indeed, when comparing the valuation premium commanded by Australian small cap equities to those in other developed markets, the ~20% premium currently in place in Australia is the lowest of any other major market globally.

MSCI Small vs Large Cap Index; PE premium/(discount)



Source: Goldman Sachs Investment Research, Bloomberg

With reporting season now behind us, the Australian equity market remained largely devoid of region-specific catalysts, with the broader market gyrations this month coming primarily in response to offshore macro developments. Escalating trade tensions between the US and China this month and an aggressive sell-off across the US tech space resulted in nearly all major global indices finishing the month in the red. The policy-on-the-run style of the Trump administration has continued to prove a fairly difficult risk for equity markets globally to price and **we expect that recent Trump-inspired market volatility will continue to remain a feature.**

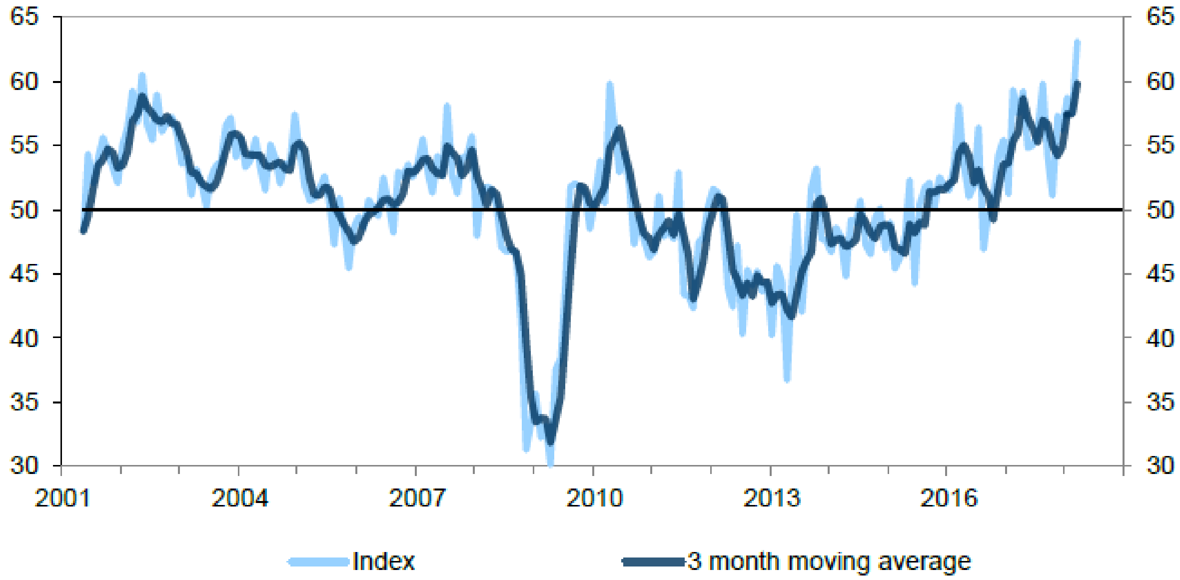
Economically, the decision to impose a 25% tariff on all steel imports, a 10% tariff on aluminium and a further 25% tariff on US$50bn of select Chinese imports results is a fairly negligible outcome in aggregate (the measures, at current time of writing, affect ~3% of total US imports and ~2% of total Chinese exports), however the impact on overall market sentiment and expectations for continued global growth will likely be far more material.

Interestingly, while the measures are presumably designed to protect the jobs of blue-collar (and predominantly Republican-voting) US steel industry workers, one might argue that the measures are simply protecting an industry that is already in permanent decline and become increasingly less and less relevant to the America of the next decade. For some perspective, US video streaming company **Netflix** has added ~US$50bn in additional equity market capitalisation for the calendar year to date – an increase in value over three months that surpasses the entire market capitalisation of all the publicly listed US steel manufacturers in aggregate.

For Australian businesses, the proposed tariff changes as they stand presently are expected to have little detrimental effect as a whole. Through intense political lobbying, Australian companies have largely been exempted from the US measures, whilst the vast bulk of Australian exports into China are subsequently consumed in-country, rather than being re-processed for export (and, therefore, susceptible to margin pressures from attracting US tariffs). Iron ore remains the one obvious outlier, however, the seaborne spot market falling -16.8% over the month on concerns that longer term steel demand from China may diminish in response to the measures.

