Global High Conviction Unit Class
TAMIM Fund

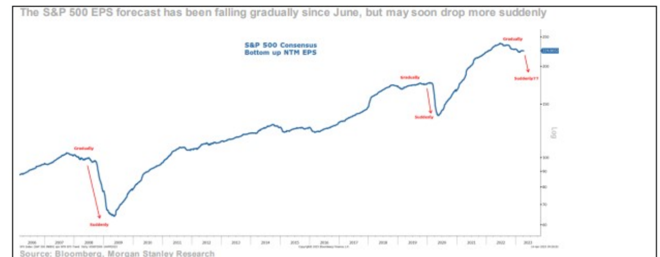
At 30 April 2023

The Tamim Global High Conviction unit class was down -0.16% for the month of April 2023, this was in comparison to the index return of 3.12%. Pleasingly the strategy has generated a retun of 6.89% over the past year. Since the inception of the strategy it has returned 12.96% p.a. net of fees to investors.

Equity strategy returns were flat to up in April but lagged the indices we use to measure excess active performance. The narrowness of the US equity market rally should be a concern. Only 7 stocks account for almost 90% of the equity market return year to date. Nonetheless the market capitalisation index is the default for many investors who will proclaim again that active management is dead since the market cap index will be outperforming most active managers certainly year to date. However, please see below for our comments on the prospects for the US market vis a vis Japan. Using a market capitalisation index 'passively' is not without risk and exposes the investor to a lot of price momentum as a risk factor. This price factor tends to mean revert or after a strong period, provides negative relative returns. Following price momentum also creates lack of diversification in a portfolio. Essentially, the chances are high from here that price trend following will be sub optimal. Be careful.

Economic data remains curious if not downright confusing. There's lot of ambiguity out there. Economists (and the Fed) use the word recession often, but economic activity is not rolling over quite as fast as some had feared. Headline inflation is declining, but core inflation remains persistent. US corporate results are surprising to the upside. Investors, meanwhile, are split into two opposite camps, the worried and the sanguine, with the markets oscillating between the two extreme views. There is a group of investors that expects inflation to persist. This group sees the Fed and other central banks ultimately being forced to raise interest rates and keep them at relatively high levels for an extended period. The other group of investors believes that inflation will be surprising to the downside very soon, and hence the Fed can lift off the brake pedal and cut interest rates through the latter part of the year. Forced to choose, we fear the destruction of the supply side with tax increases and regulation and significant (unnecessary?) investment in non-productive or lower productive investments will produce stagflation. So, inflation will remain stubborn meaning that rates will remain at best where they are now.

The market's confusion around trends has spread to the US corporate results season. Ahead of the earnings release, analysts had set their forecasts for a poor outcome as they expected a sharp setback in year-on-year earnings growth. However, a Bloomberg estimate suggests that of the 20% companies that have already reported numbers, more than 77% have posted profits ahead of expectations. It then begs the question as to whether the analysts have been too bearish. Let's bear in mind that the US corporate results seasons is a quarterly phenomenon where around 65% of the reports ordinarily come in ahead of market expectations...it's just that on this occasion that the percentage of reports beating expectations has been exceptionally high. One might take that trend as bullish for the overall equity market; however, we still believe that analysts are too optimistic about the level of profits for the balance of the year. With even the Fed talking about a "mild recession", it's tough to see how such economic conditions would lead to significant year-on-year increases in corporate profits through the balance of the year and into 2024.



A very brief comment on banks which continue to struggle, especially in the US. We remain underweight the sector. The contrast with the GFC rescue is clear to us. This time bond holders are being burned as well as equity holders and thus it represents more of the Bagehot playbook than we had hoped. This is not necessarily good for investors in weaker banks' paper but if this continues it means moral hazard is being removed from the system.

