



TAMIM

PORTFOLIO UPDATE

February 2017

TAMIM Asset Management

ABN 97 608 304 963 | AFSL 421469

privateclient@tamim.com.au

1300 750 007



From the Directors

Reporting season across the Australian portfolios was relatively uneventful at a stock level. We have noticed that there has been significant selling from large Australian superannuation institutions as they rotate out of small and mid-cap stocks into the large-cap sector. While we believe this rotation is late, it has created significant weakness across mid and small cap stocks.

Our Australian managers have used this weakness to deploy some cash into companies we have wanted to purchase for quite some time but they have just been too expensive. As a result, while the February performance across Australian portfolios was generally weak, we believe this has allowed the managers to set portfolios for the next 12 to 24 months and move onwards.

As usual we are always open to discussion and we wish you successful investing.

Yours 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".

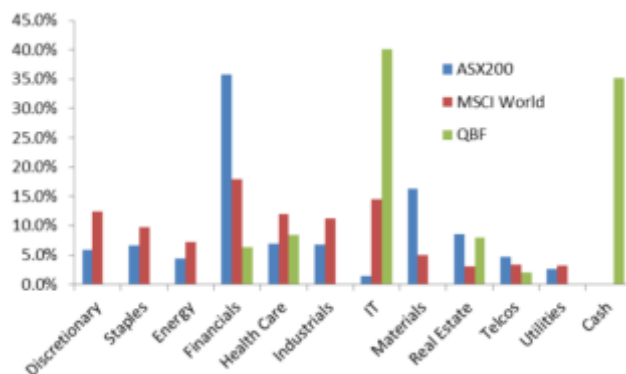
Jeff Taitz,
Joint Managing Director





TAMIM Australian Equity All Cap Value IMA

Reporting season was a volatile period for the Australian market. Earnings growth was led by the resource companies after the rally in commodity prices over the last year, this led to increased payouts to shareholders. Companies that missed expectations were sold off heavily with major disappointments coming from Telstra, Brambles and iSentia. One sector that stood out to us was the IT services sector where we saw a number of strong results and plenty of positive guidance. For some more of our thoughts on reporting season please watch our wrap, found on the Lazy Dog Blog.



The Portfolio

The portfolio is currently invested in 16 companies. The underlying fund added two new positions in the month, one a software company and one IT services company focused on distribution. Meanwhile we exited positions in Appen, Grays Ecommerce Group and ICS Global. The cash level is currently 35.2%. The positions above 5% are shown below.

Guy Carson,
Portfolio Manager

Gentrack Group	7%
IMF Bentham	6.3%
Melbourne IT	5.2%
Mitula Group	5.1%
Data#3	5.1%
Other Positions	36.1%
Cash	35.2%

Sector Positioning

The fund maintains a strong overweight to the IT sector with other exposures in Healthcare, REITs, Financials and Telcos.



TAMIM Australian Equity Small Cap IMA

The Portfolio

The February (half-year) reporting month was a challenging one for the portfolio, resulting in a disappointing loss for the month. While larger companies and resources stocks performed well, the market's interest in small and micro-cap industrials remained weak. In many cases, the liquidity generated around reporting releases has further facilitated rotation out of some small caps. In our universe, the market was generally unimpressed with reported results (and in some cases profit upgrades) that ordinarily we would have expected to result in share-price re-ratings, while negative news was harshly punished.

Our portfolio companies generally reported solid half year reports, with profit results in line with our expectations and/or previous guidance. We discuss some of these results in the following pages.

During the month we took a small position in an emerging telecommunications company through a discounted placement.

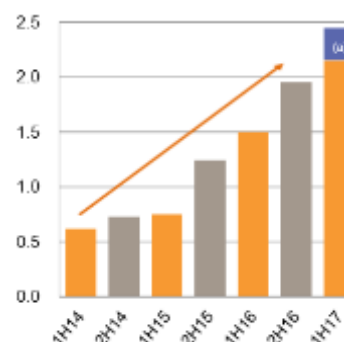
We closed the month with a large cash weighting (~35%) which positions us well to capitalise on current opportunities and volatility in the small cap market.