Pleasingly, the Australian industrial and manufacturing sectors continue to experience an ongoing improvement in overall sentiment. Following the record high experienced in the NAB business conditions survey in February, Australia's Purchasing Managers Index (a measure of business conditions in the manufacturing sector, taken across 200 manufacturers) reached a new record high for March – its 18th consecutive month of expansion. As a forward looking measure, both new orders and employment were at record highs, whilst (pleasingly, from a wages growth perspective) a number of respondents cited wage pressures were beginning to emerge in some sectors. This is an important development given how critical wage growth is to revive the prospects for a recovery in the broader inflation outlook in Australia.

Australian PMI: Headline Index (>50 indicates expansion)



Source: AIG, Goldman Sachs Global Investment Research

Given a month of fairly benign news flow from the local equity market, investor attention has again remained on US markets and the return of more normalised levels of volatility after an initially stellar start to the year. After registering increases of more than 5% by mid-January, US equities will instead close out the quarter with a negative absolute return, the S&P 500 formally entering correction territory after experiencing its first -10% retracement since January 2016. While erosion of capital is never a pleasant experience, some level of perspective for US investors is required: the -0.8% return registered this quarter is the first negative quarterly return experienced since Q3 2015 (i.e. 9 consecutive quarters of capital appreciation).

Interestingly in the US this quarter it was both equities and bond holders (using the S&P 500 and Barclays Aggregate Bond Index as measures) that experienced negative absolute returns, the first time both asset classes have slipped into the red on a quarterly basis since the third quarter of 2008.

Given traditional intermarket relationships would normally dictate that equities and bonds move inverse to one another, it is an outcome that isn't often experienced (with just eight occurrences in the last thirty years) and is typically synonymous with periods of more overly pronounced volatility.

We have discussed the return of volatility in recent Letters and our expectation remains that we will continue to see a higher dispersion of returns across equities through the remainder of the calendar year. So far, this has been more acutely felt across the Northern Hemisphere markets, primarily as a function of the dearth of volatility experienced the last 12-18 months. The Dow Jones experienced 41 triple-digit moves this quarter (compared to 58 for the entirety of the 2017 calendar year), whilst the Russell 2000 small cap index moved >1% in more than a third of the trading days through January to March (compared to 18% for all of 2017).

While the increased market movements have unsurprisingly whipped various media organisations and the broader market commentariat into a frenzy, the underlying activity so far only brings overall volatility measures in line with longer-term averages – the CBOE Volatility Index (VIX), for example, finished the month at 19.97, a fraction below its longer-term average of ~20. **It is useful to remember that while equity market volatility is measured in absolute terms, it is more often experienced by investors in a relative sense.** The 2017 calendar year delivered the lowest realised volatility on the S&P 500 in 53 years (inclusive of over 400 consecutive days without a 5% pullback), hence the mean reversion may feel significantly more crisis-like due to our shorter-term memories.

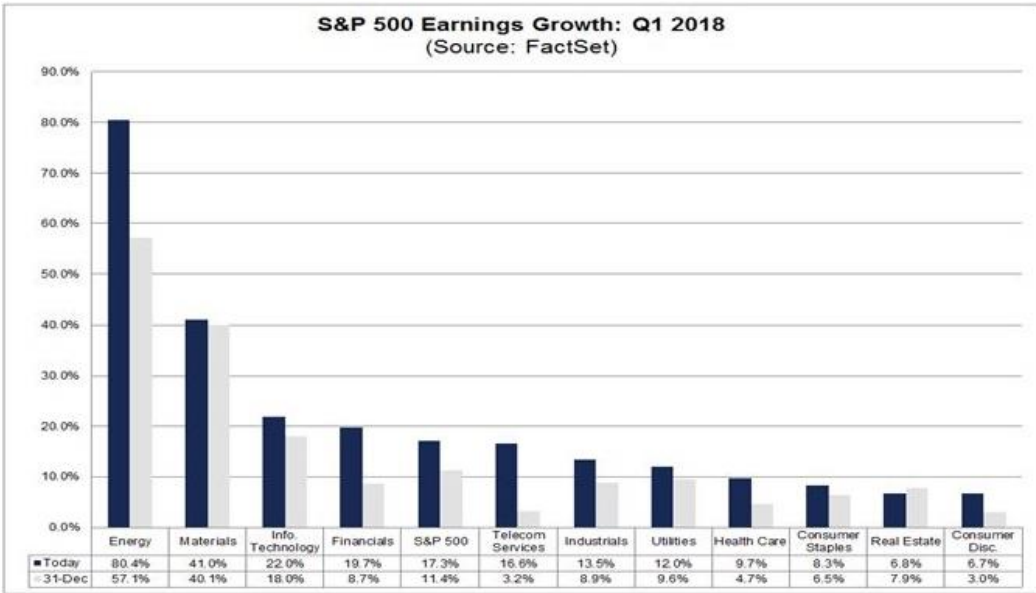
CBOE Volatility Index (VIX) – GFC to Today

