Ophir Asset Management
Level 2, 139 Macquarie Street
SYDNEY NSW 2000

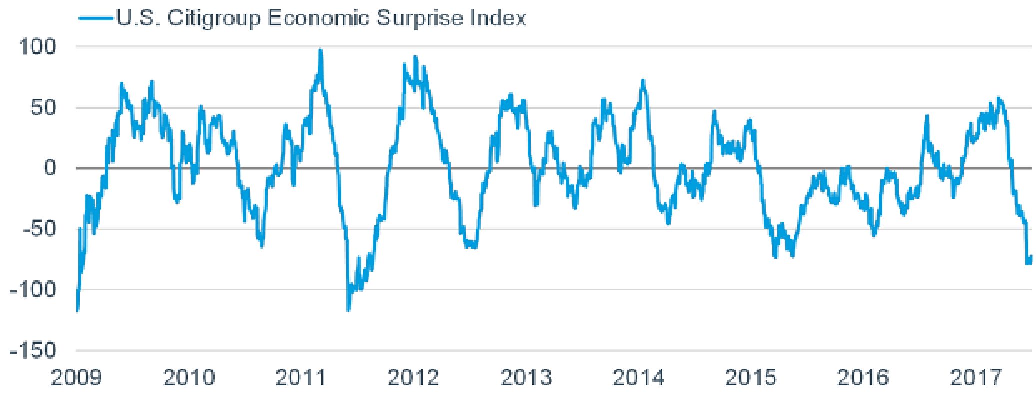
Dear Fellow Investors,

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

Month in Review

The conclusion of the fiscal year always brings with it a chance to reflect on the previous 12 months' performance for investors and investment management teams alike. For investors in higher quality, growth-focused smaller cap companies, the 2017 financial year certainly provided a year of conflicting halves. The "three R's" of reflation, rotations and redemptions provided significant headwinds for smaller cap names through the first six months as defensive growth equities were sold off in anticipation of a return to global inflation and a recovery in the fortunes of deeper value and cyclical-type businesses.

While the global economy has improved, the rate at which this growth materialised ultimately underwhelmed initial market expectations. In the US particularly, forecasts for higher inflation, higher interest rates and a stronger US dollar have ultimately proven overly optimistic. Where the US 10-year bond yield expanded to 2.6% in the months following Donald Trump's election, the second half of the year saw yields compress to 2.15%, while core US PCE inflation has fallen to just 1.5% year on year. After a period of relatively buoyant sentiment, the US economic surprise index has subsequently fallen to levels last seen in 2011.

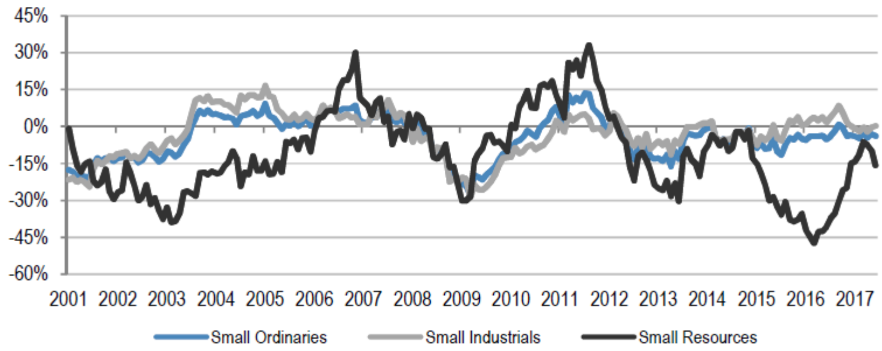


Source: FactSet, as of June 30, 2017.

On local shores, the economic landscape has remained similarly patchy, where some pockets of industry are enjoying expansion, yet growth at the aggregate level still remains relatively benign (Australian GDP grew by +0.3% in the March quarter). The expected earnings recovery from companies in the more cyclical sectors has yet to really take hold, **the February reporting season instead proving the catalyst for a re-rating in growth companies** that delivered on their expected earnings. In a market that remains largely devoid of broad-based growth options, it is the businesses that are generating above market earnings growth that will continue to attract a premium. While these businesses came under pressure through the sell-off and large cap rotations of the first half of the financial year, they have again led performance through the second half.

