Australian All Cap Portfolio

Individually Managed Account

Monthly Update
September 2019

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Australian All Cap
Portfolio Update

Ron Shamgar
Head of Australian Equities, Portfolio Manager

September, as expected to some degree, saw markets bounce back from the selloff and volatility we saw in August. During September we typically see investors take time to meet companies that have now reported while also spending some time analysing their results in full. This, in most instances, sees stocks that have reported well continue the appreciation of their share price. Fortunately for us, that thematic played out across the majority of our holdings.

During the month, the ASX Small Ords index was up +2.61% while the ASX300 was up +1.91%. Calendar year to date (CYTD) the ASX300 is up +20.6% and the Small Ords is up +20.4%.

We are extremely pleased to report a new record performance for the TAMIM All Cap IMA portfolios of +11.79% during the month of September.

Calendar year to date the portfolios are up +43.33%. This is approximately double the market's performance in 2019.

August and September are very busy months for a portfolio manager as we analyse and meet hundreds of companies during that time. Following the strong performance we have delivered for investors since the complete overhaul of the portfolios in December last year, we took the opportunity to take a break and go on a quick holiday! (We are writing this report from a beautiful island in the Indian Ocean).

Spending time in a far and remote location does help to distance our minds from the daily noise and media. It gives us a fresh perspective on what we are focused on as investors over the long term. Ironically, it is during this time on our holidays, that we have ***identified two new and upcoming IPOs which we think are quite attractive. This is alongside another new holding we have begun buying into, which we feel has great upside potential.***

For us, and more notably yours truly, investing is a passion - not a job. We enjoy what we do - even on holiday. (Our better half/partners never do seem to agree with us on this though!)

As we go to print in mid-October, we have already seen the RBA lower rates further and is on the brink of quantitative easing. In addition, Australian property prices have rebounded slightly while retail sales picked up nicely in August. We recently predicted a consumer resurgence from interest rate and tax cuts and, as ***we have said repeatedly this year, we believe we may be at the onset of a multi-year bull market for Aussie equities.***

As mentioned above, we see more upside in our portfolio and the recent new opportunities we have identified. Our cash levels are low and ***we see now as a perfect opportunity for investors to consider increasing their investment.*** Any short term market selloff or volatility will be capitalised upon as an opportune time to invest further.

We provide some updates from our portfolio holdings during the month in the Portfolio update section of the report and also revisit a previous laggard holding in Isentia (ISD), which has turned into a star performer.

We will provide further updates and commentary in our next monthly report.

Sincerely yours,

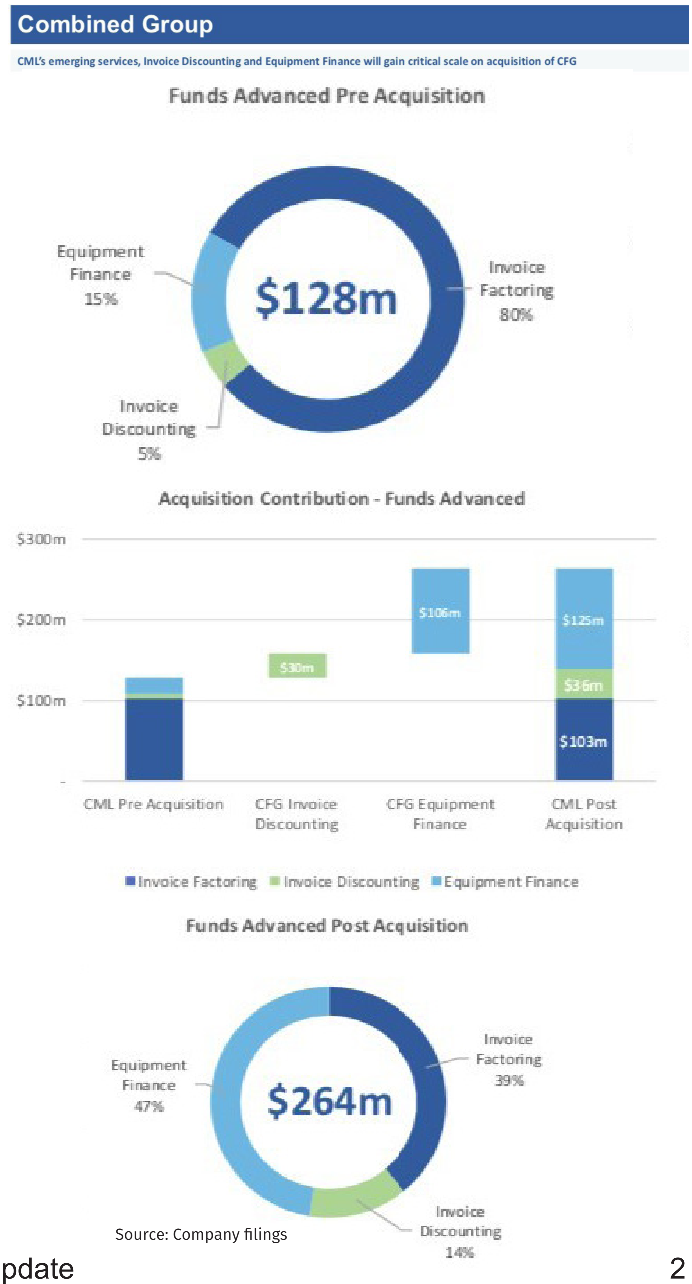
Ron Shamgar and the TAMIM Team.

