# Portfolio Update
December 2017

TAMIM Asset Management
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# From the Directors

## Welcome to 2018

We spent 2017 disagreeing with investors about their perceived worries regarding equity markets primarily due to geo-political and sometime economic concerns. Starting with the US elections in November 2016 and the election of Trump to the US Presidency through to the French and Italian elections. North Korea also created significant angst when they started testing missiles over Japan and Kim Jong Un and Trump started arguing over who had the biggest big red button. Despite all of this 2017 was a year of strong returns across most asset classes and markets except cash. The old adage of cash being king certainly did not hold in 2017 and those that panicked themselves out of being invested missed out on positive portfolio returns.

The best performing asset class in 2017 was emerging market equities with a 31% return followed by developed market equity at 19.1%. The Australian share market - represented by the S&P/ASX 200 Accumulation index - increased by 11.8%. Interestingly, in a similar fashion to 2016, the majority of 2017's returns were generated in the last 3 months of the year. The traditionally strong REIT sector disappointed at 5.1%.

With the new year upon us, we felt it was time to update our views on financial markets. With most risk assets generating strong returns in 2017, there is a strong belief that the end of this buoyant economic cycle is close but this is still a good time to be long risk. With most measurements of volatility telling

| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 4Q '17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| REITS 33.2% | EM equity 33.6% | Aus. FI 14.9% | EM equity 62.8% | EM equity 14.4% | Aus. FI 11.4% | REITS 32.2% | DM equity 29.6% | REITS 27.3% | REITS 14.0% | REITS 13.9% | EM equity 31.0% | REITS 7.8% |
| EM equity 28.8% | Aus. Equity 16.1% | Cash 7.6% | Aus. Equity 37.0% | DM equity 10.6% | Global FI 5.6% | Aus. Equity 20.3% | Aus. Equity 20.2% | DM equity 10.4% | DM equity 2.6% | Aus. Equity 11.8% | DM equity 19.1% | Aus. Equity 7.6% |
| Aus. Equity 24.2% | Global FI 9.5% | Global FI 4.8% | DM equity 26.5% | Aus. FI 6.0% | Cash 5.0% | EM equity 17.4% | REITS 6.6% | Aus. FI 9.8% | Aus. FI 2.6% | EM equity 10.1% | Aus. Equity 11.8% | EM equity 5.7% |
| DM equity 16.1% | Cash 6.8% | DM equity -38.3% | Global FI 6.9% | Global FI 5.5% | REITS -2.0% | DM equity 16.4% | EM equity 3.8% | Aus. Equity 5.6% | Aus. Equity 2.6% | DM equity 9.6% | Global FI 7.4% | DM equity 5.4% |
| Global FI 6.6% | DM equity 5.2% | Aus. Equity -38.4% | Cash 3.5% | Cash 4.7% | DM equity -5.0% | Aus. FI 7.7% | Cash 2.9% | EM equity 5.6% | Cash 2.3% | Aus. FI 2.9% | REITS 5.1% | Aus. FI 1.4% |
| Cash 6.0% | Aus. FI 3.5% | EM equity -45.7% | REITS 3.3% | Aus. Equity 1.6% | Aus. Equity -10.5% | Global FI 4.3% | Aus. FI 2.0% | Cash 2.7% | Global FI -3.2% | Global FI 2.1% | Aus. FI 3.7% | Global FI 1.1% |
| Aus. FI 3.1% | REITS -7.7% | REITS -55.2% | Aus. FI 1.7% | REITS 0.4% | EM equity -12.5% | Cash 4.0% | Global FI -2.6% | Global FI 0.6% | EM equity -5.4% | Cash 2.1% | Cash 1.7% | Cash 0.4% |

Source: Barclays, Bloomberg, FactSet, MSCI, Standard & Poors, J.P. Morgan Asset Management. REITs: FTSE NAREIT Australia; Global FI: Barclays Global Aggregate; Aus. FI: Bloomberg AusBond Composite (0+Y); DM equity: MSCI World; Aus. Equity: S&P 200; Cash: Bloomberg AusBond Bank Bill Index All indices are total return in local currency. Data as of 31 December 2017.

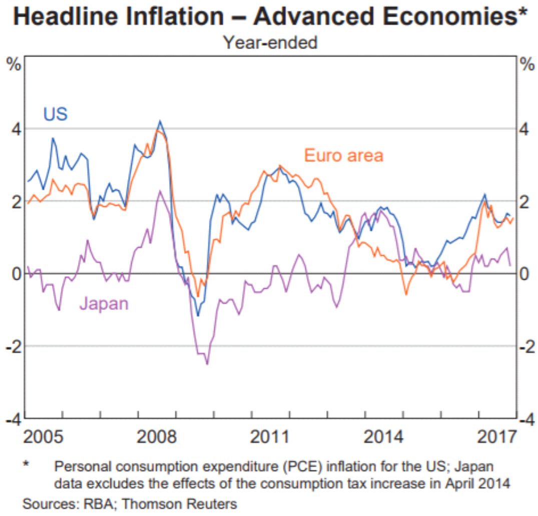
Source: JP Morgan Asset Management

us that volatility was low in 2017, we should expect more volatility in 2018 and we therefore need to be focused on liquidity and remaining diversified across our investment portfolios.

