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 SYDNEY NSW 2000

Dear Fellow Investors,

Welcome to the **December 2017** Ophir Letter to Investors – thank you for investing alongside us for the long term.

**Month in Review**

In many ways, 2017 has been a pleasing year for small and mid-cap company investors. Following a difficult finish to the 2016 calendar year, emerging Australian growth companies have again proven to be an attractive source of both meaningful corporate earnings growth and overall investment returns. As one of the few areas within the Australian market able to provide investors with access to **innovative, globally-relevant ‘new world’ businesses**, the broader investment market has grown increasingly comfortable in venturing down the market cap curve and away from larger-capitalised ‘blue chip’ indices heavily dominated by lower-growth, older world business models.

This transition has largely served investors well, with small cap equities finishing the calendar year +20.0% in aggregate, outperforming the ASX 100 by 9.0% and the ASX 20 Leaders by 12.7%.

	1 month	6 Months	1 Year	5 year p.a.	Inception p.a.
Ophir Opportunities Fund <sup>^</sup>	<b>7.0%</b>	<b>32.6%</b>	<b>38.2%</b>	<b>33.7% p.a.</b>	<b>39.2% p.a.</b>
Benchmark*	3.2%	18.7%	20.0%	7.4% p.a.	8.6% p.a.
Value Add (Gross)	3.8%	13.9%	18.2%	26.3% p.a.	30.6% p.a.
Fund Return (Net)	6.9%	31.7%	36.4%	26.2% p.a.	30.9% p.a.

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

	1 month	6 Months	1 Year	2 Year p.a.	Inception p.a.
Ophir High Conviction Fund <sup>^</sup>	<b>3.0%</b>	<b>20.3%</b>	<b>31.6%</b>	<b>13.7% p.a.</b>	<b>30.0% p.a.</b>
Benchmark*	2.9%	14.8%	21.0%	6.4% p.a.	16.7% p.a.
Value Add (Gross)	0.1%	5.5%	10.6%	7.3% p.a.	15.3% p.a.
Fund Return (Net)	3.0%	19.6%	30.0%	11.9% p.a.	26.2% p.a.

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

Calendar year 2017 has proven to be an equally strong one for the Ophir Funds. The Ophir High Conviction Fund finished the year with a +30.0% return to investors after all fees, while the Ophir Opportunities Fund delivered +36.4% for the year after fees. **Pleasingly, this places the Opportunities Fund as the top performing small/mid cap fund in Australia for 2017 versus the ~96 Australian small/mid cap funds surveyed by Morningstar\***. While end of year performance tables, like company balance sheets, reflect only one specific moment in time, we’re certainly proud of the team in obtaining this achievement and look forward to working hard to deliver continued strong performance in the years ahead.

The relative performance of smaller cap companies this year has been pleasing, however of equal satisfaction has been the continued and increasing willingness of Australian private and institutional investors to support emerging, innovative Australian companies as a whole. Where emerging growth businesses globally have, for some time, enjoyed a competitive advantage in being able

\* Comparison of Ophir Opportunities Fund performance for 2017 calendar year vs Equity Australia Mid/Small Blend, Equity Australia Mid/Small Growth and Equity Australia Mid/Small Value categories. <https://www.morningstar.com.au/Tools/NewFundScreener>

access to patient capital willing to support longer-dated growth initiatives, Australian businesses have historically struggled to attract similar long-term market support.

Today, however, there are multiple Australian businesses with \$1bn+ market capitalisations that began their listed lives as Australian or New Zealand small caps and have subsequently grown into globally significant players (**Xero**, **Acconex**, **WiseTech Global** all recent examples). These are incredibly exciting times for emerging company investors and we continue to be impressed with the pipeline of unique and innovative companies that we have had the pleasure of meeting and analysing this year.

