

Australia All Cap Unit Class TAMIM Fund

At 29 February 2020

The year 2020 is now certain to be remembered as the year China literally “sneezed” and the rest of the world “caught a virus”. It is now official, but the coronavirus (Covid-19) is a global pandemic.

Before we get going, let us start by saying that the developments of the last few weeks have shown this to be a serious health issue. Like any infectious virus, everyone should be taking all reasonable measures to stop the spread of this virus and minimise its impact on the at-risk demographics (not sure that means hoarding toilet paper though). The preventable loss of human life is definitely a tragedy.

We do also want to remind investors that this is not a financial crisis. This is a moment in time. A pause for society on our daily routines. We will all need to get together as a community and a country and do our best to limit the spread of the virus as quickly as possible so we can limit the impact on those affected and life can just get back to normal. And rest assured, life will be back to normal. Now is not the time to panic.

These are definitely extraordinary times. Up until February 20th the Australian market was going strong and the corporate earnings season was delivering generally good results. Over in the US, the economy has been booming with a resilient consumer, record low unemployment and new monthly jobs created continuing to beat expectations. Generally, the global economy, up until then, was in a sweet spot benefitting from low interest rates and benign inflation.

Over in China, efforts by the government to contain the virus seemed to have succeeded and the Chinese people began returning to work and their daily lives. But then Covid-19 began spreading outside of China at a not insignificant rate, with the largest outbreaks in South Korea, Italy, Iran and the US. At that point markets started to panic and an aggressive sell off over the last five trading days of February saw markets drop approximately -12%.

Unfortunately the TAMIM Fund: Australia All Cap unit class was sold off with the market and returned -10.67% during February. This compares to the ASX300 drop of -7.69% and the Small Ords Accumulation Index fall of -8.68%.

As we write this report, March is proving to be very negative

Monthly Return Stream

Note: Individually Managed Account (IMA) returns will, by their nature, vary from the underlying portfolio. Should you wish to see your individual return, please log in to your account online.

	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%	0.68%	7.19%	0.71%	55.78%
2020	5.80%	-10.67%											-5.94%

Monthly Return Stream refers to the aggregated cumulative performance of all TAMIM Australian All Cap individually managed account portfolios since inception (31 Dec 2016) in AUD net of fees up to 31 October 2019. From 1 November 2019 the Monthly Return Stream reflects the return on the TAMIM Fund: Australia All Cap unit class. Both are managed according to the same portfolio. Note: Portfolio returns are quoted net of fees. Returns shown for longer than 1 year (other than Inception) are annualised. Year to date (YTD) figures are accumulative. 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.

Key Facts

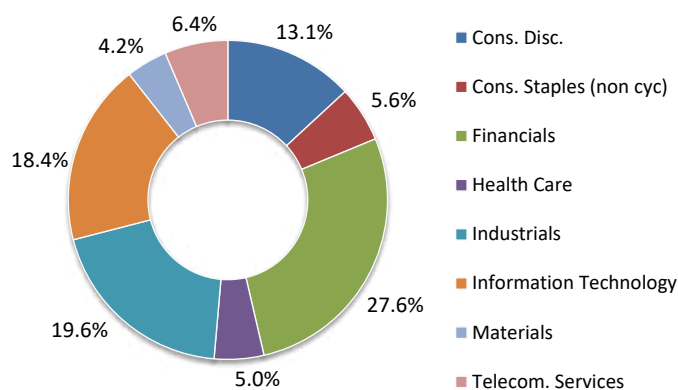
Investment Structure:	Unlisted unit trust
Minimum investment:	A\$100,000
Applications:	Monthly
Redemptions:	Monthly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Semi-annual
Management fee:	1.25% p.a.
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash Rate + 2.5%
Lock up period:	Nil
Buy/Sell Spread:	+0.25%/-0.25%
Exit fee:	Nil
Administration & expense recovery fee:	Up to 0.35%

