



TAMIM

PORTFOLIO UPDATE

November 2017

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TAMIM Australian Equity All Cap Value IMA

The Australian Equity had another solid month in November. This despite the announcement of a Royal Commission into the Banking industry by the Federal Government which came on the final day. The announcement of this inquiry had an immediate impact on the share prices of the big four. Part of the reason we have avoided the banks over recent years is the potential for greater regulation. For the best part of 30 years the banks have benefitted from a favourable regulation and lower interest rates allowing households to take on more debt. These two tailwinds are now in the process of reversing and we believe they will limit the ability of the banks to grow for years to come. The broader market finished up 1.9% for the month with smaller companies outperforming. The portfolio returned 4.1% with the key driver being a number of the IT stocks held in the portfolio.

Portfolio News

October and November see a majority of Australian companies hold their Annual General Meeting. It can be a time for companies to issue earnings guidance for the financial year. Last year this period proved challenging as a number of companies downgraded expectations just months after the August reporting season. Due to that, a trend we noticed this year amongst companies was that they were much more hesitant to give guidance during reporting season. This ultimately led to a more benign AGM season with fewer disappointments.

The portfolio performed well during the month driven by the exposure to the IT sector as well as some positive guidance from infrastructure related stocks.

Some of the more significant moves in the portfolio were:

- 1) **Gentrack** (+19.6%) is a New Zealand based company and as such runs to a different financial calendar. They announced their full year result late in the month which saw both revenue and EBITDA increase 43%. The growth was boosted by three acquisitions during the year; however organic EBITDA growth was still 24%. In addition the

company upgraded their long term EBITDA growth target from 10% to 15%. The company is our largest holding and we continue to be excited by the outlook.

- 2) The IT services sector saw some significant gains with **Melbourne IT** (+24.3%) and **Dicker Data** (+12.5%) both posting solid gains. Dicker Data notably announced a number of new distribution deals which eased investor concerns post the loss of Cisco in New Zealand earlier this year.
- 3) **SRG Limited** (+15.2%) gave strong guidance at their AGM on the back of an increasing infrastructure workload. Revenue guidance represents growth of between 17-30% with strong growth in EBITDA expected as well.

It wasn't all positive news, we did have an earnings downgrade from one of our smaller positions, **Inabox**. The company downgraded on the back of the recent acquisition of Hostworks. Hostworks is a cloud services business that had achieved revenue of \$22m and EBITDA of \$0.6m in FY16. On acquisition, Inabox believed that they could achieve \$2.9m of cost synergies primarily through reducing staff and rent costs. This meant the business was expected to add meaningfully to EBITDA in FY18.

Revenue for Hostworks is now expected to be \$15m in FY18 suggesting the loss of multiple clients and whilst the company expects the acquisition to be breakeven, we believe they may have set the market up for further disappointment. In addition the fall in earnings has meant the small amount of debt on the balance sheet becomes more meaningful.

The Portfolio

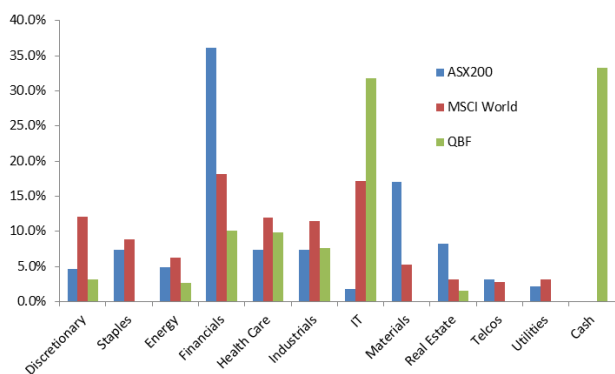
The fund is currently invested in 20 companies. The cash level is currently 33.2% (down from 38.9%). We added one new position, increased three existing positions, and exited Inabox completely whilst continuing to trim our position in Altium following its strong run.



Gentrack Group	8.6%
Axesstoday	6.7%
Data#3	5.7%
Dicker Data	4.3%
Melbourne IT	3.9%
Other Positions	37.6%
Cash	33.2%

Sector Positioning

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



Guy Carson,
Portfolio Manager



TAMIM Australian Equity Small Cap IMA

Portfolio Review

A major portfolio development during the month was **Zenitas Healthcare's (ZNT)** significant capital raising undertaken to fund the expansion of its clinic network. The \$35m capital raising was well supported by investors and partly underwritten by an Asian healthcare investor with strong ties to Australia (which now has a 11% holding in ZNT). However, given the size of the raising, it will take some time for the market to digest the new shares on issue. ZNT finished the month down 11% and was the key detractor from performance for the month. Our investment thesis for ZNT has been well documented in previous monthly updates, and we remain well positioned for a re-rate of this stock.

