Global High Conviction Unit Class
TAMIM Fund

At 31 August 2023

The TAMIM Global High Conviction unit class was up +1.69% for the month of August 2023, this was in comparison to the index return of 1.56%. Pleasingly the strategy has generated a return of 18.46% over the past 12 months. Since the inception of the strategy it has returned 13.30% p.a. net of fees to investors.

Global equities rose about 2% in A$ terms in August but declined over 2% in US$ terms. The A$ was heavily sold as interest rate differentials are currently in vogue and the RBA is believed to be ‘done’, unlike the Fed. We chose our currency risk to be unhedged and have benefitted from this stance. All strategies outperformed during August.

Key Asset Market Returns for August 2023

Equities	
Developed Markets	-2.6%
Emerging Markets	-6.4%
Bonds	
Global Aggregate (Hgd)	-0.1%
Investment Grade Bonds	-0.6%
Emerging Market Debt	-1.2%
US High Yield	0.3%

Source: Bloomberg

August saw a repeat of the 2022 syndrome. Like in 2022, both equities and bond markets delivered negative returns. The basic tenet of a diversified multi-asset portfolio is that equities and bonds are negatively correlated. Although equities have notched up decent gains since the start of the year, the markets overall have found it tough to shake off the inflation worries, which has weighed on both equities and bonds.

The chart below shows the rising correlation between Global Equities (TR) and the Global Aggregate Bond Index (TR)

Source: Bloomberg

If this continues it makes the reduction of return volatility via diversification, harder. A suggestion we make is to seek diversification within equities and given the popularity of Growth and the US, we would suggest a contrary approach with Value and Japan as overweights.

The US equity market has moved to discount only a marginal risk of a further Fed funds rate increase and five rate cuts by the end of next year. In our view, the market is getting it wrong. We anticipate no cuts for at least 6 months. Even as recently as the end of last week, the Federal Reserve Bank of Cleveland President Loretta Mester was perhaps only acknowledging the market’s predicament when she noted that US inflation remains too high, and the labour market is still strong. Mester is only one among many voices at the Fed, but it only highlights the widening gap between the Fed’s perception and the market’s hopes.

As authorities in China continued to provide a drip feed of policy adjustments to help prop up the economy, Chinese asset markets stabilised last week, and investors heaved a sigh of relief and chased highly geared companies, aka property stocks. The measures announced were mainly in the housing market. The proposal to lower the minimum down-payment ratio for mortgages was the first nationwide demand-side policy easing since 2015. A safer way to play any successful Chinese asset price support policy could be oil stocks, WDS, XOM, CNOOC, and materials companies BHP and RIO. All are owned in the global high conviction portfolio.

We observed significant upward price changes in the in recently acquired UBS, (CS may have been the “Sale of the Century”? https://en.wikipedia.org/wiki/Sale_of_the_Century_(Australian_game_show)) and Morinaga the Japanese dairy company, as well as long held Sterling Infrastructure, Amada, NYK and Seagate. We trimmed the last and took profits.

Falls in ENN (The Chinese energy infrastructure company) Dicks Sporting Goods whose profits fell short of estimates due to ‘shrinkage’, a retailer euphemism for customer or employee theft. We also sold Johnson Controls since the poor state of the commercial real estate market is likely to dampen demand for their real estate related products.

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Portfolio Highlights:

UBS Group (SWX.UBSG)

The global wealth manager and bank was the fund's best performer during August, increasing 21.5%, after posting its largest-ever quarterly profit on the back of acquiring troubled rival Credit Suisse. At the behest of Swiss regulators, UBS purchased Credit Suisse to avoid a broader decline in confidence in the global banking system. Credit Suisse had been plagued by several self-inflicted scandals and investment losses, most notably from the collapse of Greensill and Archegos Capital.

UBS declared a $45 billion profit, largely the result of a paper gain on the difference between the value of Credit Suisse's net assets and the $5.9 billion UBS paid for the bank. Expressed another way, UBS paid 13 cents on the dollar for Credit Suisse, a significant margin of safety the market is beginning to appreciate. Management said it would recover 85% of impaired Credit Suisse assets, up from an initial estimate of 50%. UBS also voluntarily gave up the $14.5 billion safety net provided by the Swiss government as part of the deal.

