



TAMIM

PORTFOLIO UPDATE

December 2016

TAMIM Asset Management

ABN 97 608 304 963 | AFSL 421469

privateclient@tamim.com.au

1300 750 007



From the Directors

December 2016 wrapped up a terrific year for TAMIM Asset Management and most importantly our clients. The TAMIM team has grown with the business and we are delighted to have been able to deliver strong returns for our clients over the course of 2016.

One highlight of this growth has been the need to close the TAMIM Australian Equity Value IMA offering to new investors due, as many of you are aware, to the continued success of both the underlying fund and the TAMIM individually managed account.

We are just days away from announcing a new Australian Equity Value manager on the TAMIM investment platform. After months of extensive due diligence, the **TAMIM Australian Equity All Cap Value IMA** will be launched at the end of January. We are extremely excited about this new offering and look forward to introducing both the strategy and manager in more detail in the coming weeks. Included in this update is the most recent portfolio commentary for this solution.

We continue to evaluate many new strategies to be included on the investment platform but we find ourselves knocking back most managers due to mediocre investment ability. We also continue to review the various strategies given economic and market conditions. We are pleased to report our view on value versus growth both locally and internationally has worked well and we continue to monitor this view.

We look forward to continuing your investment journey in 2017.

Sincerely,

A handwritten signature in black ink that reads "Darren Katz".

Darren Katz,
Joint Managing Director

A handwritten signature in black ink that reads "Jeffrey Taitz".

Jeff Taitz,
Joint Managing Director





TAMIM Australian Equity All Cap Value IMA

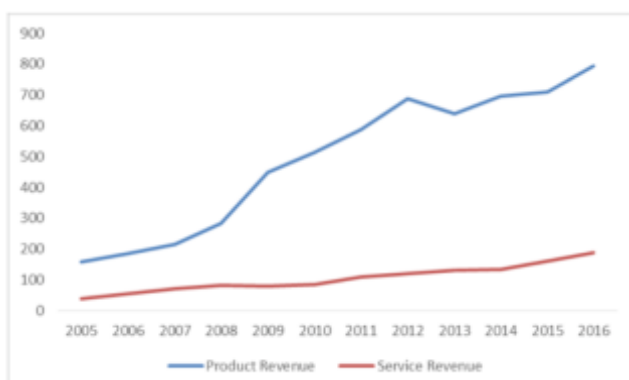
December saw the continuation of the “Trump Rally” across global markets. The Australian market finished up 4.17% with all sectors ending the month in positive territory. Yield stocks recovered from their November selloff with Utilities and REITs the top performing sectors whilst Banks and resources continued to rally. The underlying fund started the month softly as quality companies continued to drift lower but recovered to finish the month up 1.33%. The decline in quality companies over November and the first half of December provided opportunities for the fund. We introduced five new positions whilst rotating out of some companies that are experiencing headwinds.

Data #3

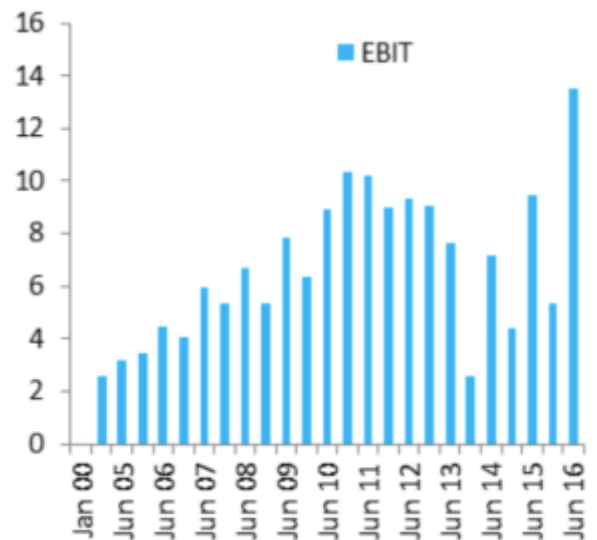
The underlying fund introduced four new positions during the month. One that we are really excited about is Data #3.

Data #3 is a company with a long track record. The company was founded in 1977 and first listed on the ASX in 1997. Through most of its history it was purely a software distributor. With no competitive advantage of its own, apart from exclusivity agreement on products from manufacturers, the business historically has been one of very low margins. More recently the company has sort to diversify their revenue base and has expanded into Services. Their service offering has become focused on assisting Small and Medium sized enterprises with their Cloud network needs.

The advantage this style of business provides is recurring revenue (as opposed to the billable hour’s model that is common in the IT services industry). Through their existing customer base they have managed to grow their services division consistently in recent years with a particular acceleration in the last 18 months.