With the broader market buoyant in recent times, there have been some significant gains experienced by some technology, mining and other high growth and China focused companies in the small cap market as investors chase growth with an increased appetite for risk. Our focus continues to be on those companies where values can be reasonably supported by earnings, cashflow and/or assets. These companies are not generally flavour of the month 'sexy' types of stocks. We believe that our investors' long - term interests are best served by us staying focused on the fundamentals of a company, as opposed to buying into a 'story' that may have good momentum, but has a high probability of a poor outcome over time.

Last month we reported on some Annual General Meetings of our portfolio companies. November saw the balance of our holdings conduct their AGMs - below we report on some of the trading updates provided at these AGMs. We note that in each case, despite very strong operational progress and growth throughout the year, the share prices of each company are little changed from where they started the year – this is a good indicator of the upside potential for these stocks.

In a market where there is often commentary on how difficult it is to find value, we believe the following four stocks offer exceptional value given their growth outlooks.

AGM Updates

Konekt Limited (KKT.ASX)

Market cap: \$52m

AGM date: 16 November 2017

Workplace services provider Konekt (KKT) held its AGM during November. At the AGM, KKT confirmed forecast revenue growth of more than 70% and underlying EBITDA growth (excluding one-off items) of greater than 70%.

A key focus of the AGM was therefore on updating the market on its recent Mission Providence acquisition – pleasingly, KKT noted that there have been no surprises following completion and that the business was tracking to expectations. The acquisition diversifies KKT's existing revenue streams, and enhances its ability to provide return-to-work (RTW) employment services, to complement its existing core offering of delivering RTW injury management programs (essentially managing the process of rehabilitating injured workers and getting them back into jobs – and where it is the current national market leader).

KKT noted the acquisition also provides KKT the capacity to enter new or underserved markets. The logical potential new market here is providing RTW disability employment services – an attractive opportunity with the Federal Government's 2017 budget highlighting an additional investment of over \$3 billion in disability employment services to help people with disabilities get and keep long-term jobs.

A private equity fund has recently bought a majority shareholding in one of KKT's key competitors – APM (the largest provider of disability employment services to the Federal Government). Apart from this transaction, there has been growing private equity interest in the sector – possibly driven by the potential to capture some of the increasing amount of government funding committed to the disability sector.

KKT continues to trade on a PE multiple of less than 10x, with EPS growth (excluding amortization, abnormals and potential cost synergies) of 15%-20% forecast over the



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next two years – a powerful combination of value and growth.

There would also appear to be little upside priced into KKT's current share price to reflect the further growth available to KKT from the larger scale opportunities it is looking to capture, as the business transitions from its injury management focus to a larger, diverse, more integrated employment services company, operating in multi - billion dollar markets.

Joyce Corporation Limited (JYC.ASX)

Market cap: \$48m

AGM date: 30 November 2017

Diversified investment company Joyce Corporation reported a strong trading update at its AGM in respect of each of its businesses lines:

- Lloyds online auctions – revenue growth for Q1 of FY18 of 61%
- KWB Kitchens - revenue growth for Q1 of FY18 of 13%
- Bedshed network - revenue growth for Q1 of FY18 of 5%
- Investment properties – both now generating external rent with re-valuation gains expected.

JYC continues to invest in the intellectual property and development of each business unit to ensure long term sustainable growth. JYC reiterated that on the whole, its businesses are resilient to economic cycles and are unlikely to face any significant threat from Amazon.

To summarise our investment case here, JYC has interests in:

- The fastest growing, and one of the largest, online auction sites in Australia (FY17 revenue growth of 56%, and YTD growth of 61%);
- The largest specialist kitchen renovation business in Australia;
- A large bedding and furniture franchise business; and
- Approximately \$20m of recently refurbished real estate.

We view the sum of each of these equity interests to be significantly higher than JYC's current \$48m market cap.

Blackwall Limited (BWF.ASX)

Market cap: \$52m

AGM date: 17 November 2017

Blackwall Limited (BWF) - fund manager, property manager and manager/developer of the Wotso shared workspace business, held its AGM during November.

BWF highlighted that by locating its Wotso workspaces in city fringe and suburban sites, it is able to achieve industry leading margins of 25% to 30%. This is because it incurs significantly lower rental expenses but is still able to charge similar rates for its spaces as city-based co-working spaces.

Wotso is a very fast growing business - during FY17, Wotso grew its revenue by 84% and operating profit by 93%. It manages the largest number of co - working sites in Australia, together with a Singaporean business, and is currently looking at New Zealand opportunities.

At the end of November, BWF confirmed that following the uplift in value of a fund that it manages, it had generated performance fees of approximately \$11m. This fee will be converted into units in the fund – providing BWF with an ongoing income stream and the potential to benefit from further capital gains in the fund. This is an \$11m asset that BWF did not have this time last year – and is quite material in the context of a \$5 2 m market cap company.

In addition to this 'new' asset, BWF has a number of other 'surplus' investment assets on its balance sheet – we estimate BWF's net assets to be worth approximately \$35m in total.