On the back of this rotation of sentiment, the ASX Small Ordinaries Index experienced a 657-point trading range through FY17, yet still managed to finish the year comfortably in the positive. The index added an incremental +7.01% in value for the year, though significantly underperforming the larger cap ASX 200 by 7.09%. On Macquarie Research's numbers, expected aggregate earnings per share growth for FY18 for the Small Ordinaries now sits at +17.6% growth, versus expectations for ASX 100 EPS growth of +2.0%. Despite the earnings differential, the market is currently pricing both smaller and larger companies at roughly similar multiples.

Consensus 1 Year Forward PE – Premium/Discount to Large Caps



Source: JP Morgan

As mentioned in our May monthly letter, the rotation period through the first half of the year created some excellent opportunities to buy high quality growth companies cheaply. While the period has ultimately placed our Funds in good stead for the resultant recovery, it didn't make the experience any more pleasant at the time. Nothing tests a manager's conviction more than a falling stock price and no doubt the same can be said for investors monitoring the unit prices of their managed funds. Investing is a game that requires the greatest of patience at times and we have been grateful to have a group of co-investors that equally share this view.

To illustrate the theme of investment patience, we have tabled below the best performing companies in the ASX All Ordinaries over the past 3 and 5 years, including a metric called the 'maximum drawdown' – the greatest fall in equity value that investors would have had to endure through the investment timeframe.

Top 20 Performers over 3 Years – All Ordinaries (with market caps >$100m as at 01 July 14)

CODE	STOCK	PERFORMANCE	MARKET CAP AS AT 1 JULY 2014	MAX DRAWDOWN
A2M	a2 Milk Company Ltd (ASX Listing)	565%	$366m*	-39%
BAL	Bellamy's Australia Ltd	440.52%	$100m*	-75%
WEB	Webjet Limited	407.88%	$196m	-28%
SIQ	Smartgroup Corporation Ltd	396.19%	$162m*	-31%
ALL	Aristocrat Leisure Limited	328.08%	$2906m	-15%
QAN	Qantas Airways Limited	326.28%	$2767m	-49%
CTD	Corporate Travel Management Ltd	263.66%	$574m	-29%
NST	Northern Star Resources Ltd	262.60%	$769m	-64%
ALU	Altium Limited	257.08%	$271m	-29%
EVN	Evolution Mining Ltd	254.50%	$525m	-46%
BLA	Blue Sky Alternative Investments Ltd	253.06%	$157m	-29%
BKL	Blackmores Limited	250.16%	$468m	-60%
NAN	Nanosonics Ltd	225.64%	$205m	-38%
CDA	Codan Limited	222.76%	$128m	-56%
API	Australian Pharmaceutical Industries Ltd	214.88%	$295m	-27%
IRI	Integrated Research Limited	214.15%	$173m	-35%
HSN	Hansen Technologies Limited	210.77%	$209m	-33%
IFN	Infigen Energy Ltd	204.17%	$187m	-40%
CKF	Collins Food	189.30%	$191m	-27%
NXT	NextDc	176.11%	$329m	-36%

Top 20 Performers over 5 Years – All Ordinaries (with market caps >$100m as at 01 July 12)

CODE	STOCK	PERFORMANCE	MARKET CAP AS AT 1 JULY 2012	MAX DRAWDOWN
MFG	Magellan Financial Group Ltd	1318%	$349m	-28%
CTD	Corporate Travel Management Ltd	1128%	$144m	-29%
ALL	Aristocrat Leisure Limited	717.39%	$1510m	-15%
BSL	BlueScope Steel Limited	633.89%	$1000m	-58%
FPH	Fisher & Paykel Healthcare Corp Ltd	613.82%	$806m	-23%
A2M	a2 Milk Company Ltd (ASX Listing)	565.49%	$366m*	-39%
BTT	BT Investment Management Ltd	541.13%	$475m	-44%
NST	Northern Star Resources Ltd	516.88%	$309m	-64%
API	Australian Pharmaceutical Industries Ltd	444.29%	$170m	-27%
CKF	Collins Food Ltd	444.25%	$101m	-27%
BAL	Bellamy's Australia Ltd	440.52%	$100m*	-75%
XRO	Xero Limited (ASX Listing)	439.96%	$498m*	-71%
DMP	Domino's Pizza Enterprises Ltd	431.21%	$702m	-35%
QAN	Qantas Airways Limited	399.64%	$2435m	-49%
NAN	Nanosonics Ltd	398.04%	$133m	-38%
SIQ	Smartgroup Corporation Ltd	396.19%	$162m*	-31%
TNE	Technology One Limited	394.42%	$355m	-20%
REA	REA Group Limited	384.32%	$1800m	-28%
IRI	Integrated Research	384.21%	$111m	-43%
NCK	Nick Scali	368.46%	$105m	-26%

*Market capitalisation at time of IPO / ASX listing. Source Bloomberg.