NAV

	Buy Price	Mid Price	Redemption Price
AU\$	\$1.0229	\$1.0203	\$1.0178

Portfolio Allocation

Equity	77.53%
Cash	22.47%



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The market selloff has continued into the first couple of weeks of March and at this point it is the quickest market correction on record. **If there was ever a definition for a black swan event in financial markets, this is it.**

So what do we know about this mysterious virus? So far there's been a lot of uncertainty and misinformation about the virus and the risk it poses. This is partly because we are still learning about it and there is constantly new information coming to light. As of March 16th, we know the total infected cases to be at about 170,000 globally with 81,000 being from China. Of those, **78,000-odd infected people have recovered or been discharged from hospital to complete their quarantine safely at home.** The death toll so far has reached 6,500 with 3,213 of those deaths in China.

So far (March 16th) there have been 3,800 confirmed cases and 70 deaths in the US due to Covid-19. Yes, this is serious, and it may well escalate beyond the common flu, but investors should ask themselves whether this is enough justification for the current market panic and general panicked behaviour?

Despite growing fear, it is **unlikely that the virus will bring the world to a standstill** as it seems to have mild effects on most infected people while having the most impact on the elderly. Not to sound callous but, from a purely economic perspective, the virus will be a disruption of a few months, for the vast majority of the workforce. The far more deadly 1918 Spanish flu, for example, killed 45 million people yet also failed to bring the world to a standstill and back then the world was not as well equipped to deal with such virus outbreaks as we are today.

This even extends to the fact that working remotely has never been more viable (for white collar jobs at least), a two-week company-wide quarantine would have almost no impact on TAMIM's operation for example. Meetings can be taking online via software like Zoom, laptops can be taken home, phone lines can be redirected to mobiles.

When it comes to the markets it should be noted that, given the strong global rally without a correction over the last year (especially in the US), a correction was going to occur at some point. The coronavirus and its short-term effects on the global economy have been the catalyst for this correction. Yes, global supply chains have been disrupted but they are already beginning to come back online, with China almost back to full manufacturing capacity in most instances.

Given the fear around the virus, people and markets are not currently acting rationally. This is somewhat justifiable based on the number of unknowns. **It seems the recent rush on toilet paper at supermarkets across Australia is a good illustration of how irrational people can become** when mass fear sets in. Given toilet paper is plentiful and is manufactured locally, this mass hysteria is a classic example of the damage social media, and the news in general, can create with sensationalism. As one lady said to news.com.au, "I'm buying it [toilet paper] because

selling because everyone else is doing it.

As we go to print, this current market correction has well eclipsed the one we had in the 2018 December quarter. **Back then investors feared the worst from a US/China trade war. Investor's fears turned unfounded, and the ensuing twelve months saw one of the best years of market returns in over a decade. Rough time to be sitting in cash.**

Stocks have risen steadily for most of the last decade, but history also tells us that stock market declines are an inevitable part of investing. **The good news is that corrections** (defined as a decline of 10% or more) and bear markets (20% or more decline) **don't last forever.**

Market downturns happen frequently but don't last forever
Standard & Poor's 500 Composite Index (1950-2019)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency*	About three times per year	About once per year	About once every four years	About once every six years
Average length†	43 days	112 days	262 days	401 days
Last occurrence	August 2019	December 2018	December 2018	December 2018

*Assumes 20% recovery of lost value.
†Measures market high to market low.

Source: Capital Group, Standard & Poor's

Furthermore, no one likes to see their value of their investment take a hit. It is only human nature to seek to avert losses at times like these and to sell. Unfortunately, once investors sell, history has shown that they tend to stay out of the market. But that can cost investors dearly as **those who sit on the sidelines risk losing out on periods of meaningful price appreciation that follow market downturns.**

Trying to time the markets is, generally speaking, a fool's game. If you don't want to listen to us, fine but you'll find that all-time great investors, from Peter Lynch to Warren Buffet, are typically all of the opinion that it is time in the market, and not timing the market, that is important to achieving returns.

The chart below shows that missing out on just a few trading days can take a massive toll on investment returns. For example, if an investor missed the thirty best trading days between 2010 and 2019 they would have ended up with 99% lower return than an investor who had stayed fully invested during that time (timing the top is just as hard as timing the bottom FYI).