Deducting the value of these net assets from BWF's market cap of \$52m implies that BWF's three operating businesses (the fast growing Wotso business, and BWF's fund and property management businesses) are being valued at just \$17m. The fund management business has generated performance fees of \$1 4 m in the last 6 months alone! To provide an indication of sector values for larger co - working companies, we note that WeWork, the world's largest co - working company and Wotso's largest Australian competitor, is currently valued at an incredible 20x its forecast annual sales. (Wotso's annual sales are currently tracking at approximately \$8m).

Paragon Care (PGC.ASX)

Market cap: \$138m

AGM date: 22 November 2017

Healthcare equipment and consumables supplier, Paragon provided revenue and EBITDA guidance at its AGM which was in-line with market expectations and translates to ~10% organic EPS growth for the year (pre any acquisitions).

A number of growth drivers for PGC were articulated in the AGM presentation:

- A growing demand for the provision of preventative equipment service and maintenance



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throughout the medical, scientific and allied health industries, with these recurring service revenues now expected to contribute ~10% of PGC's FY18 revenues;

- Extending PGC's geographic footprint – i.e. the rolling out of a new South Australian warehouse and logistics site in January 2018. Queensland and New Zealand are areas that remain underserved by PGC;
- PGC continues to benefit from increasing demand in the aged care sector with these revenues increasing 20% to \$14m for FY17
- PGC's e-health offering Midas, a web reporting software platform, is making strong progress towards contributing profit; and
- Strong pipeline of value accretive M&A to add to PGC's product range, service and maintenance offering and geographical footprint are being reviewed.

Despite these positive developments the PGC share price continues to be weak. We believe the weakness can be explained by the following:

- An upcoming CEO transition – short term in nature;
- The market expecting a capital raise at some point to fund a potential large acquisition – again short term in nature if it happens;
- Seasonality of the business becoming more pronounced as hospitals buying increasingly trends to the third and fourth quarters of the financial year (structural – but can be mitigated through increased service and maintenance and consumable revenues).

Whilst the current share price is disappointing, we expect the PGC share price to be materially higher this time next year. PGC have stated some aggressive financial targets (revenue of \$250m and EBITDA of \$37.5m) - and have an excellent track record in achieving its targets.

A selection of top portfolio positions as at 30 November 2017 (in no particular order):

ASX: JYC

m/c: \$48m

Outlook: "business units are forecasting solid performance gains"

ASX: KKT

m/c: \$52m

Outlook: "70% increase in revenue and EBITDA"

ASX: PGC

m/c: \$138m

Outlook: "Strong growth in FY18 across all key metrics"

ASX: PNC

m/c: \$179m

Outlook: "48% increase in earnings expected"

ASX: ZNT

m/c: \$87m

Outlook: "EBITDA of between \$13m to \$13.5m" (pre acquisitions) (FY17:\$7.0m)



TAMIM Global Equity High Conviction IMA

Market and Portfolio Review

Equity markets rose again in November and despite almost universal concern at extended valuations, have risen strongly in the last few months. Market timing is very hard — we don't do it.

The strategy rose 3% in \$A terms and just over 2% in \$US for the month ended 30 November 2017.

Technology stocks performed very well. Apple rose strongly. Caterpillar, a recent purchase, rose on earnings upgrades. We sold GSK in the UK and purchased Evonik a speciality chemical company based in Germany.

We also trimmed our profitable position in Randstad and added to Verizon. The Trump administration is likely to change rules regarding 'Net Neutrality' and Verizon, as an 'owner' of airwaves, is likely to benefit.

Market Outlook

The new Fed chair, Jerome Powell is believed to be cautious about raising interest rates. We are cynical enough to believe that is what he would say.

Global growth looks to be in a synchronous upswing for the first time in a long time, with all regions showing improving prospects. This will balance any headwind from interest rate increases.

Valuations look only ok in the USA and attractive in Japan and Europe.

Value weighted benchmark allocations to US stocks declined by over 1% at recent rebalance whereas capitalisation weighted allocations remained unchanged, reflecting more expensive US stock valuations.

We are keen on Japanese stocks. They have strong balance sheets, are increasing dividends, and will be likely beneficiaries of Chinese infrastructure spending.

We remain fully invested in the model portfolio and unhedged for AUD based investors.

Ten Largest Holdings (Model) 30 November 2017

Cisco Systems Inc.	US	Info. Tech	5.4%
Intel Corp Inc.	US	Info. Tech	5.1%
Valero Energy Corp.	US	Energy	5.0%
Verizon Comm. Inc.	US	Telecom.	4.9%
Manulife Financial Corp.	Canada	Financials	4.6%
Gilead Sciences Inc.	US.	Healthcare	4.5%
BNP Paribas SA	Fra.	Financials	4.4%
AXA SA	Fra.	Financials	4.3%
Legal & General Group	GB	Financials	4.2%
Julius Baer Group	Switzerland	Financials	4.2%
TOTAL			46.9%

Robert Swift,
Portfolio Manager



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