A decline in product revenue in 2013 saw EBIT fall 9% and NPAT fall 11%. However, since then the growth in the services division has meant that the product revenue is of declining importance. In fact, due to the significantly higher margins, the gross profit from the services division is now the same as that from the



product division.

The company has net cash, pays a fully franked dividend that places it on a yield of 5.3%, trades on 16.9x historical earning and has issued guidance for the first half that represents earnings growth of between 15 and 39%. Overall, that business is performing strongly.

The underlying fund is currently the most diversified it has been with 17 investment. The cash balance fell slightly over the month as we added positions in DTL, CSL, ADA, MLB and APX whilst greatly reducing our exposure to the Telco sector.

Guy Carson,
Portfolio

Manager



TAMIM Australian Equity Small Cap IMA

December was a quiet month for news-flow across our portfolio holdings. The first half of December, in particular, saw continued weakness in small and micro-cap companies generally, with several of our positions sold off heavily. Some of the December developments are discussed below.

Key December Developments

EZA Limited:

Cash box EZA Limited (**ASX:EZA**) was subject to a takeover from Mercantile Investment Co. Limited (**ASX:MVT**) in early December. The offer price of 13.75c compares to the last traded price of 12c and 16c. EZA has been suspended from trading on the ASX for over a year as it considers its future direction, so the MVT offer provides a potentially welcome near term liquidity event, however we will discuss our participation in the offer when more details are available.

Blackwall Limited:

Property fund manager, and property management company, Blackwall Limited (**ASX:BWF**) announced the completion of a number of capital raisings and other transactions across the funds it manages, which will provide BWF with additional fees, and increase its funds under management into 2017.

Elanor Investors Group:

Elanor Investors Group (**ASX:ENN**) announced a strong first half dividend, which if annualized, puts ENN on a 7%+ yield. In addition, ENN continues to offer an attractive growth profile as it builds its exposure to tourism and property assets.

A selection of top portfolio positions as at 31 December 2016 (in no particular order):

ASX: JYC

m/c: \$40m

Outlook: "substantial growth opportunities"

ASX: BWF

m/c: \$41m

Outlook: "Pleased with growth & progress of WOTSO"

ASX: PGC

m/c: \$133m

Outlook: "strong earnings growth for FY17"

ASX: FID

m/c: \$116m

Outlook: "double digit earnings growth"

ASX: KKT

m/c: \$50 m

Outlook: "good momentum in our business"

Looking Forward to 2017

As we commence the new year, we are confident that there is attractive value across all our portfolio positions.

We remain committed to our core investment approach - identifying interesting, undervalued, not widely known opportunities that have the potential to add meaningful value to DMXCP and its shareholders.

We thank you for your support over the past year, and wish you all a prosperous and enjoyable new year.



TAMIM Australian Equity Growth IMA

The underperformance of the fund in 2016 relative to the broader market largely reflected the rally in resources, in which the fund is underweight, combined with the impact of the unexpected Brexit vote on our holdings in the funds management space. The year also saw a strong rotation into value type stocks, whereas the fund maintains a quality, growth focus. The fund benefited from an underweight position in the resources sector from late 2011 through to the end of 2015, which has been driven by our concerns around the growth in supply and macro uncertainty in regards to Chinese demand. However, the sector rallied strongly in 2016. Resources account for 20.4% of the weight of the ASX 200 and returned 42.4% for the calendar year.

While we have not changed the investment process or philosophy, as we head into 2017 we note that 19 of the 47 holdings currently in the portfolio were not held this time last year. We are confident that the portfolio will produce above benchmark returns over the medium and long term, as reflected in our longer term track record. The Australian market finished 2016 strongly, while the S&P/ASX 200 at 5665 is 6% below the 2015 high of 5997 and 21% below the all-time high of 6851 in November 2007.

For the month, the German DAX led gains, rising 7.9%, the FTSE 100 rallied 5.3%, the Nikkei 225 gained 4.4% and the S&P500 was up 1.8%, while the NZ50 was slightly down, -0.2% and the Shanghai Composite lagged, -4.5%, following two strong months for the Chinese index.

Across the Australian market, the strongest performing sectors were Utilities (+8.7%), Property (+6.8%) and Energy (+6.1%), while Telecommunications (+0.4%), Healthcare (+0.4%) and Consumer Staples (+1.8%) lagged.

Portfolio Commentary

Stocks that delivered strong performance for the portfolio in the month included Duet Group (DUE, 2.4% weight), which returned 19.0% after receiving a non-binding proposal from Cheung Kong Infrastructure (CKI) to acquire the company for \$3.00 per share in cash and making an announcement regarding the planned

construction of a gas storage facility in Western Australia. CKI is currently undertaking due diligence prior to lodging an expected binding offer and any deal will be subject to approval by FIRB. DUE has been a core holding since 2012, having been first purchased at \$1.97.