A summary of the half year results from a selection of our previously disclosed positions is detailed below:

Konekt Limited (ASX:KKT)

KKT, a leading provider of workplace injury management and prevention services reported a strong half year result. Operational highlights included a significant panel appointment in the Commonwealth government sector and being re-appointed as a service provider to two major financial institutions.

KKT continued to benefit from the increased scale of the business with underlying EBITDA margins increasing from 10% to 11%, resulting in significant earnings growth. KKT's increasing EPS trend (by half year) is shown below:



Source: Investor Presentation 15 February 2017

KKT noted it is well positioned going into 2H17 with good momentum in the business. KKT has forecast total FY17 revenues of between \$51.0m to \$53.5m, which is a 14% to 21% increase over FY16. As advised in our January update, KKT is currently re-negotiating a major customer contract, and until the outcome of that is known, its share price is likely to remain weak.

Joyce Corporation Limited

Joyce Corporation, an investment company that owns the Bedshed Franchise, Australia's largest kitchen renovation company and a leading online auction company, reported a strong operating result relative to the previous corresponding period.

JYC advised that the group is poised for further growth and the underlying business units are continuing with their solid performance into the second half, with the Chairman noting that *"The Company is in an enviable financial position with profitable businesses, low debt and substantial growth opportunities which provides a strong level of security for our shareholders."*

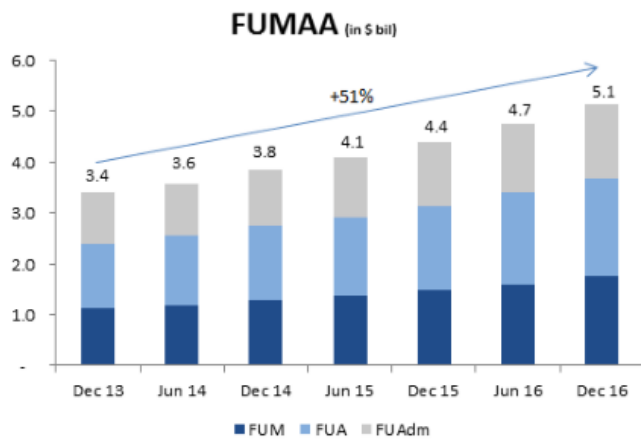
Fiducian Group (ASX:FID)

Integrated financial services company FID reported an increase in its underlying after tax profit in HY17 of 23%. Its total funds under management, administration and advice (FUMAA) increased 16% to \$5.1b over the 12 months.

FID's increasing FUMAA trend is illustrated below:



Portfolio Update: February 2017



Source: Results announcement 17 February 2017

With 41 offices throughout Australia, FID is now a substantial national financial services business, benefitting from increasing recurring revenue. FID is well placed to continue to build scale organically and through acquisitions, and to leverage its integrated service offerings to “*deliver consistent double digit earnings growth in coming years*”.

FID noted that they have recorded double digit annual EPS growth in 13 out of the 17 years it has been listed.

SDI Limited (ASX SDI)

Global dental product manufacturer, SDI, produced a disappointing profit result at the lower end of its previous guidance range (\$2m NPAT).

While sales of its higher quality non-amalgam products are growing, its older amalgam products are declining faster than expected and previously guided for, such that SDI is expecting only marginal total sales growth over the course of this year. Adverse currency movements have further reduced profits relative to the previous period, resulting in significant earnings volatility.

SDI have forecast sales growth in Non-Amalgam products to increase by approximately 10% while Amalgam sales (~30% of total sales) will decrease by 13%, equating to a total sales increase of approximately 2% for FY17.

Pioneer Credit Limited (ASX:PNC)

Debt purchaser PNC reported a solid result and evidence of further pleasing execution on its development. Vendor partner relationships appear strong with PNC now having secured (under contract) full year PDP investment of at least \$53m (up from an initial guidance of \$50m) within the half-year, representing solid market share gains. The business is expanding (& diversifying)

well, with customer numbers having increased to over 160,000 and its first NZ portfolio secured during the half.