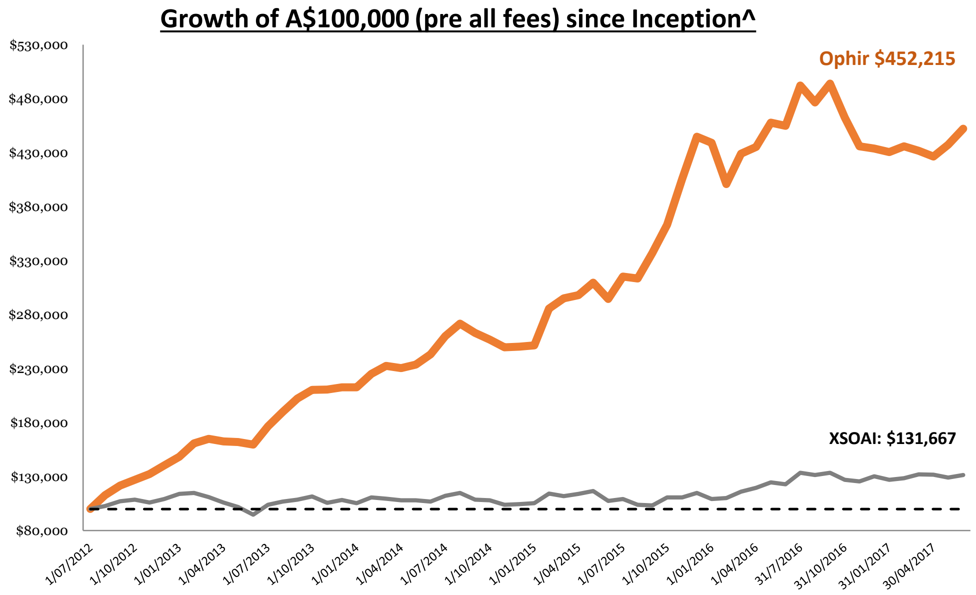
It reminds us that growth is never linear and there will always be periods when invested in good companies that short term events will test one's resolve. Investors in **Corporate Travel Management (CTD),** for example enjoyed a stellar +1128% return (excluding dividends) through the last five years, yet in the six-month period from March 2015 to September 2015 they saw the value of their investment fall by more than a quarter in a six month period. The tables highlight some stellar returns for investors that have stayed the course. It's unsurprising that just three businesses in the above are outside the ASX Small Ordinaries. The small and mid-cap sector in Australia continues to provide wonderful opportunities to uncover businesses early in their growth trajectory and we look forward to finding a few more in the year ahead.

In this month's **Strategy Notes**, we have a look at disruption in the Funds Management industry and how investment managers will need to provide value in the years ahead. While investment performance and product differentiation remain paramount for us, investors are also increasingly wanting more from their managers in regards to transparency, access to information and opportunities to meet directly with the managers of their capital.

We understand this need and are excited to be announcing some developments ourselves over the next few months. This will start with the launch of a new website shortly that will include some additional detailed investment and administrative content for investors. We're also pleased to be hosting our first round of **Ophir 'Meet the Manager' Information Evenings** this coming August.

We look forward to seeing you there to provide an update on the Funds, our portfolio positioning and thoughts for the year ahead.

The Ophir Opportunities Fund



The **Ophir Opportunities Fund** returned +3.4% for the month, outperforming the benchmark by 1.4%. Since inception, the Fund has returned +352.2%, outperforming the benchmark by +320.5%.