Sealink (SLK, 1.7% weight) returned 13.6%. CBG attended an investor in Queensland in November, which highlighted a strong outlook for the Transit Systems Marine assets, including tourism upside for North Stradbroke ferries. However, the fund has subsequently reduced its holding in the stock on valuation grounds.

Speedcast (SDA, 2.7% weight) returned 12.5% as the market began to view the acquisition of major competitor Harris CapRock more favourably. The acquisition makes SDA the largest satellite services provider globally and the company has guided to double digit EPS accretion from the deal in FY17, with further material synergies to be realised beyond this financial year. Harris CapRock has been negatively impacted by the decline in energy sector activity over the past two years. However, the recovery in the oil price in 2016 and evidence of improving rig counts suggest that headwinds are abating for that area of the business.

Commonwealth Bank (CBA, 11.9% weight) returned 4.8% as the banking sector continued to rally on firming expectations that there are no imminent capital raisings for the sector. In a November speech, APRA Chairman Wayne Bayres confirmed that the goal of the Basel Committee is for revisions to the capital framework to result in no significant increase in capital requirements overall. Moreover, Bayres indicated that 2017 will be a year of consultation, with new standards to take effect at least a year after that.

Stocks that detracted from fund performance in the month included Sirtex (SRX, 0.7% weight) which fell 48.7% after the company guided to 1H17 dose sales growth of only 4-6%, compared to guidance for double digit growth and prior corresponding period growth of 16%. With management having set spending budgets based on higher revenue growth expectations, earnings are consequently expected to decline in the FY17 year.

Dose sales growth has been impacted primarily by increased competition, both from direct competitor BTG



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and also from a new oral drug, Lonsurf. Lonsurf's overall

impact on SRX growth may be temporary. However, competition from BTG is expected to be ongoing.

SRX's Sir-Spheres treatment and the abovementioned competing treatments are currently primarily used at salvage stage, which is after patients have stopped responding to standard therapy (e.g. chemotherapy). Importantly though, SRX is several years ahead of BTG on its clinical trial program to demonstrate efficacy of Sir-Spheres in earlier stage treatment, which would increase SRX's target market by approximately 10-fold. SRX has three major studies due to report results in the first half of this calendar year. Given the strong improvement in progression free survival within the liver shown in the earlier SIRFLOX study, SRX's prospects for these trials look good. With the stock now trading on only a 17x FY17 PE, the risk reward equation supports continuing to hold the position.

Class (CL1, 1.3% weight) also detracted from performance, returning -8.3% in the month as the market questioned the valuation after a more than doubling of the stock in the first 9 months of the year. The company continues to record very strong growth within its target market of cloud-based SMSF administration, where it is the market leader. Consensus expectations are for the company to achieve 53% EPS growth in FY17.

Market Commentary

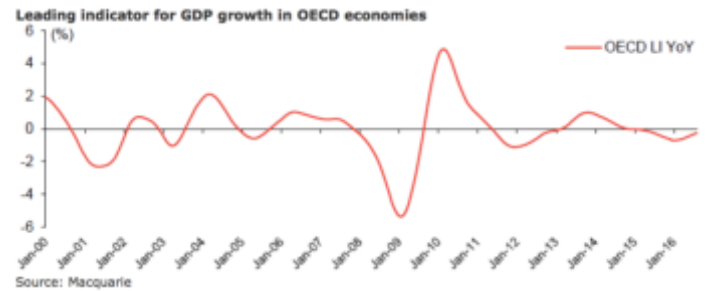
Australian economic data was soft in December. September quarter GDP fell by -0.5%, although it is widely expected by market economists to rebound in the December quarter. This reflects several non-recurring factors, including weak export volumes, a reversal of 2nd quarter strength in public demand and weather related softness in construction activity. On the positive side, employment growth accelerated in November, with a 39k rise reported, up from 15k in October. The unemployment rate nonetheless increased by 0.1%, given a 0.2% rise in the participation rate.

Expectations for improved global growth have pushed stock markets higher in 2016. This has been despite a sharp rise in bond yields in the fourth quarter, as the bond move has reflected increased growth and inflation expectations. Improved global growth is expected to be driven by the US, including from fiscal stimulus, and from emerging markets, in particular Brazil and Russia. Despite the recent recovery in the US housing market, the housing investment share of GDP remains around previous cyclical lows, providing scope for a multi-year improvement.