Portfolio Updates

CML Group (CGR.ASX)

CML Group announced the somewhat transformational acquisition of Classic Funding Group for $11m. The deal bulks up both the equipment finance and the invoice discounting divisions of CGR. Management expects a $3m NPAT contribution in FY21 following funding cost synergies from the combined group. The post-deal CGR will have about 50% of their loan book in equipment finance, with a total loan book for the group of $264m (up from $128m).

We estimate that CGR will report ***cash EPS of 5.5 cents this year, growing to almost 7 cents in FY21.*** CGR is conservatively managed and only one of a few remaining listed small business finance providers that hasn't blown up (AXL, TGA, SIV to name a few). ***We see the potential for a 50% upside over the next 12-18 months*** as management proves the deal rationale. Early positive FY20 commentary presents a strong start to the current financial year from a slightly disappointing 2H19.



Source: Company filings

Flexi Group (FXL.ASX)

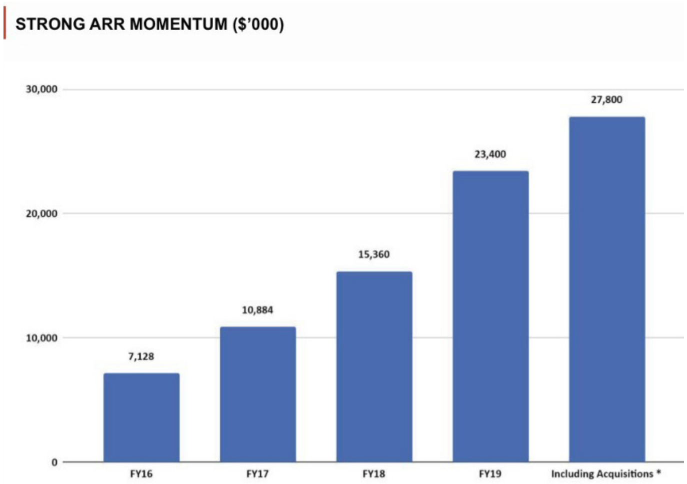
Flexi Group provided another positive business update for the group. The company continues to add new retailer locations with 3,000 added since July taking the total to 18,000 partners. Some new key wins include Mitre10, Kookai, Zanui and Surfstitch. Its newly rebranded Buy Now Pay Later service, ***Humm, is gaining traction with financial YTD transactions up 25% and volumes in key verticals up 85%*** year on year.

FXL shares are up about 50% since we took a position but are still below our ***$3.00 near term valuation***. We continue to see good momentum in the business and expect more news flow when the Bundll and Wiired Money products are launched. We took the opportunity to take some profits above $2.50 and continue to hold the rest as a core holding for the portfolio.

