



# TAMIM

## PORTFOLIO UPDATE

January 2017

TAMIM Asset Management

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## From the Directors

January generally tends to be a quiet month in the small and mid-cap Australian equity sectors as we find most companies tend to go quiet ahead of reporting season in February. Across the small cap portfolio we did have some exceptions to this, which we discuss in the below report. The value portfolio did not fare quite as well; however, we are expecting a strong period as we enter reporting season. We also expect the ACCC to release their determination on key holding PMP's merger with IPMG. The announcement is due on the 23<sup>rd</sup> of January and we expect this to be a positive for the value portfolio's

Our global portfolios performed well at a stock level in January, however the AUD strengthened against most of the major currencies which hurt portfolio returns in January. We are reviewing the policy of not hedging portfolios and will communicate this directly with you once we finalise our actions at an investment committee level.

Finally, we are reviewing opportunities in real assets - property is an area we have considered seriously. We are currently doing due diligence across a number of properties in both the retail, commercial and industrial segments. While the eastern seaboard continues to be strong we have seen significant weakness out west and are focusing our attention on purchasing potentially distressed, high quality assets in Perth.

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

The ASX rally came to a halt in January as confession season brought through some downgrades. Big names that suffered include Brambles, Aconex and Servcorp. The underlying portfolio had a strong month; this was helped by profit upgrades from CSL, Integrated Research and Data #3. In addition, Resmed reported a strong result.

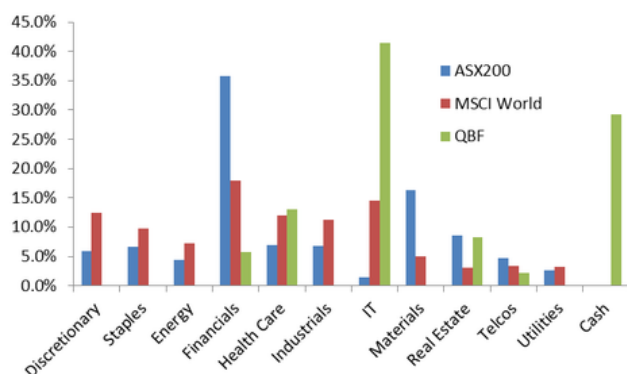
### The Portfolio

The underlying portfolio is currently invested in 17 companies. No positions were added or sold during the month. The cash level is currently 29.9%. The positions above 5% are shown below.

<b>Gentrack Group</b>	<b>6.8%</b>
<b>IMF Bentham</b>	<b>5.6%</b>
<b>Data #3</b>	<b>5.5%</b>
<b>Grays Ecommerce</b>	<b>5.5%</b>
<b>Integrated Research</b>	<b>5.2%</b>
<b>Altium Limited</b>	<b>5.1%</b>
<b>Other Positions</b>	<b>36.4%</b>
<b>Cash</b>	<b>29.9%</b>

### Sector Positioning

Currently the underlying portfolio has a zero weight to the banks and instead invests a disproportionate amount of capital into the IT sector with other exposures in Healthcare, REITs, Financials and Telcos.



Whilst the banking sector is over-represented in Australia relative to global markets, the IT sector is severely under-represented at 1.4% versus 14.6% for the MSCI World. Given that relatively small size, it is a sector that is largely ignored by large institutional investors.

This provides opportunities for those willing to investigate.

When we delve into the IT sector, we actually find a number of companies (primarily specialising in software) that are significant global players within a niche segment. These companies often exhibit many of the characteristics we look for in a quality company. In particular, they have:

- A high degree of recurring revenue.
- Low additional costs of bringing on customers, leading to high margins.
- Very low capital costs leading to high returns on capital.

Our top five holdings contain three such software companies:

- **Gentrack** – a New Zealand based company Software Company specialising in billing for Utilities and Airport management software. Currently services 15 out of the top 100 airports globally.
- **Altium** – a company that designs software for the design and manufacture of Printed Circuit Boards. They are the fourth largest player in the PCB software market globally, having grown from a 10% to 16% market share over the last year.
- **Integrated Research** – a leading global provider of performance management software for critical IT infrastructure, payments and communications systems. Amongst their clients are the 10 largest US banks, 6 of the 10 biggest Telcos globally and 120 of the Fortune 500.