December ultimately proved the deciding month for the two funds in terms of performance, given the Opportunities Fund had slightly lagged the High Conviction Fund in terms of total return over the majority of the year. A concentrated number of smaller-capitalised businesses held in the Opportunities Fund portfolio (that were too small for inclusion in the High Conviction Fund) simultaneously experienced a number of positive developments through the month, ultimately elevating the Opportunities Fund to be the top performer for the year. **The High Conviction Fund finished the December month +3.03%, the Opportunities Fund returning +7.04%.**

### The Ophir Funds' - Performance Since Inception

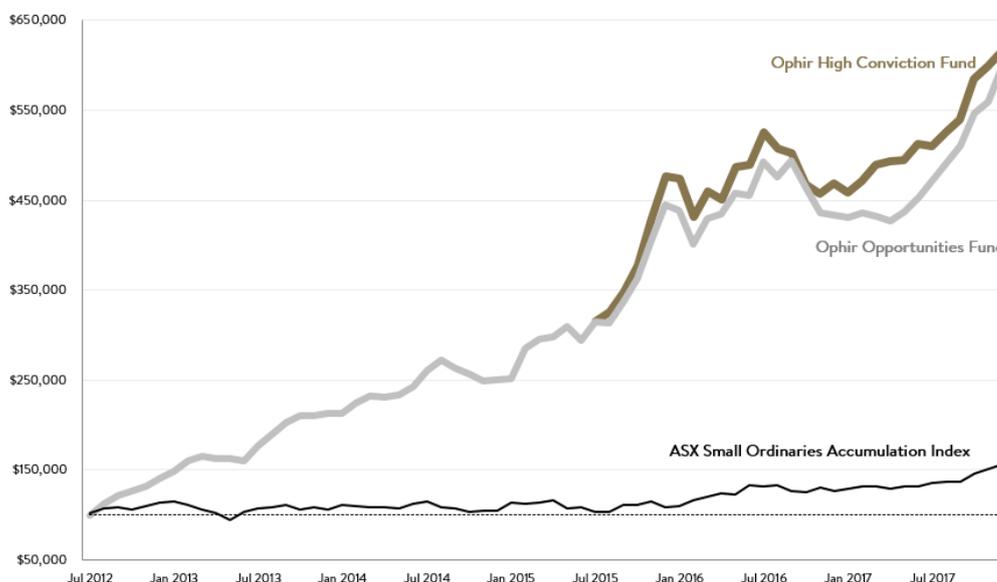


Chart above represents gross value of \$100,000 invested since inception (August-2012) in the Ophir Opportunities Fund. For graphical purposes, the Ophir High Conviction Fund has been added to represent gross performance of the Fund assuming an investment of equal size as Opportunities Fund investment at the fund's inception date in August-2015.

Turning to the month of December and Australian equities followed the broader trend of global markets in finishing 2017 with strong performances across both small and larger cap sectors. Buoyed by the confirmation of pending corporate tax cuts in the US and continually improving global economic data, the momentum behind global equity markets has remained fairly stellar through the final months of the year. The S&P 500 finished the 2017 year +19.4% (despite some late weakness across the larger cap tech names this month), the NASDAQ +28.0%, while European markets (MSCI Europe) delivered an annualised return of +22.1%.

As mentioned previously, a relatively subdued growth profile across the broader Australian economy (combined with larger cap index heavily concentrated toward lower-growth, 'old world' businesses) saw the ASX 200 deliver a more muted +7.0% return, or +11.8% including dividends. While this performance when translated to US Dollars delivered a more palatable +20.8% return for the year, the Australian market has still remained a comfortable underperformer versus its regional counterparts.

The continued increase in M&A and corporate transactions into the year-end was a thematic we touched on in our November Letter to Investors and December continued the trend in earnest. The US\$32.7bn takeover of Westfield Corp from Unibail-Rodamco certainly topped the tables in terms of deal size, however it was notable to count an increasing number of whole-of-company transactions within the small and mid-cap space - namely Oracle's \$1.6bn acquisition of construction software business **Aconex** (ACX), **Mineral Resource's** (MIN) \$526m bid for gas operator **AWE Limited** and **Cleanaway Waste Management's** (CWY) \$671m purchase of smaller competitor **Tox Free Solutions** (TOX). Australian M&A activity in total topped \$120bn for 2017 - its highest level in six years - and we continue to expect further consolidation and merger activity to continue as a theme into 2018.

The strength in global commodity markets (and the share prices of associated mining and resources businesses) has continued to be a feature this month as expectations for continued and synchronised global economic growth drive fairly aggressive capital inflows into the space. A weakening US dollar through the month has added further momentum to the trade, with US crude oil climbing north of US\$60/barrel (a level not seen since 2015) and copper futures hitting a four-year high after rising +8% over the month. Mining-related equities have seen significant support as a result, the ASX Small Resources Index rising +8.9% for the month. We've had some mixed success across the mining and mining services names this year and we highlight a number of learnings from that experience in this month's 'Strategy Notes'.

