

Australia All Cap Unit Class

TAMIM Fund

At 30 June 2020

The month of June marks the end of the 2020 financial year and is an opportune time to reflect on the last twelve months. It would be an understatement to say the 2020 financial year has been a tumultuous one!

The first half of FY20 (July-Dec 2019) saw global equities quite buoyant with countries around the world, particularly the US, experiencing low unemployment and a strong economic environment. This, together with a low inflationary environment, saw the perfect storm for loose monetary policy to drive equities ever higher.

Our portfolio significantly outperformed markets through this first half as we identified and invested in companies that were not only growing but exceeding investors' expectations. As we entered 2HFY20 (Jan-Feb 2020) markets continued to rally as corporate earnings were strong and yet, in the background, the Covid-19 virus was spreading through China and into other parts of the world. The rest, as they say, is history.

We have reflected on the record March equities selloff over the last few months and, although we have recovered a large portion of those losses, we still have work to do so we can finish this calendar year in positive territory.

As we wrote in our March and April reports, the companies we owned performed extremely well from a financial perspective and, in most cases, exceeded expectations during the February reporting season. Unfortunately, government-imposed shutdowns completely disrupted many industries and business models and we were too slow to react as the markets were selling off aggressively.

We have reflected and analysed what we did wrong. There are two main takeaways we have identified from this selloff that we can learn from and take into the future.

The first is to listen to what the market was telling us. Unfortunately, this is much easier said than done. Essentially, as the market selloff was accelerating during the early part of March, we should have realised that the situation (lockdowns etc) would spread globally and would have such a significant economic impact.

Historically 10-15% market corrections have been good

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%	-34.25%	16.54%	13.54%	1.44%							-16.59%

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

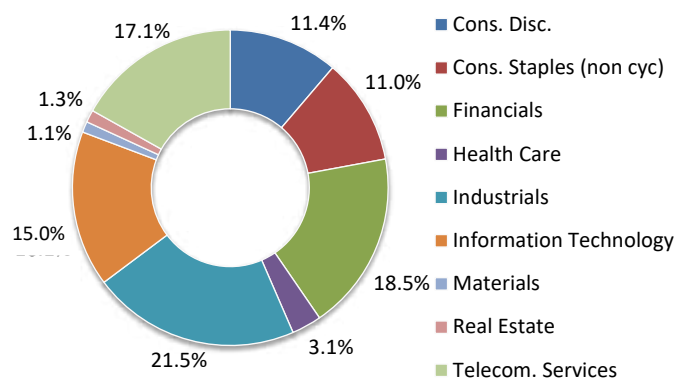
Investment Structure:	Unlisted unit trust
Minimum investment:	A\$100,000
Applications:	Monthly
Redemptions:	Monthly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Semi-annual
Management fee:	1.25% p.a.
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash 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\$	\$0.9027	\$0.9004	\$0.8982

Portfolio Allocation

Equity	73.94%
Cash	26.06%



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opportunities to buy equities as the returns that followed were attractive. This time around, buying the dip ended up being costly. Considering this market selloff was the most severe and swift we have ever seen, and such large market corrections typically only happen every 10-20 years, it was arguably something that was hard to anticipate and avoid. We would hazard a guess that many of the investors who were sitting mostly in cash prior to the March crash had already been doing so for non-covid related reasons (i.e. they believed the markets were overvalued etc); sometimes it is simply better to be lucky than good (even if it did mean missing out on the best calendar year of returns in recent ASX history).

The second takeaway is one we can actually implement and use going forward, protecting our portfolio from such savage market corrections. Although our investment mandate is primarily investing in companies on the long side, we have realised that having a broad based index put option strategy across the portfolio would, in hindsight, have been very useful as it would have cushioned us from some of the downside of the March selloff.

We have now implemented and overlaid this strategy, buying put options on the market when we feel the market is over extended or there is elevated uncertainty over the horizon. We believe that time is now, and we are actively managing this strategy going forward.