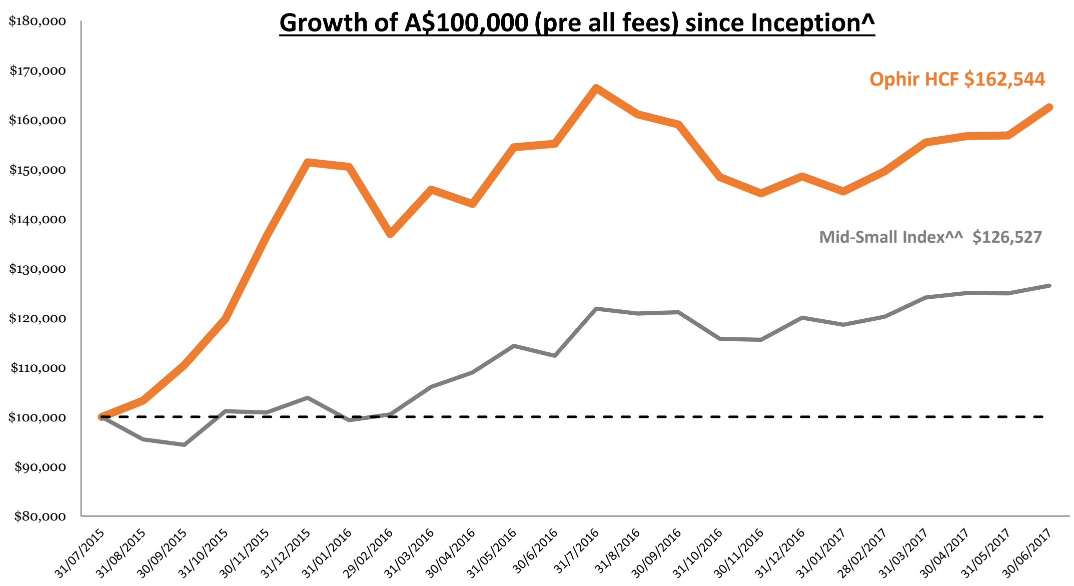
	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
Ophir Opportunities Fund (Gross)	3.4%	4.3%	-0.6%	36.0%	352.2%
Benchmark*	2.0%	1.1%	7.0%	5.8%	31.7%
Gross Value Add	1.4%	3.1%	-7.7%	30.2%	320.5%
Net Fund Return	3.3%	3.6%	-2.0%	27.2%	226.3%

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

	Buy Price	Mid Price	Exit Price
June 2017 Unit Price – Opportunities Fund	2.4646	2.4560	2.4474

Key contributors to the Opportunities Fund performance this month included **Pinnacle Investment (PNI), A2 Milk Company (A2M), Collins Foods (CKF**). Key detractors included **Adacel Technologies (ADA), iSelect Ltd (ISU**) and **Metals X Limited (MLX)**

The Ophir High Conviction Fund



The **Ophir High Conviction Fund** returned 3.7% for the month, outperforming the benchmark by 1.8%. Since inception, the Fund has returned +62.5%, outperforming the benchmark by +36.0%.

	1 Month	6 Months	1 Year	Inception (p.a)	Since Inception
Ophir High Conviction Fund (Gross)	3.7%	9.4%	4.7%	29.0%	62.5%
Benchmark*	1.8%	5.4%	12.6%	13.1%	26.5 %
Gross Value Add	1.8%	4.0%	-8.0%	15.9%	36.0%
Net Fund Return	3.5%	8.6%	3.1%	22.2%	46.5%

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

	Buy Price	Mid Price	Exit Price
June 2017 Unit Price – High Conviction Fund	1.4678	1.4627	1.4576

Key contributors to the High Conviction Fund performance this month included **A2 Milk Company (A2M)**, **Magellan Financial Group Ltd (MFG)** and **IDP Education Ltd (IEL)**. Key detractors included **NextDC Limited (NXT), Credit Corp Group (CCP)** and **Steadfast Group Ltd (SDF).**

