



TAMIM

PORTFOLIO UPDATE

September 2017

TAMIM Asset Management

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From the Directors

The September quarter was strong for the TAMIM portfolios. While each individually managed account will have a different return as they are constructed individually, the Australian and global managers performed well. Through the quarter we saw the S&P/ASX 300 index up 0.80% and the MSCI World Index up 2.49%. The AUD/USD closed the quarter at 0.7836 - strengthening from 0.7688 - which detracted from the strong stocking performance of Robert Swift, our global equity manager. Both our value and small cap strategies performed strongly. During this quarter we successfully closed the purchase of our first property asset for TAMIM investors. This property is the Elermore Vale retail shopping center near Newcastle and, while the site is interesting from a repositioning perspective, it will pay approximately a 7.50% p.a. cash yield at settlement. We also completed the first launch of the new Income Fund which invests into portfolios of loans. The portfolio is currently 75% invested and should be fully invested over the next couple of weeks. The net yield on the portfolio looks like it will be slightly above the targeted 8.0 p.a. yield. We continue to search for investment solutions that deliver strong returns to our clients but also, importantly, do this in a different manner to the other assets you may hold. As we are successful in finding these solutions we will bring them to your attention.

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 Australian Equity market continued its sideways march in September. The market has barely moved since mid-May with the ASX 200 ranging between 5660 and 5830. Over the last six months the market is in actually in negative territory with the top twenty companies underperforming the broader market. The underlying portfolio had a strong month in September returning 1.9%. Whilst several stocks performed well, one of the key drivers was a profit upgrade from our largest position Gentrack which finished the month up 14.0%. In addition, Altium continued its strong run post its result, adding 9.6% for the month.

Portfolio News

September is a time for reflection. After the chaos of reporting season we get a chance to take stock of what we have learnt. As a result of this, our portfolio has seen some movement with five new positions introduced over the course of the last month. On the other side we exited two positions and trimmed another.

The new positions were diverse in both market capitalisation and sector. A brief description of each is provided below.

- 1) For the first time in our three and a bit year history we bought into a resource company, **Beach Petroleum** (BPT). The oil market globally is showing signs of gradually rebalancing and the price of oil appears to be showing signs of support; however the major attraction here was the potential for M&A activity. Subsequent to our purchase, the company announced the acquisition of Lattice Energy and a corresponding rights issue in order to fund it. The acquisition cements the company as the leading mid-tier Oil and Gas and the largest listed player in Australia with a pure domestic focus and without the complication of a large LNG project at a time when local gas is needed.
- 2) We added a small position in Telco platform provider **Inabox** (IAB). The company enables anyone to become a Telco reseller across both the National Broadband Network as well as mobile. The

company has 450 out of the approximately 1200 NBN providers utilising their platform and as a result 76% of their revenue is recurring. The company is well positioned to benefit from the increase in the number of non-traditional Telco providers. Whilst the company is a microcap, it has a solid recurring earnings base and the potential to grow over the coming years.

- 3) **Global Construction Services** (GCS) is a company that provides onsite services to the construction industry across mining, residential and commercial. Traditionally a Western Australia company, they have expanded aggressively via acquisition into Victoria. As a provider of scaffolding solutions, the company is well placed to benefit from any cladding that needs to be replaced due to fire risk. Even without this potential upside, the shares offer good value, a net cash balance sheet and solid dividend prospects.
- 4) **Paragon Care** (PGC) is a healthcare distribution business that has spent the last few years consolidating a fragmented industry. The company trades on around 13x next year's earnings with growth potential from acquisitions.
- 5) **AxsessToday** (AXL) is a finance company that provides equipment funding solutions for small to medium enterprises. The company is growing rapidly and trades on 12x their FY18 guidance. The company is a recent listing after being founded in 2012. It has carved out significant market share in a short amount of time due to a focus on its IT platform which allows it to approve loans in less than 15 minutes whilst competitors can take up to 4 hours. In addition, the company is able white label finance solutions for its customers which their competitors cannot do

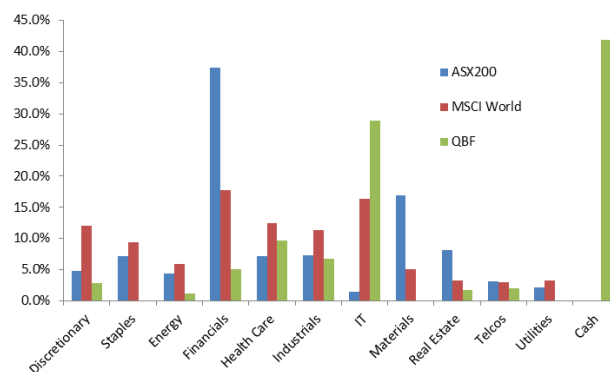
On the other side, we sold out of two positions.

- 1) **Asia Pacific Data Centres** (AJD) is currently subject to competing takeover bids from NextDC and 360 Capital. Both companies have now acquired enough of a stake to block the other party from making a full takeover. Whilst some sort of negotiation could

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end with a higher takeover price, we took the view the upside was limited and exited our position above the \$1.95 highest bid. We first acquired our stake at c. \$1.25 and have been paid some attractive dividends as well.

- 2) **TPG Telecom (TPM)** was one of our smallest positions in the portfolio. With the company due to report towards the end of September, we began to reduce our exposure prior to the result due to concerns we had on the outlook for the year ahead. We exited the remainder of the position on the result. Whilst we have a lot of respect for the management team and what they have achieved, we believe that any positive catalysts from the mobile business are at least two years away. The mobile venture is largely an unknown and despite the uncertainty, the company is embarking on a substantial capital expenditure program. Whilst we believe they will be well positioned to take market share and disrupt the industry, the uncertainties at this point are too great.