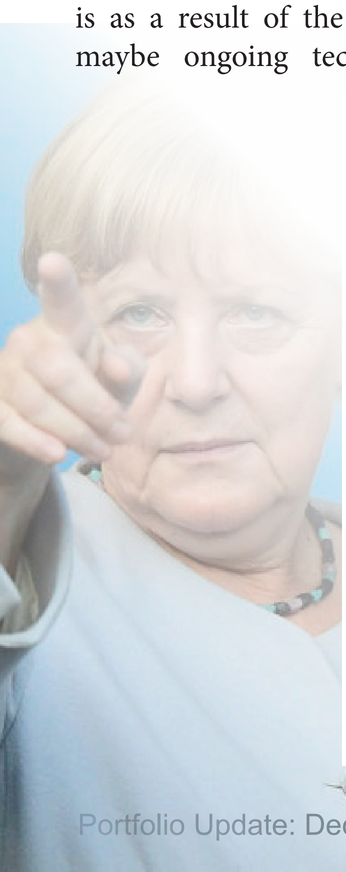
Last year the globe focused on the rise of populism with a number of shock political outcomes. 2018 does not hold the same risks, there is still some hangover from the 2017 populist party however. Germany is still trying to form a coalition government with a weakened Merkel led Christian Democrat party working with the German Social Democrat party on a solution. If this fails there will be new elections in April. Italian elections must be held by May. We are more used to a fragile Italian government though and this poses less risk to the market. Brexit does pose some concern with the triggering of Article 50 in March 2017 we are almost half way through the 2-year official deadline to complete the process. Australia may also face a 2018 election given the fragility of the coalition majority highlighted by the recent dual citizenship farce. To add to the above we have Janet Yellen leaving the Fed on February second.

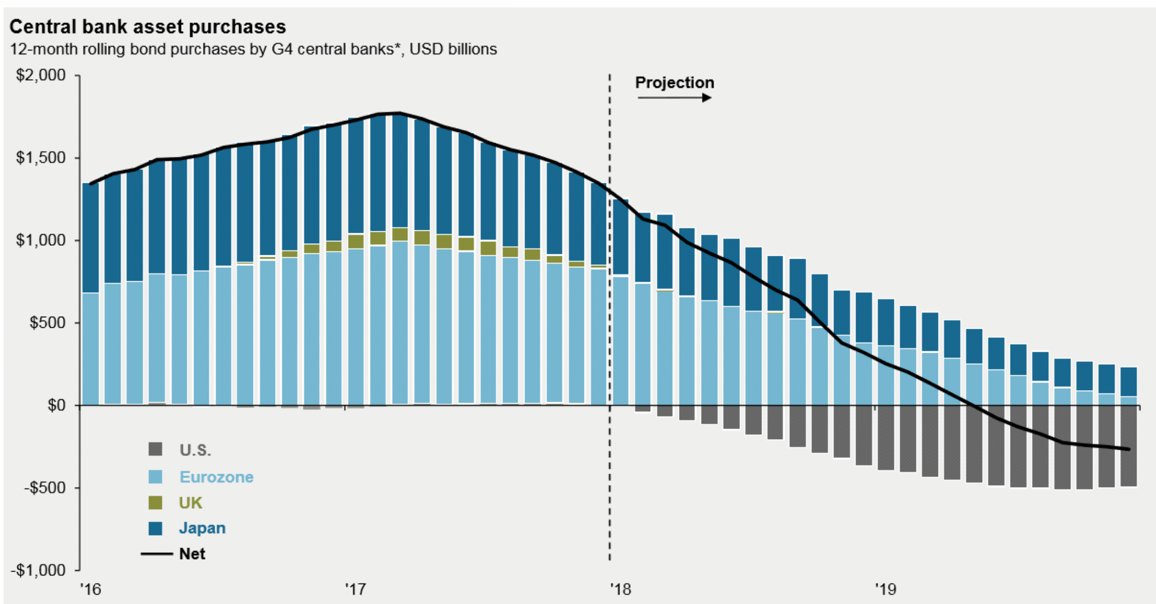
Geopolitical events will continue to come, go and cause short term angst but in the medium to longer term economic reality always rules and we should look to these short-term events as opportunities for us to buy or even sell assets at opportunistic price levels.

Despite strong global growth, inflation has remained subdued which is a little puzzling. We believe this is primarily driven by low wage growth. While we are not sure if low wage growth is as a result of the battle scars from the GFC or maybe ongoing technological disruption to the workforce. Over time inflation will continue to normalise globally, but disinflation due to technology will continue to cap the upside to inflation and therefore the risks.




Interest rates will also continue to normalise but this will still occur a lot slower than anyone expects and while the Fed is raising rates, the ECB, BOJ and BOE are all at different points in their cycles. The ECB will continue with its Quantitative easing program through 2018 albeit on a reduced basis. It is important to remember that it has promised not to raise rates until it has ended its support program. The Fed will start to reduce its balance sheet at the start of this year but again this will be very gradual. It looks like we might start to reverse net central bank asset purchases by mid 2019 as can be seen below. With yield curves in different regions impacting other regions, we may be in a scenario where yield curves do not predict recessionary environments. Given we are looking at potential inversion of the US yield curve this will be important to remember.






Source: Bloomberg Finance L.P., J.P. Morgan Asset Management.
*New purchases of assets are based on monthly holdings as reported by each respective G4 central bank (the U.S. Federal Reserve (Fed), the European Central Bank (ECB), the Bank of Japan (BoJ) and the Bank of England (BoE)), announced purchase plans for the Fed, the ECB, the BoE and the BoJ, and J.P. Morgan Asset Management projections.

