Global High Conviction Unit Class
TAMIM Fund

At 30 June 2022

The end of June was maybe a relief, for it was a tumultuous quarter and half year of negative returns for most asset classes.

Global equities, as measured by the S&P Global Broad Market Index (BMI), posted their worst first half performance since index inception, and with a decrease of -8.54% in June, were down -20.38% in H1 in USD.

The TAMIM Fund: Global High Conviction portfolio fell -5.46% in June.

Equities – a bad quarter

Fear has truly gripped equity markets with losses accelerating significantly in the just-concluded quarter. Global equities returned -14.3% in the quarter, accounting for almost 80% of the total losses year-to-date. In USD terms, losses have been quite similar across the world save for the UK where the heavy weighting of oil stocks saved the market from serious losses. The dollar's strength though has only exacerbated losses for dollar-based investors. The Japanese equity market is a good case in point – in JPY terms, it was only down 5.9%, but the slump was more drastic (20.3%) in USD terms. The UK was up 1.7% in local currency terms.

The energy sector was the only major sector to record gains in the first half of the year, managing to shake off most of the losses seen in the broader markets. However, as the quarter ended investors got anxious that the risk of recession could lead to challenges for oil companies, irrespective of the fact that the market remains in marked short supply.

Major Equity Markets—losses accelerated in the second quarter

Total Returns	1H		Q2	
	Local	USD	Local	USD
MSCI World	-20.5%	-18.3%	-16.2%	-14.3%
MSCI US	-21.3%	-21.3%	-16.9%	-16.9%
MSCI Europe ex UK	-11.9%	-20.8%	-8.1%	-14.5%
MSCI Japan	-5.9%	-20.3%	-4.4%	-14.6%
MSCI UK	+1.7%	-8.8%	-2.9%	-10.5%
MSCI Asia Ex Japan	-11.6%	-16.3%	-6.9%	-9.0%
Emerging Markets	-13.7%	-17.6%	-8.1%	-11.4%

Sectors	1H	Q2
Energy	+24.0%	-5.1%
Consumer Discretionary	-31.9%	-23.8%
Banks	-18.6%	-16.2%
Tech	-29.7%	-21.8%

Source: Bloomberg

Bonds didn't do their job - Global Bond returns for the first half of 2022

Total returns	1H	Q2
Global Aggregate	-9.1%	-4.3%
US Aggregate	-10.3%	-4.7%
Global High Yield	-15.2%	-10.6%
China Aggregate	-3.1%	-4.3%
	bps change	
US 10-year bond yield	150	68
US 2-year bond yield	144	62

Source: Bloomberg

We continue to believe that the world is facing a structural shift in risks. It is no longer the case that "well-behaved" inflation will allow central banks to provide virtually free liquidity to pump up asset prices. The end of (and failure of) the era of ultra-cheap money and the put option will mean that many companies and bonds will not be around when the strain of higher interest rates and lower revenues begins to bite.

One could argue that, in this regard, the era of free money has seen developed economies turned into emerging market economies – we now have unsustainable debt, inflation, currency debasement and default, wider inequality, poorer quality government services and more corruption?

All characteristics of "developing" economies and not of developed?

It's as if we have lived in the nursery rhyme The Grand Old Duke of York? This time with interest rates rather than men being marched down and now up, but still largely a pointless exercise FOR THE VAST MAJORITY OF PEOPLE in that we only have a worse economy to show for it. Worse in the sense of looking more like an emerging economy.

A brief review of the first half economic backdrop

In the first half, the key change in sentiment amongst economists and central bankers has been the marked deterioration in their outlook for inflation. Inflation has continued to significantly surprise to the upside through the first half of 2022. Interestingly though, forecasters have been late in pressing the warning button about their outlook for inflation. Even "blind Freddy" would have been concerned about inflationary pressures building up over the years of central bank balance sheet expansion.

True to form, the experts' growth forecasts have only just recently started turning negative. There will be further downgrades. Group think, academic arrogance, and an addiction to outmoded models are a toxic mix.