Missing just a few best days in the market can hurt your investment returns.

Value of hypothetical \$1,000 investment in the MSCI ACWI, excluding dividends, from 5/1/10 to 31/12/19



Source: RIMES, MSCI
Past results are not a guarantee of future results. For illustrative purposes only. Investors cannot invest directly in an index.
Source: RIMES, MSCI. As of 12/31/19. Value in USD.

Note: Returns are quoted net of fees. Past performance is no guarantee of future performance.

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do well over time. There is no doubt that the world economy will experience a slowdown and possibly a global recession over the next three to six months, but governments around the world have already intervened with significant stimulus packages and other measures to help the most impacted industries. We expect further stimulus measures to continue to be announced over the next few days and months.

We have generally avoided the travel, tourism, airline and hospitality industries as these will be the most impacted. But we believe that consumers will continue to live out their normal daily routines but may seek to stay or work more at home and limit their activities from travel or large gatherings in the short term. **We believe that companies that offer solutions and services online will continue to do well.** These include payment companies, online retailers, well funded mortgage originators, online consumer lenders, healthcare providers and other software companies. We will look to continue buying these companies as opportunities arise.

Indeed, although we are in somewhat uncharted waters when it comes to a global pandemic, **we do believe that over time humans show a strong ability to adapt to changes, catastrophes and financial crises.** Eventually the panic calms and, when rational behaviour is restored, equity markets will continue to provide the best source of returns over all asset classes.

Ultimately this all boils down to one key point. When it comes to both Covid-19 and investing we just need to be sensible. Take appropriate precautions, stay informed, make logical decisions and don't panic. Investors need to remember that it is in times like these that assets tend to pass from weak to strong hands.

Unless Covid-19 has fundamentally changed a business and affected your long-term investment thesis, good companies will recover and will continue to trend upwards. In fact, the recovery and bounce back from the pent up economic demand created could be one of the greatest in human history.

Investors must remember that **"it is always darkest before dawn"**. Legendary investor, Jeremy Grantham's financial crisis wisdom should be kept in mind:

"Be aware that the market does not turn when it sees light at the end of the tunnel. It turns when all looks black, but just a subtle shade less black than the day before"

No one will be there to ring the bell when the markets have bottomed, but a measured approach to buying stocks at times of such extreme fear and panic will be seen, in hindsight, as one of the greatest opportunities in recent history to create long term wealth. So far, we are seeing significant purchases of shares from company directors across the board. This is a good sign. As someone much smarter than us once said, **"Be greedy when others are fearful."**

In the Portfolio Update section of the report we give an update

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not all, will recover and bounce back from this crisis, some potentially in a much stronger position. We also feel confident that our holdings have strong balance sheets to see them through a downturn and that the vast majority are profitable and cash generating businesses - which matter most in times like these.

We will continue to look to hoard equities over the next few weeks and months, but definitely not toilet paper!

From all the TAMIM team, we wish you and your family good health in these trying times. Stay safe, stay sensible and stay healthy.

Sincerely yours,

Ron Shamgar and the TAMIM Team.

Portfolio Update:

In this month's update we will keep the half year result commentary brief and focus on what we think the potential impact of Covid-19 may be on these businesses. Our thoughts are informed by the discussions we have had with management teams on a daily basis over the last couple of weeks. Investors should keep in mind that the situation is rapidly evolving what applies today may not apply next week. This is a fluid situation and we are doing everything we can to stay on top of it.

EML Payments (EML.ASX) reported \$19.7m EBITDA for 1H and tightened the mid-point of the guidance range to \$41m EBITDA. Based on the historical split between 1H/2H, EML was on track (prior to the virus impact) to hit \$43m EBITDA. The acquisition of PFS should be approved by the end of March and is set to contribute \$6m of EBITDA, potentially more. Cashflow conversion was weak in 1H due to some one-off payments and the seasonality in breakage revenue conversion to cash. Like previous years, 2H cash flow will be strong.