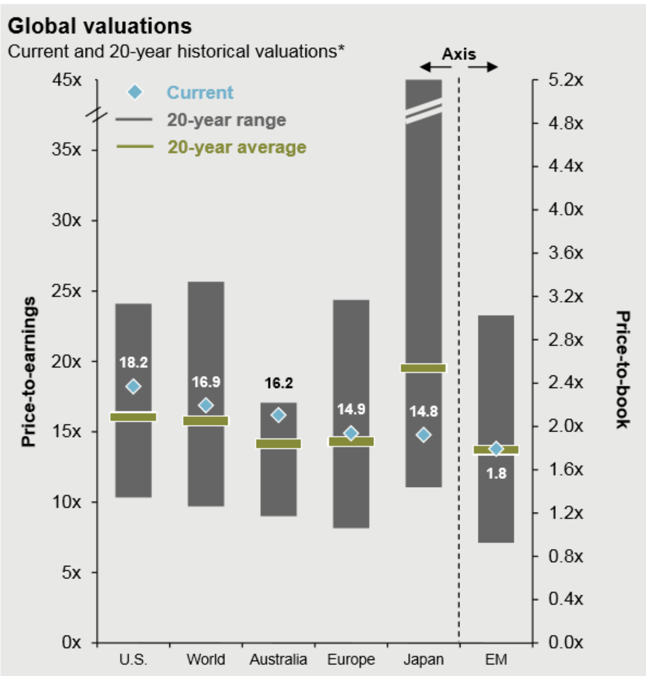
Source: JP Morgan Asset Management

## Equities

Stocks are more positively skewed towards economic growth than Fixed Income and, with a continued strong outlook for economic growth in 2018, we believe that investors should remain exposed to equities.

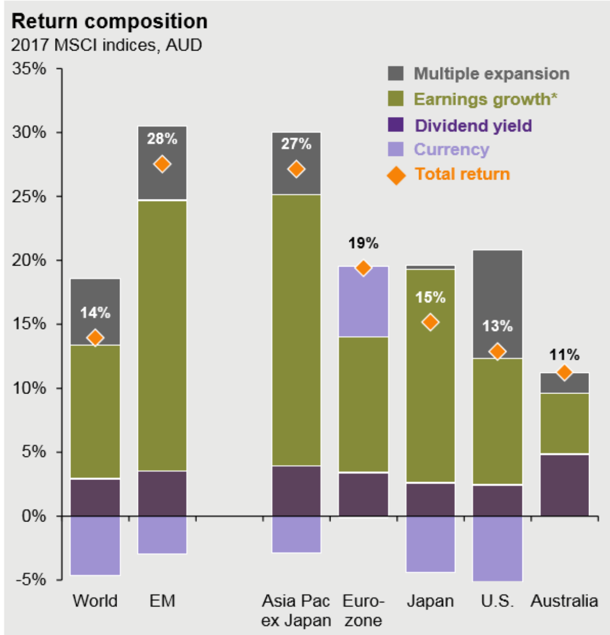
Global PE ratios are above historic norms (see chart below), consumer confidence, employment and business sentiment all remain strong. If we face a rebound in productivity then this should be a strong indication that the environment for equities is positive. High PEs hide the reality that this increase has not been across all sectors. Rather, as an example, in the US it has been skewed to specific segments of the market such as IT/technology where tech stocks are in a secular uptrend. Increased earnings expectations do not seem to be out of kilter with reality and there is also the potential boost to the US economy from the tax reform package.

A key risk of high valuations across US equities is that an earnings recession could trigger a sharp correction leading to a global sell off. It is important to remember that although high valuations do not trigger corrections, deteriorating fundamentals do.




Source: JP Morgan Asset Management

2017 has been the best year for Eurozone earnings growth since 2010. Pleasingly this has been driven by earnings growth (illustrated in the next chart) rather than by multiple expansion. Future earnings growth is also being revised higher.

