Ophir Asset Management
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Dear Fellow Investors,

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

Month in Review

Australian small and mid-cap businesses have again continued in their strong relative gains versus larger cap counterparts, the ASX Small Ordinaries Index finishing the month +3.9%, outperforming the ASX 100 by 2.5% and achieving a now eighth consecutive month of relative outperformance in the process. Where recent share price momentum in small caps has previously been favouring more industrial growth-type businesses, it was the junior resources space in November that led the bulk of share price gains - the ASX Small Resources finishing the month +8.1%. While the sector was helped by takeover activity in the oil and gas space and continued gains from lithium companies leveraged to the electric vehicle thematic, there is little denying that the overall mood out of the WA resources space continues to improve month on month.

	1 month	6 Months	1 Year	5 year p.a.	Inception p.a.
Ophir Opportunities Fund^	**2.3%**	**28.0%**	**28.5%**	**33.4% p.a.**	**38.1% p.a.**
Benchmark*	3.9%	17.3%	20.5%	7.4% p.a.	8.1% p.a.
Value Add (Gross)	(1.6%)	10.7%	8.0%	26.0% p.a.	30.0% p.a.
Fund Return (Net)	2.2%	27.2%	26.8%	25.8% p.a.	29.8% p.a.

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

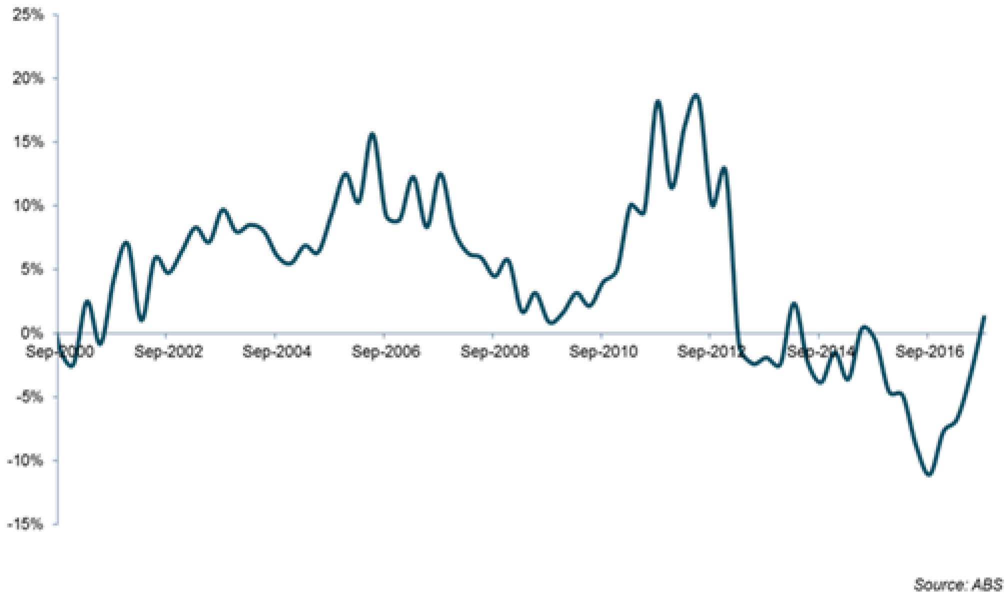
	1 month	6 Months	1 Year	2 Year p.a.	Inception p.a.
Ophir High Conviction Fund^	**2.3%**	**21.1%**	**30.8%**	**17.9% p.a.**	**31.7% p.a.**
Benchmark*	3.4%	13.6%	22.2%	6.5% p.a.	16.0% p.a.
Value Add (Gross)	(1.1%)	7.4%	8.6%	11.4% p.a.	15.7% p.a.
Fund Return (Net)	2.2%	20.3%	29.1%	15.2% p.a.	25.7% p.a.

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

Without significant exposures to traditional resources companies in either Fund, the Ophir portfolios underperformed on a relative sense this month versus their underlying benchmarks, though both posted a relatively pleasing +2.3% positive absolute return. This takes the annualised one-year return of The Ophir Opportunities Fund to +26.8% (after fees), while The Ophir High Conviction Fund has delivered +29.1% growth (after fees).