The good news is that both the EML and PFS businesses were seeing good momentum in new contract wins with a strong pipeline of deals ahead. Unfortunately, the impact of the virus on shopping mall gift card sales and the suspension of professional sporting leagues around the world will have an impact on EML. At this stage we estimate that, if the virus impact continues into the last three months of FY20, there will be roughly a \$6m EBITDA hit.

On the flip side, PFS should benefit from the virus' impact as their core business is government disbursement funding and we expect a huge spike in available contracts all over the world as governments look to implement their stimulus packages. The contribution of PFS could potentially negate any major impact

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has not changed. We still expect anywhere between \$65-\$80m of EBITDA in FY21 depending on whether the virus continues to impact shopping malls later into the calendar year or not.

People Infrastructure (PPE.ASX) reported a 1H result in line with expectations. Revenue was up 46% to \$194m and NPATA was up 54% to \$9m. The company will pay a 4 cents fully franked (ff) dividend. 51% of revenues are now coming from the health and community care segment and 25% from the IT sector. The pipeline of acquisitions is well advanced and we expect some deals in 2H of the year.

The Covid-19 virus is and will continue to place significant pressure on the healthcare sector in Australia and we see demand for nurses and community care rising dramatically over the next few months. PPE should benefit significantly here as the leading player in the sector. We expect acquisitions as the key catalyst for further share price appreciation when we return to a more rationale market.

Money3 (MNY.ASX) delivered an outstanding result for 1H. Revenue up 55% to \$63m, NPAT up 56% to \$15.7m. More importantly impairment allowance (bad debts) is 6.3% of receivables against a current annualised rate of <5% and against group current guidance of 4.5-5.5%. We estimate FY20 NPAT to be at around \$33m. The dividend for the full year will be maintained at 10 cents ff.

As of the time of writing, MNY has yet to see an impact from the virus. Management are conservative and, although we expect bad debt to creep up in the next few months, the historic provisioning does provide a buffer. MNY has \$100m of debt headroom and is expecting a bank funding facility in the next couple of months which will reduce the cost of funding by \$4m per annum. The stock is trading on a PE of 6x and the market is pricing in bad debts to materially spike. We believe the business can withstand a tougher economic environment over the next 3-6 months as people will prioritise car finance repayments as they require their car to commute to and from work/school etc.

Resimac (RMC.ASX) delivered 1H NPAT at the top of their guidance range of \$27m and indicated that 2H will either equal or exceed the first half. This is led by strong originating and settlements during the seasonally quieter months of January and February and favourable net interest margin spread on their cost of funding. We estimate FY20 NPAT of \$55m. Loan book arrears are at industry lows.

The Covid-19 impact could see an impact on debt markets for RMC to access further funding, but the company has reassured the market that it is currently well funded for the remainder of the year. So far, the Australian property market has shown resilience and even if new originations drop, the current loan book will see longer back book loan durations which will benefit recurring revenue. The stock is currently trading on a PE of 5x and we believe the market has priced a worst case scenario into the share price.

The business has gone through a number of transformations over the years and has proven to be resilient in terms of profitability and cash flows. The Telstra relationship provides some risk in terms of changes to remuneration every few years. We see this part of their business as a cash cow that, in any given year, it generates \$40m+ of EBITDA and throws off \$15-\$20m p.a. of free cash. 1H results had recorded revenues of \$432m, up +14%, and NPAT of \$14.5m.

The more appealing part of the Vita Group growth story is the skin care and beauty brand called Artisan Aesthetics Clinics. VTG launched the brand over eighteen months ago and is on track to have 20+ clinics by June 2020, generating over \$25m of revenue. VTG is targeting 60+ clinics in the next 3-5 years and, at maturity and scale, we see this network of clinics generating \$40M of incremental EBITDA.

The recent selloff has made VTG very cheap, trading on 6x PE and a 10% fully franked (ff) dividend yield with a net cash position of \$24m (or roughly 15% of the current market cap). We spoke to management last week and there is yet to be an impact. Telco services should remain resilient in times like these and a strong balance sheet means the company can sustain a few months of lower sales.