Whilst these companies have come into our portfolio through our bottom up process, it seems difficult to foresee a scenario in 5 or 10 years' time that the IT sector remains at a 1.4% weighting in the ASX. With the structural tailwinds behind technology and automation and the amount that corporations and individuals rely on it, IT is set to be one of the fastest growing sectors.

Guy Carson,  
*Portfolio Manager*



## TAMIM Australian Equity Small Cap IMA

January was a surprisingly eventful month for the DMXCP portfolio with a number of developments across our portfolio holdings. Some of these developments are discussed below.

### Key Developments

#### Zenitas Healthcare Limited

During the month we added to our existing investment in **Zenitas Healthcare Limited** (ASX:ZNT – formerly ASX:BGD) through participation in a capital raising as part of the restructuring of the company. This represented our second round of funding into ZNT/BGD. The restructure/capital raising (\$30m) was well supported by Australian institutional investors and an Asian healthcare investor. ZNT now operates from 54 locations throughout Australia, employing 700+ health professionals, providing services across allied health, home care and primary care; making it a significant player in the community healthcare in the Australian market.

Community healthcare is expected to benefit from supportive government policy, as community-based health services represent a cost-effective solution compared to high cost hospital care.

Wilson HTM commenced research coverage on ZNT, noting *“Zenitas Healthcare offers an exposure to the emerging Australian community-based healthcare market. We expect Zenitas will deliver solid network growth as it expands and integrates three service verticals in allied health, general practice medicine and homecare.”*

We like ZNT as it is in a sector supported by strong tailwinds and encouraging thematics, it is priced on an undemanding multiple, has multiple and credible pathways to grow, and is run by an experienced management team. That said, the business still has work to do prove itself to the market, and to build out its model. As it does, there is ample room for the share price to re-rate.

#### Joyce Corporation Limited

Investment company **Joyce Corporation Limited** (ASX:JYC) announced an update in relation to its kitchen

business KWB. JYC advised that KWB was purchasing a building for its new head office, and that its revenue and earnings were expected to exceed internal expectations to December 2016. We view the property acquisition as a positive as:

- It demonstrates management’s confidence in, and commitment to, the future of the KWB business;
- It allows for operational efficiencies as it consolidates existing KWB sites;
- Over half the building will be subleased on a long-term commercial basis – providing additional income to KWB; and
- JYC expect significant gains in the property valuation of the building, strengthening the ‘tangible’ asset backing of the company, and there is potential to recycle this asset once these valuation increases come through.

#### Konekt Limited

Return to work and rehabilitation provide **Konekt Limited** (ASX:KKT) advised the market that its largest customer, Medibank Health Solutions (MHS) has decided to change certain requirements relating to the rehabilitation services provided under the MHS Contract. Through this MHS contract, KKT provides rehabilitation services to the Department of Defense. The change in ‘delivery model’ may include KKT staff being located ‘on base’ (inside defense property) rather than working out of a KKT office as is currently done, and/or a change to the way KKT staff have historically been charged to MHS (currently on 6 minute intervals which potentially may move to daily or weekly rates). Our understanding is that the KKT relationship with MHS is strong, and that KKT currently oversees and provides sensitive services to approximately 3,000 (and increasing) defense personnel across a number of (often remote) geographic locations. This suggests that it is in both parties’ interests to arrive at a new contract acceptable to all stakeholders. However, there is a risk that KKT and MHS cannot agree on new contractual terms, and until there is a resolution, the KKT share price is likely to remain weak.

#### Blackwall Limited

Property fund manager, and property management company, **Blackwall Limited** (ASX:BWF) announced the roll-out of their shared workspace offering (Wotso) into



## Portfolio Update: January 2017

Hobart – bringing to 12 the number of locations managed by BWF. A trust managed by BWF (Blackwall Property Trust – ASX:BWR) purchased the Hobart property.