Strategy Notes – The Age of Disruption and the Business of Funds Management

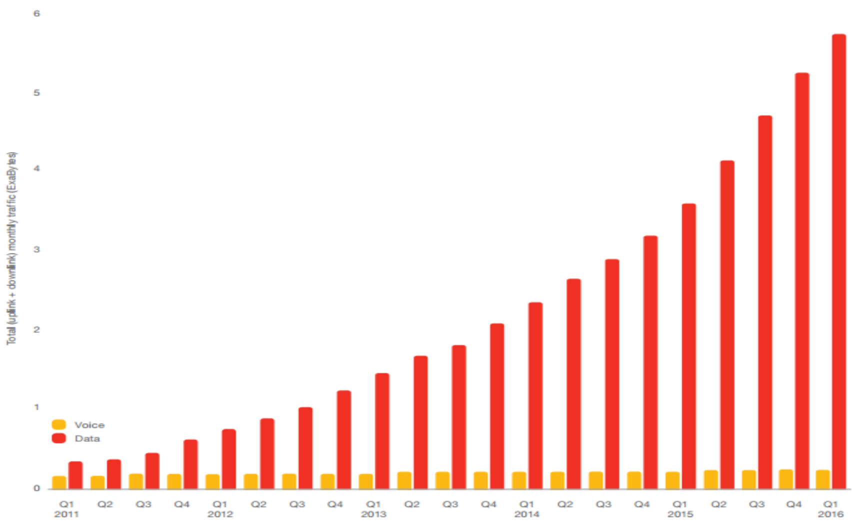
This month marked the 10-year anniversary of the launch of the original Apple iPhone and with it another reminder of just how dynamic the global investment landscape has become in recent years. While Apple investors cheered the launch of the smartphone device, it would be difficult to think that they, or even founder Steve Jobs, would have appreciated at the time just how significant the device would be to a number of industries over the following decade.

The market cap for Apple, already growing well on the back of the refreshed Mac and iPod offerings, sat at US$105bn at the time of the launch. A decade later, the business commands an equity market capitalisation in excess of US$750bn. While the equity value generated to shareholders over that period can't be entirely attested to the iPhone, its introduction would prove to be a critical inflection point for both Apple and a multitude of other industries in bringing the internet into the consumer's pocket. Today it is estimated there are now well over 700m active iPhone users globally, while more than half of the entire world's population now has access to an IOS or Android smartphone device.

We have mentioned in previous letters how **investors today are being increasingly challenged by both the opportunities and threats that new technologies are bringing to established business models**. Never before has the investment management community needed to continually review and re-test the ability for a company's business to be disrupted by an emerging entrant (or identify the opportunity inherent in new business models). With increasingly more sophisticated technology, globally-connected communities and a venture capital industry that is willing to fund untested business models, the rate of change and the consequences of those changes continues to increase dramatically.

In the iPhone's case, the impact from its introduction extends beyond smartphone unit sales and industry market share, indeed entire industries have been created as a result of access to the internet on a personal handset. Telco operators, for one, have been huge beneficiaries as data usage rates have grown significantly. Telstra, for example, has seen a nine-fold increase in Australian mobile data consumption in the last 5 years alone, a trend that has been replicated globally.

Global Mobile Data Usage vs Voice 2011-2016



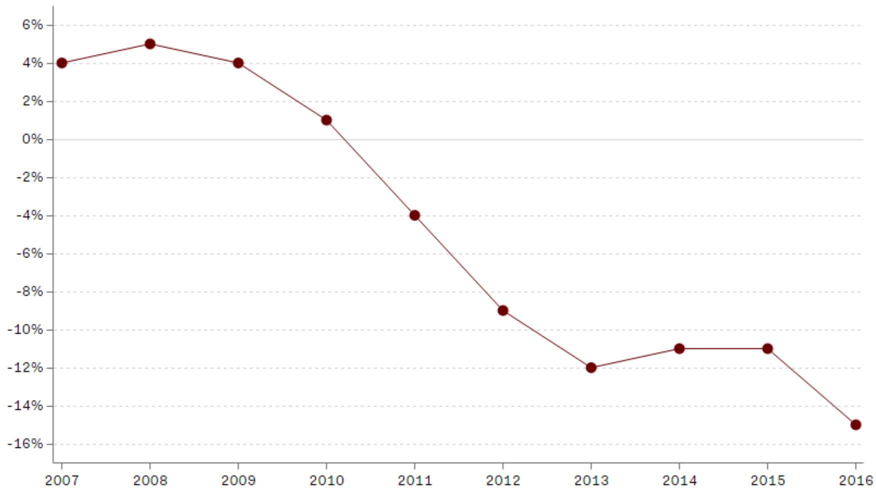
Source: Ericsson Mobility Report 2016

We often forget the introduction of the smartphone has also paved the way for an entire wave of new app-based business models that arguably would not have been able to exist pre iPhone. Tech heavyweights such as **Uber, SnapChat, WhatsApp** and **Spotify** all operate businesses almost entirely dependent on smartphone functionality. Using the latest available private valuation data, those four companies alone now have combined equity value of ~US$120bn – more than Apple at the time of the launch. The hyperbole can go on – from the enormous subsequent growth in active users for social media heavyweights Facebook, LinkedIn and Twitter, to the estimated US$70bn in earnings generated by the global app developer community since the launch of the Apple App Store in 2008. These are entire industries that didn't exist less than 10 years ago and for investors that were able to recognise the opportunities early, the returns have been exceedingly profitable.

