Global High Conviction Unit Class
TAMIM Fund

At 30 July 2022

The old adage that the equity market exists to deal out the maximum pain to the maximum number of investors, held true again in July. Short covering, risk on, a reappraisal of interest rate trends, drove the US and major international markets higher. The TAMIM Fund: Global High Conviction Unit Class had a strong month after the poor June seen across most global markets. The unit class was up 4.16%, with the one-year returns now at -4.31%, the same as the MSCI world index, although the fund is an after fees and expenses return. Our philosophy of not timing equity market exposure paid off, and we managed to capture a large part of the bounce in equities. Encouraging noises from Japan about a reopening there saw the Yen bounce slightly off a very depressed and undervalued level and showed some signs of improved economic activity.

It's time for a bit of a medium-term perspective and some sombre thoughts. We have put together a dataset to show the contrast between where we were about eight months ago and where we are today (Table 1). Put simply, the prospect of growth is much more dismal today than what was forecast earlier – for much higher interest rates. Let's also not forget the significant geopolitical disruption caused by the Ukraine war and the recent sabre-rattling over Taiwan that has reversed globalisation.

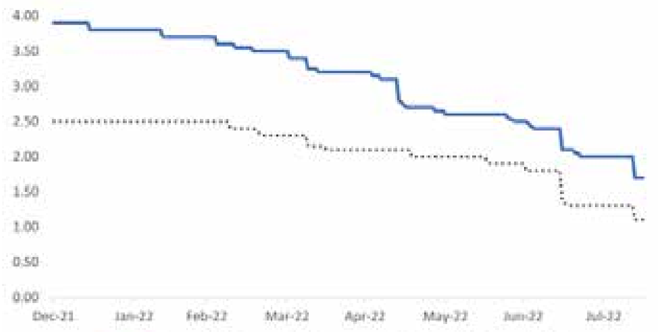
Table 1: What's changed? – Quite a lot!

	31 Dec 2021	12 Aug 2022	Change
US Inflation	7.0%	8.5%	+150bps
US 10-year	1.51%	3.28%	+177bps
US 2-year	0.73%	3.24%	+251bps
Brent ($bbl)	$77.1	$98.2	+27.4%
Global High Yield (YTW)	4.85%	8.11%	+326bps (-11.7%*)
S&P500	4766	4280	-10.2%
MSCI World ($) Index			-11.4%
ISM Manufacturing (Index)	58.8	52.8	-6.0
ISM Services (Index)	62.3	56.7	-5.6bps
US unemployment	4.23%	3.60%	-0.63bps
US 30-year mortgage rate	3.27%	5.53%	+69%
Consensus US GDP forecast 2022	3.90%	1.10%	-280bps
Consensus US GDP forecast 2023	2.50%	1.10%	-140bps

Source: Bloomberg

From the equity market peak in December 2021, the consensus US GDP forecast for 2022 has fallen 2.8 percentage points. The current growth forecast of just 1.7% looks miserable compared with the vibrant economy implied by the growth estimates of 3.9% at the start of the year. Consensus growth forecasts for 2023 haven't witnessed an equally dismal fall, but they are still near the 1.1% level for the year.

Consensus US GDP Forecasts on the slide



Source: Bloomberg

With such tepid prospects for growth, how can corporate earnings still be holding up? To be fair, the headline that US corporate earnings held up well in the first quarter was a bit of a misrepresentation of facts. While the energy sector accounted for much of the surprise, other sectors were not so vibrant. Indeed, although the aggregate US quarterly earnings beat expectations (as they always do), analysts have been busy cutting their earnings forecasts for 2022. The US indicator of the ratio of upgrades to downgrades for the S&P500 companies' earnings has fallen sharply. The positive-to-negative EPS revisions ratio has fallen to -50% from +40% at the start of the year.

Earnings revisions by region – US on the slide

Source: IBES and JPMorgan

It is important to bear in mind that inflation can severely distort the apparent financial health of companies. Higher inflation levels can also lead to the illusion of strong profit growth. It is the phenomenon of stock profits. As inflation picks up, companies react by increasing prices. Companies benefit by buying inventory cheaply and selling at inflated prices. If we go back to the 1970s, the UK accounting standards board was set to introduce SSAP16 to account for inflation so that companies would not overstate their profits. However, the moderation of inflation led to the mothballing of the accounting standard shortly after.

So, when we reflect on the market backdrop, we must ask ourselves if that squares with the 15% rally in the markets, leaving equities down only about 10% for the year? It's worth recalling that the S&P500 rallied by close to 15% between March and June 2008 before witnessing that dramatic plunge. When set, inflation is sticky. It took the US about four years after WW2 to get inflation down to about 6% from over 20% once price controls came off. This inflation saga is not over yet.

