Australian All Cap Portfolio

Individually Managed Account

Monthly Update

December 2018

TAMIM Asset Management
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Australian All Cap Portfolio Update

Ron Shamgar
Head of Australian Equities, Portfolio Manager

2018 was a tough year for equity markets both globally and domestically. The December quarter selloff was one of the worst we have seen since the GFC almost 10 years ago. Key Australian indices finished the year lower with the ASX200 down -6.9% and the All Ords Accumulation down -3.5%. At the small end of town the Small Ords Industrial Index had its worst December quarterly performance since the GFC, and was down -13.3%. Overseas markets didn't fare any better, with the S&P 500 down -14% for the quarter and -6% in calendar year 2018 after nine straight years of gains.

Uncertainty is equity markets' worst enemy, and there was plenty of that going around last year. Globally, market concerns centred around the US Federal Reserve outlook for the US economy and its interest rate policy for 2019, the US and China trade wars, the looming Brexit and consequences on the UK economy, falling Oil prices and a Chinese slowdown in GDP growth.

Domestically, 2018 saw the Australian housing market fall between 5-10% nationally, which has impacted consumer confidence in general. This has seen weak consumer spending during the Christmas holiday season and a significant drop in new car sales for October and November. To add further to uncertainty, we are headed into an election year which tends to create political and regulatory confusion when it comes to business spending.

With all the doom and gloom around us, we are entering 2019 more positive than at any point in 2018. Here at TAMIM we somewhat predicted many of the above scenarios and positioned our portfolios accordingly. We spent most of 2018 with around 50% of client portfolios in cash. Although we are not immune to the recent market selloff, this has somewhat cushioned our returns with the TAMIM All Cap portfolio down -7.08% for 2018, -8.39% for December quarter and -2.72% for the month of December.

So why are we bullish on 2019 and beyond? With the recent equity selloff we are seeing significant value emerging across the board. Buying quality companies at larger discounts to their intrinsic value should yield better returns for our investors in future years. We also believe investors tend to overreact to geopolitical events in the short term. We see the US-China trade war being resolved in the next few months, possibly leading to a share market rally mid-year. Over in the US, the Fed chairman has already signalled to the markets that interest rate hikes are not set in stone and the Fed will adjust its policy based on economic data. Overall the US economy is still growing and adding new jobs at record numbers.

In Australia, there is now a distinct possibility that an interest rate cut is on the cards if the housing market continues to struggle this year. A weak Aussie dollar should also benefit our export market and tourism in general. Although we see credit growth contracting in the short term as a consequence of the royal commission, we believe lending growth will resume in the latter part of the year.

On a positive note, we are glad to announce a new addition to the TAMIM team. Ron Shamgar has joined the group during December as our Head of Australian Equities and will bolster the TAMIM Australian All Cap portfolio team. Ron has extensive experience in equity markets over the last fifteen years. Most recently Ron managed the TBF Value Growth Small Cap Fund over the last five years. Under Ron's stewardship TBF delivered a 15% pa net return over that period.

Ron brings a fresh perspective to the portfolio, and we took the opportunity to conduct an extensive review of our current portfolio holdings during December. Following the review we decided to exit several holdings which no longer met our original investment thesis. In addition to this we added new holdings to the portfolio which we believe offer significant upside over the next few years. In future reports we will elaborate further on these new positions and our investment thesis behind them.

December was a relatively quiet month for our portfolio holdings with the most notable bit of news coming from TradeMe (TME) as they agreed to a revised takeover offer from Apax Partners at NZ$6.45. Considering we bought TME at AUD$4.29 we are quite pleased with the outcome of a 40%+ return and will accept the offer.

We believe our portfolio of growing companies presently represents tremendous value and will generate strong returns in the coming years. We look forward to key news flow in the upcoming February reporting period.

Stock Spotlight: EML Payments (EML.ASX)

In this report we turn the spotlight onto one of our conviction holdings in the TAMIM All Cap portfolio, EML Payments (EML). With a $375M market cap, EML is a global payments processing platform operating across Europe, North America and Australia. EML meets many of our investment criteria and we think the market is underestimating the growth potential and innovation EML can deliver over the next few years. Find out why below.

What does EML do?

EML is an innovative payments platform that is an issuer, processor and manager of electronic payment programs around the world. EML's core function is providing a payment solution to its clients, which in turn offers their customers the ability to make or receive payments through debit cards, mobile pay or virtual card accounts. EML is a beneficiary of the global trend away from cash, cheques and credit cards into electronic payments and debit cards.