We have previously flagged in recent Letters a growing level of confidence out of management teams operating within the resources and mining services sectors, and these 'green shoots' have continued to develop into more sturdy growths. Our own interactions with WA-facing businesses this month have again provided evidence of companies seeing increased order book activity and/or net new employee hires as the outlook for the space continues to improve. This growing level of optimism is already being confirmed in the reported economic data, with the release of the National Accounts in early November confirming the WA economy has officially now returned to economic growth (with State Final Demand for the September quarter reported as rising +0.9% year on year).

WA State Final Demand – Year on Year Change



Unsurprisingly, the bulk of this improvement has been driven primarily from 'non-housing construction' and 'machinery and equipment expenditure' and looks indicative of a fairly sustained upswing in the capital expenditure cycle out of the big miners. After some years of effectively sitting on their free cashflow piles, the larger mining businesses are now finally redeploying capital into both new growth initiatives and toward the renewal of aging mining fleets and equipment. On Goldman Sachs estimates, the top 10 mining businesses globally have already increased their quarterly capex expenditure by some US$5bn versus the same period just six months prior.

The ASX-listed mining services names have been the most obvious beneficiary near term, with the sector experiencing a rapid re-rate in recent months as the outlook continues to improve. In fairly typical boom/bust fashion, the employment market across the mining and associated services space has moved equally quickly from fairly lax to near white-hot: using national job advertisement data from employment search website Seek, **the number of new job ads across the Mining, Resources and Energy space in October 2017 has risen +59% from the same period 12 months prior.** Engineering roles have similarly grown +36% year-on-year, while Trades and Services ads have increased +34%. The sector is currently one of the few domestic-facing industries currently experiencing material top-line growth and, as a result, has seen a fairly material rotation of investment capital into the listed equity of the businesses operating within it.

We retain some exposure across the Ophir Funds to the services names, though the cyclicality of the sector can make it difficult for us to commit a meaningful amount of capital. We tend to retain a stronger bias in our portfolios towards businesses that aren't as reliant on any one underlying cycle and instead are demonstrating an ability to generate meaningful earnings growth under their own steam. With that being said, we feel confident we have identified a small number of opportunities in the space that provide exposure to multiple embedded options for growth over the next few years - namely Caterpillar dealer and owner of Coates Hire **Seven West Group (SVW)**, diversified services business **RCR Tomlinson (RCR)** and mining services provider **Macmahon Holdings (MAH)**.

While one could argue the market support for the mining services names has been helped this month by the continuing tailwinds behind the sector, it has been hard to ignore the stronger performance of a number of cyclical and more lower-quality type businesses this month. Whilst the trend hasn't been replicated across the larger cap names as yet, the value end of the market in small caps did appear to be seeing some benefit this month from fund rotation as capital recycled away from some of the higher growth 'winners' and into the lower quality laggards.

A glance across companies making 3-month highs in their share prices around early December (an admittedly crude, yet surprisingly useful, measure employed to monitor the trajectory of share price momentum) is currently well represented by businesses that are either cyclical or lower quality in nature (e.g. junior resources, second derivative market-linked earners etc) or those widely accepted as facing more structural growth concerns (e.g. traditional media, grocery wholesalers, domestic retailers etc). In addition, an underwhelming initial launch from Amazon Australia this month created a relief rally of sorts across a number of domestic retailers that had initially been expected to face immediate difficulties post the retailing behemoth's entry.

This rotation of funds can be somewhat expected given the fairly wide divergence in valuation currently between higher growth businesses and the more cyclical/value end of the market – particularly given the stellar performance of high growth names over the past six months. **We wrote in our October Letter to Investors that we felt some caution was warranted in names where valuation multiples had expanded significantly** without a corresponding uplift in earnings and we continue to retain that view. As a result, we have realised some further cash this month from holdings that have exceeded our near term expectations and recycled that capital into a number of new positions that we feel offer a more attractive valuation and near-term growth profile. We'll look to update investors on these new positions over the next few months.

