

Australia All Cap Unit Class

TAMIM Fund

At 31 May 2020

May continued to see markets around the world resume their upward trajectory following historic performance in April. US markets finished the month 10-15% off their pre Covid19 highs and in Australia the market closed just under 20% off its previous highs.

Technology stocks have been leading this market rally with the NASDAQ hitting all-time highs as we go to print in mid-June. **There is no doubt in anyone's mind that the Covid-19 pandemic has accelerated the digital take-up of services.** Many, if not all, technology companies being beneficiaries of this adjusted environment, working from home, online shopping, and digital payments.

As the markets roar higher at almost the same ferocious pace they were sold off during February and March, the debate between bulls and bears only intensifies.

On the bull side, investors claim record low interest rates and the opening of economies from government lockdowns around the world, are the reasons for their enthusiasm. On the other hand, the bears are pointing to the horrific economic data of record unemployment, a significant drop in consumer spending and negative GDP data.

Our view is that both sides of the argument definitely have merit. We would argue that the savage selloff during March was an overreaction, while the current euphoria in some sectors and stocks is overdone. **We believe the global economy, and more importantly Australia, will continue to show month on month improvements over the coming months.**

After such a strong rally in shares we expect volatility to return as investors take a breather and, in many cases, undergo some profit taking. **Overall we do not try and predict markets in the short term.** We are focussed on investing in specific companies that we believe will recover quickly or are in fact thriving in the new environment.

Longer term, we see equities as offering the best investment returns, as interest rates will remain close to zero for many years to come.

During the month, the ASX300 was up +8.52%. The TAMIM All Cap Fund had another strong return of +13.54%.

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%								-17.77%

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

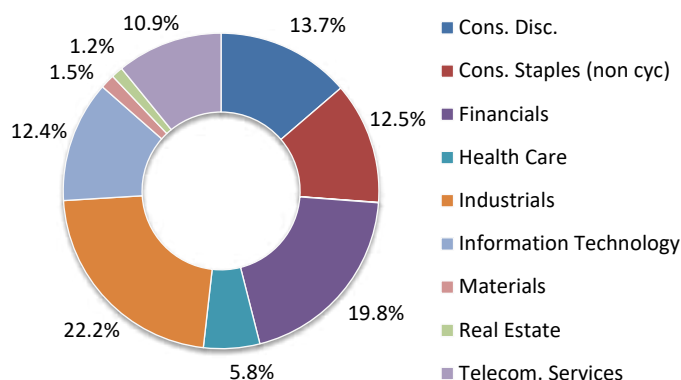
Investment Structure:	Unlisted unit trust
Minimum investment:	A\$100,000
Applications:	Monthly
Redemptions:	Monthly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Semi-annual
Management fee:	1.25% p.a.
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash 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\$	\$0.8899	\$0.8877	\$0.8854

Portfolio Allocation

Equity	83.11%
Cash	16.89%



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We provide a brief update on some of our portfolio holdings in the Portfolio Update section of the report and spotlight our holding in The Reject Shop (TRS.ASX) – another beneficiary of this crisis.

We will provide further commentary in our next monthly report.

Sincerely yours,

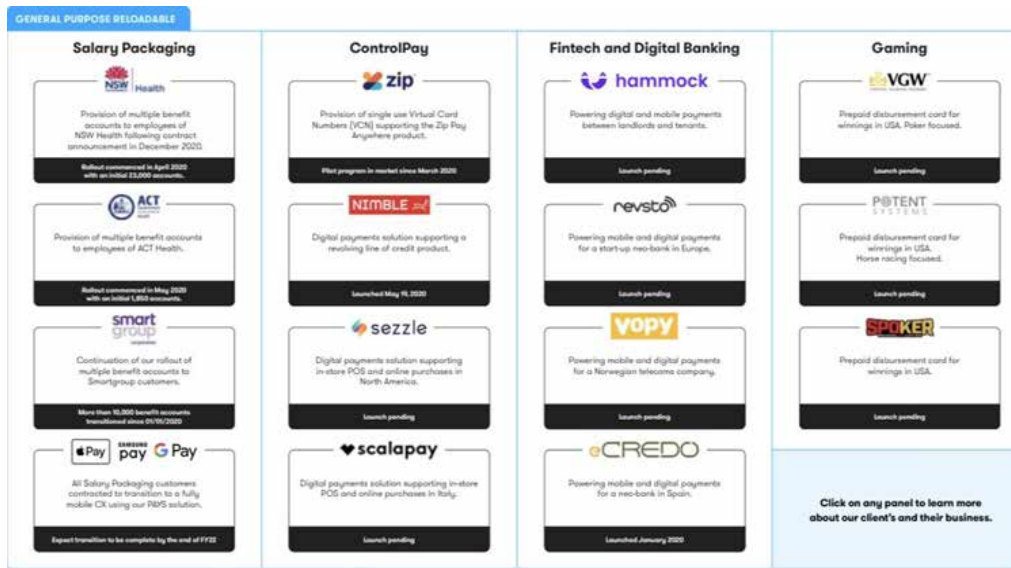
Ron Shamgar and the TAMIM Team.

