



TAMIM

PORTFOLIO UPDATE

July 2017

TAMIM Asset Management

ABN 97 608 304 963 | AFSL 421469

privateclient@tamim.com.au

1300 750 007



From the Directors

Over the past 3 months, Australian equity markets - represented by the ASX 300 - were down -2.51% while the Small Ordinaries fared better at 0.24%. As we have been discussing for some months now, the ASX 20 (the 20 largest Australian companies by market capitalisation) has experienced a tougher period down -3.88%. The opportunity for our active managers therefore continues to be good. Our value managers have been outperforming on average with positive 3% performance over the same period.

With most companies we are invested in yet to report, the next three weeks will be a busy period for our portfolio managers. The US reporting season has been the best in 13 years, the strong Australian dollar is still making it tough to generate returns offshore though. That being said, it does present an opportunity to enter offshore investments at an attractive currency point.

With reporting season well underway Guy Carson's The Lazy Dog blog has been busy with daily posts on a large number of company results. If you would like a hand wading through the copious amounts of information presented to shareholders please take a look at the blog. As usual, if you would like a discussion on your portfolio please let us know and we will call you for a detailed conversation.

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

July was yet another month without clear direction from the Australian equity market. The All Ords finished up 0.2%. Healthcare was the biggest drag on the market as a rising Australian dollar impacted some of the leading companies, meanwhile materials rose as commodity prices rallied. The portfolio had a mixed month, ending slightly in negative territory. Positive updates from Data #3 and Integrated Research as well as a takeover bid for Asia Pacific Data Centres were offset by a downgrade from Mitula Group.

Portfolio News

The period leading up to reporting season is commonly known as confession season. It's the time of year that companies that are failing to meet guidance confess to the market. On the flip side, companies which are performing ahead of expectations give upgrades.

We received two positive announcements from the portfolio during the month, one from Integrated Research and one from Data #3.

Integrated Research (+4.2) put out their traditional June update. The company's largest quarters are the 2nd and 4th quarter so once the year finishes and they have a greater idea where they stand, they put out an update. The company this year has guided to 14-18% growth in licence sales and 13-19% growth in Net Profit. Clearly the company continues to perform well, however we did take the opportunity to trim our position as the price did rally as much as 12.9% during the month.

Data #3 (+4.7%) released a solid update with Net Profit before tax expected to be up 15% and Net Profit after tax expected to be up 10%. Whilst the full details are yet to be released, the company continues to grow strongly in the services division. As a result, investors have continued to receive strong returns.

The one downgrade for the portfolio came from **Mitula Group** (-29.9%). Mitula revised down their earnings expectations for the year on the back of a configuration error with their outsourced data centre. The error caused a slowdown in the delivery of pages resulting in Google penalising the sites and hence they received

lower traffic. The loss of revenue as a result flowed straight to the bottom line given the lack of variable costs. We choose the exit the position and note that further downgrades are possible if the company's expectations around a rebound in traffic do not occur.

The other major news for the portfolio was the ongoing battle for control of **Asia Pacific Data Centres** (+7.8%). 360 Capital Group, who was trying to gain management control, cancelled their scheduled shareholder vote and instead put in a \$1.80 takeover bid for the company. This prompted the tenant of the data centres, NextDC to put in a bid of \$1.85 and then subsequently raise the offer to \$1.87.

The Portfolio

The portfolio is currently invested in 17 companies. The cash level is currently 41.2%. The top five positions are shown below. Cash levels moved higher over the month as we exited Mitula as well as trimming Integrated Research and Asia Pacific Data Centres on the back of strength. It is worth noting that part of the cash weighting is committed to a placement and hence will fall in the early part of August.

Gentrack Group	7.5%
Data#3	5.8%
Altium	5.1%
IMF Bentham	4.8%
Melbourne IT	4.4%
Other Positions	31.1%
Cash	41.2%

Sector Positioning

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

Guy Carson,
Portfolio Manager



TAMIM Australian Equity Small Cap IMA

After a strong first half performance in FY17, it has been a challenging last six months for the fund. Limited portfolio news-flow (particularly over the last three months), difficult market conditions for small and micro caps, and financial year end tax loss selling have contributed to a disappointing second half performance.

With tax loss selling behind us, and the majority of redemption driven, forced selling among ASX listed small caps that dominated the last 6 months appearing to have finished, sentiment and interest in small caps is well placed to improve. Some 'green shoots' are emerging amongst some of the larger small caps and we expect this to work its way through to the smaller micro-cap companies that comprise the majority of the portfolio.

Across our portfolio, we remain true to our philosophy of investing in small, undervalued, profitable and growing companies. We have exposure to many positive sector thematic which our portfolio companies are well placed to benefit from, including:

- **Tourism:** holdings include Elanor Investors (ASX:ENN) and Apollo Tourism and Leisure (ASX:ATL);
- **Healthcare:** 3 emerging healthcare companies including Zenitas Healthcare (ASX:ZNT), and
- **Wealth management:** 2 innovative financial services companies, including Fiducian Group (ASX:FID).

The fund also has exposure to a number of well managed businesses that are achieving strong rates of off-shore growth in their respective international markets including Gale Pacific (ASX:GAP).

We also continue to support companies with management teams that have a long track record of delivering excellent operational and financial metrics, including Pioneer Credit (ASX:PNC).

Outside of these holdings, we have interests in some smaller ASX companies, that while illiquid, have the potential for significant upside if they deliver on our expectations.

