Global High Conviction Unit Class
TAMIM Fund

At 31 January 2023

The adage that the stock market is a mechanism to provide maximum pain to the maximum number of investors, was certainly relevant in January. After a horrible 2022 most portfolios would have been positioned defensively. So of course, equities rose and the most volatile underperformers from 2022 rose the most.

The global trust rose 2.45% in A$ terms despite the currency strengthening against the US$.

Earnings have clearly been under pressure from the compression of profit margins. Rising input costs are being joined by slowing revenues especially from consumer facing businesses. Consumer pain is evident in rising auto repos, falling house prices (albeit from VERY elevated COVID levels), and redundancies. EPS estimates will be downgraded further.

China appears to have decided not to return to the 1960s and a re-opening of sorts will help global demand. On the other hand the tech embargo which has been cemented by the USA, Japan and the Netherlands, will impact trade and FDI between China and the RoW. A pivot to domestic demand is likely in China and we are positioned for such.

Our “true tech” favourites such as Shin-Etsu chemical, and Tokyo Electron rose c.20% each. The tech embargo on China may serve to produce a ‘double spend’ whereby BOTH the USA and China have to invest in R&D and SPE of the non critical sort. Japanese companies will benefit.

The real disappointment was Intel which missed again for the 5th time in 6 quarterly reports. Basic Materials stocks will continue to do well due to market dynamics of supply demand and industry pricing power. Portfolio companies BHP rose c9%, and International Paper almost 20%.

Macro developments will dominate in February. Will official interest rates go higher? If so by how much? Is inflation peaking? Rather than position the portfolios for one outcome, we prefer to remain diversified to these macro factors, and for each active factor exposure to be modest.

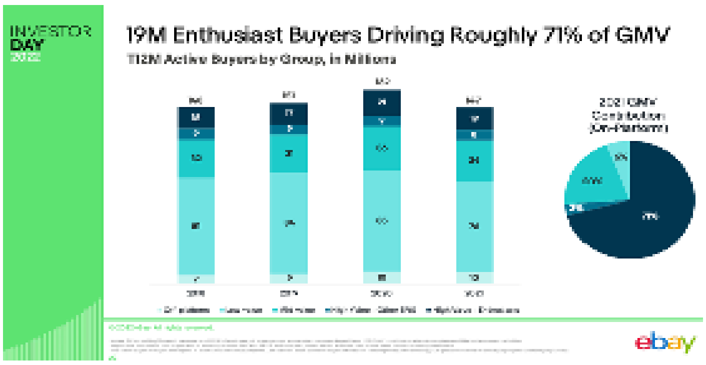
To that end we made a few trades at the end of January which have reduced our profitable exposure to Utilities and Energy. Details are available on request.

We couldn’t resist a jibe about inflation and all those who argued it was a good way to reduce the debt. We quoted Ronald Regan in an article about 18 months ago. He said and was correct in saying, “Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man”. For those who prefer a more erudite commentator, Murray Rothbard on the same subject, “Monetary inflation not only raises prices and destroys the value of the currency unit; it also acts as a giant system of expropriation”.

As investors we suggest you can ward off this expropriation, to some extent, by buying dividend paying stocks, with pricing power, and good balance sheets.

eBay Inc (NASDAQ.EBAY)

Global e-commerce platform eBay connects sellers of new and used goods with buyers. Like most retailers, eBay benefitted from the pandemic as shoppers were forced online and households built up excess savings. The share price retreated significantly in 2022 as this unwound, however, the underlying business has proven far more resilient. Revenue is expected to fall only marginally, while eBay has improved its take rate and bought back shares.



eBay’s growth strategy centers on “enthusiastic buyers”. This cohort of customers shops frequently, has high order value and spends 30 days a year on the site. The website has become a destination for high-quality second-hand goods, including refurbished electronics, trading cards, sneakers and motor vehicle parts. eBay has also enhanced its platform through authenticity guarantees and certifications of purchase. Other positive moves include digital wallets and a focus on advertising revenue.

eBay’s share price gained 19 per cent over January. Still, the company is priced for demand to fall significantly, trading on a price-to-earnings multiple of 12 based on non-GAAP earnings. The business also trades on a dividend yield of 1.8 per cent, with a 20 per cent payout ratio implying plenty of headroom to increase this over time

General Dynamics Corporation (NYSE.GD)

General Dynamics is a global aerospace and defense company based in the United States. The business offers a range of products and services for marine systems, land combat vehicles, weapon systems and munitions, technology and business aviation.