In our view, global under-investment in Japanese equities offers a reason to be upbeat about the future relative performance of the market. Several factors are primed to give the market the much-needed support in the future, shaking the deflation mentality that has held back the Japanese economy and its financial markets. This week, investors' minds will be focussed on the Bank of Japan meeting. While it is a close call, the central bank may not yet be ready to change its monetary policy position. Nevertheless, we still believe that it is only a matter of time before the Japanese central bank abandons its yield curve control and allows long-term interest rates to normalise higher. In our view, the central bank's acceptance of higher bond yields would be a critical factor in generating more of an inflation mentality in corporate and household thinking. More inflation should encourage consumption and investment, reinforcing robust GDP growth. Companies have survived and some thrived by maintaining highly productive capital investment and driving costs down. Any pricing power will have rapid and meaningful benefit to the bottom line given this high operating leverage.

Bear in mind the USA equity market currently constitutes 65% of the global equity market by value but the US economy represents about 15% of Global GDP. Crude and imperfect but it's extreme. The Japanese market peaked at 44% of Global market cap (albeit with Japan at a smaller % of Global GDP than the US is now) and its relative performance since that peak has been poor on average (there have been some pockets of excellence).

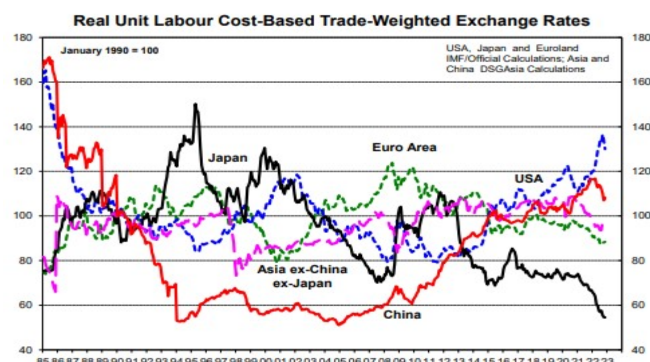
Features of the peak in Japan now evident and obvious years later?

- Real Estate and land prices very elevated relative to incomes; a subsequent meaningful decline;
- High bank exposure to over-valued assets and equity erosion;
- Central bank action to reduce money supply;
- Liquidity trap with no incentives to invest; and
- Poor capital allocation – such as “bridges to nowhere” in Japan (eg The Hamada Marine Bridge) or “The Inflation Reduction Act” in the US.

Do any or all of these elements look similar to the US now?

The Japanese corporate sector has already shown signs of reform. Likely record share buybacks this year would be a testimony to the progress in corporate governance improvement underway in corporate Japan. At the start of the year, the Tokyo Stock Exchange announced proposals to put further pressure on listed companies to improve their standards for listing under three headings of Prime, Standard, and Growth. Failure to meet the standards would force the companies to de-list and lose access to equity funding. The essence of the measures is to force companies to improve their returns and be mindful of the cost of capital. Too many Japanese companies trade below their book value because of their poor returns on capital. Encouragement of more M&A would be a bonus. The Yen is also seriously undervalued.

From DSG Asia:- Japan in black



We made some small trades in the month. We trimmed NYK the Japanese shipping company after a 20% upward price move; likewise Iwatani. We added to AT&T after a price fall on results which we deemed ok but the market not. It will be a slow road back perhaps from a series of disastrous acquisitions by this telco but it’s cheap and management does know how to run a telco if not a media conglomerate.

We remain fully invested in equities since they represent the best hedge against elevated but not extreme inflation. We favour companies that meet needs rather than wants. We like dividends as proof of profits.

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Overview

The TAMIM Global High Conviction strategy is a portfolio of global equities from major developed global exchanges. The portfolio holds approximately 60 of the best ideas from around the globe. The portfolio uses a systematic and consistent approach to stock selection and portfolio construction to deliver strong risk adjusted returns to our clients while focusing on attempting to preserve their wealth.