Guy Carson,
Portfolio Manager

The Portfolio

The portfolio is currently invested in 20 companies. The cash level is currently 41.9%. The top five positions are shown below. In addition to the exits above, we trimmed our position in Altium following its strong run. Cash levels were down slightly over the course of the month. We would expect the cash level to drop further as we deploy further capital into the new positions over the coming months.

Gentrack Group	7.6%
Data#3	5.5%
Melbourne IT	4.3%
Dicker Data	4.1%
CSL	3.6%
Other Positions	32.9%
Cash	41.9%

Sector Positioning

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



TAMIM Australian Equity Small Cap IMA

Portfolio Review

The period between year-end reporting (which concludes at the end of August) and AGM season (which commences in October) provides an opportunity to attend post reporting road shows and company meetings with existing portfolio holdings and prospective portfolio inclusions. Following these meetings, and our review of year end results, two new positions were initiated.

September was a relatively quiet month in terms of portfolio news flow. Material announcements across the portfolio included:

Workplace health and productivity company, **Konekt Limited** (ASX: KKT) received Department of Employment consent (being the sole condition precedent) to acquire Mission Providence Pty Ltd, and proceeded to complete the transaction on 29 September 2017. The acquisition is expected to approximately double KKT's revenue and EBITDA and deliver EPS before amortisation (EPSA) accretion of c.20% in FY18 – KKT is currently trading on a single digit multiple, with a strong earnings growth outlook.

Healthcare supplies company **Paragon Care** (ASX:PGC) announced that its long time CEO, Mark Simari, was transitioning to a new role in the company focused on mergers and acquisitions, with a new CEO commencing. The market reacted negatively to this news. Having spoken to the company about this development, we understand that the change was initiated by Mark Simari (as opposed to the board) following a period of 10 years in the role, and that the move plays to his strengths (M&A) and also to the incoming CEO's management style. We do not anticipate a change in the existing Board's strategy. While this may result in some short term weakness in PGC, we remain very confident in the outlook for the company.

Elanor Investors Group (ASX:ENN), consistent with management's expectations of a more active 6 months to December 2017, announced the formation of a new property syndicate as well as commencing a marketing campaign for the sale of one its larger funds (Bell City Fund).

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

ASX: **JYC**
m/c: \$46m
Outlook: "group is poised for further growth"

ASX: **KKT**
m/c: \$49m
Outlook: "double revenue and EBITDA" (on pro-forma basis)

ASX: **PGC**
m/c: \$153m
Outlook: "continue to grow earnings and dividends"

ASX: **PNC**
m/c: \$148m
Outlook: "48% increase in earnings expected"

ASX: **ZNT**
m/c: \$60m
Outlook: "EBITDA of between \$13m to \$13.5m" (FY17:\$7.0m)



TAMIM Global Equity High Conviction IMA

Market and Portfolio Review

Value stocks generally outperformed growth stocks in September. Swings between the styles or factors are now common but hard to time so we prefer to always focus on stock selection, keeping a value tilt.

The strategy rose over 4% in \$A terms and just under 3% in \$US.

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

Apple retreated as expected after the 'underwhelming' launch of the iPhone 8 & X. We believe the company is diversifying and trying to enter advertising and media revenue streams as are the telecom companies. Gilead, the biotech company, is now our largest holding.

US corporate tax cuts (good as long as companies actually pay their taxes) and an end to ZIRP were also widely discussed. Both would be a positive development for risk assets

Market Outlook

The near term is dominated by events in North Korea as they attempt another 'shakedown' for cash by launching missiles and testing putative nuclear weapons.

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 okay in the USA and attractive in Japan and Europe.

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

Ten Largest Holdings (Model)

Gilead Sciences Inc.	US	Health Care	5.4%
Cisco Systems Inc.	US	IT	5.0%
Aflac Inc.	US	Financials	4.9%
BNP Paribas SA	Fra.	Financials	4.7%
Intel Corp.	Fra.	Financials	4.3%
AXA SA	US	IT	4.2%
Julius Baer Group	SUI	Financials	4.2%
Randstad Holding NV	Netherlands	Industrials	4.2%
Legal & General Group	GB	Financials	4.2%
DowDuPont Inc.	US	Materials	4.0%
TOTAL			45.1%

Robert Swift,
Portfolio Manager



TAMIM Australian Equity Income IMA

Market Commentary

The market rose by 1.2% (including franking) in the June quarter, following the strong 2016 financial year. The Australian dollar gained around 2 cents despite key commodities, such as iron ore finishing the quarter largely flat, while other commodities such as oil and copper both rising.

Sector performance was mixed, with resources strongly outperforming a negative industrials segment. Telecommunications performed worst on the back of competition concerns, while Utilities also declined, on uncertainty surrounding domestic energy policy.

Within the resources segment, Energy performed strongly as oil prices increased on evidence of US inventories declining, while Mining (and industrial) companies exposed to aluminium benefited from expectations of Chinese supply side reforms driving higher prices, offset by expectations of fading Chinese

steel (and iron ore) demand going into a seasonally weaker period.

Portfolio Commentary

The portfolio underlying the TAMIM Australian Income IMA returned 0.0% for the quarter, behind the index mainly due to the pull back of several positions which had previously outperformed.

On a five year rolling basis, the underlying portfolio has outperformed by 4.2% per annum, with underlying stock selection of 2.2% enhanced by a non-benchmark construction tailwind of 2.0%. We continue to hold the view there should not be any material deviation between the cap weighted and equal weighted index performance over longer time periods.

Merlon Capital,
Portfolio Mangers



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