We believe the underlying fundamentals and investment thesis of our portfolio holdings remain strong, the valuation metrics are compelling and multiples undemanding, and we are excited about the potential of our core positions. All our portfolio holdings are profitable and are forecast to remain profitable, while 15 of the 18 holdings will pay dividends this year.

In summary, we believe that the portfolio provides investors with unique exposure to profitable, dividend paying, well managed, under the radar, small Australian companies that are well placed to grow over the coming months and years.

In July strong performances from some key holdings including Pioneer Credit (ASX:PNC) (+10%, following a small profit upgrade for FY17 and a strong outlook for FY18) and Zenitas (ASX:ZNT) (+25%, following announcements of two new acquisitions) was offset by a large fall in Mitula (-34% after a surprising large earnings downgrade), and smaller declines in Apollo Tourism and Leisure (-6%), and Elanor Investors (-4%) (no news flow during the month in both cases).

A selection of top portfolio positions as at 31 July 2017 (in no particular order):

ASX: **JYC**
m/c: \$46m
Outlook: "substantial growth opportunities"

ASX: **ATL**
m/c: \$247m
Outlook: "on track to exceed its ... NPAT forecast"

ASX: **PGC**
m/c: \$131m
Outlook: "double digit earnings growth"

ASX: **PNC**
m/c: \$155m
Outlook: "high quality, cautious and disciplined growth"

ASX: **ZNT**
m/c: \$51m
Outlook: "confirm EBITDA guidance"



TAMIM Australian Equity Income IMA

Market Commentary

The Australian equity market was flat in June, returning only +0.2%. Strengthening economic data in Europe and the USA suggests that the period of easy global monetary policy is ending. This will likely manifest as less bond buying by the European Central Bank and the US Federal Reserve. In turn, this means bond prices may decline (and interest rates rise).

These developments are encouraging, but also mean a reassessment of equity market valuations. We expect moderate rate rises in the US, while Australian lending rates may rise but remain historically low.

International equity markets were quite mixed in June, reflecting bond market uncertainty. The S&P500 fell -0.6%, the FTSE100 was down -1.5%, the German Dax declined -3.2%, and the Nikkei 225 dropped -0.5%. However, the NZX50 rose 0.8% and the Shanghai composite rose 1.1%.

Across Australian industry sectors, Materials (+2.7%), Banks (+2.0%) and Insurance (+1.6%) were stronger. Interest rate sensitive sectors were the underperformers with REITs down -3.4%, Utilities -2.1% and Consumer Discretionary companies -1.5% for the month.

Portfolio Commentary

Portfolio changes in the month included;

An increase in the level of investment in the portfolio reducing cash to around 35% of the portfolio to ensure we capture dividend payments in the coming company reporting season. We added to positions in selected securities across the portfolio to achieve this.

We reduced our position in Macquarie Atlas (**MQG**) as the shares moved above our valuation.

Additional shares in Rio-Tinto (**RIO**) were purchased early in July in anticipation of a higher dividend or capital return to be announced in August.

Also early in July we added positions in Telstra (**TLS**), Transurban (**TCL**) and Automotive Group (**AHG**) following price weakness, which has highlighted attractive dividend yields.

Scott Maddock,
Portfolio Manger



TAMIM Global Equity High Conviction IMA

Value factors performed strongly in June relative to other factors and the broader market with MSCI World Value Weighted Index outperforming MSCI World by 0.75% and MSCI World Growth by almost 1.7%.

This value index is a reasonable measure of the returns available from a “passive” approach to investing for capturing value-oriented characteristics. We published a report during the month on the nature of “passive” investing and how it is a misnomer. If you wish to see the report please contact us.

Our performance since inception in Australian dollar terms is 18.5% pa vs the Value Weighted Index of 14.8% pa. The Sharpe Ratio, a volatility-adjusted measure of performance, of the strategy since inception is almost twice that of the benchmark. Our strategy has earned around 1.4% extra over the cash rate per unit of total volatility compared to the value-weighted benchmark of 0.8%.

Some of our “problem stocks” bounced back in June. We sold Japan Airlines and purchased Itochu which is a Japanese based global trading and procurement company with significant exposure to the Chinese economy.

Market and Portfolio Review

Equity markets rose in July but currency movements created significant differences in returns measured in different client currencies.

The Australian dollar rose, especially against the US\$ and the MSCI World Value Weighted index declined over 1% in AUD terms.

The strategy outperformed the Value index by 0.8% and the market cap weighted index by 1.0%.

The strategy is working as envisaged, once again, with small monthly increments over and above the returns offered by general equity risk exposure.

We now have 72 months, or 6 years, of returns. The inevitable periods of poor performance have been compensated by subsequent periods of greater outperformance.

There is no mystique to this but a sensible investment process applied through ‘thick and thin’ by experienced portfolio managers.

We now have 28 portfolio names adding Sanofi, a French pharmaceuticals company, and Mitsui Chemicals, a Japanese chemical company, to the model.

Market Outlook

Company results were pleasingly positive as was the market reaction to them. Verizon, Gilead, Intel and Randstad all rose strongly after reporting results and guidance.

As always some stocks stuttered with Daimler (diesel emissions collusion) and Hitachi High Tech (cautious guidance) detracting.

Value appears to be stabilising relative to Growth and some further research is being published on the extent to which Growth stocks are overpriced.

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

Director - 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

Robert Rando

Associate Director of Distribution

M 0478 028 939

E robert@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.