Source: St Louis Fed

While breathless stories of tech collapses, pending trade wars and spiking volatility certainly dominated US media streams this month, there has been a **definitive lack of follow-through from institutional investors to date in their response.** Despite overall volatility measures certainly increasing, overall volumes traded through the US market instead remained fairly anaemic - suggesting the bulk of large investors at this point have remained seemingly happy to adopt a 'wait and see' approach.

The last three >2% sell-offs experienced through March, for instance, saw average traded volumes across the US market of ~7.7bn shares, 25% *below* the average volume experienced by all >2% sell-downs experienced over the past three years (numbers courtesy US investment bank Jefferies). Volumes have remained similarly quiet across the options market, with put open interest across the S&P 500 (a measure of investors current appetite for downside protection) sitting at just 28% versus the past two years.

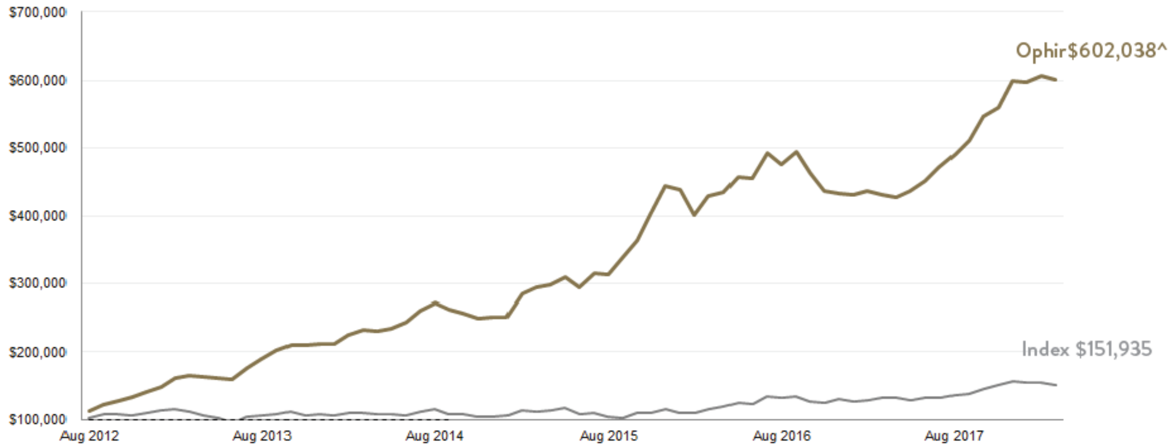
Whether or not this ultimately ends up being complacency will be determined over the coming months. At a minimum, with the US market now somewhat removed of the 'animal spirits' that have carried a large amount of the recovery to date, **it will be crucial for the US market to see continued earnings growth to carry the market higher from here**. First quarter earnings are due at the end of the month and will be watched with eager anticipation, particularly given consensus earnings growth estimates have continued to be revised upwards - annualised earnings growth for the S&P 500 at 1Q18 now sit at 17.3%, well ahead of the expected 11.4% just three months higher.



Time will tell and we look forward to keeping updated on the progress of the US company reporting season toward the end of the month. While March remained largely devoid of stock-specific catalysts for Australian equities, we expect to see news flow pick up again into April as the unofficial '3Q conference season' begins. Together with the major banks reporting in April, **some ~70% of the ASX 200 market cap are scheduled to make some form of trading update over the next 6 weeks** and the market will be keen to see if rising business confidence measures are translating to better overall earnings outlooks.