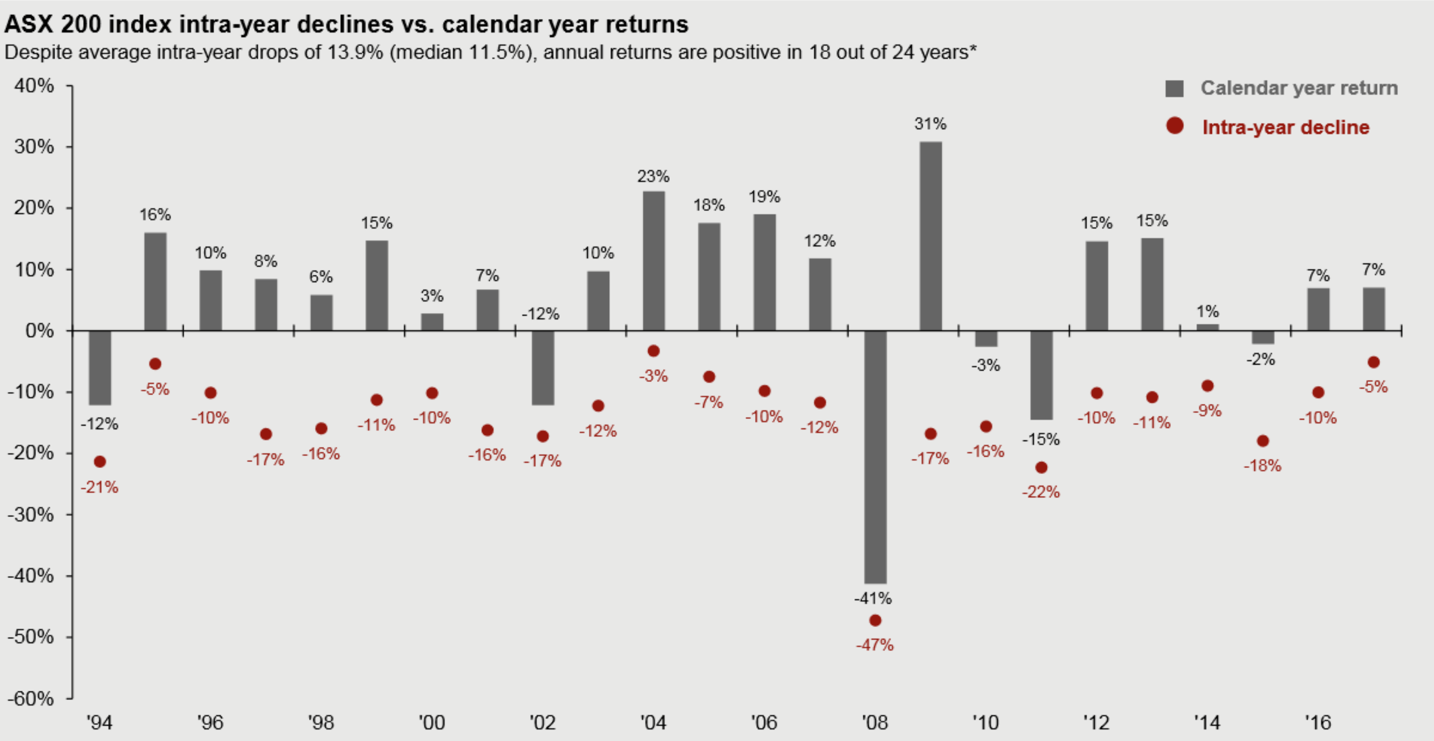



Source: JP Morgan Asset Management

In Japan, as Robert Swift noted on a number of occasions last year, we have seen that corporate earnings are improving coupled with strong improvements to corporate governance. Valuations remain at or below averages with fundamentals and earnings still lifting - we favour Japanese equities.

Back home, there has been a pick-up in government infrastructure investment which is positive however household debt remains a major issue. The largest drawdown in the ASX200 in 2017 was 5% (this has only happened twice in the last 24 years). On average this is normally around the 12% mark. We should expect to see a pick up in volatility through 2018. With our market remaining skewed towards financial services and banks, a significant slowdown in this segment or a significantly more hawkish RBA could see our economy stall significantly.

The stronger earnings growth has resulted in high PE Australian stocks performing well in 2017, pushing them close to their 2016 highs. The dispersion of performance between high PE and low PE stocks increased in the last year, making growth stocks susceptible to a sell off. We currently favour an active approach to Australian equities with our portfolio having had a large exposure to the strongly performing IT sector. While we have reduced our investment to this segment marginally this is largely due to stretched valuations. We are interested in infrastructure as a sector and have been investing in businesses exposed to government infrastructure projects. We are also starting to get more interested in resources as long-term secular demand for commodities is starting




Source: FactSet, MSCI, J.P. Morgan Asset Management. Returns are based on price only and exclude dividends. Intra-year decline refers to the largest market fall from peak to trough in a short period of time during the calendar year. *Returns are shown for calendar years from 1994 to 2017. Past performance is not a reliable indicator of current and future results.

Source: JP Morgan Asset Management

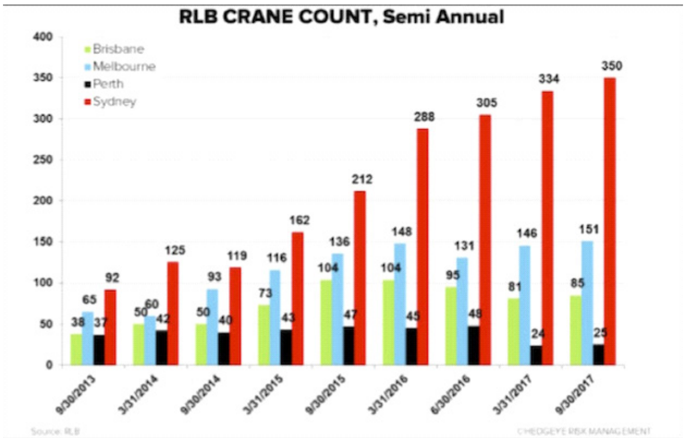
to reappear with the Chinese One Belt One Road project ramping up. Incidentally, stronger resources prices, in particular iron ore, will continue to keep the Australian dollar strong versus the US dollar.

## Fixed Income

Government debt is expensive globally and we believe this looks worse due to the expectations of a rising yield environment (even though we think the rises will be slower then everyone expects). Corporate bonds are not much more appealing as credit spreads have tightened with the long search for yield forcing more investors into this segment of the bond market. With the risk of capital loss high in traditional fixed investment markets, TAMIM continues to look at the private lending market for a source of income in client portfolios. We have invested into pool of private loans and see the ability to continue to deliver strong returns north of 8% on a net basis going forward over the next couple of years.

## Property

Construction is booming and on a per capita basis Australia has 14.6x the number of cranes operating as does North America. This is a positive signal for economic growth, it does however also signal an overheated property market.




Source: RLB

It must be remembered that the property market should be looked at by segment (be it residential, commercial, office or retail) and also geographically. We have made comment on numerous occasions that we believe the Brisbane CBD residential apartment market is overheated and will see significant price falls. This has already occurred in some instances - specifically Melbourne (Docklands) and Perth. TAMIM continues to see resilience in most segments of the property market and we believe that, while low rates continue to be met with the provision of credit, property prices will remain stable. We are firm believers in paying the right price when purchasing an asset and we will continue to search for attractively priced property assets to offer our clients.

## Conclusion

2018 will remain a good environment to be invested in risk assets. Investors should remain nimble with portfolio liquidity being important. Higher levels of diversification in this high valuation environment are also important. We need to watch wage inflation globally as well as locally as any up tick there will be an early warning signal of a return to higher inflation rates. We also need to monitor asset price inflation closely with many global financial and economic organisations becoming increasing uncomfortable about the long-term problems accommodative monetary policy is causing. A key risk to the system would be an overly hawkish Fed or even worse RBA but we don't see this as the major threat .The risk of exiting investments too soon and being underinvested are the bigger concerns heading into 2018.