Portfolio Update:

EML Payments (EML.ASX) provided a trading update in May, which was received well by the market with the shares appreciating 30% in the ensuing three weeks. The highlights were:

- **100% cash conversion** from EBITDA of \$27m YTD (April).
- **Balance sheet with \$125m cash** and \$37m of Breakage which converts to cash next twelve months.
- New client wins in ControlPay (ZipMoney, Sezzle), Government (UK NHS) and digital banking (Credo, Hammock) to name a few.
- **New deal pipeline is the strongest it has ever been.**

There is no doubt that Covid-19 has benefited EML by bringing forward client intentions to transform their digital payment strategies.



Source: EML company filings

The only drag on EML for now is their mall gift card division which was down 53% in April but saw a material improvement in May as shopping centres across Europe began to reopen. We expect gradual month on month improvement as more malls across North America resume operations. The largest risk to EML is another round of lockdowns.

With EML trading at over \$4.00, the stock is at about fair value on a twelve-month outlook. **On a longer term 2-3 year view we still believe EML is cheap and can, assuming they execute, double over that period** as more new programs are launched and further acquisitions are taken by a management team that has proven to be sensible and savvy during uncertain times.

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

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Sezzle (SZL.ASX) is a new position we initiated in May at around \$2.00 a share. SZL is one of the leading (top three) Buy Now Pay Later (BNPL) companies that is fast growing in the North American market. The business is led by a conservative and innovative management team and SZL, unlike some of its other peers in the sector, is **a pure play on the largest and most lucrative BNPL opportunity: the US market.**

As of the end of April, SZL boasts annualised total transactions value (TTV) of \$1.1bn, 1.25m customers, 14,000 merchants with all metrics seeing acceleration. Compared to market leading Afterpay (APT.ASX), SZL is generating similar revenues per customer and yet the market is willing to value APT customers at 4x more than SZL. On all other metrics, such as EV/Revenue and Market Cap/TTV, **SZL appears to be undervalued by a factor of 3-4x when compared to APT.**



Although we do believe APT deserves a premium due to its larger scale and track record, we believe the valuation gap will close over time. Furthermore, in June (forgive us for dipping outside of the month of May), Zip Money (Z1P.ASX) acquired SZL's competitor in the US, Quadpay, for \$400m. Following the deal being announced, Z1P saw its now combined market valuation increase by a whopping \$1.6bn. **SZL and Quadpay share similar metrics, which in our mind highlights even more how undervalued SZL is.** We value SZL at about \$4.00.

Shaver Shop (SSG.ASX) provided a strong sales update in May with record sales growth during the worst economic downturn in Australia's history. The performance was led by online sales growth as consumer's preference for online shopping took off during the lockdown period.

	Last 6 weeks (1 Apr 20 to 10 May 20)	H2 FY20 18 weeks (1 Jan 20 to 10 May 20)	FY20 YTD (1 Jul 19 to 10 May 20)
SSG Sales Growth %			
Total SSG sales	32.1%	17.6%	14.3%
Like for like* sales (inc. online sales)	44.1%	17.8%	12.2%
Online sales growth	387%	171%	102%

* Like for like stores are those stores that were owned and operated by Shaver Shop on or before 1 July 2018 and that traded in the normal course (i.e. not affected by store closures, refits or center redevelopment activities) in the current and/or prior period. Like for like sales include online sales fulfilled through a like for like classified store.