Momentous change often brings with it inevitable casualties and the products and companies that are unable to adapt to a structural shift are often ruthlessly left behind. In the iPhone's case, manufacturers of digital cameras, personal GPS products and older-world mobile phones were unable to recover from the onslaught of multi-media smartphone devices in the years to follow. At the time of the iPhone's release in 2007, Blackberry held ~50% of the market share of the mobile phone market in the US, with the company's market cap peaking a year later just shy of US$80bn. Ten years on, the company currently trades with a market cap just north of $5bn.

Incumbents that are slow to adapt are the obvious early losers, yet there are always second and third derivative industries that are seemingly unrelated that also suffer monumental change. Chewing gum sales in America, for example, have been in steady decline in the US since around the time of the introduction of the smartphone. No longer do tabloid magazines and lollies compete for the impulse buy of grocery shoppers waiting to be served in the checkout aisle - the customers attention is now more than likely drawn toward checking their email, Facebook or WhatsApp account.

Cumulative Change in US Chewing Gum Sales



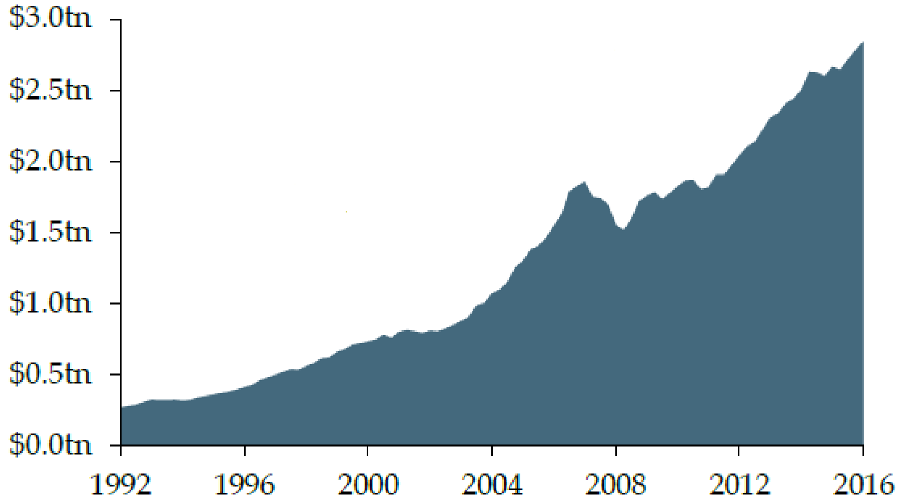
Source: Euromonitor International. Courtesy Recode.

While Australian investors have perhaps not been exposed to such significant disruptive change in recent years, **there still has been ample opportunity to identify businesses that will benefit from emerging structural trends**. The rapid move toward cloud infrastructure, for example, has created enormous tailwinds for providers of data centres and IT services. The digitisation of traditional advertising billboards has created entirely new revenue growth opportunities for outdoor media businesses that previously had been in structural decline. Even developments in offshore markets have the potential to impact more traditional manufacturing businesses in Australia: the significant increase in **A2 Milk's** infant milk formula sales, for example, would not have been possible without the emergence of cross-border e-commerce retail sites in China that essentially opened up an entire new retail market for Australian IMF manufacturers. A2 Milk generated NZD$42.2m in group sales in 2011, that figure is expected to grow to above NZD$540m at the coming August results.

We spend an enormous amount of time each year continually analysing and reviewing our portfolio holdings to identify the potential opportunities and threats that can emerge as a result of structural change. We often forget, however, that as the sole directors and shareholders in Ophir Asset Management, **we ourselves are managers of a business that operates within an industry that is itself currently facing significant structural change**.