We couldn't resist replicating these and (sort of) apologise:

"There's nothing to suggest a recession is in the works" - Janet Yellen, June 2022

"I wouldn't do it differently. I was very supportive of the American Rescue Plan." - Janet Yellen, June 2022

U.S. inflation risk is "small" and "manageable" - Janet Yellen, March 2021

"I don't anticipate that inflation is going to be a problem" - Janet Yellen, May 2021

"In the 1970s, a series of supply shocks became a longer run problem … that partly occurred because policy makers weren't trusted by the public to deal effectively with inflation. But I certainly see no evidence that that's the case now." - Janet Yellen, November 2021

The Fed "shouldn't overreact to 'temporary' inflation" - Neel Kashkari, November 2021

"There's nothing that I'm seeing in these fundamental factors that leads me to think that this is a long-term change in inflation or inflation expectations." - Neel Kashkari, November 2021

"If we overreact by saying 'let's change the path of monetary policy'…that could lead to a worse long-term outcome for the economy." - Neel Kashkari, November 2021

"What's the economic theory that a one time boost of fiscal spending, a one time boost of demand - it leads to higher prices, yes - does it lead to higher inflation, which means ongoing year after year after year of continuing price increases. I don't really understand the mechanism by which Larry Summers thinks this one time fiscal stimulus leads a change in the path of inflation." - Neel Kashkari, November 2021

"The key here is from my perspective as a Central Banker is not to overreact. We want to pay attention to the data, we want to look at the evidence and we want to make our adjustments prudently, not just overreact because Twitter is hyperventilating." - Neel Kashkari, November 2021

"I can't predict the future any better than Bill Dudley can." - Neel Kashkari, November 2021

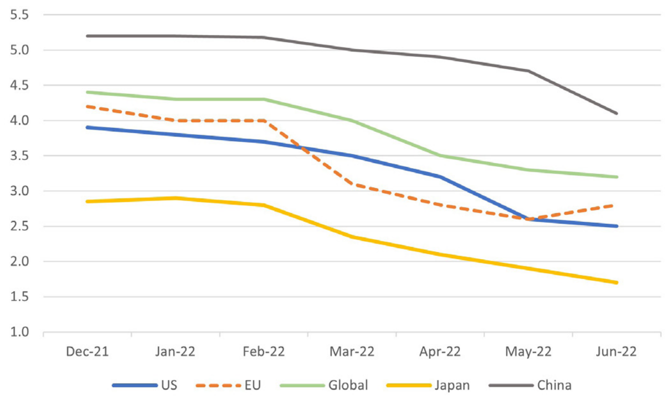
"Inflation is higher than I expected, and it's the high inflation has lasted longer than I expected. We know the US economy is recovering from the COVID shutdown and the downturn. But the recovery is uneven, and demand has recovered more quickly than supply has. So given those facts, it's not that surprising that inflation is coming up higher than we expected. But it should start to normalize over the course of this year, if a couple things happen: if workers come back into the job market. We're still missing 3 or 4 million workers. And if supply chains start to sort themselves out, which I hope that they will. But obviously the Federal Reserve has an important role to play and we're going to do our part." - Neel Kashkari, January 2022

"So that's why the fact that the yield curve has flattened a lot over the past six months, that's giving me some indication that we're probably not that far away from neutral, not as far away as maybe we thought." - Neel Kashkari, January 2022

"So, you know, neutral is a concept and so it's not as if there's an equation exactly where it is. For me, it's somewhere between 2 and 2.5 percent." - Raphael Bostic, May 2022, when CPI rose 8.6%

After inflation was missed and the experts were late to the party, the second quarter saw a steady pattern of downgrades to global growth forecasts by most of the major forecast groups including the IMF and World Bank.

Consensus growth forecasts for 2022 have only recently been cut back markedly
Year-on-year %



Inflation up and growth down. Not a strong backdrop for equity valuations or long duration assets and so Growth declined very markedly relative to Value.

Value has further to run relative to Growth.

