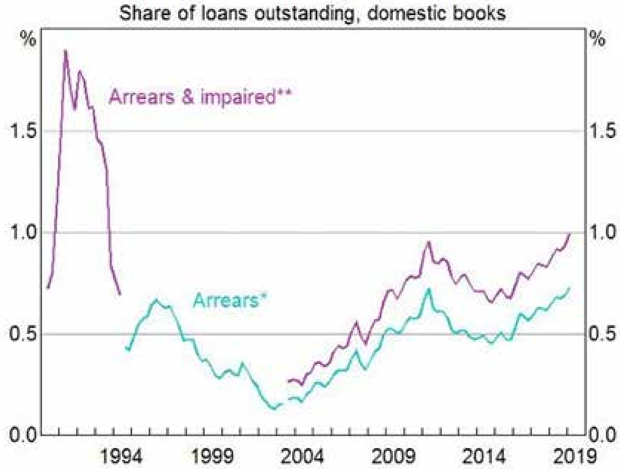
Credit Unit Class
TAMIM Fund

At 31 May 2019

PROJECTED YIELD: 8.1% p.a.

The number of Australians falling behind on their mortgage repayments is at its worst since the Global Financial Crisis, the Reserve Bank says. RBA Head of Financial Stability Jonathan Kearns told a property summit in Canberra that the number of people in arrears on their home loans was increasing. He says the proportion of those falling behind was still low at just 1 per cent but admitted it was an indication the economy may be facing tough times. Weak income growth, housing price falls and rising unemployment in some areas have all contributed. But they have not acted alone, interacting with earlier weaker lending standards, and the more recent tightening in lending standards. Recognising the greater risk of interest-only lending, banks continue to charge higher interest rates for these loans and more carefully scrutinise their suitability for borrowers. As a result, some borrowers who may have anticipated being able to roll over an interest-only period are finding they cannot.

Banks' Non-performing Household Loans
Share of loans outstanding, domestic books



* Housing loans only; 90+ days past due and well-secured
** Housing and personal loans; 'impaired' loans are 90+ days past due and not well-secured or otherwise doubtful; non-performing loan rates before September 1994 are likely to be understated because the denominator includes lending by banks and non-banks, while the numerator is for banks only

Sources: APRA; RBA

The data comes after ratings agency Moody's reported mortgage delinquency rates are rising in Australia, with borrowers struggling under weak house prices and the high level of debt. Household debt of 200 per cent of annual disposable income meant a huge number of homeowners are financially exposed.

Key Facts

Investment Structure:	Unlisted unit trust
Minimum investment:	A$100,000
Applications:	Processed monthly
Redemptions:	Quarterly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Quarterly
Management fee:	1.25% p.a.
Performance fee:	Nil
Lock up period:	18 months
Buy/Sell Spread:	+0.20%/-0.20%
Exit fee:	Nil
Administration & expense recovery fee:	Up to 0.35%
Unsecured debt limit:	5% of Fund assets

NAV

	Buy Price	Mid Price	Redemption Price
AU$	$1.0143	$1.0123	$1.0103

Contact

Bradley Hill bradley@tamim.com.au 0424 333 790

Darren Katz darren@tamim.com.au 0405 147 230

Monthly Return Stream

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2018	-	-	-	-	-	-	-	-	-	0.46%	0.38%	1.02%	1.87%
2019	0.60%	0.54%	0.84%	0.62%	0.61%								3.25%

Note: Returns are quoted net of fees and assuming quarterly distributions are not reinvested. Past performance is no guarantee of future performance.

PROJECTED YIELD: 8.1% p.a.

The increase will be because of record-high household debt levels, the conversion of a large number of interest-only mortgages to principal and interest loans and falling house prices.

A steady flow of weak economic and employment data have stirred fears that a recession is likely, but there are plenty of factors that will steer Australia through the trying conditions. There is likely to be weak Australian growth over the next year or so and this should lead to further monetary easing and fiscal stimulus. That being said, several positives suggest that a recession is unlikely. These include the Aussie dollar, the drag from falling mining investment is over, there is scope for extra fiscal stimulus, infrastructure spend is strong and there is no sign of panic property selling.