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

ASX: **JYC**

m/c: \$44m

*Outlook: “substantial growth opportunities”*

ASX: **BWF**

m/c: \$47m

*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: **ENN**

m/c: \$194 m

*Outlook: “continued growth in Core Earnings in FY17”*



## TAMIM Australian Equity Growth IMA

### Market Commentary

While the Australian market posted a 19-month high during the month, a mid-month reversal in sentiment ahead of Donald Trump taking office saw the overall market decline modestly (-0.8%). However, the market remains up 6.9% since the election of the Trump administration on November 8 suggesting further potential downside if Trump’s policies fail to live up to expectations. Materials outperformed in the month as commodity prices rallied (ex oil) while the AUD advanced 4.4% to US\$0.7558.

Across the Australian market, the strongest sectors were Healthcare (+4.8%), Materials (+4.7%) and Utilities (+0.9%) and while REITs (-4.9%), Industrials (-4.7%) and Consumer Discretionary (-4.3%) lagged the market.

Across the globe, the S&P500 gained 1.9% while the Dow Jones Industrial advanced to 19,864 (+0.4%) after breaching 20,000 during the month for the first time. The NZ50 advanced 2.5%, the Shanghai Composite rose 1.8% and the German DAX rose 0.5%. Conversely, the FTSE 100 declined 0.6% while the Nikkei 225 lost 0.4%.

Ahead of reporting season, January saw a mix of guidance downgrades (BXB, ACX, BAL) alongside a few upgrades (BSL, CSL, SGM). Misses versus expectations have seen sharp share price corrections and we expect this to continue this reporting season. 18% EPS growth is expected in FY17 across the market though this is very heavily skewed to resources companies with median EPSg of 5% expected (source UBS).

Indicators for global economic growth have been improving in recent months. However, 2017 looks to be another year of elevated political risk with President Trump’s early policy (and other) announcements causing uncertainty with key trading partners and allies, the UK Prime Minister announcing that Britain would be looking to exit the European Union single market and key elections to occur across continental Europe over the year. Against this backdrop, we remain relatively defensively positioned with a reasonable holding in cash to take advantage of opportunities that may arise over the year.

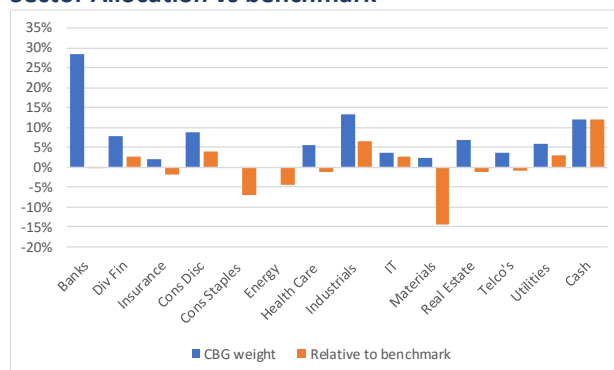
### Portfolio Commentary

Of our portfolio stocks, strongest contribution was recorded by **SDA** (2.9% weight) which returned 2.6% after announcing the early completion of its latest acquisition. **MIL** (1.1% weight), a major supplier of cleaning, security and integrated services to shopping centres, and the commercial, government and education sectors was also a strong performer returning 6.3% while Resmed Inc (**RMD**, 2.0% weight) returned 4.1% after reporting better-than-expected 2Q17 revenues and NPAT during the month.

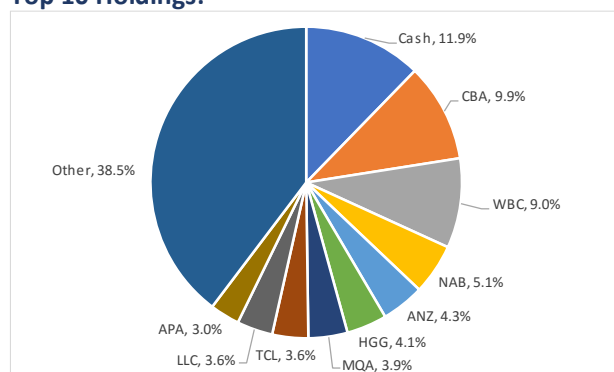
Portfolio stocks that detracted from fund performance included Brambles Limited (**BXB**, 1.9% weight) which fell 16.0% after the company guided to lower than expected sales revenue and Underlying Profit growth due to weakness in its Pallets Americas business.