Yours Sincerely,

Darren Katz

Darren Katz,
*Joint Managing Director*


# TAMIM Australian Equity **All Cap Value IMA**

The Australian Equity continued to rally in December driven largely by commodity companies. Smaller Companies once again outperformed larger ones. Speculation amongst pre revenue companies (and cryptocurrencies) has been rising in recent times. Whilst many investors are sitting on impressive returns at this point, eventually the tide will turn and lead to substantial pain for those late to the party. The underlying fund returned 1.4% for the month, slightly below that of the market. Overall for 2017 the underlying portfolio returned 17.8% which is above the broader market.

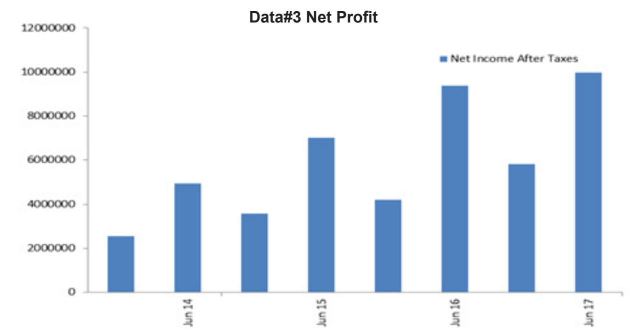
## Portfolio News

The return from December was boosted by strong returns from IMF Bentham (+23.8%) and Beach Energy (+18.6%). We trimmed our position in IMF given the company's strong run over the course of this year. With a number of high profile cases potentially set to complete over the next year, investors have bid the stock up in anticipation of success. Whilst we still like the company we do note the downside risk has increased whilst upside potential has fallen. As a result we have chosen to reduce our exposure.

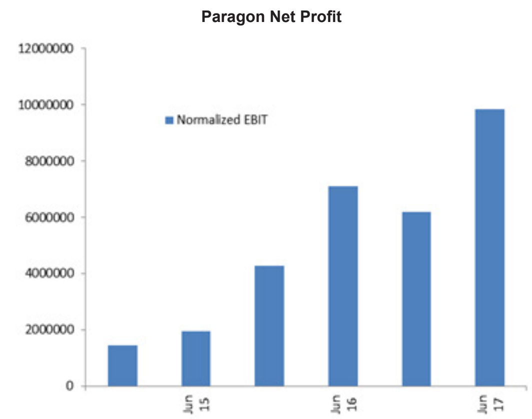
Another strong performer was Hansen Technologies (+9.1%). After exiting Hansen Technologies in early 2016 at a price close to $4, we reinitiated a small position on valuation grounds earlier this year in the low $3 range. Post the full year result the price stagnated as investors were concerned with the lack of profit growth. We held our position because we believed the underlying performance (ex currency moves) was strong. So come AGM we were interested in how the business was progressing. The trading update provided for the first half of the financial year was strong with increased orders and higher margins. In addition, we believe the market is underestimating the potential upside from the analytical software recently acquired in the Enoro purchase. The company has a substantial opportunity to cross-sell this across its existing client base which could underpin growth over the coming years.

Post AGM season we did receive earnings updates from two companies in the portfolio. Both Data #3 (-5.2%) and Paragon Care (-3.6%) pointed to a soft first half but indicated they still expected strong full year results. In most cases where a company points to a strong rebound in the second half we are sceptical. However, in the case of Data #3 and Paragon it is slightly different. Both companies have historically had a large skew in earnings to the second half of the year. With fixed costs (salaries, rent etc.) spread over the full 12 months, it means that the first half of the year can be more volatile with regards to the bottom line.

The chart below shows Data #3's net profit over the last four years. The average first half / second half split is 34/66. Last year had the strongest first half over this period at 37% of the full year total due to a pair of large projects. These projects haven't been repeated this year and the company saw some delays due to the Queensland election. All of this means a lower top line will flow through to a softer profit result in this year's first half.



Paragon is a younger business than Data #3 but you can see from the below a similar trend is developing with 63% of the company's earnings coming in the second half. This split is expected to be more pronounced this year. The company has also indicated it will likely upgrade its full year expectations on the back of recent acquisitions in the not too distant future.




We continue to hold our positions in both companies and will continue to monitor their progress over the

Watch for Guy Carson's 2018 Australian outlook: A Land of Contrast

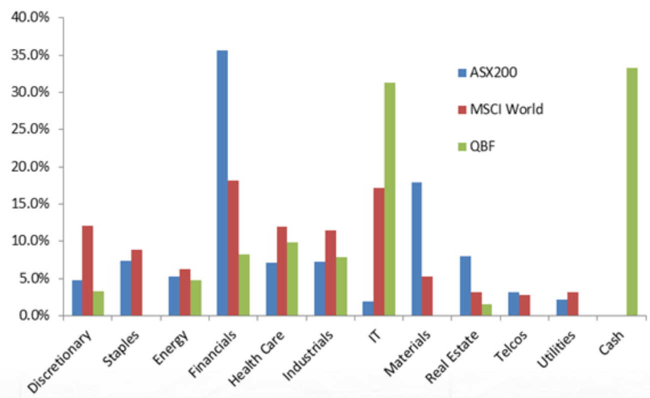
## The Portfolio

The underlying portfolio is currently invested in 21 companies. The cash level is currently 33.3% (up from 33.2%). We added one new position, increased two existing positions, and trimmed our positions in Altium and IMF Bentham.

| | |
|---|---|
| **GTK** | 8.9% |
| **AXL** | 6.1% |
| **DTL** | 5.3% |
| **DDR** | 4.3% |
| **HSN** | 4.1% |
| **Other Positions** | 38.0% |
| **Cash** | 33.3% |

## Sector Positioning

The fund maintains a strong overweight to the IT sector with other exposures in Healthcare, Financials, Industrials, Energy, Consumer Discretionary and REITs.



# TAMIM Australian Equity
# **Small Cap IMA**

## Portfolio Review

Despite a number of positive announcements over the month, and a strong broader market, the portfolio finished slightly down in December (after fees and expenses). Given that many of our portfolio positions are very illiquid and not widely followed, there is often limited correlation with the movement of the broader indices. And generally, towards the end of December the lack of liquidity in many of these positions is further heightened.