November also saw the completion of the annual AGM season that, whilst not entirely benign, certainly avoided the volatility experienced during the same period in 2016. While the quantum of earnings downgrades across smaller capitalised businesses ended up roughly in-line with the same period 12 months' prior, the generally more supportive backdrop for growth equities as a whole (and without the significant sell-side pressure generated through the reflation/rotation period last year) ensured the share price impacts from negative earnings revisions this season remained fairly orderly.

Reported Earnings Downgrades Post August 2017 Reporting Season

Announced Date	Company	Details
28-Nov-17	Mayne Pharma	Generics business struggling in new US price environment, specialty weaker
24-Nov-17	Monash Health	1H18 NPAT to be $3m below pcp due to growth in low cost IVF competition
23-Nov-17	Thorn Group	$15.6m goodwill write-off for Radio Rentals and $5.1m loss on trade and debtor finance
22-Nov-17	Webjet	Restructure of WebBeds B2B, FY18 guidance below market consensus
22-Nov-17	Sunland Group	Cyclical nature of property market, timing issue on property settlements
21-Nov-17	Graincorp	Rail disruptions, FX headwinds, weakness in soft commodity market
21-Nov-17	Pental	Deflationary retail price environment impacting margins across grocery manufacturing
21-Nov-17	ALS Limited	$63m goodwill impairment, geochemistry business below expectations
20-Nov-17	Baby Bunting	Guiding flat EBITDA vs 10% prior and 17% guidance, increased discounting in sector
20-Nov-17	PMP Limited	Increased short run work resulting in higher than expected cost base
20-Nov-17	McPhersons Ltd	1H18 PBT to be 10-15% below pcp, softer consumer sentiment and trading environment
13-Nov-17	MACA Limited	Underperformance in Maca Interquip and Vic Civil and Infrastructure division
13-Nov-17	IRESS Limited	Weaker segment profit due to extra investments to lift revenue
13-Nov-17	Adelaide Brighton	$14m provision for doubtful debts due to hidden underpayments from customers
9-Nov-17	Inabox Group	Hostworks business performing below expectations, loss of clients
9-Nov-17	Murray River Organ	Further writedown of fruit due to weather and past deficient operating practices
3-Nov-17	Freedom Insurance	Lower call centre efficiency and conversion rates, downgrade to sales and EBITDA
2-Nov-17	Seven West Media	Soft start to FY18, weaker ratings, weak guidance
27-Oct-17	Vita Group	New device launches skewed to 2H, unlikley to recover lost ground from 1H
26-Oct-17	iSentia	Soft Q1 with revenue down mid single digit, high customer churn
25-Oct-17	Fletcher Building	Estimated $160m loss on B+I business due to poor productivity
23-Oct-17	WPP Aunz	Client cutbacks from weaker consumer conditions
18-Oct-17	Lend Lease	Underperformance in Australian construction due to small engineering projects
18-Oct-17	Speciality Fashion	Difficult market conditions through July continuing through Q1
17-Oct-17	Prime Media	Regional advertising revenues 7.7% below expectations for Q1
16-Oct-17	Thorn Group	30% downgrade due to weaker retail conditions, class actions costs
13-Oct-17	XIP Limited	Acquisition disruptions, FX impact
3-Oct-17	QBE Insurance	Hurricanes, cyclones and earthquakes result in $600m pre-tax impact
3-Oct-17	Technology One	FY17 guidance downgraded to 7-9% vs 10-15% prior
3-Oct-17	APN Outdoor	Loses Yarra Trams contract with $15m net EBITDA impact
21-Sep-17	Fairfax Media	FY18 YTD revenue 4-5% below last year, digital growth unable to offset traditional decline

Source: Wilsons Advisory

While we have been pleased this year to avoid a large majority of announced earnings downgrades this year, the Ophir portfolios were not entirely immune this month – both funds hold a position in online travel booking business **Webjet (WEB)** that delivered earnings guidance this month below where market estimates had been sitting and was subsequently sold off as a result. The business has admittedly developed a certain notoriety around its level of opaqueness in their method of reporting and often requires fairly detailed subsequent analysis to get an understanding of how the business is performing on an underlying basis. **This, in the past, has created opportunities** during periods where the market has been quick to react to a headline number that hasn't been fully reflective of the underlying growth in the business and, as such, we have been cautious to extrapolate a 7% downgrade to consensus numbers as signs the business is facing structural issues.