PNC has re-affirmed its forecast FY17 NPAT of at least \$10.5m, while its investments made during the year are likely to position it for a particularly strong FY18 result.

Elanor Investors (ASX:ENN)

Fund manager and asset owner ENN reported a solid operating result. ENN’s key strategic objective is to grow its funds management business and since 31 December 2015, total funds under management and balance sheet investments have increased to \$774m reflecting a 50.6% increase on PCP. Earnings highlights included a 90% increase in Funds Management earnings to \$7.8m, while earnings from Hotels, Tourism and Leisure assets showed significant year on year growth.

ENN noted that they have a number of funds management initiatives in progress, though there are challenges associated with securing quality assets in the current environment.

Of interest is the possible announcement over the next several weeks regarding the sale of ENN’s Merrylands investment property – this will be a significant development for ENN, potentially raising \$40m - \$50m in cash (currently held on balance sheet at \$16.6m).

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

ASX: **JYC**

m/c: \$43m

Outlook: “*substantial growth opportunities*”

ASX: **BWF**

m/c: \$50m

Outlook: “*Pleased with growth & progress of WOTSO*”

ASX: **PGC**

m/c: \$123m

Outlook: “*strong earnings growth for FY17*”

ASX: **FID**

m/c: \$125m

Outlook: “*double digit earnings growth*”

ASX: **ZNT**

m/c: \$45m

Outlook: “*Growth strategy and acquisitions being pursued*”



TAMIM Australian Equity Income IMA

Portfolio Commentary

Charter Hall Group (CHC.ASX) was the stand out in the portfolio rising 11.9% in the month after releasing a robust first half earnings result which rose 31% to \$80.8m. Market expectations were for “only” a 18% rise. The better result was on the back of higher performance and transactions fees that the company received from the 2016 IPO of Charter Hall Long WALE . The company also upgraded their full year result guidance to 12% growth. Interesting at their release of their 2016 result in August 2016 the company gave guidance of 2% earnings growth in 2017 which upgraded to 7% earnings growth at their AGM in November.

Transurban (TCL.ASX) rose 8.1% in February after reporting a result that was broadly in line with market expectations and included a lift in DPS guidance (+1cps to 51.5cps) on the back of stronger than expected operating cashflow. Existing assets are performing well and new assets continue to ramp up. Transurban continues to have a strong pipeline of development opportunities which, combined with organic growth on a largely fixed cost base, should help drive ongoing double digit distribution growth over future periods.

AGL Energy (AGL.ASX) rose 8.5% in the month after it posted a solid result and lifted guidance to the upper end of its existing guidance range and provided a more upbeat outlook. Operating Cash Flow disappointed though on higher than expected working capital that should unwind in the second half. AGL is benefiting from being long electricity generation in a market seeing structural upward pressure on wholesale electricity prices on the back of thermal generation retirement and higher gas prices and we expect these benefits to roll through over future financial periods.

Lend Lease (LLC.ASX) returned 8% after the company reported 12% EPS growth for the half year and management guided to continuing growth momentum.

The strong EPS growth was despite the headwind of a higher tax rate and the company is tracking ahead of consensus expectations for full year EPS growth of 8%. Lend Lease continues to bring in cash from the settlement of pre-sold apartment developments and is a beneficiary of increasing transport infrastructure spending. They are also beginning to deploy their own capital into apartment developments in the US, with Australian apartment earnings at a peak while the US housing cycle is at an earlier stage.

Propertylink (PLG.ASX) returned 7% as management reaffirmed FY17 distribution guidance of 6.3cps, equating to an 8.1% yield at the current stock price of \$0.78. Operationally, the company achieved strong releasing activity in the period, reducing lease expiries for this calendar year from 16% of the portfolio down to 10%, while delivering 8% rental growth as incentives were reduced. The company is also likely to earn a substantial one off performance fee in the near term from the sale of 320 Pitt Street, Sydney, which is an asset in one of Propertylink’s funds.