To be clear, our position is that focusing our time on trying to predict what the markets are going to do is mostly a distraction. We are more focussed on finding and investing in companies that will do well through all conditions, can grow revenue, have strong balance sheets and, most importantly, are managed by management teams we trust and have demonstrated track records. **Over the long term, such a focus delivers outperformance even in the face of market corrections from time to time.**

We believe that we have shown this as we adapted to the new Covid-19 reality and, as an example, bought into companies that have seen strong growth from the shift to online consumption and electronic payments. We will continue to adjust our views on certain industries based on the reality at large, rather than falling for structurally challenged industries or businesses that are disrupted by new trends or technologies.

Our portfolio has performed strongly since the March selloff and we are quite excited about the selection of businesses we are invested in. We expect these companies to outperform expectations this year and beyond.

We are also well aware that markets have had a strong run since March, mostly driven by loose central bank monetary policies and interest rates at or close to zero. In addition, government fiscal stimulus measures have kept jobs intact to some extent and driven a consumer spending boom. At some point though, economic growth has to take over from government stimulus.

As we see the virus continue to spread in countries around the world, there's no doubt that an economic recovery will take longer to occur than many initially guessed (and yes, however well informed they might have been, they were still guesses). **We expect governments around the world to maintain stimulus and job keeping measures for as long as it takes, even if it does become more refined and targeted as the recovery drags on.** Central banks will continue to print money to support financial systems and prevent anyone too big from failing.

Whether you agree with these policies or not, the worst place to be is cash. With the cash rate so low, there is no return on your cash sitting in the bank and its real value is being inflated away by the day. In an environment like this, asset prices, particularly equities, will continue to appreciate. But it is important to identify the companies that will perform better in these circumstances.

Eventually a vaccine, together with improved treatments, for Covid-19 will emerge and this crisis, just like many before it, will be behind us. It is important to remember that no matter what is upon us, there are always companies or industries that are benefitting; it is our job to find those opportunities and capitalise on them.

During June, the ASX300 was up +2.43%. The TAMIM Fund: Australia All Cap portfolio was up +1.44%. For FY2020, the All Cap portfolio was +8.64% while the ASX300 was -7.61%.

We provide a brief update on the news flow from our holdings during June in the Portfolio Update section and spotlight our holding in Sezzle (SZL.ASX).

Sincerely yours,

Ron Shamgar and the TAMIM Team.

NOTE

Covid-19 is a situation that continues to evolve; the facts and figures are changing day by day. What applies today may not apply tomorrow. One must stay informed and have their opinions and actions evolve accordingly. Stay safe, take appropriate precautions and be sensible.

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

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Portfolio Update:

Macquarie Telecom (MAQ.ASX) is a leading data centre and telco company. Their data centres specialise in providing specialist cloud security colocation services, mainly to government agencies. The Telco division offers businesses data, voice and mobile services. Combined, the company has grown steadily over the years with a management team led by the two Tudehope brothers, cofounders of the business.

For FY20, MAQ is forecasting EBITDA of \$63-\$66m. **Data centres and cloud services makes up 70% of group earnings and we believe this is being considerably undervalued by the market** when compared to their closest peer, NEXTDC (NXT.ASX), who trade on about 25x EBITDA. MAQ is now on 15x. We see the stock continuing to re-rate as the company will begin separating the data centre division earnings so the market can value it appropriately. **We first bought into MAQ at \$22.00 and our valuation is \$55.00.**

Business summary.				
Business Areas	macquarie TELECOM	macquarie CLOUD SERVICES	macquarie GOVERNMENT	macquarie DATA CENTRES
Percentage of Revenue and EBITDA in H120	Revenue: 54% EBITDA: 31%		Revenue: 46% EBITDA: 69%	
What we do	For business customers, we are the full service provider of data, voice, mobile & colocation services. We are the telco that does everything refreshingly different. We are where the Macquarie story started.	For business customers, we are the specialists in hybrid IT. We integrate colocation, cloud & dedicated servers. Different applications need different types of hosting. We manage it.	We are the Australian specialists in cyber security, secure cloud & colocation for Federal Government. We deliver services to 42% of Federal Government agencies.	We are developers & operators of data centres for wholesale customers including underpinning our three internal BUs' colocation services.
Value proposition	Customer Service, Price, Choice, Flexibility, Control	Customer Service, Specialised and Compliant Hosting. For apps not suitable for Public Cloud	Customer Service, Security Operations Centre (SOC), Cyber Security, ASD-Certified Cloud, Data Centre in Canberra	Customer Service, Commercial and Design Flexibility, Physically Secure for Federal Government, Highly Certified, Local and Data Sovereignty, Proven track record
Competitors	OPTUS, TPG, VOCUS	amazon, rockspace	WorlPath, X	ASPECT, VOCUS, GIGALOCUS, TRUNK
People / Skill	Generalist for Voice & Mobiles Technical Consultant for Data & Colo know Business Drivers	Cloud Specialists: Custom and Compliant	Cyber Security and Hosting Specialist know Government Drivers	Australian Data Centre Specialists