The AGM update did present some new information for us – namely that the company's NZ Online Republic business will be impacted by the so-called 'Netflix tax' (requiring the business to absorb GST costs) and the Asian operations will likely be loss-making again this year – however, the twin growth engines of the domestic B2C business and international B2B operations continue to demonstrate solid top-line growth, while the full year guidance looks comfortably achievable. Following the share price de-rate, the company now trades at a discount to the average market multiple, despite offering earnings per share growth next year in the vicinity of ~15%. While the company will be required to deliver a strong second half to meet its numbers, we remain comfortable with the investment and continue to hold a position in both portfolios.

With year-to-date downgrade numbers for the market not dissimilar to historical averages and the bulk of negative earnings revisions coming from more company-specific issues (rather than further softening from a top-down perspective), **the near term outlook for equities continues to remain broadly positive**. Business confidence, in particular, is continuing to improve with November proving to be a standout month in terms of announced M&A, a classic barometer for sentiment across the corporate boardrooms of Australia.

While there is arguably a seasonal tailwind for corporate activity through the last remaining months of the year, the level of deal flow amongst ASX-listed Australian businesses has certainly accelerated in recent weeks. On our own measures, November saw no fewer than 23 separate corporate transactions on the ASX, the overwhelming majority of which involved Australian businesses looking to acquire new business units in the search for growth:

Announced Date	Company	Details
1-Nov-17	Credit Corp	Acquires Thorn Group's Cashfirst consumer loan book for $13.3m
2-Nov-17	Costa Group	Acquires additional 41% stake in blueberry grower African Blue SA
3-Nov-17	Bubs Austalia	Acquires 100% of goat milk producer NuLac Foods for $84m
3-Nov-17	Superloop	Acquires 100% of WiFi software business GX2 Holdings
6-Nov-17	GUD Holdings	Divests Oates to German-owned Freduenberg Houshold Products for $80m
8-Nov-17	James Hardie	Acquires German-based gypsum manufacturer Fermacell for €473m
8-Nov-17	Nufarm	Acquires group of herbicide products from FMC for $111m
10-Nov-17	Bega Cheese	Acquires QLD peanut grower Peanut Company of Australia for $12m
14-Nov-17	Pact Group	Multiple acquisitions of Asian packaging operations for $142m
16-Nov-17	Santos	Rejects US$9.5bn takeover bid from US-based Harbour Energy
16-Nov-17	MYOB	Acquires Reckon's accounting business for $180m
20-Nov-17	GUD Holdings	Acquires Coventry Group's stake in AA Australasia's gasket division for $22m
21-Nov-17	Downer	Sells freight rail business to Caterpillar for $109m
21-Nov-17	Charter Hall Retail	Divests three neighbourhood shopping centres for $91m
21-Nov-17	Macquarie Telecom	Acquires cloud solutions business Bulletproof for $17.9m
23-Nov-17	Automotive Holdings	Sells refrigerated logistics business to China-based HNA for $400m
23-Nov-17	Goldfields Money	Acquires mortgage broker Finsure for $61m
26-Nov-17	Bingo Industries	Acquires National Recycling Group and Patons Lane for $141m
27-Nov-17	RCG Group	Retail investor Brett Blundy acquires additional 11.8% stake for $61m
28-Nov-17	Capitol Health	Announces cash and scrip takeover for Integral Diagnostics for $356m
29-Nov-17	Aristocrat Leisure	Acquires online social game maker Big Fish for $1.3bn
29-Nov-17	Appen Group	Acquires content relevance business Leapforce for $105m
30-Nov-17	AWE Group	Receives non-binding takeover offer from China-based CERCG

Mark Brayan and team at language and search data provider **Appen Group (APX)** should be particularly congratulated this month for one of the more attractive deals completed this year - in the purchase of one of their largest competitors in the content relevance space (US-based Leapforce Inc.), Appen effectively issued just 4.4% of new capital to subsequently increase their EBITDA by over 50%. The deal transforms the business to become the leading global provider in Content Relevance, bringing together two of the top three players in the space.