When the market returns begins to return to a rational state, we expect a growth multiple on the stock as the clinic business begins contributing to profitability over the next twelve months and the telco stores remain resilient.

Shaver Shop (SSG.ASX) is the leading hair and body grooming retailer in Australia with 122 stores nationwide. The business has a strong brand, generates healthy cash flows and has a strong balance sheet (\$8.3m net cash). SSG provides a great store experience that appeals to all consumers. Over the last year, the company has focused on growing their online channel with great success. Online sales are already at 18% and have grown by +60% in 1H FY20.

SSG reported very strong sales growth of +12% (to \$108m) in 1H FY20 but more importantly like for like sales grew +9.3%. Cash NPAT grew to \$8.6m and EPS to 7 cents. We see SSG continuing to grow online sales and we see no reason why the online component can't reach 30% of sales within the next two years. In the current environment, we believe SSG can focus on further growing their online sales and reduce staffing costs in their store network to mitigate any mall foot traffic falls. SSG trades on a PE of 7x and pays an attractive ff dividend yield of 8%. Directors have been buying shares the last few days.

Adairs (ADH.ASX) is a homeware and bedding accessories retailer. The business has strong brand awareness and a conservative management team. Sales growth has slowed down in the last twelve months as consumer confidence has been sluggish. Management's strategy is to open larger format stores alongside a handful of new stores each year. 1H FY20 results came in line with revenues of \$179m, up +9%, and NPAT of about

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almost 30% for the group. We see ADH earning 20 cents EPS this year and 24 cents in FY21. The stock has been sold off aggressively last few weeks and is trading on PE of 5x and dividend yield of 13% ff. Directors have been buying stock for the last few days and the business can increase online sales to cater to demand. So far there has been limited supply chain impact from China. There is no doubt sales will be impacted short term, but the company can safely manage several months of a slowdown in sales.

Viva Leisure (VVA.ASX) reported a strong 1H result with revenue up 53% to \$23m and EBITDA up 91% to \$5.6m. Their member base was up 47% to 71,000. More importantly, at their current run rate, figures are impressive, with a member base of 96,000 at end of February 2020, growing at about 400 per week. The balance sheet was strong with net cash at \$23m (with \$13m of that spent after reporting on the recent acquisition). We expect the company to finish FY20 in a positive net cash position.

VVA is continuing to see strong growth and, prior to the virus outbreak, was well on track to report \$95m revenue and \$26m EBITDA next year. That implies 20 cents cash EPS. There is no doubt that over the next few weeks and months membership growth will stall and some members will likely decide to freeze or even cancel their membership. VVA can account for this with a pullback on marketing spend, staff numbers/hours and can slow down new club openings and refurbishments. 60% of their staff are casual employees. We are confident the above savings can negate the expected revenue loss.

VVA's current average member age is 33 years old. Going to the gym is a part of their lifestyle and thus far the virus does not seem to pose a serious health risk on this age demographic. Gyms are still being used, people are simply taking more care when doing so; sanitising equipment and hands before and after use, taking care to not touch the face etc. Unless there is a government mandated closure of all gyms and health clubs for a few weeks, we are confident (after discussions with management) that the company can weather this one-off event over the next few months. Unlike many metropolitan gyms, VVA has the lowest member density and its hub and spoke approach strategy can help reduce member crowding even further. The stock is now trading on a forward PE of 5x which is pricing in the impact of the virus over a very long period.

Uniti Wireless (UWL.ASX) is a leading telco providing fibre connectivity to residential buildings and communication services/solutions to small and medium sized businesses. The company was formed via a series of acquisitions last year by a very experienced board and management teams with a very successful track record in M2 Telecom and Vocus. UWL upgraded its FY20 pro forma forecast at the 1H results to revenue of \$68m and EBITDA of \$36m. At the expected run rate, EBITDA at June is now forecast to be \$40m. This provides a good base to grow from into FY21 and beyond.

With the impact of the virus forcing people to stay or work from

a defensive business in times like these. We expect management to take advantage of the current turmoil and look to deploy their cash by buying other companies at a lower valuation than before.

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