Source: MAQ company filings

Flexigroup (FXL.ASX) is a consumer lender that has gradually evolved into a BNPL firm, finally appealing to the younger demographic customer base. The company has been the "ugly duckling" of its sector from a share price performance perspective, but the business is finally humming along. During June, the company updated that it has exceeded 2.1m customers and has processed over \$2bn of transactions. **Their BNPL brand, Humm, has grown online sales volumes by 282% in 2H2020.**

flexigroup exceeds 2.1 million customers

- Interest free instalment customers exceeds 2.1 million Trans-Tasman
- \$2.0b processed across the retail platform for the 11 months to May 2020
- Growth driven by the success of buy now pay later offerings in both markets
- Online sales volumes for humm increased by 282%¹
- Digital transformation drives customer usage to 9 times a year
- New partners added to the platform takes total retailers to over 55,000

Source: FXL company filings

The issue for FXL, being left behind in the midst of a booming BNPL sector, is the fact that the company is still churning through its legacy traditional credit card business together with the fact that their only exposure to Australia and NZ is not appealing enough to the growth centric investors. **We see FXL as a value play in the BNPL sector and believe the company will look to enter the US and/or UK markets at some point.** At that point we could see the stock potentially double or triple on such news. **As of today, we value FXL at \$1.80.**

McMillan Shakespeare (MMS.ASX) is a salary packaging and novated lease provider in Australia along with asset finance in the UK. The company is highly profitable and diversified and has been a consistent dividend payer for many years. We took a position at \$6.50 as investors grew concerned about the impact on car sales and new business growth due to Covid-19.

This month, MMS provided a solid update. The business has been partially impacted by the difficult economic conditions but is still on track to generate \$71m in underlying NPATA. **This places the stock on about 10x PE and a 10% grossed up dividend yield.** Historically, MMS has generated strong cash flows and has a reasonably geared balance sheet. **We believe further sector consolidation will take place and MMS is well placed to lead it. We value MMS at \$12.00.**

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Evolve Education (EVO.ASX) is a new position we initiated recently. EVO is a large, established and profitable child care operator in NZ with a small but growing operation in Australia. **EVO is both a turnaround story and a growth story.** The NZ operation consists of 123 centres generating \$130m of revenue and the majority of the group's \$8.2m EBITDA for FY20. The Australian operation consists of 10 centres, generating \$10m of revenue.

Last year the company was recapitalised and a new management team, who founded G8 Education (GEM.ASX), took over. GEM was a market darling for many years under their leadership and we think they will replicate some of that early success with EVO. **Just two years ago the NZ operations were generating over \$20m of EBITDA and, with better cost management, we believe they can achieve that again.** The growth opportunity is in Australia as the sector has been through a difficult period due to the impact of Covid-19 lockdowns and a glut of new centres over the last few years, driving centre occupancy lower.

Additional evidence for the progress being made is reflected in the following table which indicates that the underlying EBITDA in the second half of the financial year was stronger than the first half. Historically, the first half of the FY has been stronger than the second half due to seasonality.