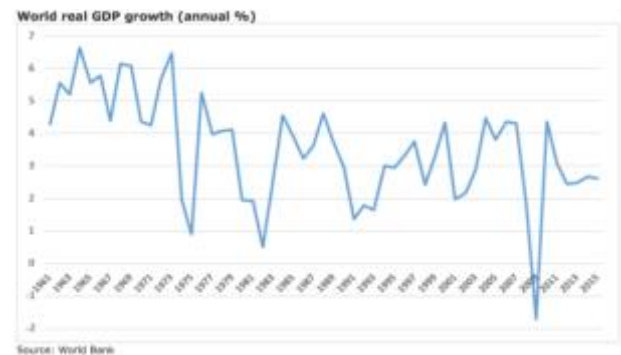
survival benefit of only 1.8 months suggests that the

Europe is beginning to follow the US in delivering employment growth, while overall economic growth is expected to remain tepid. China's growth is expected to continue to reduce gently, at a still strong 6.5% in 2017¹.

The chart below combines leading indicators for aggregate GDP growth in OECD economies, with the indicator showing an upswing since March 2016.



Expectations for improved global growth are also a reflection of the fact that we are coming from the longest stretch of sub-par global growth in 50 years. Using a simple average of individual years, global growth since 2007 has averaged 2.2% per annum. This compares to the previous 10 years' average of 3.4%, 20 years' average of 3.2% and 30 years average of 3.1%. This is illustrated in the chart below, noting that the rebound year in 2010 followed negative growth in 2009, with growth having remained in a subdued trend since the end of 2007.



¹ Source: World Bank



TAMIM Global Equity High Conviction IMA

In summary we did OK for calendar year 2016. We did correctly anticipate a switch back to value stocks and were positioned fairly well especially in Financials. We missed the bounce in oil and resource stocks. We are still biased toward value because a lot of disbelief still exists about the resilience of the financial system or the ability of the major economies to keep plodding on.

We would like to see more interest rate rises in the USA and some form of incentive programme for increased capital expenditure. We hope to see incentives for less private capital spending in Japan and dividend increases instead, but we have been pleading with Japanese companies to do this for many years without success. China and Asia face an interesting challenge. They have good fiscal positions and well educated populations, but governments need to deregulate to achieve higher growth. Domestic consumption has to rise since the mercantilist export led model now faces more protectionist posturing from a Trump administration. Stocks are cheap especially smaller companies where there is less government involvement. This may not be a story for 2017 but 2018?

Market and Portfolio Review

- Equity markets continued recent strong gains in December with the MSCI World index rising 4.4% in AUD\$ terms.
- The AUD\$ fell against most currencies. We remain unhedged.
- The strategy rose 4.8% in December.
- We sold Wells Fargo, the USA bank, and Vinci, the French construction and infrastructure company. We reinvested the proceeds into Gilead, the USA biotechnology company and Julius Baer the global asset manager.
- We believe USA healthcare stocks are now cheap.
- Turnover has been slightly higher recently since the cross-sectional volatility of our stock ranking model has increased.

Market Outlook

- President elect Trump has begun to pick some members of his administration. It doesn't look

like he intends to “drain the swamp” but is appointing members of the establishment.

- We expect his government will make a lot of noise about small changes in policy and will rather attempt to ‘persuade and cajole’ USA corporations to reinvest in America, than use legislation.
- Value stocks have outperformed meaningfully and are no longer “screaming cheap”.
- We remain with a bias to ‘value’ but this has become more of an expectation that momentum now kicks in to keep these stocks outperforming. Many investors are still positioned for “Financial Armageddon” which we do not see.
- 2017 will see a political dimension enter our investment thinking. Our decision to invest in European banks recently has begun to pay off and we expect European policy makers to effectively swamp their economies with easy money.
- Brexit will be interesting but the UK economy, post the decline in Sterling, looks to be in a stronger position.
- We don't see any reason to have a large weighting to cash nor to change from our value bias.
- We are entering a seasonally stronger period for equities.

2017 is likely to be less eventful than 2016 if only because all investors are now aware that extreme political events are possible. Having said that, there are a lot of political rocks to navigate especially in Europe. Other fund managers are still positioned in safe, expensive, stocks and hold cash. We remain fully invested in the model portfolio and unhedged for AUD\$ based investors.

Robert Swift,
Portfolio Manager



Contact

Should you wish to discuss your investments or the various TAMIM solutions please do not hesitate to contact us:

Darren Katz

Joint Managing Director

M 0405 147 230

E darren@tamim.com.au

Jeremy Benson

Head of Distribution

M 0402 234 577

E jeremy@tamim.com.au

Jeff Taitz

Joint Managing Director

M 0403 028 639

E jeff@tamim.com.au

Tim Budge

Director – WA & SA

M 0403 360 850

E tim@tamim.com.au

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