FURTHER RATE CUTS 'MORE LIKELY THAN NOT'

RBA board members agreed that further reductions to the cash rate were "more likely than not" when they cut it to a record low 1.25 per cent this month. Minutes from the RBA's June 4 meeting show members agreed that a further easing in monetary policy would be likely as the central bank tries to stimulate the economy through lowering the exchange rate, reducing borrowing costs for businesses, and lowering interest payments on loans to households. The minutes confirmed the RBA will monitor the jobs market as it mulls the timing of any further cuts.

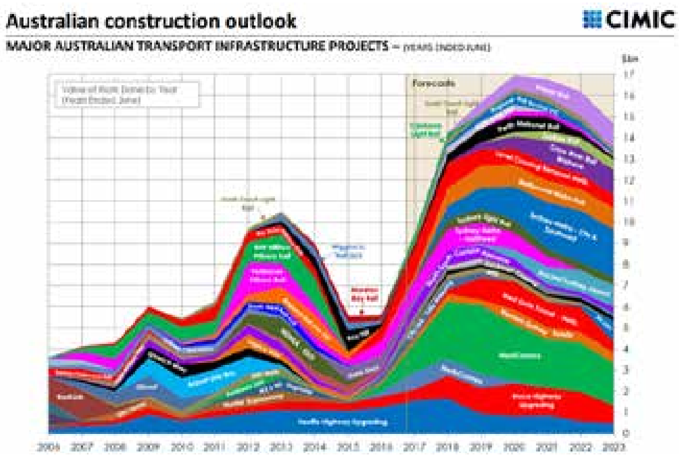
"A lower level of the cash rate would assist in reducing spare capacity in the labour market, providing more Australians with jobs and greater confidence that inflation will return to be comfortably within the medium-term target range in the period ahead," said the minutes.

"Given the amount of spare capacity in the labour market and the economy more broadly, members agreed that it was more likely than not that a further easing in monetary policy would be appropriate in the period ahead."

Capital Economics economist Ben Udy said the comments suggested the RBA was on track to cut again in August, and possibly as soon as July, before making a third reduction to leave the cash rate at 0.75 per cent by the end of 2019. The central bank's first move in any direction since August 2016 followed another month of weak economic data, most notably an unexpected rise in the unemployment rate for April to a seasonally adjusted 5.2 per cent. The minutes showed the RBA expects unemployment, which turned out to have remained steady in May, to decline just "a little" over its forecast period.

Given the unique composition of the Australian market and the centrality of housing in terms of overall wealth, we believe that regulators will continue to create a positive environment for Credit markets at least in the short-run. Though the levels of household leverage will add to the risks over a longer-run horizon, it will be in the best interests of both the government and the RBA to support liquidity in the short-run to smooth out headwinds associated with global geopolitical risks and domestic concerns around unemployment and wage inflation.

The key indicators to watch over the coming months will be new constructions and overall transaction growth in real estate in addition to employment growth. Though the extent to which the rate cuts will have a direct and significant impact upon household spending remains to be seen and is contingent on the banks passing through the cuts, we remain optimistic on the fiscal side with government spending on infrastructure likely to fill in the void where blunt monetary instruments fall short. Indeed in a recent press conference, even the Governor of the RBA alluded to as much suggesting that more was needed to be done by governments and that it 'was the cheapest environment to borrow in over a 118 years.'



Source: Cimic

Given this to be the case we continue to allocate on an opportunistic basis while being fully aware of the rising risks in the overall economy. The SME segment of the private debt market continues to be underserviced and with further fiscal incentives likely to be on the way from both a federal and state government level, this remains an attractive component of the overall portfolio. In addition, shorter-duration, as opposed to longer-duration debt cycles, are of particular interest.