EML operates under 3 distinct segments:

Non-reloadable Programs - mostly gift card programs, retail rebate schemes and corporate incentives. Examples of clients here are shopping malls in Europe (EML is the largest player), and North America. In Australia, EML works with the Leading Edge group to deliver digital gift and retail incentive programs.

Reloadable Programs - this division is the primary driver of future growth. Example of clients here are online gaming operators allowing their customers to access cash winnings instantaneously through EML's debit cards. Salary packaging is another industry vertical with McMillan Shakespeare using EML for its meal & entertainment cards to employees. Other industry verticals include Neo Banks, Crypto exchanges, Loyalty rewards and fuel rebate programs.

Virtual Accounts - this division is US centric and allows companies to replace the use of paying suppliers by Cheques with a virtual credit card payment. In the US there are over $10 trillion a year of payments between companies and their suppliers. In FY18 EML processed $3B in Virtual Payments.

EML business model:

EML earns revenue by taking a percentage of each dollar that is processed on the platform. In FY18 EML processed over $6.7B in Gross Debit Volume (GDV) and earned 1.05% revenue margin. With over 1,200 programs, EML earns anywhere between 5bps to 600bps on GDV processed (FY18 blended average was 105bps).

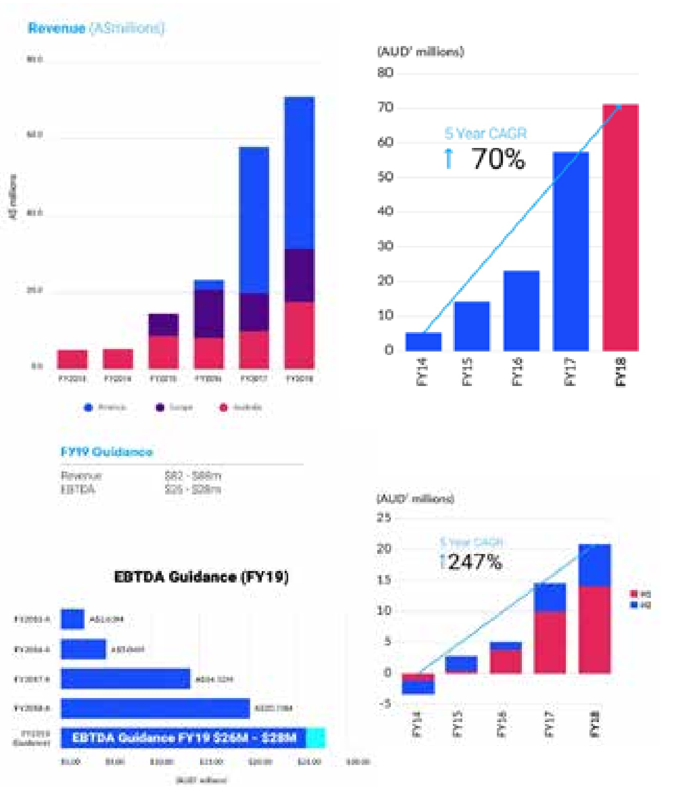
As EML processes payments it also holds these funds in various bank accounts globally and earns interest on the stored value in these programs. In FY18 stored value increased to $410M. Rising interest rates globally will benefit EML in future years.

EML gross margins sit at about 75% but over time will increase to 80% as the company processes more payments under its own recently obtained issuing license. EML's cost base is fairly fixed meaning growth in revenue drops proportionally more to the bottom line. EBITDA margins have grown to over 30% in FY18 and we expect these to exceed 40% within three years.

EML balance sheet is forecast to have approximately $50M in net cash in FY19 (no debt) and we expect acquisitions to form part of the growth strategy in the near future.

Why we like EML?

Over the last five years under the leadership of Managing Director and largest shareholder, Tom Cregan, EML has grown impressively:



Source: Company filings

We expect growth to continue over the foreseeable future. EML contracts customers on 5+ year agreements and becomes a critical component of their businesses. As long as EML continues to deliver and innovate for its clients in meeting their business requirements, we see the risk ofloss of clients as very low and unlikely. The high cost of switching providers means EML has in excess of 90% of revenue as sticky and recurring.

In our view the primary growth driver in the near term is the European and US gaming verticals. In Europe, EML has recently signed the largest gaming operators to its cash out winnings card solution and will launch in market across Europe in 2H2019. We see the European market as $2B GDV (>$20M revenue) opportunity compared to $500M currently processed in Australia.