Funds management globally is a sector undeniably in structural growth phase. As the global population continues to grow, develop and age, so too does the ever-increasing pool of investable assets requiring responsible fiduciary management. In Australia alone, the total capital managed by the Australian funds management industry has grown 11x in size since the introduction of compulsory superannuation in 1992. At current FUM of ~$2.8 trillion, Australia now has the largest funds management industry in the Asian region. From an already high base, superannuation funds are expected to further quadruple in size over the next 20 years.

Total Funds Under Management – Australian Funds Management

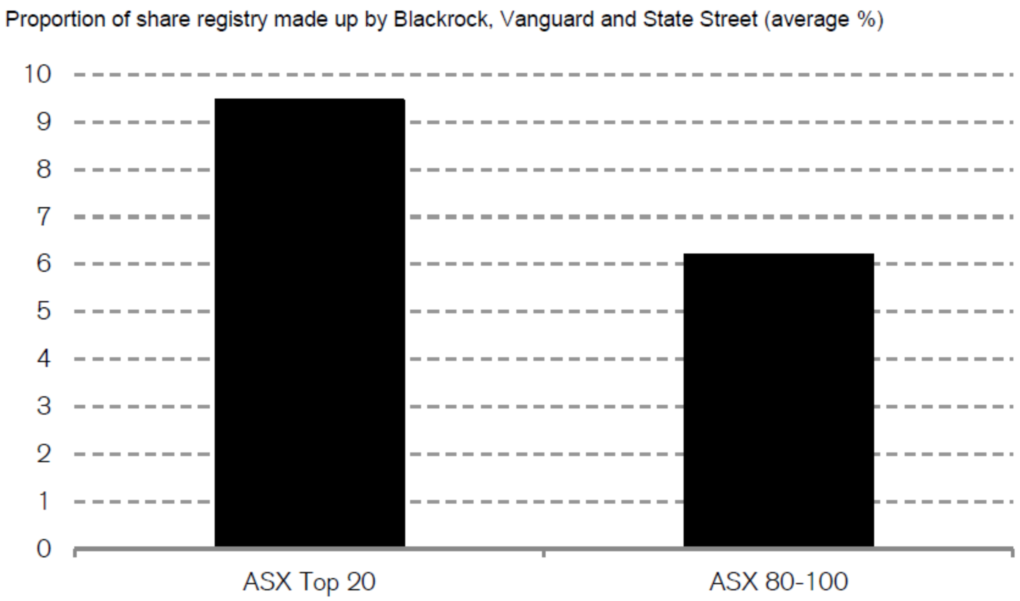


Source: Moelis Research, ABS

The need for high quality investment managers has never been greater and yet portions of the industry have found themselves facing their own iPhone moment given the the meteoric rise of passive and ETF investment strategies.

The growth in passive products is almost as impressive as the mass adoption of smartphones. Global ETF assets exceeded US$4 trillion as of April this year, with more than half of all US equity assets under management estimated to be under the stewardship of passive managers by January next year. To illustrate how large these pools of capital are, Vanguard - one of the largest providers of low-cost ETF and passive investment products globally - is now classified as a 'Substantial Holder' (holding in excess of 5% of the issued capital of a listed company) of more than 450 of the companies within the S&P 500.

The move is not bound solely to the US. In Australia, the three largest ETF / passive providers make up more than 9% of the issued capital of the top ASX 20 companies on average.



Source: Credit Suisse

While the pools of capital drawn to passive strategies is enormous, in our view **this will only serve to create greater opportunities for active, bottom-up investors over the long term**. If more capital is deployed toward the average, then the opportunities to exploit pricing anomalies or to be the first mover in an emerging company will undoubtedly increase. Like an equity index, the passive investment dollar is generally also market-cap weighted and will subsequently deploy greater portions of investor capital toward larger components of an index. This isn't an overly efficient method of capital allocation and high quality stock pickers will be well placed to capitalise on the opportunity over time.

Granted, as active managers of bottom-up, benchmark-unaware strategies we recognise we retain an obvious bias. However, we also feel we retain sufficient industry insight to recognise the value proposition provided by high quality active investment management continues to remain compelling. While the fund flow pendulum has dramatically swung the way of passive in recent years, it will be precisely this movement that creates more opportunities for outperformance from active strategies that seek to invest in businesses irrespective of where they rank in an index or underlying benchmark. Indeed, we currently own two listed businesses within the Ophir Funds that we feel are well placed to leverage off this opportunity and to the continued growth in the active management industry as a whole:

Magellan Financial Group (MFG)

The success of **Magellan Financial Group (MFG)** is already well documented, however we feel the business continues to be well positioned to continue on an already stellar growth path. Coincidently, July 2017 marks another auspicious 10-year anniversary – the launch of Magellan's original Global Equity and Infrastructure funds. From small beginnings, the business now speaks for more than $50bn in actively managed funds under management, an incredible growth achievement executed over just 10 years for founders Hamish Douglass and Chris Mackay.