BigTinCan Holdings (BTH.ASX)

BigTinCan Holdings continued its sensible and acquisitive streak with an acquisition of US based XINNovation, an unlisted document automation and workflow platform built on enterprise cloud. XINN was designed specifically for the Financial Services vertical with particular focus on the asset management sub-sector. XINN provides an attractive beachhead in the financial services vertical with eight out of the top fifteen investment managers (State Street, Mass Mutual).

BTH raised $20m at 54 cents to partially pay for the deal and provide a further buffer for working capital. XINN brings an additional $3m in annual recurring revenue (ARR) which brings the current group ARR run rate to $27.8m. Management has also maintained guidance of a ***30-40% organic revenue growth target for FY20.*** As BTH heads towards a level of ARR scale ($40m+) we should see the stock continue to rerate and trading on a 6x multiple of sales. ***This values the company at close to 80 cents.***

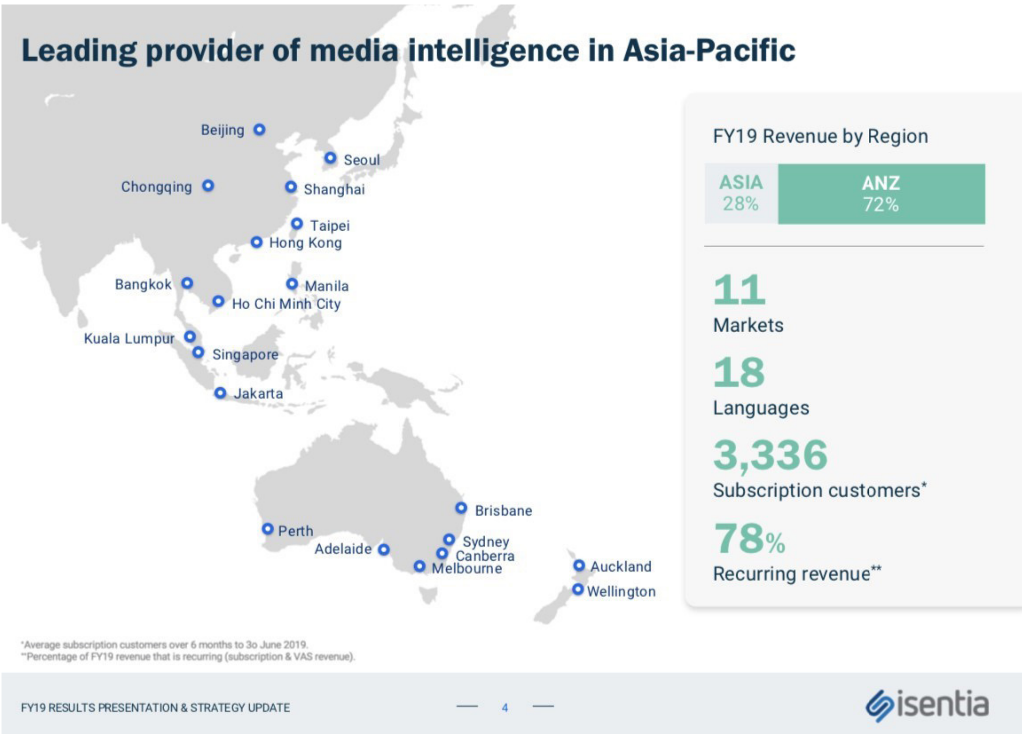


Source: Company filings

Stock Spotlight - Isentia (ISD.ASX)

This Stock Spotlight was originally published on 17 October 2019.

Isentia (ISD.ASX) provides media monitoring services to corporate and government agencies. The majority of revenues are subscription based ***(78% SaaS recurring revenue)*** and ISD has, both historically and today, generates strong cash flows and high margins.