Some of the positive announcements from across the portfolio during the month are discussed below. These announcements reinforce our confidence that the respective companies are heading strongly into 2018.

Blackwall Limited (BWF) operator of leading Australian co-working space WOTSO, announced the continued expansion of its footprint with a new location in Bondi Junction, NSW, bringing the number of WOTSO sites to 13.

Zenitas Healthcare (ZNT), the community health care business, reaffirmed its guidance and announced two further acquisitions – a sports medicine business and a mobile physiotherapy business that together will contribute an additional ~$2.5m in annualised earnings. The mobile physiotherapy business has an aged care focus and is expected to fit nicely with ZNT's mobile aged care podiatry business.

Money 3 Limited (MNY), a car financier, reported a milestone funding announcement – securing $150m in funding to replace its existing high interest facilities, as well as providing additional funding for growth. MNY also confirmed their intention to exit unsecured lending.

Dreamscape Networks Limited (DN8) which owns Australia's #1 domain brand Crazy Domains and Singapore's #1 hosting provider announced a $20m acquisition facility with CBA, as it pursues opportunities to build on its leadership position in South East Asia as an online solutions provider.

Paragon Care (PGC), healthcare equipment and consumables supplier, announced 3 new small acquisitions and reaffirmed its full year guidance of approximately 10% organic growth (before the impact of acquisitions but including some one-off costs), whilst acknowledging some stronger than normal seasonality in the business. PGC expects the guidance to be upgraded once the acquisitions have been finalised.

Elanor Investors (ENN) hotel and property fund manager and investment company declared a 6.75c dividend – representing a 35% increase on the dividend declared for the first half of 2017.

These announcements support the long term prospects and the growing intrinsic value of these companies.

**A selection of top portfolio positions as at 31 December 2017 (in no particular order):**

### ASX: JYC

m/c: $43m

Outlook: “business units are forecasting solid performance gains”

### ASX: KKT

m/c: $51m

Outlook: “70% increase in revenue and EBITDA

### ASX: PGC

m/c: $133m

Outlook: “Strong growth in FY18 across all key metrics”

### ASX: PNC

m/c: $180m

Outlook: “48% increase in earnings expected”

### ASX: ZNT

m/c: $87m

Outlook: “EBITDA of between $13m to $13.5m” (pre acquisitions) (FY17:$7.0m)

# TAMIM Global Equity
# High Conviction IMA

## Market & Portfolio Review

Happy New Year and best wishes for 2018 to all our clients.

The strategy rose strongly in USD terms and, along with the broader market, declined in AUD terms in December as the AUD strengthened after a period of weakness. We currently believe it is ‘fairly priced’.

AAPL retreated as iPhone sales were rumoured to be ‘disappointing’. We anticipate that the company will continue to diversify away from iPhone sales and now there is clarity on their offshore cash pile, there are a myriad of possibilities for organic and acquisition led growth.

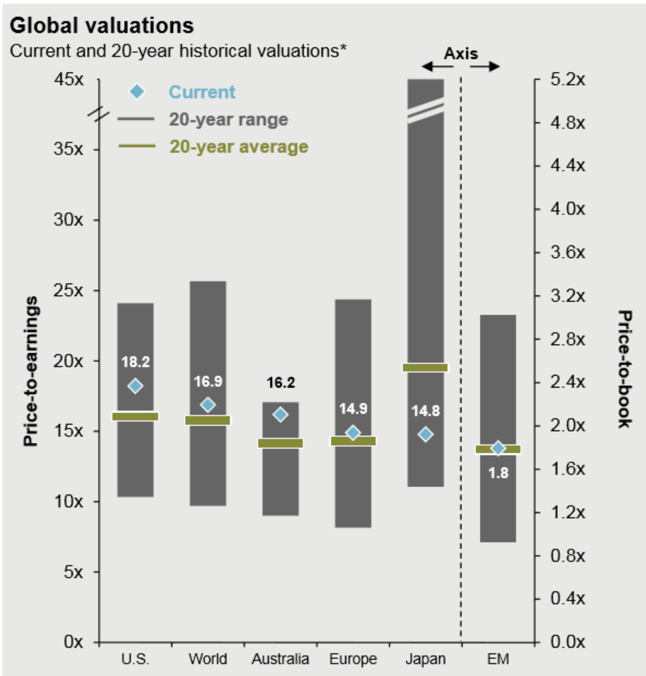
## Market Outlook

A blackout at Atlanta airport (America’s busiest) during the holiday period again illustrates the need for higher levels of USA public and private investment. We believe this will happen and be a better option than continued interest rate repression.

USA tax reform was enacted which seeks to lower corporation tax for USA generated profits, remove incentives to hoard cash offshore, and reduce personal allowances. If this incentivises companies to invest at more appropriate levels in physical equipment and staff training, then it will be a success. USA private sector investment has been running too low for many years.

China’s equivalent of the FDA approved CAR-T treatment which should benefit Gilead. There are estimated to be over 70 million Hepatitis C sufferers in China too – another treatment offered by Gilead.

Valuations look only ok in the USA and attractive in Japan and Europe.




Source: JP Morgan Asset Management

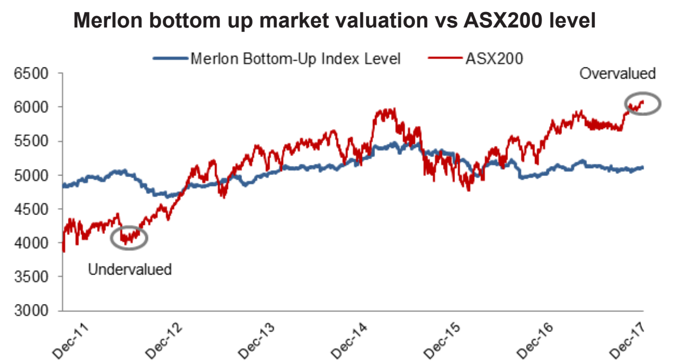
We remain keen on Japanese stocks. They have strong balance sheets, are increasing dividends and will be likely beneficiaries of Chinese infrastructure spending.