While the Magellan business isn't a disrupter in the traditional sense, the management team were able to identify a substantial opportunity in the Australian market for building an international investment business at a time when the competitive landscape in Australia was in their favour. A differentiated product offering with a broad distribution strategy aimed at higher margin retail investors and offshore institutions has insulated the business from recent competitive threats and we continue to feel the business has room for further growth from here.

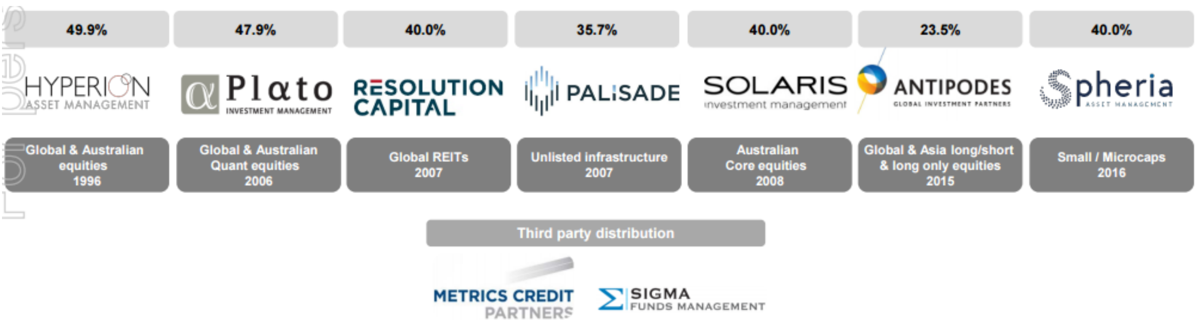
The introduction of new 'Low Carbon' strategies will add a further $40bn in incremental capacity for the business, whilst recent press reports have hinted at the possibility of another Listed Investment Company (LIC) product in the offering. The business is currently capitalising a number of recent low performance years and have surpassed previous high water marks which allow the funds to again earn performance fees. With a significant sales, investment and operations team now firmly in place, the operating leverage from every dollar of incremental FUM into the business continues to meaningfully increase from here. We remain happy shareholders in the business.

Strategy	US$ billion	A$ billion[2]
Global Equity	40	53
Global Listed Infrastructure Equity	15	20
Low Carbon Strategies	30	40
Total	**85**	**113**

Pinnacle Investment Management (PNI)

At the smaller cap end, we also hold an investment in **Pinnacle Investment Management (PNI),** an 'incubator' investor that seeds and supports a diverse range of upcoming boutique investment managers in return for an equity share in the underlying manager. At the end of 1Q17, the business spoke for FUM of $25bn, having grown that number by $5.2bn in the previous nine months alone.

Whilst Pinnacle itself may not be a well-known name outside of the professional investment community, the fund management businesses in which they invest are likely more recognisable. Like MFG, this is a business that has demonstrated a highly capable ability in raising a substantial amount of investment capital quickly, highlighted in the Distribution team recently being recognised as 'Distributor of the Year' by investment research house Zenith Investment Partners. This has been further demonstrated recently in the two ~$300m LIC capital raisings for house funds Plato Investment Management and Antipodes Global Investment Partners.



The business retains substantial growth runway in terms of capacity with approximately ~$40bn in available capacity across the various funds available to be allocated. The business has made it clear that the current stable of managers is not an exhaustive list and with more talented managers looking to exit the older institutional funds management models, there will be more opportunities for the business to add new boutiques and/or retail distribution deals. Like MFG, the bulk of the staff and operational costings have already been made upfront, meaning the operational leverage again materially lifts in the coming years. We expect to see continued growth in the business from current levels.

On behalf of the entire Ophir team, **thank you for your continued support through this financial year**. We look forward to meeting with you in August.

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

Kindest regards,

Andrew Mitchell & Steven Ng

Co-Founders & Portfolio Managers

Ophir Asset Management