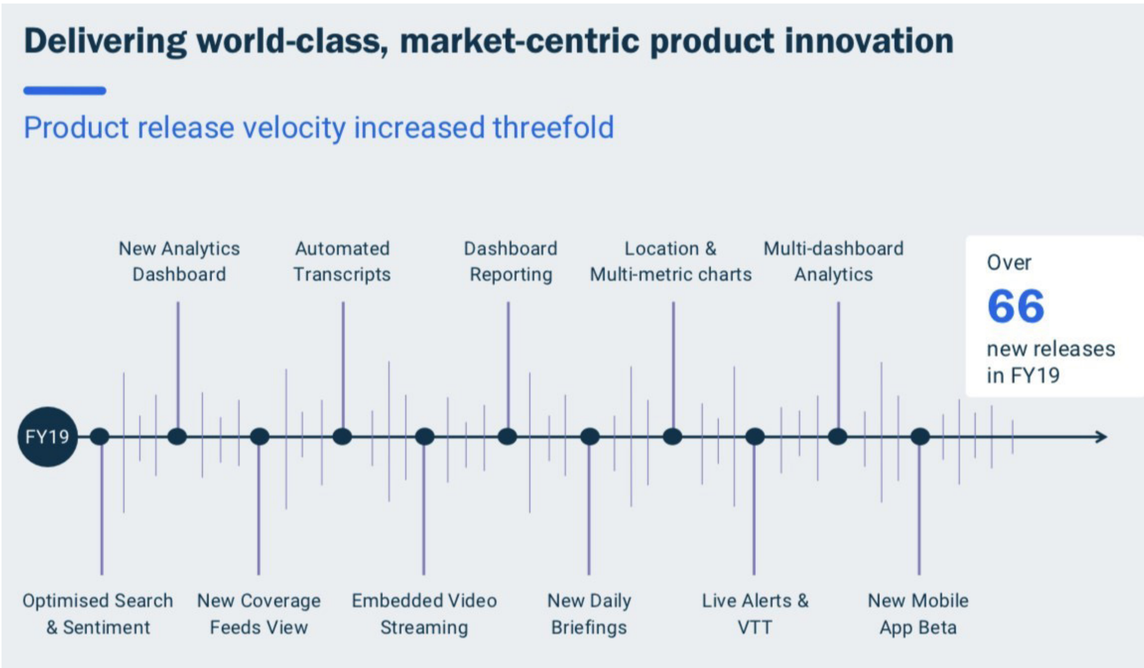
Source: Company filings

A brief look at the past tells us that almost ***four years ago ISD was valued at a billion dollar market cap*** but a lot has changed since then. Up until recently the stock was down as much as 95% from that point due to several successive downgrades, a disastrous acquisition, and a loss of focus on their core business by previous management. This allowed new entrants (Meltwater and Streem) to disrupt and capture market share, thereby creating margin compression and customer churn for ISD.

Source: CommSec

So what has changed? Last year a ***new CEO and CFO have been appointed*** and a return to basics mentality was outlined at the time. A well thought out strategy has been implemented to cut costs, increase automation within the business and focus on product development modules to retain and grow the customer base.

So far the strategy is taking shape nicely with ***66 new product releases in FY19*** which is already 3x more than the previous year. In addition, the new management team has taken out $5.2m of costs during the year. All this, and a refocused sales strategy, should lead to a reset earnings base in FY20 which from then on, if executed well, could deliver ***double digit earnings growth in FY21 and FY22.***