Financial Year	First Half	Second Half
2020	\$3.9m	\$4.3m
2019	\$9.2m	\$4.1m
2018	\$12.5m	\$9.1m

Source: EVO company filings

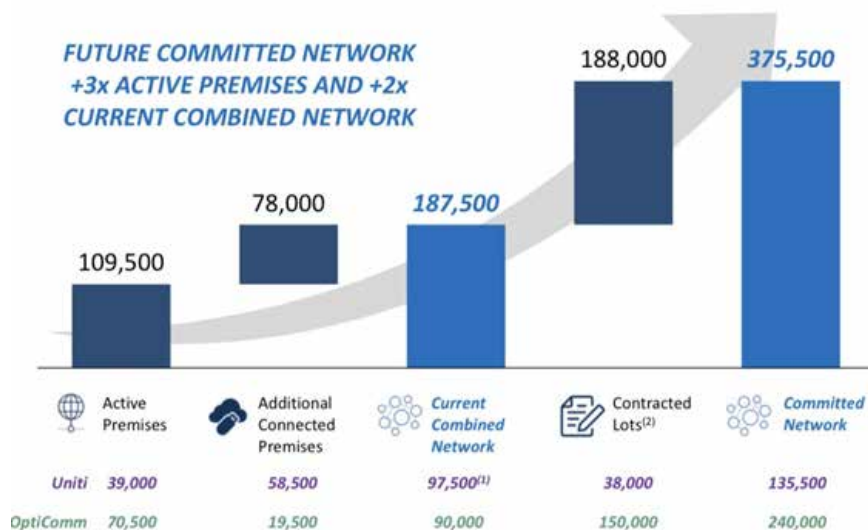
The positives are that finance constraints have driven new centre supply out of the market and government financial support for the sector has helped retain demand. **We see the company, with negligible debt on its balance sheet and ample funding capacity, to opportunistically acquire centres in Australia over the next few years.** We estimate EVO will earn \$20m EBITDA in CY2021 and approximately 1 cent EPS. We think dividend payment is a highly likely next year. **We value EVO at 16 cents.**

Isentia Group (ISD.ASX) is the leading media intelligence group in the APAC region. We wrote extensively about our turnaround thesis for the business. Unfortunately, this has not played out to our satisfaction so far. To some degree we underestimated the time it has taken to remove costs and, at the same time, bring the software set and new functionalities up to date. During this time, ISD has seen its main Australian competitor, Stream, snipe away at some of its more lucrative government contracts.

Although ISD has continued to retain the majority of its government clients, this has in some instances seen pricing pressure. We got some good news this month in the form of EBITDA guidance of \$20-\$21m. This includes a \$1.3m loss from the North Asian operations which the group is finally exiting. With an underlying EBITDA of \$22m and healthy cash generation, **ISD is trading on an EV multiple of about 3x.** In further good news, the South East Asian division continues to show good growth prospects, (albeit not enough to offset the price pressure at home). **We will stick with the turnaround as we firmly believe corporate activity will eventually emerge.**

3. LONG-TERM SUSTAINABLE ORGANIC GROWTH

VISIBILITY OF LONG-TERM SUSTAINABLE GROWTH FROM ALREADY CONTRACTED COMMITMENTS TO DOUBLE THE SIZE OF THE COMBINED NETWORK



Source: ISD company filings

Uniti Group (UWL.ASX) conducted its largest and most strategic acquisition to date with the purchase of its largest rival, Opticomm (OPC) for \$532M. The deal included \$270M equity raise and \$150M of debt with the remainder in script for the OPC shareholders. The deal will see significant synergies of \$10M and **will create a growing, large national private fibre challenger to the NBN and other large telcos.**

Combined, **the group will generate close to \$141M revenue and \$87M of EBITDA run rate post synergies.** At the completion of the deal we see the enlarged company as being more relevant for larger investors to own and a high likelihood of an ASX200 inclusion. The business going forward will have 375k contracted lots to be connected and a large runway of organic growth. We believe once OPC is integrated and delivers its first half year result next year, the group will continue on its M&A strategy. We are pleasantly reassured to see **directors continue to invest millions of dollars of their own money** into the stock. **We value UWL at \$2.00 and see significant share price upside ahead.**

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Stock Spotlight: Sezzle (SZL.ASX)

Note: This Stock Spotlight was originally published online on 15 July 2020

Sezzle (SZL.ASX) is our preferred pick in the BNPL sector. SZL is one of the leading Buy Now Pay Later (BNPL) companies and is fast growing in the lucrative North American market. The business is led by a conservative and innovative management team and, unlike some of its other peers in the sector, **SZL is almost a pure play on the largest and most lucrative BNPL opportunity, the United States.**