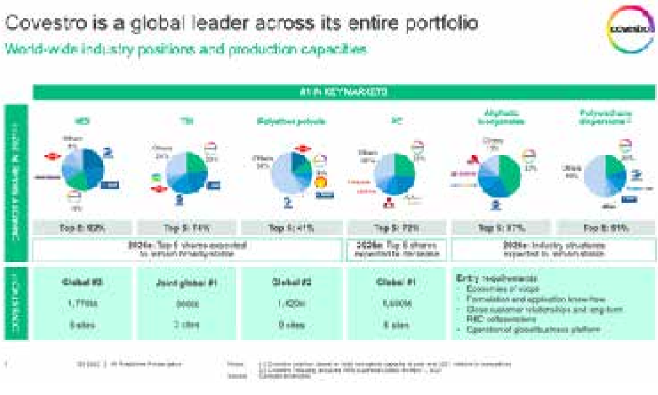
During the month General Dynamics reported fourth-quarter and full-year earnings. Earnings in 2022 were $3.4 billion, up 4.1 per cent from the prior year on a healthy operating margin of 10.7 per cent. What impressed us was the cash performance of the business. Cash from operations represented 135 per cent of earnings, indicating that accounting profits turn into real cash for shareholders. This allowed the business to reduce debt by US$1.0 billion, invest US$1.1 billion in capital expenditure, and return US$2.6 billion to investors via dividends and share repurchases.

Management noted a strong order book, with a backlog of $91.1 billion. This is the largest in company history and represents more than two years of revenue. At the midpoint of guidance, it expects earnings per share to increase by 3.6 per cent in 2023.

We expect demand for General Dynamics products to be robust going forward with nations prioritising defense capabilities in light of Russia's invasion of Ukraine. NATO's intention for 2 per cent of GDP to represent the floor of defense spending, with some countries pushing for higher, is a clear example of this. The recent AUKUS deal between Australia, the United Kingdom and the United States is another positive tailwind. Trading on a price-to-earnings multiple of 19 and a dividend yield of 2.2 per cent, we believe this is an attractive valuation for a company with strong cash and shareholder returns.

Covestro AG (ETR.1COV)

Covestro is a German producer of polyurethane and polycarbonate-based raw materials. More simply, Covestro produces precursors for plastics, foams, adhesives, coatings and films used to support end markets including automobiles, furniture, construction, electronics, cosmetics and healthcare. Shares in Covestro were sold off last year as the business faced the prospect of high energy prices, limited supplies of inputs, economic and political instability, and ongoing inflation. In January, the company provided a preliminary update on its full-year results. It missed analysts' expectations regarding accounting earnings, but we were pleased with revenue and free cash flow results, which are more representative of the underlying business.



Covestro commands leading market share positions in several material markets including MDI, TDI, polyether polyols and polycarbonate. It achieves this by spending upwards of €900 million on research and development each year. Barriers to entry are high, with new competition deterred by the significant upfront capital cost and required operational know-how.

Covestro is forward-facing, creating new products which are lighter, more durable and better for the environment than incumbent offerings. For example, it has developed new insulation materials to improve the shelf life of food. It's also exposed to future industries such as electric cars which require 2-5x more polycarbonates than conventional vehicles. The company is committed to becoming climate neutral by 2035 regarding its scope 1 and 2 emissions. With a share buyback program currently underway and an aim to double sales by 2025, we believe the future is bright for this essential materials company.

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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

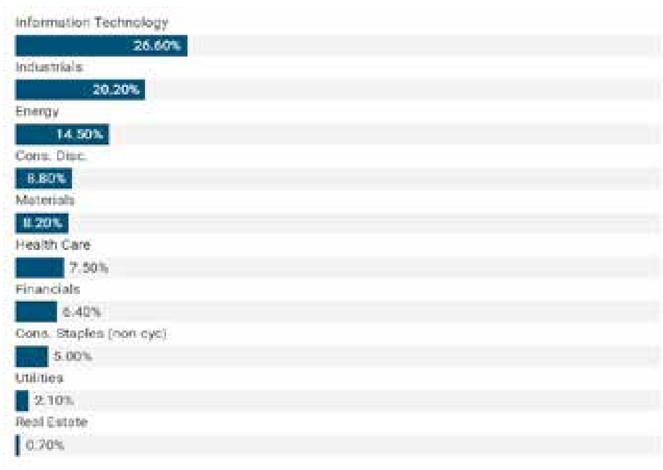
	Buy Price	Mid Price	Redemption Price
AU$	$1.153	$1.1501	$1.1472

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	97.65%
Cash	2.35%



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	2.45%	-3.58%	6.55%	7.45%	12.92%	306.73%
MSCI World	3.05%	-7.45%	5.76%	9.50%	12.86%	304.18%
Cash	0.25%	1.55%	0.63%	0.89%	1.85%	23.51%

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.