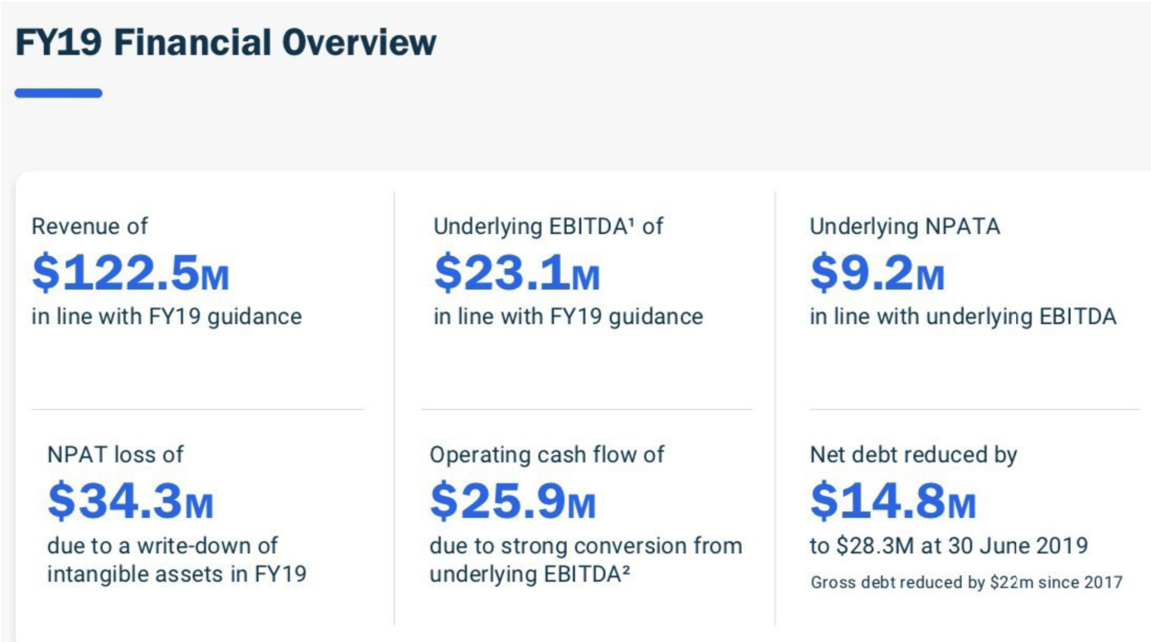


Source: Company filings

It is important to understand that a key reason for ISD's loss of market share was a copyright fee agreement negotiated three years ago by previous management. This agreement created a high fixed cost for the business and did not reflect the current commercial reality. A favourable interim tribunal decision on this agreement was announced last year, which should deliver significant cost savings over time but more importantly, the ***ability for ISD to compete better against its rivals.***

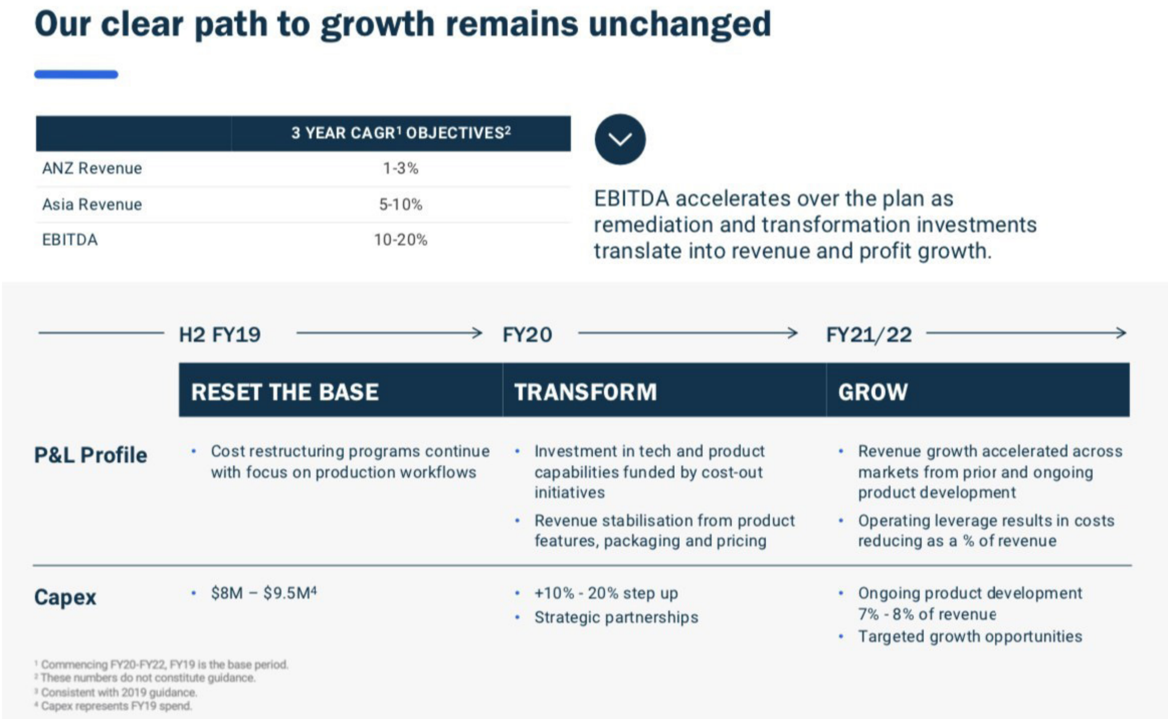
Strategically, ISD is still an attractive takeover target due to a significant market leading share in the APAC region, an improved balance sheet and an earnings base that is now on the cusp of growth. Suitors could be an industry giant such as Cision or Kantar (recently acquired by private equity for 8.2x EBITDA), or private equity (PE) firms who can acquire ISD at a depressed valuation now and serve it back to the market at a premium valuation in three years time (a classic PE play).