Over in the US, the ban on online sports betting was overturned by the Supreme court in July last year and each State is now allowed to legislate its own online sports betting laws. So far, eight states have legalised online betting and it's estimated a further twenty states will do the same in the next couple of years. The US online sports betting market is estimated to be worth >$100B and, due to the nature of its individual state based laws, not all federal bank issued credit cards allow gaming clients to load funds with their gaming provider. This has created a huge opportunity for EML to offer its payment solution in the market. As EML's existing gaming partners in Europe and Australia enter into the US market and so it is reasonable to expect new agreements to be signed and launched during CY2019.

If EML succeeds in capturing a share of this huge market opportunity we expect GDV in the US gaming vertical to exceed $3B (>$30M revenue) in the coming years.

Based on our analysis and management incentives we forecast EML to deliver $28M EBTDA in FY19, $35M in FY20 and $44M in FY21. By then the cash balance will have ballooned to over $100M and so we expect acquisitions to add further growth. With 80% of revenue generated offshore, a weak AUD is a further tailwind in the short term.

We value EML at $2.10 based on FY20 estimates. Looking out five years from now, we see a possible scenario where EML is processing $15B of GDV, generating $150M in revenues with EBTDA margins over 40%. At that stage we think EML could be a "multi bagger" from current prices today . EML is a core holding across the TAMIM All Cap portfolios.

Overview

The TAMIM Australian All Cap IMA uses a value based approach to identifying companies that meet our fundamentals based investment process. We aim to generate long term capital growth by targeting companies exhibiting strong financial capabilities of growing earnings, cash generation and industry tailwinds.

Key Facts

Investment Structure:	Individually Managed Account (only available to wholesale or sophisticated investors)
Minimum investment:	A$250,000
Pricing & Reporting:	Daily
Investment horizon:	3-5+ years
Management fee:	1.50% p.a.
Expense recovery fee:	Nil
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash Rate + 2.5%
Admistration fee:	Nil
Exit fee:	1% if exit within 12 months
Single security limit:	10%
Benchmark	ASX 300
Target number of holdings:	10-40
Portfolio turnover:	< 25% p.a.
Investable universe:	ASX
Cash level (typical):	0-100% (10-40%)

Selection of 5 Holdings

Stock	Code
Dicker Data	DDR
Cimic	CIM
EML Payments	EML
Collection House	CLH
Noni B Group	NBL

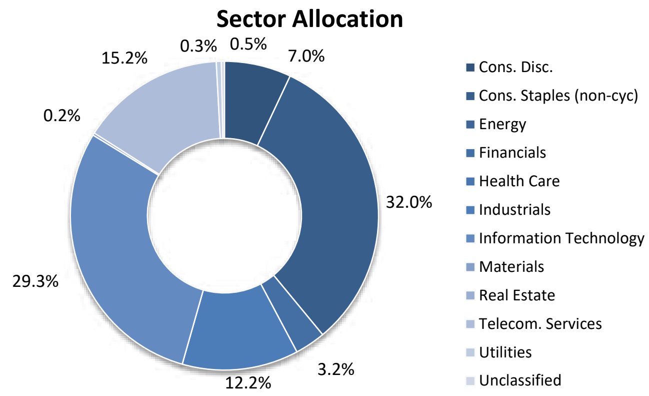
Returns

	1m	3m	6m	1y	2y	Since inception
TAMIM Aus. All Cap	-2.72%	-8.39%	-8.57%	-7.08%	3.22%	3.26%
ASX 300	-0.23%	-8.41%	-7.02%	-3.05%	4.18%	6.42%
Cash	0.12%	0.38%	0.75%	1.51%	1.51%	1.57%

Note: Returns are quoted net of fees and assume dividends are reinvested. Past performance is no guarantee of future performance. TAMIM Aus. All Cap refers to the aggragated performance of all TAMIM Australian All Cap individually managed account portfolios since inception (31 Dec 2016) in AUD.

Portfolio Profile

Equities	47.44%
Cash	52.56%



Note: Portfolio returns are quoted net of fees. The ASX 300 refers to the S&P/ASX 300 Accumulation Index. Returns shown for longer than 1 year (other than Inception) are annualised. The information provided in this factsheet is intended for general use only. 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. Please consider our Information Memorandum and Services Guide before investing in any of our products. Past performance is no guarantee of future returns. Returns displayed in this document are unaudited. For wholesale and sophisticated investors only.

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