We remain fully invested in the model portfolio and unhedged for AUD based investors.

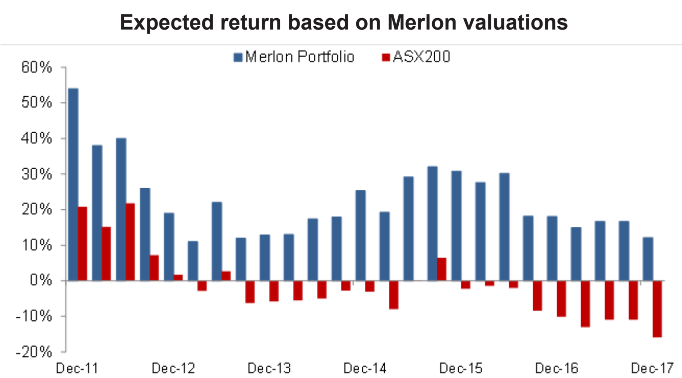
# TAMIM Australian Equity **Income IMA**

## Market Outlook & Portfolio Positioning

Based on our equity income portfolio manager's bottom-up assessment of long-term cash-flow based value, discounted at through-cycle discount rates, the market remains more than 15% overvalued. There continues to be a wide dispersion across sectors, with resources, healthcare, property and infrastructure overvalued relative to other parts of the market.




The Equity Income portfolio comprises our best research ideas, based on our long-term valuations and analyst conviction. The portfolio continues to offer 12% absolute upside representing a 28% premium to the market. As seen below, the Merlon portfolio is looking attractive relative to the capitalisation-weighted index.




We invest on the basis that, over time, interest rates will revert back to long term levels. This will put pressure on 'defensive yield' and 'bond proxy' names to which the portfolio has relatively little exposure. Even if rates were to remain low, we would expect this to lead to a re-rating of our investments given their strong cash flow appeal.

The United States appears more progressed in the journey towards higher interest rates than Australia. The Federal Reserve is likely to continue increasing interest rates over the next 12 to 18 months.

The divergent path of US and Australian interest rates coupled with our cautious outlook for commodities lead us to expect depreciation in the Australian dollar. Our positions in Magellan Financial, News Corporation, QBE Insurance, Origin Energy and Clydesdale Bank should benefit against this backdrop.

A weaker Australian dollar will provide a necessary offset to housing construction activity and house prices that, at some point, will also revert back to mid-cycle levels. In conjunction with unprecedented strength in household balance sheets driven by recent house price inflation, the potential flex in the currency gives us some comfort that the outlook for the domestic economy, and by implication the discretionary retailers, may not be as bad as what is currently priced into the stocks. Further, after reviewing key differences between Australia and other markets, we believe the impact of Amazon is being overplayed and continue to see excellent value in the retail sector.

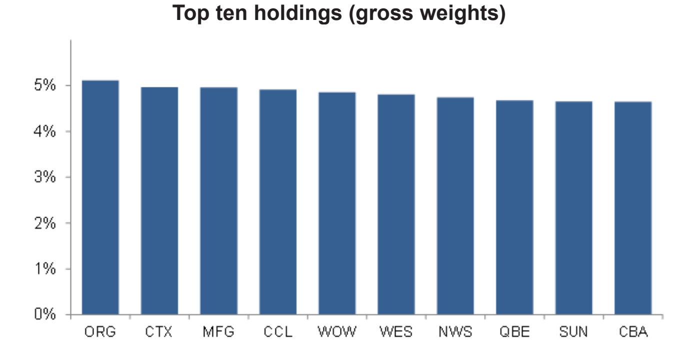
Our non-benchmark approach means we are content holding no major banks when the market is overly complacent about their risks and equally are happy to invest in them when the market is overly concerned – as is the case now. While political risks, such as the Royal Commission, cannot be ignored, we do not believe they will have a permanent impact on industry returns and cash flow generation. However, we do expect credit growth to slow, further loan repricing outside of a credit cycle to be limited and bad debts to rise towards mid-cycle levels. All this leaves the banks as moderately undervalued in an expensive market.

## Portfolio Aligned to Value Philosophy and Fundamental Research

As we discuss above, there are clearly some macro themes built into the portfolio. However, these are outcomes of a strategy to invest in companies that are under-valued relative to their sustainable free cash flow and the franking credits they generate for their owners. The market's continued tendency to extrapolate short-term conditions too far into the future; participants' fear of forecasting a meaningful change in earnings power; and, investors' focus on nonsensical measures of corporate financial performance instead of cash flow continue to present us with opportunities.

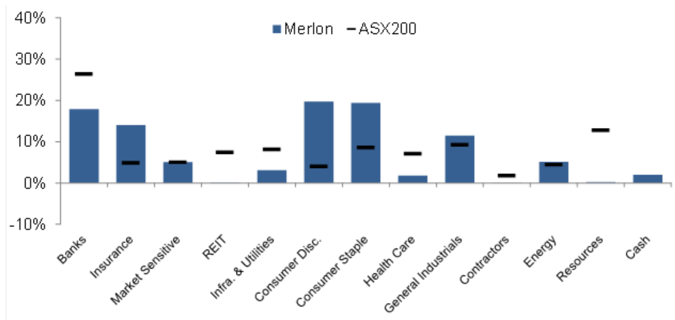
The portfolio reflects our best bottom-up fundamental views rather than macro or sector-specific themes. These are usually companies that are under-earning on a three year view, or where cash generation and franking are being under-appreciated by the market.