ISD FY19 results were in line with company guidance but way ahead of our forecasts in the NPATA and Cash flow generation. Revenue of $123m and EBITDA of $23m were down on last year but in line with guidance. Cash EPS came in at 4.7 cents and operating cash flows were quite strong, benefitting from some favourable balance date movements. Overall, at $28m net debt, ***the balance sheet now has the lowest amount of debt since 2015***. The business is finally benefiting from lower negotiated copyright costs and a focused and incremental investment into the product suite.



Source: Company filings

Guidance for FY20 is for $20-$23m EBITDA and we estimate net debt to reduce further to approximately 1x earnings. This is a level that we believe will enable the board to ***consider reinstating dividends***. Management believes from FY20 onwards both revenue and earnings will return to growth (10-20% growth) and we see ***FY21 Cash EPS of 5.5 cents*** as a realistic outcome (current share price 41 cents).



Source: Company filings

We first bought ISD at 30 cents earlier this year. At the time the market didn't seem to care too much and we averaged down as the stock sold down to 18 cents. The stock then appreciated going into the August result and following a strong report we added further in the mid 30 cents range. Although the stock is up 50% in the last few months, we ***still see significant upside*** as investors regain confidence in what is a high-quality business and a now de-levered balance sheet.

Right now, ***we value the company at about 65 cents*** and believe it is highly likely that ISD will get taken over eventually. If we apply the same multiple Kantar was recently acquired on, ***we can easily see a takeover at $1.00 in time.*** ISD has become a conviction holding in the TAMIM All Cap IMA 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% (typical)
Benchmark	ASX 300
Target number of holdings:	10-40
Portfolio turnover:	< 25% p.a.
Investable universe:	ASX
Cash level (typical):	0-100% (10-40%)

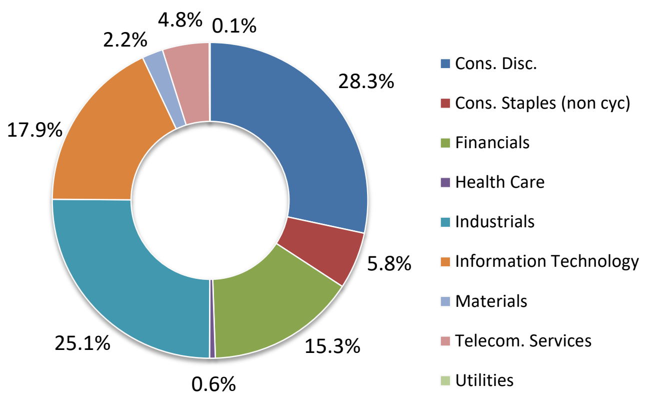
Selection of 5 Holdings

Stock	Code
PointsBet	PBH
People Infrastructure	PPE
EML Payments	EML
Resimac	RMC
Noni B Group	NBL

Portfolio Profile

Equities	84.7%
Cash	15.3%

Sector Allocation



Monthly Return Stream

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2016	-	-	-	-	-	-	-	-	-	-	-	0.07%	**0.07%**
2017	0.37%	-0.94%	1.46%	2.04%	0.43%	1.46%	0.17%	-0.15%	1.58%	3.21%	3.01%	1.20%	**14.66%**
2018	-2.12%	1.98%	0.60%	1.50%	1.13%	-1.40%	-0.70%	-0.10%	0.61%	-4.23%	-1.67%	-2.72%	**-7.08%**
2019	-0.52%	4.45%	0.44%	3.26%	6.17%	1.44%	5.66%	4.55%	11.79%				**43.33%**

Monthly Return Stream refers to the aggragated cumulative performance of all TAMIM Australian All Cap individually managed account portfolios since inception (31 Dec 2016) in AUD net of fees.

Contact

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

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