### **Ophir into 2018**

From an overall company perspective, we have finished the 2017 year in a sound position to continue to capitalise on the growing opportunities available to us across the small and mid-cap company space. As we enter our sixth year of managing client capital at Ophir, it has been rewarding to see the continued growth of the investment team and the contribution from each member in adding material value to our unit holders' investments.

Across both investment strategies, Ophir now manages in excess of \$800m in capital on behalf of Australian institutions, family offices and private investors and we're delighted to have retained the same core group of investors that provided us with our initial capital for investment in August 2012. The business remains proudly and entirely independently-owned and we continue to ensure we retain close limits on the level of capital managed in each strategy to ensure ongoing performance.

As we have flagged in recent Letters, it is for this reason that the **Ophir High Conviction will shortly be closing to additional external capital** in order for us to preserve the ability of the fund to deliver continued meaningful performance. For queries around the timing of this, Ophir Investment Director Rob Saunders ([rob.saunders@ophiram.com](mailto:rob.saunders@ophiram.com)) would be more than happy to provide further details.

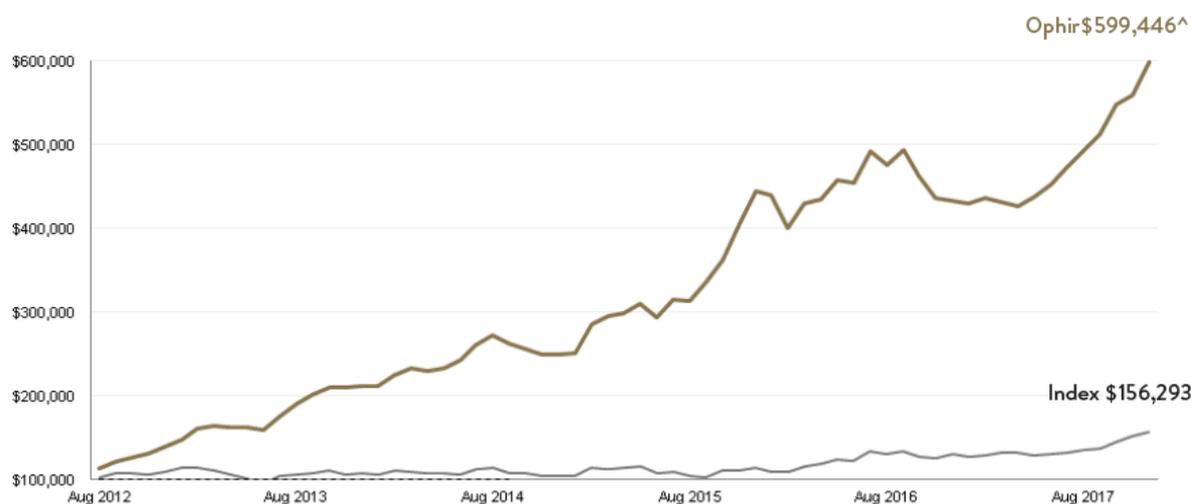
The Ophir investment process shared across the Ophir Funds remains broadly unchanged, however we work hard each year to understand where the process is continuing to deliver value and where we can seek to make enhancements. In recent years, for example, we have sought to include a more global pool of companies when conducting competitor analysis for existing investments, in the recognition that companies are increasingly being priced relative to global competitors as the world economy becomes increasingly interconnected.

We have this year also sought to add additional capabilities on the quant and data-analysis side, (culminating in an additional staff hire late last year), to further develop our ability to utilise the ever-expanding volumes of data being generated, stored and disseminated from companies and industry bodies globally.

We thank you for your support this year and look forward to working hard to deliver continued success in 2018.

# The Ophir Opportunities Fund

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



The **Ophir Opportunities Fund** returned +7.0% for the month, outperforming the benchmark by 3.8%. Since inception, the Fund has returned +499.4%, outperforming the benchmark by +443.2%.

