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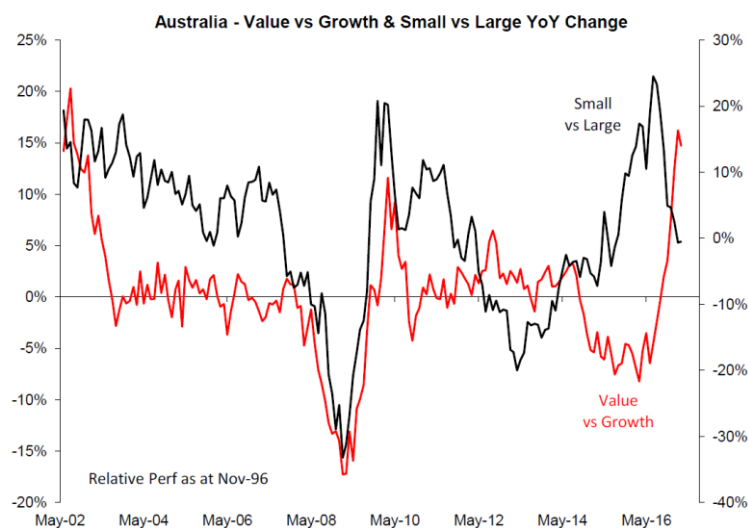
Dear Fellow Investors,

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

### Month in Review

The Australian market closed out the first quarter of the 2017 calendar year with a solid March performance – the ASX 200 touching a 2-year high and the ASX Small Ordinaries continuing in its recent recovery. Global equity markets were broadly higher, albeit with some concerns that the wave of optimism surrounding near term US fiscal stimulus measures could be beginning to look a touch optimistic. While US equity markets staged a strong quarterly performance (the S&P 500 registered a quarterly return of greater than 5% for the 13<sup>th</sup> occasion this current bull market), they underperformed global equities in March, despite hitting record highs on the first day of the month.

**The first quarter has certainly been an interesting one** – a mixed reporting season locally, continued strong global economic data, a +25bp Fed rate hike and a fading of the recent resources rally. Small cap industrial growth stocks have begun to find support, with the Small Industrials outperforming their larger cap counterparts in March for the first time since September 2016. On the other hand, the Small Cap Resources reversed their previous fortunes and claimed the worst local index performance for the month. We have flagged the expectation of increased volatility across markets broadly over the next 12 months and the cross-sector and cross-index performance through 1Q17 again reiterates this view.



Source: Macquarie Securities

From a style basis domestically, some of the deeper value names found renewed interest from the market through the second half of the month, driven by the emergence of corporate activity in a number of the more depressed cyclical names (Myer and Spotless Group). The emergence of a corporate bid across businesses that are almost universally regarded as lower quality almost always

inevitably leads to a volume of “who’s next” analysis – resulting in some broader strength across a number of the more recent fallen angels. We would exercise some caution in the strategy as while there is some valuation support in these businesses, there is a reason they are cheap and if the only value release for investors is via corporate appeal, one could be stuck in an underperforming, low-quality business for some time.

With the intensive 1:1 meeting schedule of the February reporting season behind us, the Ophir team hit the road this month, visiting a number of different global regions to confirm data points from the reporting period and cross check our initial observations. In this month’s Strategy Notes, we have provided **a selection of thoughts from our visits to a number of companies and unlisted businesses across China, the UK and Perth** – the team taking in a valuable data set from the total of 65 meetings across three continents.

From a global perspective, the near-term prospects for a further “Trumpenomics” rally look to have stalled somewhat, with equity markets concerned that Trump’s inability to enact health care reform is a precursor for similar difficulties in delivering his promised tax and infrastructure initiatives. Given the expansion in equity market valuations since November (the Russell 2000 Small Cap Index is +20% since his inauguration), this an obvious concern and will likely provide some headwinds to further growth near term. The US 10-Year Treasury yield compressing 24bps from its mid-March highs would also suggests the bond market has become equally concerned.

The flattening of bond yields led to a resurgent interest in the bond proxy and defensive names this month, with Utilities the best performing sector in the slarge caps and Consumer Staples in the smalls. Materials were the underperformer and while commodity prices have remained broadly resilient (ex iron ore), the market seems reluctant to add any further multiple to current earnings expectations from here.