Looking forward, and the outlook for growth equities globally continues to remain constructive. While Australian economic data has lagged somewhat, the global economy continues to show ever-improving signs of life amidst the veritable "Goldilocks" scenario of improving growth and benign inflation. Economic data through November continues to remain buoyant, while global corporates have also begun to see the impact at the profit line. An earnings-per-share (EPS) analysis by Factset of over 20,000 globally listed companies this month recorded a year-on-year EPS increase of +19%, the fastest growth rate recorded since 2011.

Factset World Index Earnings Per Share, 12-month Rolling

The bulk of larger Australian companies have unfortunately continued to lag the recovery and have yet to see the tailwind of an improving global economy translate to increased earnings. While consensus earnings forecasts for the ASX 200 started the year looking for an optimistic ~10% cumulative EPS growth, these have already been revised to a now relatively sluggish 4.7% growth (using UBS Research numbers).

We continue to hold the view that **it is the emerging Australian small and mid-cap businesses that remain best placed to take advantage of the rapidly changing global economy and we continue to remain a heavy tilt in the portfolios toward businesses with earnings derived from operations offshore.** While global cyclicals now look better-placed to take advantage of an increasingly better demand environment, the Australian domestic demand profile continues to remain challenged in our view and domestic-facing cyclical businesses are still some way from a recovery. For this reason, we continue to favour higher-quality, growth orientated businesses that are demonstrating an ability to sustainably grow earnings regardless of the underlying cycle.

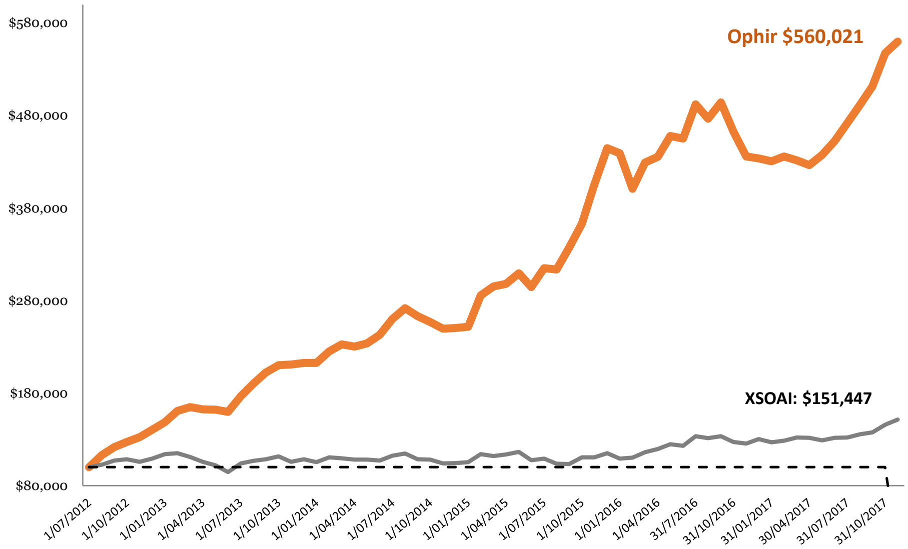
Welcome to Josh Clark – Investment Analyst

We were excited this month to announce a new addition to the Ophir investment team with the appointment of Josh Clark to the position of Investment Analyst. Josh joins Ophir with a string background in smaller company research, having joined us following equity analyst roles at the Ausbil Microcap Fund and, most recently, Bennelong Australian Equity Partners.

Josh will work alongside Andrew, Steven, Tim and Geoffrey in the investment team and will be working across both the Ophir Opportunities and Ophir High Conviction Funds. We're delighted to have Josh on board.

The Ophir Opportunities Fund

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



The **Ophir Opportunities Fund** returned +2.3% for the month, underperforming the benchmark by 1.6%. Since inception, the Fund has returned +460.0%, outperforming the benchmark by +408.6%.