During the six weeks between April 1 and May 10 online sales increased 387% with total sales increasing 32% and 2H YTD sales up 17.6%. These sales results should lead **SSG to report record profits this year and we forecast a strong net cash position to finish the year.** Pleasingly, this sales growth was driven by many new customers and an emerging female customer base that are finally embracing the SSG product offering for themselves. **We value SSG at around the 80 cents mark.**

Vita Group (VTG.ASX) reported an update that Telstra stores have remained open but have seen lower foot traffic and supply chain disruption, resulting in lower revenues. Business demand has remained relatively steady as customers transitioned to work-from-home arrangements. VTG's clinics commenced re-opening and have a strong pipeline of pent-up demand.

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earnings impact from COVID19 in the short term, we believe the longer term impact on the business is likely to be minimal.

Prior to Covid19, VTG was on track to report 15 cents EPS and pay a 10 cent fully franked dividend. We believe this earnings profile will now be delivered in FY21. **At the current price of \$1.10 the upside for next couple of years is substantial.**

Stock Spotlight: The Reject Shop (TRS.ASX)

The Reject Shop (TRS.ASX) is the largest discount variety store in Australia with 356 stores nationwide. The business was founded thirty years ago and listed on the ASX around ten years ago. In its first five years as a listed company TRS thrived by growing sales and opening stores. **At its peak the stock reached \$18 a share and had EBIT margins of 6%.**



Over the ensuing five years and up until recently, TRS lost its identity. They opened unprofitable stores, increased their cost base, tried different strategies under different CEOs, and were close to breaching their debt covenants. **Yet, with all these difficulties, TRS maintained sales of about \$800m p.a. and underlying profitability.** All this is about to change in our view.



At the beginning of 2020 TRS appointed new management in Andre Reich, previously GM at Target and Kmart. Along with newly appointed and ex private equity group CFO Clinton Cahn, the company is embarking on a new strategy that makes sense and is resonating with investors. The strategy mainly includes:

- **Focus on everyday low prices** of household consumables like cleaning products, pet food, toiletries, and non-perishable food.
- **Reduce stock keeping units (SKUs)** from the current 13,000 to around

- 4,000 over the next 3-5 years.
- **Renegotiate store leases** on more favourable terms and close unprofitable stores.
- Increase stock turns from 4x closer to an industry leading 6-8x.
- **Reduce shrinkage (theft).**
- Reduce overheads and manage staff rostering more efficiently.
- Improve warehouse logistics.
- **Open stores in regional areas** where TRS's small store format (500-600 sqm) suits and has an advantage over its larger competitors, Kmart and Aldi.

So far, early traction is encouraging. Like for like (LFL) sales growth in 2H 2020 is showing growth at 5%+ and, in the short term, TRS is a pure beneficiary of the Covid-19 pandemic as shoppers look to both save money and stock up on household essentials during the crisis. **TRS has 1m shoppers visit their stores every week.**



The company strategy is now very similar to the one current TRS MD, Andre

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last five years (Kmart's LFL sales growth was 7%+ 1H20). **By reducing the number of SKUs the company can increase economies of scale and reinvest those savings into even lower prices** on everyday essentials. In turn, this can drive sales of higher margin general merchandise items such as birthday cards, arts and crafts, etc.



In addition, **TRS has close to 200 stores coming up for lease renewals over the next 12-18 months.** The current retail environment is quite favourable for a retailer wanting to negotiate improved terms and lower rents on their leases. With the recent announcement of Target store closures, we see the timing of lease renewals as very fortunate for TRS (lease liabilities are currently \$121m p.a.).

TRS reported flat 1HFY20 revenue of \$435m with EBIT of \$16m and NPAT of \$11m. The balance sheet is borderline bullet proof with \$75m in cash following the February equity raise of \$25m. **We see the company finishing FY20 with a \$50m net cash** position following favourable working capital movements in 1H. EBIT margins should hit around 2-2.5% this year but should improve over the next few years.



The upside for TRS is quite substantial. Both Kmart and Dollar General (a US-listed comparable business) have shown that a well-run discount chain can reach EBIT margins of 6-7.5%. If TRS can reach even 5% margins and grow LFL sales at 2% p.a. (remember, Kmart is currently growing at 7% p.a.), **we believe TRS can make \$45m EBIT in three years. In this scenario we see TRS trading at \$15 a share.** That being said, for now, we value TRS at around \$7.00.

Note: This Stock Spotlight was originally published on 2 June 2020.