	1 Month	1 Year	5 Year (p.a.)	Inception (p.a.)	Since Inception
<b>Ophir Opportunities Fund (Gross)</b>	7.0%	38.2%	33.7%p.a.	39.2%p.a.	499.4%
Benchmark*	3.2%	20.0%	7.4%p.a.	8.6%p.a.	56.3%
Gross Value Add	3.8%	18.2%	26.3%p.a.	30.6%p.a.	443.2%
Net Fund Return	6.9%	36.4%	26.2%p.a.	30.9%p.a.	329.7%

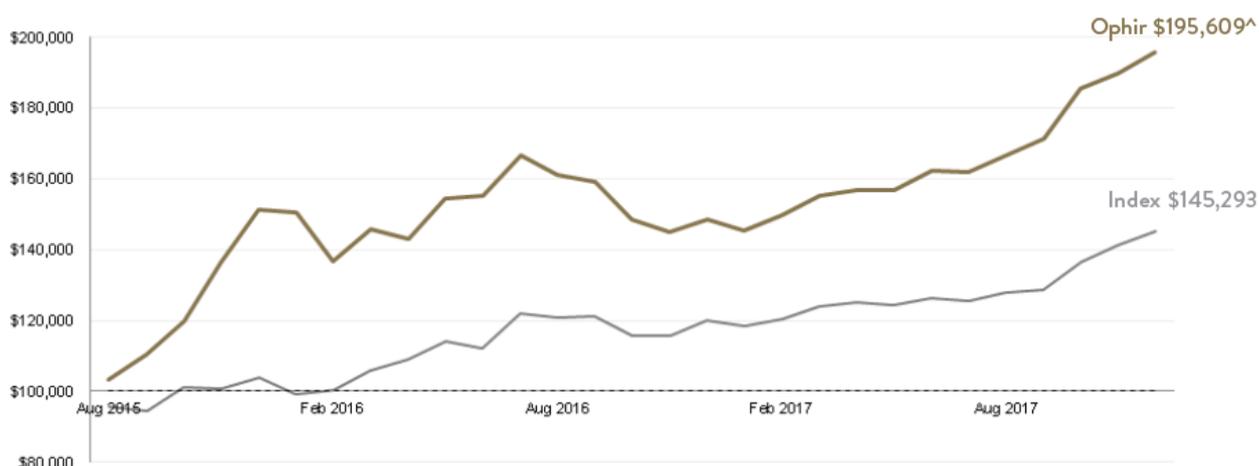
\* S&P/ASX Small Ordinaries Accumulation Index (XSOAI)

	Buy Price	Mid Price	Exit Price
<b>December 2017 Unit Price – Opportun. Fund</b>	2.8180	2.8082	2.7983

Key contributors to the Opportunities Fund performance this month included **Redbubble Ltd** (RBL), **Polynovo Ltd** (PNV) and **Mermaid Marine** (MRM). Key detractors included **Melbourne IT Limited** (MLB), **Noni B Limited** (NBL) and **Service Stream** (SSM).

# The Ophir High Conviction Fund

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



The **Ophir High Conviction Fund** returned 3.0% for the month, outperforming the benchmark by 0.1%. Since inception, the Fund has returned +95.6%, outperforming the benchmark by +50.3%.

	1 Month	1 Year	2 Year(p.a.)	Inception (p.a.)	Since Inception
<b>Ophir High Conviction Fund (Gross)</b>	3.0%	31.6%	13.7%p.a.	32.0%p.a.	95.6%
Benchmark*	2.9%	21.0%	6.4%p.a.	16.7%p.a.	45.3%
Gross Value Add	0.1%	10.6%	7.3%p.a.	15.3%p.a.	50.3%
Net Fund Return	3.0%	30.0%	11.9%p.a.	26.2%p.a.	75.2%

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

	Buy Price	Mid Price	Exit Price
<b>29 December 2017 Unit Price – HCF</b>	1.7433	1.7381	1.7329

Key contributors to the High Conviction Fund performance this month included **Afterpay Touch Group Ltd (APT)**, **Pro Medicus Limited (PME)** and **Pushpay Holdings Ltd (PPH)**. Key detractors included **A2 Milk Company Ltd (A2M)**, **Breville Group Ltd (BRG)** and **Z Energy Ltd (ZEL)**.

*This document is issued by Ophir Asset Management (AFSL 420 082) in relation to the Ophir Opportunities Fund & the Ophir High Conviction Fund (the Funds) and is intended for wholesale investors only. The information provided in this document is general information only and does not constitute investment or other advice. The content of this document does not constitute an offer or solicitation to subscribe for units in the Funds. Ophir Asset Management accepts no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. Any investment decision in connection with the Funds should only be made based on the information contained in the Information Memorandum and/or Product Disclosure Statements.*