**Top ten holdings (gross weights)**




Our larger investments are typically in companies 'unloved' by the market but current prices can be justified by the higher quality and more predictable parts of their businesses. Origin Energy is backed by its capital-light retail utility business; Caltex is shifting to lower capital intensity within an improving industry structure; Coca Cola Amatil has a growing Indonesian and domestic non-sugar drinks business with entrenched supply chain and refrigerated distribution advantages; News Corporation is shifting from advertising to digital subscriptions and has net cash on balance sheet; QBE Insurance has valuation support assuming minimal value outside of the domestic Australian and Lloyds businesses; Suncorp's insurance business is now under-earning despite increased industry concentration while the banking business is exposed to the higher returning retail segment; and Commonwealth Bank's leading retail franchise should continue to deliver sector leading returns despite short-term disruption from the money-laundering investigation. Magellan Financial generates strong and growing cash-flows with upside from performance fees, a debt-free balance sheet and USD-denominated FUM. The supermarket operators, Woolworths and Wesfarmers, are generating good cash-flows by competing rationally on convenience, range and value, not just price.

**Portfolio exposures by sector (gross weights)**




Some of our research ideas with the most valuation upside do not appear in the top 10 in terms of size as they are constrained by liquidity. These include, among others, Seven West Media, Southern Cross Media, Virtus Health and Sky TV New Zealand.

## December Quarter Portfolio Activity

During the quarter we introduced three new investments and exited two.

We invested in Commonwealth Bank, the leading Australian major bank in terms of main bank retail customer share and profitability. The retail franchise contributes more than 60% of earnings, and importantly for our approach, a greater proportion of free cash flow given lower mid-cycle loan losses and less required capital than business banking.

At an industry level, the market is concerned about high levels of household debt, reliance on offshore funding and increasing political and regulatory risk. Bad debts also remain well below mid-cycle levels but we factor reversion into our valuations. Further, the favourable industry structure in retail banking should mitigate political risks and presents upside risk to margins and returns, which are at historic lows following recent capital build.

CBA's status as the highest quality major bank has been undermined in the short-term by the fallout from recent money laundering breaches, including potential fines, higher costs, management distraction and a change in the highly regarded CEO. Ultimately we expect industry structure and CBA's leading retail franchise to outweigh any near-term disruption.

We reinvested in Fairfax Media, having sold a year ago during private equity takeover interest. Expectations for Domain, which comprises the majority of the valuation, have moderated a little, with the number two online real estate classified operator trading around fair value in an expensive market. This assumes market share and margins improve but do not match market leader Real Estate.com. Of more interest to us, the implied residual value of the legacy print, digital and radio assets is less than five times current cash-flow. We ascribe no value to metro print assets but do ascribe value to metro digital advertising, regional and NZ print and the radio assets.

We also reinvested in Southern Cross Media, owner and operator of regional and metro radio stations and regional TV through an affiliate arrangement with Channel Nine. The company is trading at more than a 50% discount to the average listed company based on Merlon's definition of free cash flow. This reflects market concerns of a structural decline in advertising outside of Google, Facebook and electronic billboards. In our view, these concerns are more than factored in, with mitigating factors including regional content and distribution being less exposed, metro radio margins being below history and peers, the variable cost structure of radio assets, improved Nine content and low levels of bank debt.

We added to existing investments in Coca-Cola Amatil and Bendigo Bank, both of which underperformed relative to our long-term cash-flow based valuations.

### December Quarter Market Review

The market finished the year on a high, returning 7.9% (including franking) in the December quarter. US equities hit record highs as President Trump's tax cuts were legislated. The Australian dollar was broadly flat while commodities, including oil, rallied strongly. US long bond yields continued to rise, albeit modestly, but the US yield curve flattened as two year rates rose 0.4%. In contrast, Australian short rates were flat while ten year yields declined 0.2% back to June levels.

Not surprisingly, Energy and Materials were the best performing sectors, both posting comfortable double digit gains. Consumer stocks also outperformed as Amazon's launch underwhelmed and on expectations of positive Christmas spending. Defensive bond proxies and banks lagged the market but still posted positive returns.

# TAMIM **Income Fund 1**

The TAMIM Income Fund 1 generated a strong gross return of 0.88% in December. The month of December saw the fund finally reach a fully invested state with the portfolio holding just over 2% in cash with the balance invested across 2 loan platforms.

The portfolio is currently invested into 2 loan platforms: RateSetter and SocietyOne. The RateSetter platform comprises 67% of the overall Fund portfolio. It is important to remember that the RateSetter platform operates with a provision fund that protects the portfolio loans to approximately the first 6% loss. This does however operate at a portfolio level so is not a guarantee of capital preservation.

The provision fund balance is currently $7,358,652 which is 5.82% of the outstanding RateSetter loan book.

The SocietyOne loans comprise 30% of the overall portfolio and this is split across over 300 loans as follows:

| Category | Allocation | Yield (gross) |
|---|---|---|
| A | 19% | 8.95% |
| B | 32% | 10.92% |
| C | 49% | 14.44% |

**RateSetter Key Statistics**

| Key Statistics Since Inception | |
|---|---|
| Claims on Provision Fund | 100% of late payments and defaults |
| Claims paid by Provision Fund | 100% of total claim value |
| Total amount lent | $217,252,172 |
| Total principal repaid by borrowers | $90,717,290 |
| Current funds on loan | $126,534,882 |
| Current estimated bad debt rate* | <3.4% |
| Current estimated bad debt* | $4,296,751 |
| Current estimated default coverage ratio* | 1.7x |

*Our estimate of borrower defaults may change at any time without notice.

Source: RateSetter

## *Contact*

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