The Ophir Opportunities Fund

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



The **Ophir Opportunities Fund** returned -0.9% for the month, outperforming the benchmark by 1.4%. Since inception, the Fund has returned +502.0%, outperforming the benchmark by 450.1%.

	1 Month	1 Year	5 Year (p.a.)	Inception (p.a.)	Since Inception
Ophir Opportunities Fund (Gross)	(0.9%)	39.5%	29.5%p.a.	37.3%p.a.	502.0%
Benchmark*	(2.3%)	15.0%	6.5%p.a.	7.7%p.a.	51.9%
Gross Value Add	1.4%	24.5%	23.1%p.a.	29.6%p.a.	450.1%
Net Fund Return	(1.0%)	37.7%	23.0%p.a.	29.4%p.a.	330.2%

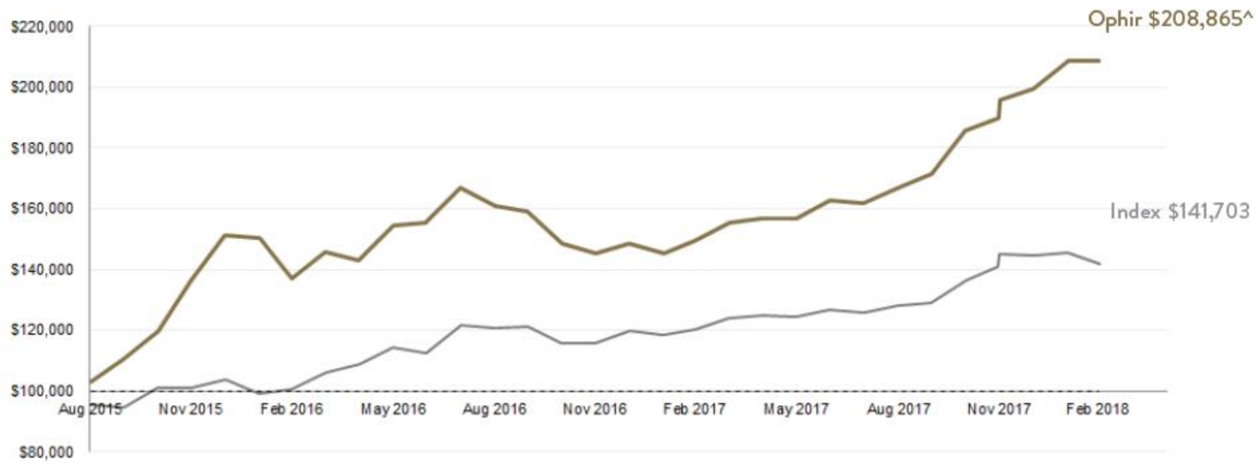
* S&P/ASX Small Ordinaries Accumulation Index (XSOAI)

	Buy Price	Mid Price	Exit Price
March 2018 Unit Price – Opportunities Fund	2.8210	2.8111	2.8013

Key contributors to the Opportunities Fund performance this month included **Lovisa Holdings** (LOV), **Noni B Limited** (NBL) and **Pushpay Holdings Ltd** (PPH). Key detractors included **EML Payments Ltd** (EML), **Metals X Limited** (MLX) and **Zip Co Ltd** (Z1P).

The Ophir High Conviction Fund

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



The **Ophir High Conviction Fund** returned +0.1% for the month, outperforming the benchmark by 2.7%. Since inception, the Fund has returned +108.9%, outperforming the benchmark by 67.2%.

	1 Month	1 Year	2 Year(p.a.)	Inception (p.a.)	Since Inception
Ophir High Conviction Fund (Gross)	0.1%	34.4%	19.6%p.a.	31.9%p.a.	108.9%
Benchmark*	(2.6%)	14.2%	5.2%p.a.	14.0%p.a.	41.7%
Gross Value Add	2.7%	20.2%	14.4%p.a.	17.9%p.a.	67.2%
Net Fund Return	(0.5%)	30.7%	17.1%p.a.	25.7%p.a.	83.7%

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

	Buy Price	Mid Price	Exit Price
29 March 2018 Unit Price – HCF	1.8283	1.8228	1.8173

Key contributors to the High Conviction Fund performance this month included **Pushpay Holdings** (PPH), **Premier Investments** (PMV) and **Regis Resources** (RRL). Key detractors included **Afterpay Touch** (APT), **Breville Group Limited** (BRG) and **Challenger Limited** (CGF).