### US 10-Year Treasury Yield



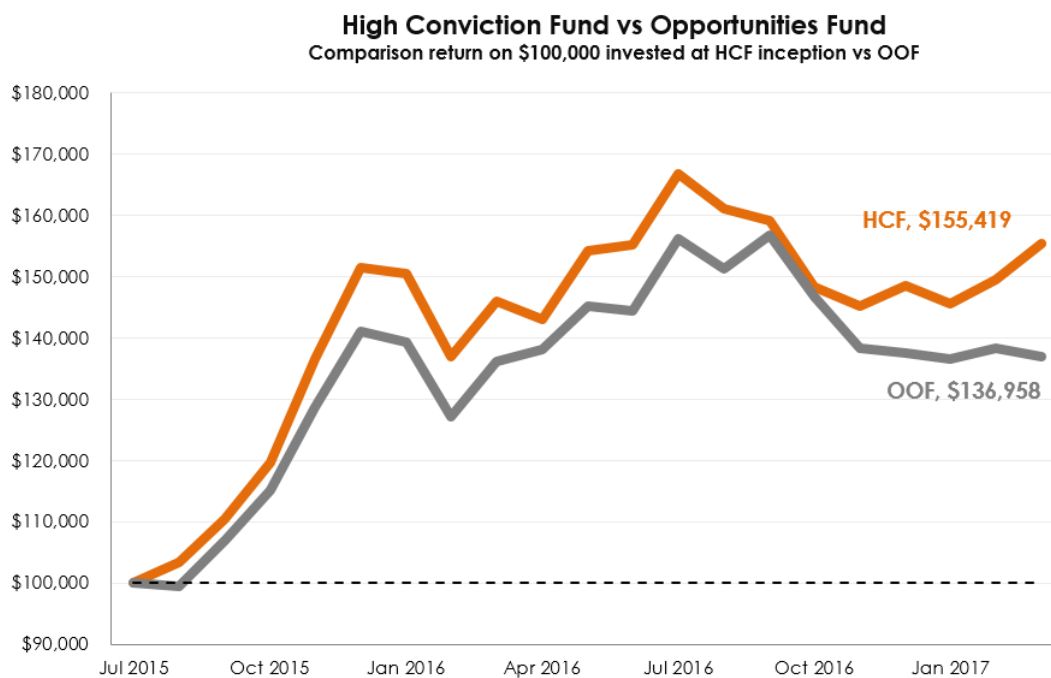
The two Ophir strategies this month saw quite a degree of divergence in performance, with the High Conviction Fund outperforming the Opportunities Fund by 4.9%, despite a ~60% stock crossover currently between the two portfolios\*. We are often asked what are some of the key differences between the two strategies and this month’s performance highlights once of the main differentials – concentration.

The High Conviction Fund (as the name would suggest) focuses on a key concentrated portfolio of businesses, generally no more than 15-25 positions in total, reflective of the investment team’s “best ideas” within the strategy’s mandate. With a lesser amount of stock holdings, this means the position size for each portfolio holding is generally larger and ultimately will have a greater impact on overall portfolio performance. While the top 6 best performing positions for the Fund this month

were held in both portfolios, the High Conviction Fund simply held a greater weight to these positions, leading to the increased performance. This is the benefit of a high conviction / higher concentration strategy and while we are obviously cognisant that the benefits work both ways, we remain confident in backing our stock picking abilities to ensure we have more positive contributors than detractors.

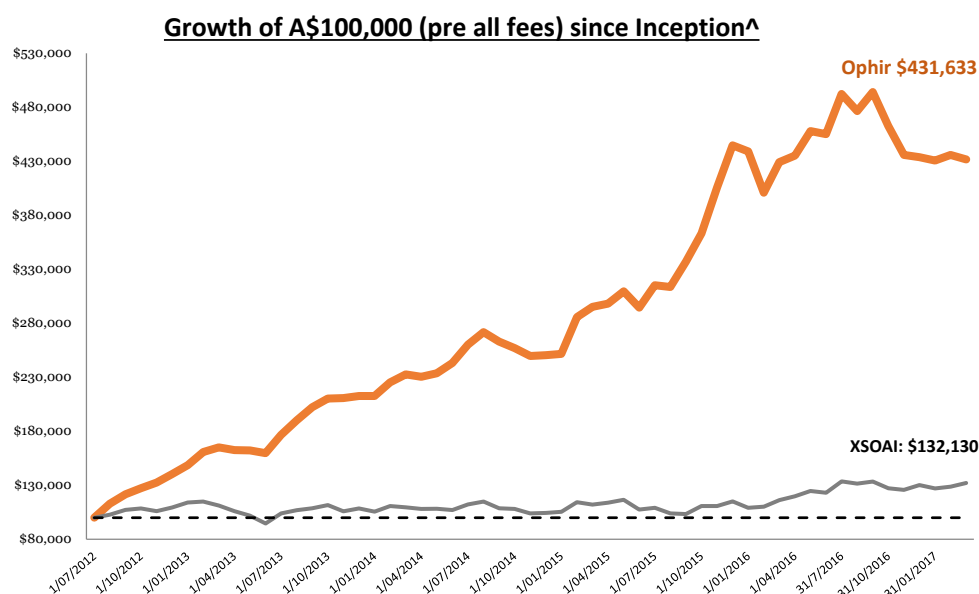
We should also note the Opportunities Fund is an ex-100 strategy and can hold businesses with smaller market caps (down to ~\$150m). While the majority of the rotation and transition selling pressure we saw through the second half of 2016 has abided in the mid-cap and 'larger small cap' names, there still remains some lingering stock overhangs further down the market cap curve as the last of the liquidity works its way through.