Key Facts

Investment Structure:	Unlisted Unit Trust
Minimum investment:	A$100,000
Management fee:	1.00% p.a.
Admin & expense recovery fee:	Up to 0.35%
Performance fee:	20% of performance in excess of hurdle
Hurdle:	MSCI World Net Total Return Index
Exit fee:	Nil
Single security limit:	+/- 5% relative to Benchmark
Country/Sector limit:	+/- 10% relative to Benchmark
Target number of holdings:	50-80
Portfolio turnover:	Typically < 25% p.a.
Investable universe:	MSCI World Net Total Return Index
Cash level (typical):	0-100% (0-10%)
APIR code:	CTS5590AU

NAV

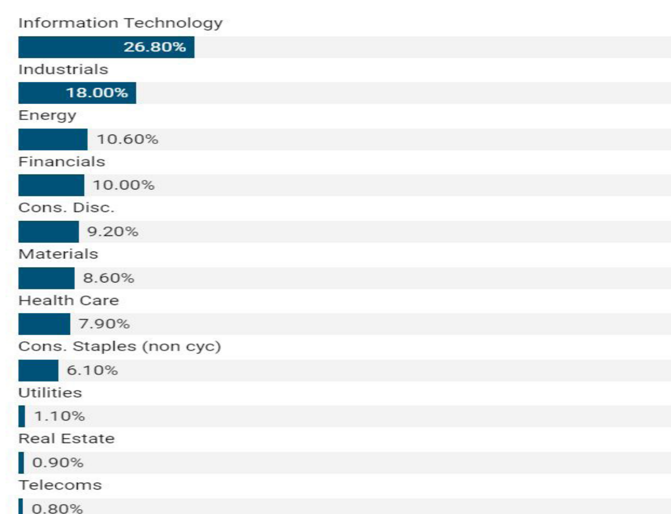
	Buy Price	Mid Price	Redemption Price
AU$	$1.1928	$1.1869	$1.1869

Selection of 5 Holdings

Stock	Country
Johnson & Johnson	USA
Home Depot Inc	USA
KLA Corporation	USA
Fujifilm Holdings Corporation	Japan
Sony Corporation	Japan

Portfolio Profile

Equities	98.00%
Cash	2.00%



Portfolio Performance

Inception: 15/07/2011	1 month	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)	Since inception (total)
Global High Conviction	-0.16%	6.89%	9.93%	7.44%	12.96%	320.79%
MSCI World	3.12%	10.95%	12.75%	11.05%	13.41%	341.20%
Cash	0.30%	2.40%	0.89%	0.99%	1.88%	24.58%

Strategy inception: 15/07/2011 | TAMIM Fund: Global High Conviction unit class inception: 31 December 2019

Returns prior to 31 December 2019 reflect the Individually Managed Account (IMA) underlying portfolio returns. IMA returns reflect a higher fee structure. Individually Managed Account (IMA) returns will, by their nature, vary from the underlying portfolio and TAMIM Fund portfolio. Should you wish to see your individual return, please log in to your account online. Returns are quoted net of fees and assume dividends/distributions are reinvested. Past performance is no guarantee of future performance. The information provided should not be considered financial or investment advice and is general information intended only for wholesale clients (as defined in the Corporations Act). 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. You should seek personal financial advice before making any financial or investment decisions. The value of an investment may rise or fall with the changes in the market. Past performance is no guarantee of future returns. Investment returns are not guaranteed as all investments carry risk. This statement relates to any claims made regarding past performance of any Tamim (or associated companies) products. Tamim does not guarantee the accuracy of any information in this document, including information provided by third parties. Information can change without notice and Tamim will endeavour to update this document as soon as practicable after changes. Tamim Funds Management Pty Limited and CTSP Funds Management Pty Ltd trading as Tamim Asset Management and its related entities do not accept responsibility for any inaccuracy or any actions taken in reliance upon this advice. All information provided in this document is correct at the time of writing and is subject to change due to changes in legislation. Please contact Tamim if you wish to confirm the currency of any information in the document. The MSCI Word refers to the MSCI World Index in AUD. Returns shown for longer than 1 year (other than Inception) are annualised. All returns shown are AUD denominated.