We would also reiterate that we are just over six months into the Ukraine war that disrupted the global economy. Therefore, it is still far too early to say that we have seen the full impact of the war on global growth and inflation. Europe, for instance, is still waiting with trepidation to see what the energy situation will be in the winter, with the prospect of significant disruption to energy supply and a further increase in energy prices looming large. This will impact the consumer. On a recent trip to Germany, the UK, and Denmark/Scandinavia, we observed and had verified verbally that discretionary spending is going down. Also, the impact of higher interest rates will build only slowly, but it will build. No one could argue that the nearly 70% increase in the US mortgage rate will not significantly impact the housing market there.

In other countries fixing a mortgage perpetually is not possible , so a reset is coming faster to the UK, Australia and other 'Anglo Saxon' economies. Our stance? Don't chase this rally but bear in mind that countries can't afford for interest rates to turn too positive. Even with the recent modest rise, the projected US interest bill will exceed the defence and education budgets by 2032.

Such a fiscal drag is not tenable so prepare for negative real rates and a lot of regulation – possibly including regulation on interest rates. Consequently, we favour companies that meet needs and not wants since they will be the least affected. Evidence abounds of the need to repair and improve infrastructure in almost all Western countries.

ExxonMobil (NYSE:XOM) shares were up 13.2% during the month as they continue to benefit from higher energy prices and are realising huge amounts of cash flow. Exxon released its Q2 results, which saw earnings quadruple to $17.9 billion, compared to $4.7 billion during the year-earlier period. The results were driven by strong energy prices and Higher Upstream volumes from Guyana and Permian growth and recovery from weather impacts in Canada. ExxonMobil's results were also boosted by a strong performance in its downstream business amid high gasoline prices and limited refining capacity. Exxon's cash balance saw an $8bn boost in the quarter after capex and a $3.7bn dividend payment, where Exxon invests its cash balance will be interesting to watch after environmental fund Engine No.1 secured 25% of the board seats with just a 0.02% shareholding. Engine No.1 are pushing to redirect capex away from upstream development towards alternatives like biofueln a far less productive source of energy. Looking forwardn Exxon anticipaten volumes to be flat, with growth in the Permian and Guyana being offset by recently announced divestments.

Quanta Services (NYSE: PWR) is a leading specialised contracting services company delivering comprehensive infrastructure solutions for the electric power, energy and communications industries. It continues to perform, up 10.7% for the month. Quanta is well positioned to benefit from the energy transition toward a carbon-neutral economy. As the US continues to invest in infrastructure and renewable energy companies like Quanta that service the renewable energy industry and ensures their connectivity to energy grids are well placed to benefit. They offer investors exposure to favourable long-term trends such as utility grid modernisation, system hardening, renewable generation expansion and integration.

NVIDIA Corporation (NVDA:NDQ) shares had a slow start to the month after Micron reported weak consumer demand, and given NVIDIA chips are used in a variety of end markets, including high-end PCs, NVIDIA shares slid on the news. However, NVIDIA shares finished the month up 19.8% on news that the Senate advanced a slimmed down version of the CHIPs Act, designed to boost the US semiconductor industry. The bill is designed to rebuild domestic chip production, and encourage construction of chip plants in the US. After a record-breaking FY22 which included a 61% rise in revenue, we expect Nvidia to continue to benefit from fiscal stimulus as America accelerates its domestic industrialisation as a by-product of deglobalisation.

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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

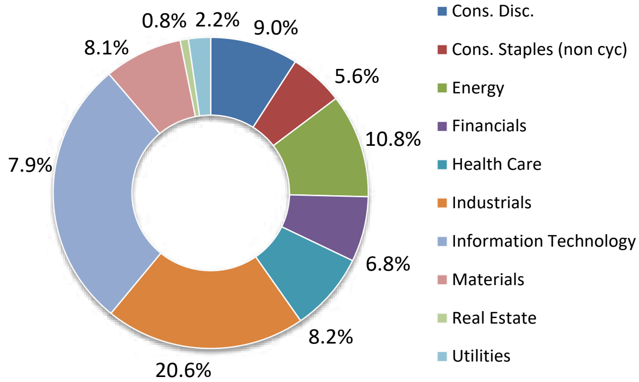
	Buy Price	Mid Price	Redemption Price
AU$	$1.1063	$1.1035	$1.1008

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	95.80%
Cash	4.20%



Portfolio Performance

Inception: 15/07/2011	1 month	1 year	2 years (p.a.)	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)	Since inception (total)
Global High Conviction	4.16%	-4.31%	12.24%	7.20%	9.02%	13.12%	290.08%
MSCI World	6.37%	-4.31%	12.29%	9.13%	11.78%	13.36%	299.56%
Cash	0.11%	0.29%	0.21%	0.34%	0.78%	1.81%	21.92%

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.