Westpac (WBC.ASX) did not report during the month, but returned 6% as updates from peers highlighted some improving trends for the banks sector. In particular, peer results and trading updates affirmed that the bad debt outlook is benign, capital positions are strong and the sector is increasing its focus on cost control. Housing credit growth has been slowing, but only gradually and a recent uptick in investor housing demand has enabled the banks to put through rate increases. Business credit growth has been more patchy, so WBC is relatively well placed as a mortgage focused bank.

Scott Maddock,
Portfolio Manager



TAMIM Global Equity High Conviction IMA

Market and Portfolio Review

- Equity markets were stronger in February with the MSCI World index rising 1.5% in AUD terms.
- The broader equity market rally was driven by growth and quality stocks, with the MSCI World Growth index increasing 1.9%, and MSCI World Quality also increasing 1.9% in AUD.
- The High Conviction Strategy rose 0.9% in February.
- Information Technology stocks performed strongly for HCS. Apple Inc rose 12% and Cisco Systems rose 10% for the month in AUD terms after both reported strong earnings results.
- Macy's also rallied strongly, up 11% in AUD terms, with several market participants evaluating possible takeover strategies

Market Outlook

- Although equities are not cheap, there is a good likelihood that they will continue to rise further as global economic growth is picking up.
- This is putting upward pressure on inflation and interest rates, which in turn is likely to weigh on bond markets.
- This is likely to cause big institutions to switch out of bonds and into equities.
- They are however likely to hold off until the extent of potential trade protectionism from the Trump administration is known.
- We remain fully invested in the model portfolio and unhedged for AUD based investors.

Information Technology stocks performed strongly for HCS. Apple Inc rose 12% and Cisco Systems rose 10% for the month in AUD terms after both reported strong earnings results. Macy's also rallied strongly, up 11% in AUD terms, with several market participants evaluating possible takeover strategies.

The broader equity market rally was driven by growth and quality stocks, with the MSCI World Growth index increasing 1.9% and MSCI World Quality also increasing 1.9% in AUD terms.

Although equities are not cheap, there is a good likelihood that they will continue to rise further as global economic growth is picking up. Value stocks continue to look very attractive but need a catalyst for a sustained

rally. We expect large variability of returns between Value and Growth strategies and individual stocks to continue.

The unknowable is represented by Donald Trump and some of his policies. Thus far we have tried to judge the merit of the initiatives rather than the process by which they are delivered.

- Détente with Russia means China is more focussed and brings a Syrian solution on the table
- Energy independence means USA will increasingly withdraw from interfering in the Middle East
- Insistence that Europe more pays its way for NATO frees up the USA budget for domestic infrastructure refurbishment

What we don't know is what will be done to taxation of imports and exports and the suggestion that incentives be provided to exporters at the expense of importers. It is likely that retailers and the retail supply chain will be hit but corporate tax rates come down for profits returned to the USA. Technology, Capital Goods companies and Autos are already big exporters and we are overweight these. Interesting times.

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

Disclaimer

The information provided should not be considered financial or investment advice and is general information intended only for wholesale clients (as defined in the Corporations Act). The information presented does not take into account the investment objectives, financial situation and advisory needs of any particular person nor does the information provided constitute investment advice. Under no circumstances should investments be based solely on the information herein. You should seek personal financial advice before making any financial or investment decisions. The value of an investment may rise or fall with the changes in the market. Past performance is no guarantee of future returns. Investment returns are not guaranteed as all investments carry risk. This statement relates to any claims made regarding past performance of any Tamim (or associated companies) products. Tamim does not guarantee the accuracy of any information in this booklet, including information provided by third parties. Information can change without notice and Tamim will endeavour to update this booklet as soon as practicable after changes. Tamim Funds Management Pty Limited and CTSP Funds Management Pty Ltd trading as Tamim Asset Management and its related entities do not accept responsibility for any inaccuracy or any actions taken in reliance upon this advice. All information provided in this booklet is correct at the time of writing and is subject to change due to changes in legislation. Please contact Tamim if you wish to confirm the currency of any information in the booklet.