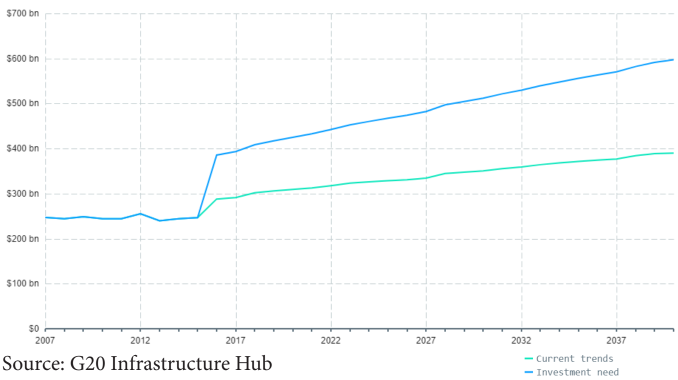
With central bankers increasingly turning hawkish in their monetary policy stance to rein in inflation, the fears of a potential US or global recession have grown recently. Virtually every major central bank has increased interest rates or signalled that they may markedly increase policy rates in the coming months. ***The futures market has gone from implying a year-end Fed funds rate of 0.8% at the start of the year to building in a US policy rate of 3.3% currently.***

If free money is over, what's next? Surely not smaller Government and a return to free enterprise?

No chance – not (yet?) in the Zeitgeist. It is our assumption that policy makers will not let go of their desire to micro-manage the economy and will now attempt a fiscally based re-set having seen the experiment of free money fail to produce anything like sustainable economic growth. It's not like fiscal spending would be wasted if targeted or incentivised properly although relying on governments to do it efficiently might be naive? We can think of multiple good causes and the multiplier effects on jobs, wages, and productivity would be far more beneficial than a continuation of 'monetary policy for rich people'? Anyone mention Infrastructure, especially in the USA?

The chart below is taken from the G20 initiative on Infrastructure and is the estimated shortfall in US total infrastructure spending over the next 40 years based on current trends. Worth a look at the research?

Infrastructure investment at current trends and need



Source: G20 Infrastructure Hub

Time to capitulate?

Don't despair as investors because there will be opportunities in this new paradigm. Focus on companies that meet 'needs' and not 'wants'.

Favour sensible balance sheets and companies whose cash flows and debt profile will not necessitate returning to markets for increasingly expensive, if available at all, financing. Fallen Angels will not be resurrected. Pets.com never did come back; nor did Enron; nor did CMGI. It's over today for many companies like this that were only conceived, born, and nurtured for a while because of euphoria, mania, momentum, infinite amounts of risk tolerance and FOMO. Move on and remember the first loss is often the best one.

So much for the backdrop or the past but what do we do NOW?

We believe you should consider your asset exposure based on the following risks or trends:-

Debasement/Inflation - Invest in inflation hedges such as infrastructure stocks and currencies of countries with a strong Net Foreign Asset position. The chances of cash rates going above inflation again are minimal. Zero, probably. There is too much debt. By way of illustration, the US interest bill will almost certainly go from $600bn p.a. to about $800bn as a result of the repricing of short-term rates. To put that in context, the US education and defence budgets are about $700bn each. Therefore, unlikely to be allowed to go higher.

Debt – It can't be paid back. Not in the sense of today's values anyway. Favour companies and countries that have decent balance sheets. Look at net debt not gross; look at debt maturity; beware of bank bail ins (Europe most likely). Many countries have just passed legislation explicitly allowing for this. The chances of centrally directed capital allocation aka capital controls are not nil, especially in Europe.

Demographics – This matters less as a headwind in reality than it will to sentiment. We believe automation and longer working lives will compensate for lower levels of fecundity and aging demographic profiles. Wage rises are needed relative to profits and this should prompt investment in machine tool companies such as Amada (6113.TYO), the "A" in QUAKE.