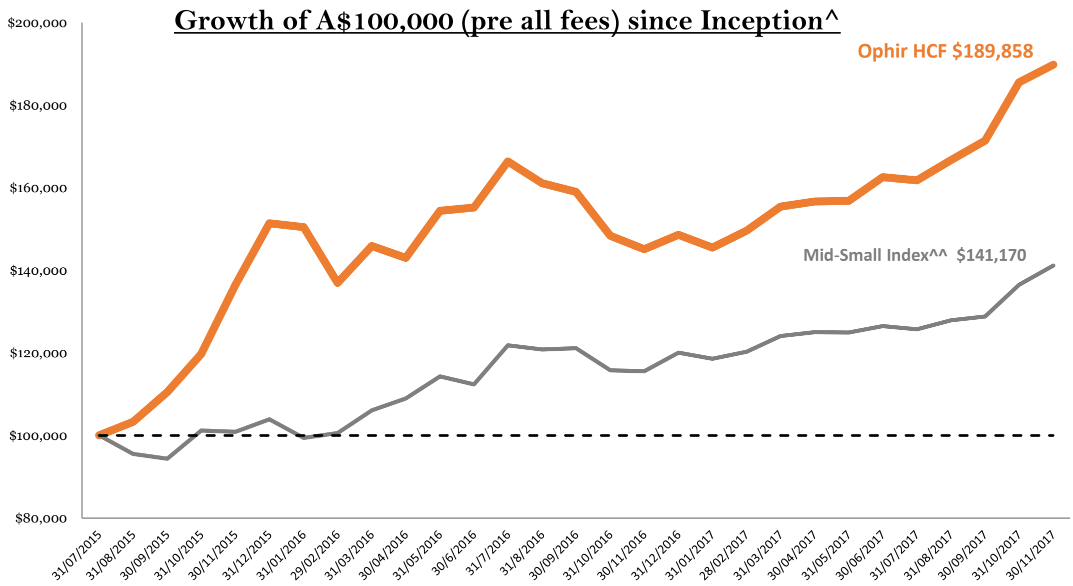
	1 Month	1 Year	5 Year (p.a.)	Inception (p.a.)	Since Inception
Ophir Opportunities Fund (Gross)	2.3%	28.5%	33.4% p.a.	38.1% p.a.	460.0%
Benchmark*	3.9%	20.5%	7.4% p.a.	8.1% p.a.	51.4%
Gross Value Add	(1.6%)	8.0%	26.0% p.a.	30.0% p.a.	408.6%
Net Fund Return	2.2%	26.8%	25.8% p.a.	29.8% p.a.	301.8%

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

	Buy Price	Mid Price	Exit Price
November 2017 Unit Price – Opportunities Fund	2.6351	2.6260	2.6168

Key contributors to the Opportunities Fund performance this month included **Experience Co Ltd (EXP), Melbourne IT Limited (MLB)** and **Pushpay Holdings Ltd (PPH).** Key detractors included **Adacel Technologies (ADA), EML Payments (Ltd)** and **Huon Aquaculture Group (HUO).**

The Ophir High Conviction Fund



The **Ophir High Conviction Fund** returned 2.3% for the month, underperforming the benchmark by 1.1%. Since inception, the Fund has returned +89.9%, outperforming the benchmark by +48.7%.

	1 Month	1 Year	2 Year(p.a.)	Inception (p.a.)	Since Inception
Ophir High Conviction Fund (Gross)	2.3%	30.8%	17.9% p.a.	31.7% p.a.	89.9%
Benchmark*	3.4%	22.2%	6.5% p.a.	16.0% p.a.	41.2%
Gross Value Add	(1.1%)	8.6%	11.4% p.a.	15.7% p.a.	48.7%
Net Fund Return	2.2%	29.1%	15.2% p.a.	25.7% p.a.	70.2%

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

	Buy Price	Mid Price	Exit Price
30 November 2017 Unit Price – High Conviction Fund	1.6938	1.6887	1.6837

Key contributors to the High Conviction Fund performance this month included **Breville Group Ltd (BRG), Credit Corp Group (CCP)** and **Pushpay Holdings Ltd (PPH).** Key detractors included **RCR Tomlinson (RCR), Webjet Limited (WEB)** and **Xero Ltd (XRO).**