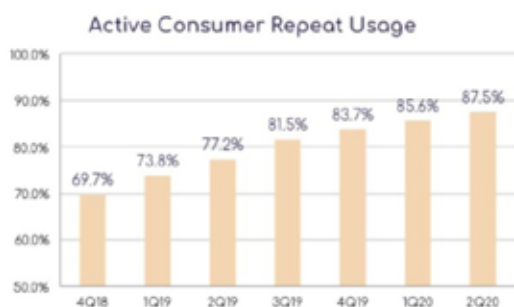
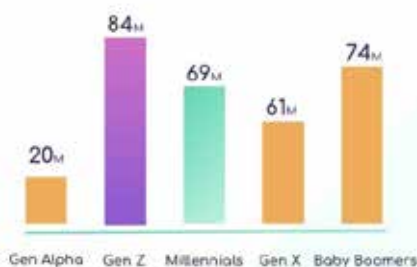
We believe the BNPL sector is here to stay and will only continue to grow as the younger generation (84m Gen Z customers in US) shy away from traditional forms of debt, like credit cards, and take up more of the various BNPL offers available. Unlike the seemingly endless spiral of debt from credit cards, **installment type providers offer a better way for consumers to budget** and smooth their spending in a more controlled manner. We expect all of the various BNPL providers to benefit from this structural shift for years to come.

Purchase Frequency by Cohort

Cohort	As of 31 May 2020
2018 Cohort	~15x per year
2019 Cohort	~9x per year
2020 Cohort	~5x per year

An opportunity too big to ignore

ESTIMATED US CONSUMER POPULATION 2020



Source: SZL company filings

As of the end of June 2020, SZL boasts annualised total transactions value (TTV) of \$1.1bn, 1.48m customers, and 16,100 merchants with all metrics seeing acceleration. Compared to market leading Afterpay (APT.ASX), SZL is generating similar revenues per customer, **yet the market is willing to value APT customers at 3x more than SZL.** On all other metrics, such as EV/Revenue and Market Cap/TTV, SZL again appears to be undervalued by a factor of 3x compared to APT. We see SZL continuing to develop new features and services for its customers as it develops itself into a true fintech company rather than just a provider of installment plan credit.



Key Metrics	Qtr Ended 30-Jun-20 (US\$ in M's)	QoQ change	YoY change
UMS	\$188.0	57.5%	348.6%
Merchant Fees	\$10.6	54.8%	397.1%
Active Consumers	1,475,235	28.4%	243.2%
Active Merchants	16,112	26.7%	219.2%



Source: SZL company filings

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Although we believe APT deserves a premium due to its larger scale and longer track record, we believe the valuation gap will close over time. Furthermore, during June, Zip Money (Z1P.ASX) acquired SZL's competitor, Quadpay, in the US for \$400m. This saw its then combined market valuation increase by a whopping \$1.6bn following the deal being announced. SZL and Quadpay share similar metrics, which in our mind back then, further highlighted how undervalued SZL was. **We began buying SZL at \$1.90 and continued to accumulate all the way up to the \$4.00 mark.**



The slide is titled "Addressing consumer needs - 2020 Product Innovation" and features the Sezzle logo. It lists four product solutions: Sezzle Up - Credit Building, Sezzle Anywhere - Affiliate/Gift Card Enablement, Sezzle Spend - Rewards, and In-store via Sezzle Virtual Card or Direct POS Integration. The slide also displays three Sezzle credit cards: Sezzle Spend (with \$10.00, \$5.00, and \$2.00 rewards), Sezzle Anywhere (with a gift card icon), and Sezzle Up (with a credit building icon).

Source: SZL company filings

We value SZL at about \$7.50 based on their recent update and guidance of \$1.4bn annualised TTV at the end of CY2020. Taking a longer-term view, we believe SZL will, assuming they execute, triple TTV to over \$3.5bn in the next 2-3 years. This would see the company generate revenues in excess of \$200m. **At that point we believe the stock is worth north of \$10.00.** We have taken profits in SZL at above \$8.00 as the stock appreciated above our near-term valuation. Long term we retain an appropriate position and will look to add again on any meaningful pullback.