Deglobalisation – The World will not disassemble but a "Plan B" for alternative sourcing and delivery will be on the agenda of every board paper; or should be. Presidents Trump and Biden have both invoked the Defense Procurement Act of 1950 to onshore production of goods deemed necessary. Domestic investment in the West needs to rise. Transport stocks, warehouse companies and smaller companies will benefit. As should working populations in the West since higher investment will lead to more jobs, higher pay. Buy backs running at almost $1tn in the USA only really benefit the C-suite. There are better uses for this money and we hope but don't expect tax incentives to rebalance company decisions to favour investing over buy backs.

Decarbonisation – We cannot possibly do justice to this (ahem) debate here but regardless of what Steve Koonin thinks of the science or Professor Michael Kelly thinks of the cost benefit, it's a project with immense political appeal and so is with us. Our suggestion is that we will now see a much better managed and planned transition to so called Green energy which means... MORE investment in Gas and Oil to bridge the switch. There is already some demand destruction of these commodities, but they are not going back down much. Given the choice, would you rather Germany recommissioned four lignite powered electricity stations, or invested in a series of LNG pipelines and off take facilities to import and distribute US LNG? It's already done the former because it has had to, given a poorly designed Green transition, but was actually warned to do the latter about five years ago by everyone's favourite global leader – just saying. We know what they should have done. They still might?

Concluding, we think we're at a crossroads. The free money experiment is over, and the likelihood is policy makers insist on imposing a different paradigm but this time with a fiscal dimension. A return to more 'laissez-faire' would be better for all eventually but would be more painful in the short term. So, we can either have a numbing recession to squeeze inflation and a loosening of regulation and a reduction in subsidies (laissez-faire) or a bit of inflation (after all, Janet Yellen says it's good for you) accompanied by a switch to a government directed fiscal push. Given a choice between killing inflation with an interest rate increase/letting markets decide the clearing price of debt and equities, that may cause an asset class crash as well as an unemployment crunch OR imposing a gentle bit of squeezing rates higher and some coercion via regulation on risk parameters for bank loans, but meanwhile accompanied by rhetoric about how we this being temporary and "a price worth paying and it's Putin to blame anyway" inflation, they will 100% go for the latter. Short term pain is never a popular choice for politicians.

Best way to play this scenario? Cash, bonds real assets, or equities?

Our thinking is Value equities and useful real assets, and, currently, short duration quality bonds. We can't see how short-term interest rates can go higher than inflation or positive in real terms without causing serious financial and political repercussions. We do believe that prices will remain elevated, but inflation will be soon peaking due to year-on-year comparisons. Consequently, dividend paying equities geared to the fiscally based re-set, especially if they fall into 'on sale' territory, are our favourite. We have tried to capture this in our strategy.

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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

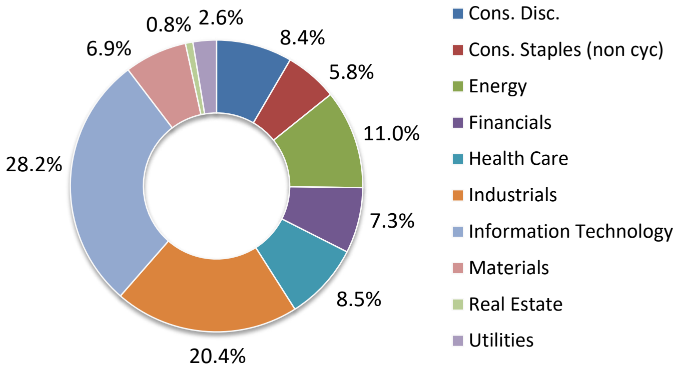
	Buy Price	Mid Price	Redemption Price
AU$	$1.0834	$1.0807	$1.0780

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	94.30%
Cash	5.70%



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	-5.46%	-5.87%	9.49%	6.54%	7.98%	12.80%	274.50%
MSCI World	-4.72%	-6.48%	9.20%	7.72%	10.05%	12.83%	275.63%
Cash	0.07%	0.18%	0.17%	0.33%	0.79%	1.81%	21.78%

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.