Henderson Group (**HGG**, 4.1% weight) returned -10.7% as the market continued to be rattled by the potential negative impact of BREXIT and concerns over potential for higher FUM outflows from HGG’s various funds.

### Sector Allocation vs benchmark



### Top 10 Holdings:





## TAMIM Global Equity High Conviction IMA

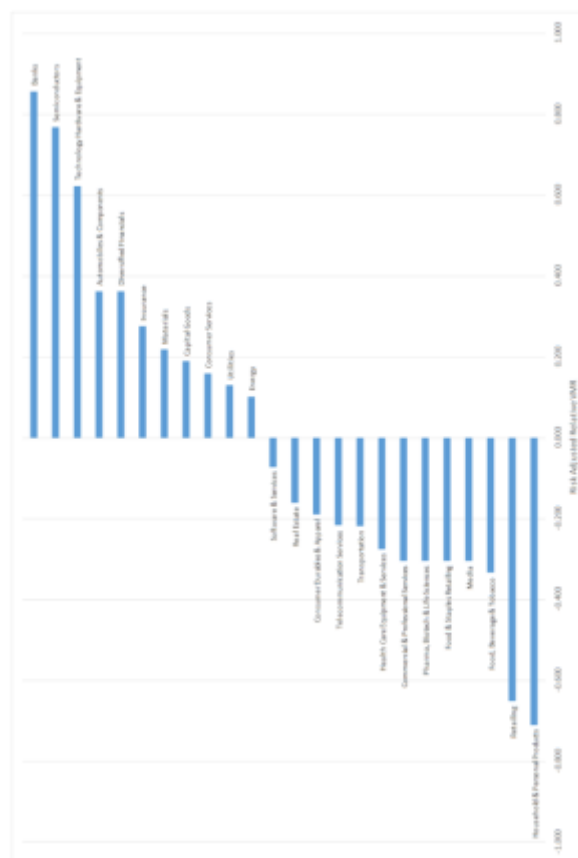
### Market and Portfolio Review

- Equity markets reversed recent strong gains in January with the MSCI World index falling 2.3% in AUD\$ terms.
- We took some profits in USA financials early in January and reduced our exposure to JP Morgan and Bank of Montreal.
- We also added to positions in **Sumitomo**, the Japanese bank, **Gilead Sciences**, **Japan Airlines**, and **Dow Chemical**. Dow is trying to merge with DuPont and will benefit from cost savings and greater pricing power if the deal passes regulatory hurdles.
- We also reduced exposure to **Randstad** the Dutch based global employment agency, and **Honeywell**, based on relative valuation.

### Market Outlook

- This was the year with no ‘January effect’. Stocks fell as Trump came out of the gate tweeting and signing executive orders furiously.
- We assumed that the equity markets would be treated to a more measured style of governing than campaigning. They weren’t. At some point the administration will focus on the economy which needs more attention than it is currently receiving.
- Financial stocks were hit by profit taking along with other ‘Trump trade’ beneficiaries. We didn’t invest in these for the ‘Trump trade’ and believe they are mispriced on a longer term view, so still own them.
- We expect M&A to continue as companies seek earnings growth and to deploy accumulated cash balances. Currently the market is rewarding companies which use their cash this way. Such ‘binges’ however often signal trouble ahead. A red flag will appear when debt and equity issuance become the currency of acquisition.
- 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 remain fully invested in the model portfolio and unhedged for AUD\$ based investors.

We produce below a chart showing our expected relative global sector returns. These returns are forecast using a similar multi-factor approach to our stock ranking model. Anything above the horizontal line is expected to outperform; anything below is expected to underperform. The length of the line gives some expectation of the extent of the out, or under, performance. Financials, Technology, and Cyclical look attractive sectors.



Robert Swift,  
Portfolio Manager

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.



## Contact

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

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