We often use the below chart in our presentations to illustrate that our two strategies have historically produced similar performance, given they employ the same investment process and are managed by the same team. What is also highlights recently is **the faster recovery in the larger capitalised end of the small cap market** (after initially leading the sell-off through October and November as the mid caps typically provided better liquidity options for the large cap exodus). We would expect to see a similar outcome across the smaller market cap names over the coming months.



\*~60% of stocks that comprise the High Conviction Fund were also held in the Opportunities Fund, as at March 28 2017.

# The Ophir Opportunities Fund



The **Ophir Opportunities Fund** returned -1.0% for the month, underperforming the benchmark by 3.6%. Since inception, the Fund is up +331.6%, outperforming the benchmark by +299.5%.

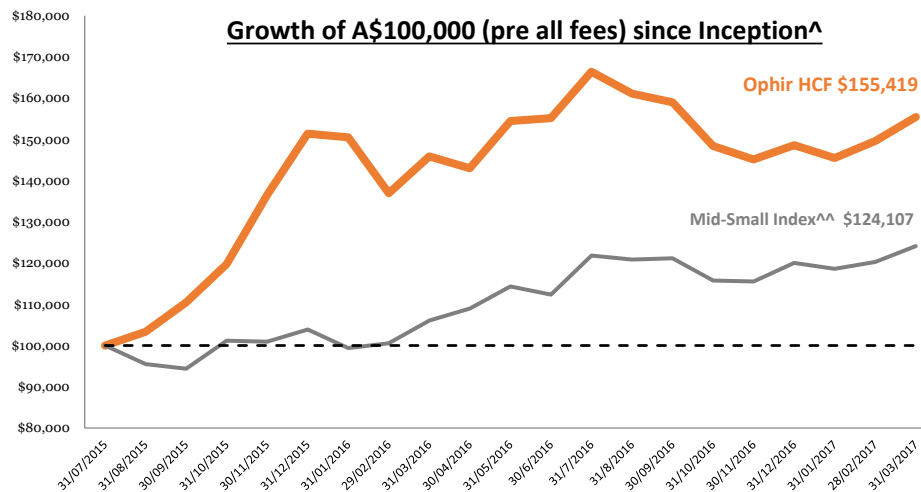
The March 2017 Unit Price is **\$2.3521**

	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
<b>Ophir Opportunities Fund (Gross)</b>	-1.0%	-12.6%	0.6%	37.6%	331.6%
Benchmark*	2.7%	-1.0%	13.7%	6.3%	32.1%
Value Added	-3.6%	-11.6%	-13.1%	31.3%	299.5%

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

Key contributors to the Opportunities Fund performance this month included **A2 Milk (A2M)**, **CBL Insurance (CBL)** and **Steadfast (SDF)**. Key detractors included **NetComm Wireless (NTC)**, **PWR Holdings (PWH)** and **Mayne Pharma (MYX)**.

# The Ophir High Conviction Fund



The **Ophir High Conviction Fund** returned 3.9% for the month, outperforming the benchmark by 0.7%. Since inception, the Fund is up +55.4%, outperforming the benchmark by +31.3%.

The March 2017 Unit Price is **\$1.4037**

	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
<b>Ophir High Conviction Fund (Gross)</b>	3.9%	-2.4%	6.5%	32.2%	55.4%
Benchmark*	3.2%	2.4%	17.0%	14.7%	24.1%
Value Added	0.7%	-4.8%	-10.5%	17.6%	31.3%

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

Key contributors to the High Conviction Fund performance this month included **A2 Milk (A2M)**, **CBL Insurance (CBL)** and **GUD Holdings (GUD)**. Key detractors included **Mayne Pharma (MYX)**, **Mineral Resources (MIN)** and **Tassal Group (TGR)**.

*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.*