UBS is now beginning to integrate Credit Suisse into the enlarged company and shed non-core assets. UBS will shrink its 120,000 workforce by 30% over the next three years and target $15.5 billion in cost savings. It will also close the majority of Credit Suisse's investment bank including the entire trading division, the epicentre of the bank's downfall. While the integration will no doubt take considerable time and resources, we are confident in UBS's management ability to earn a healthy return on Credit Suisse's assets. Sergio Ermotti, who led the company post the global financial crisis until 2020, has been reinstated as chief executive to oversee the transition. Furthermore, chairman Colm Kelleher has previous experience reorienting Morgan Stanley away from investment banking towards the stability of wealth management.

Home Depot Inc (NYSE.HD)

Home Depot is the world's largest home improvement retailer with 2,326 stores across the Americas. The value proposition is akin to Bunnings, with a wide range of low products accompanied by great customer service. Impressively, the average tenure of a Home Depot store manager is 17 years.

During the month Home Depot released its second-quarter results. Management flagged 2023 as a year of consolidation as higher interest rates flow through to households and builders. Comparable sales fell 2% during the quarter, while average ticket size was flat as buyers opted for smaller projects and fewer big-ticket appliances. The decline in sales is not unexpected given Home Depot has benefitted in prior years from pandemic-induced sales, with customers spending more time at home and less on services. Positively, inflation pressures are expected to ease in the second half of the year. Net new requests for cost increases and supply-chain pressures have completely abated. And in some instances, products are in deflation. In 2022 lumber framing cost $715 per unit. Today it's down to $420.

The longer-term outlook for Home Depot remains positive. The company's market share sits at just 17% of the fragmented home renovation market. Over 50% of homes in the US are older than 40 years old, with this number expected to increase as new home builds slow. Moreover, homeowners have on average 40% more home equity since 2019, bolstering funds for future home upgrades and renovations.

Woodside Energy Group (ASX.WDS)

Woodside is a global natural gas and oil producer listed on the ASX. Woodside's energy portfolio is highly attractive owing to long-asset lives and a cost of production unrivalled by other energy projects. To illustrate, it costs Woodside US$14.1 to produce one barrel of oil equivalent. It was then able to sell that barrel for an average realised price of US$74.0.

During the month, Woodside reported its first-half results. Despite lower natural gas and oil prices, earnings benefitted from higher production volumes stemming from the recent acquisition of BHP's petroleum assets. Net profit in the half increased 4% to $3 billion despite a 22% fall in realised prices. BHP reluctantly divested its petroleum division on the back of growing shareholder pressure against fossil fuel assets. This was to the benefit of Woodside, which was able to acquire quality, low-cost oil fields at a discounted valuation.

Woodside declared an interim dividend of $1.25 per share. Distributions will likely fall in future periods as the business funds internal growth projects, most notably the Scarborough gas field off the coast of Western Australia. We believe this will ultimately be to the benefit of shareholders. There is insufficient gas capacity coming online to meet global demand stemming from a reluctance from investors and governments to support new fossil-fuel supply. This is despite the crucial role we expect natural gas to play as a transition fuel and baseload energy source.

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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

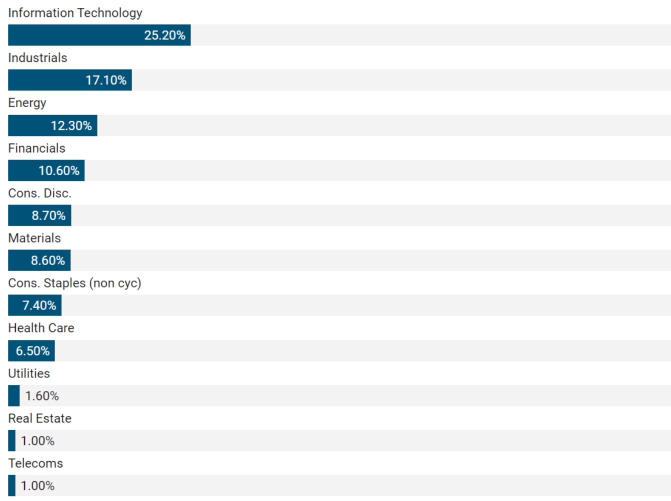
	Buy Price	Mid Price	Redemption Price
AU$	$1.2786	$1.2754	$1.2722

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	99.40%
Cash	0.60%



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	1.69%	18.46%	13.34%	8.30%	13.30%	354.56%
MSCI World	1.56%	22.37%	13.31%	10.74%	13.75%	376.86%
Cash	0.34%	3.39%	1.30%	1.16%	1.94%	26.23%

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