Global High Conviction Unit Class
TAMIM Fund

At 30 November 2023

The TAMIM Global High Conviction unit class was up 2.55% for the month of November 2023, this was in comparison to the index return of 4.44%. The strategy has generated a return of 8.83% over the past 12 months. Since the inception of the strategy it has returned 12.89% p.a. net of fees to investors.

Can we see the wood from the trees? Thoughts on 'the new new thing' to come from Governments.

November as we thought it might, saw a strong rebound as long-term interest rates fell in line with the decline in inflation as base effects became favourable.

Our philosophy of not timing market exposure by switching in and out of cash helped in not being whip sawed.

Large monthly gains in long term holdings were pleasing but some of these are now looking very stretched on a valuation basis with even very optimistic assumptions about revenue, margins and discount rates. Portfolio turnover is likely to rise as we examine relative opportunities within the universe of c4,000 mid and large cap companies. Basic Materials, Energy, and Construction companies look very attractive. Have we seen maximum pain in China, non-Japan Asia, and are recent meetings between Xi Jin Ping and Western leaders a sign of a thaw?

Some highlights in the month were:

- Williams Sonoma + 31%
- Advantest +28%
- Dick's Sporting Goods +28%
- Deutsche Post +19.6%
- Andritz +19%

While investors are currently dealing with the vicissitudes of asset volatility and don't know from month to month whether to be 'risk on' or 'risk off', there is a danger that this short-term thinking and problem-solving clouds the view of any longer-term picture. This article ponders the longer term. It's useful to try and identify these inflexion points because the markets are voting machines in the short term but weighing machines in the long run. Get a shift in a long-term trend right, or position yourself to not be in its way, then investment returns become a lot easier to achieve.

Our long term assumptions is that we are over the paradigm of 'reflate asset prices to achieve sustainable growth'. Interest rates are indeed going to remain where they are for a while – at least at the short end, the area where central bankers exert more control. This dubious theory of reflating the 'asset souffle to achieve private sector driven growth' resulted in ZIRP and Quantitative Easing (QE) for a long time; it was primary policy in the latter part of Greenspan's stint; and the whole of Bernanke's and Yellen's as Chairs of the Fed, as they fought the GFC and other imagined dangers of a '1930s style depression'. It was of course adopted by pretty much every central bank with the exception of Japan which invoked Yield Curve Control also resulting in suppressed interest rates.

So, we had to invest in a world of 'free money' and of course got a lot of 'optimistic' business models and the usual rubbish was listed by Wall Street. We had a bubble and now have a lot of debt.

The chart below illustrates the returns from former favourites hyped at the peak of the bubble, compared to the 'dinosaur' or old-fashioned sector of Global Energy companies. Enough said?

ZIRP and QE haven't worked in the real economy either in the sense that the expected increase in private sector capital investment hasn't materialised, and that increased government fiscal stimulus has been necessary to keep the asset prices up and zombie companies alive. 'Boom bust and bail' has produced equity price gains in a limited number of stocks but each incremental dollar of debt produces less and less GDP and certainly less GDP per capita. We also have widening wealth and income inequality with which to deal. It has essentially been monetary policy for rich people.

Spend and tax as the next big thing?
We sense a change in policy mix is coming; a new paradigm if you like. This will return us to the era of 'National Interests', National Champions, centrally (government) directed 'responsible' (ESG or DEI based) capital allocation and, potentially, financial repression. We've been here before – it was the 1950s and 1960s. Simply put, the folks that created this mess are now going to tell you they can fix it by fiddling more and in a different way.

So here it comes – 'I'm from the Government and I'm here to help'. AS President Regan said, the scariest words you can hear'.
Emboldened by their ability to persuade markets about inflation fighting credentials, and to issue huge amounts of government debt at historically moderate nominal interest rates, we think policy makers are going to continue this 'spend now and tax later' approach. The spending will be directed at 'strategic' industries and interests and will be in the form of tax breaks, import tariffs, and public private partnerships. The CHIPS act, the Inflation Reduction Act are both examples. "Build Back Better" is really "MAGA" by any other name.

Concerned about evident rising income and wealth inequality, politicians will attempt to create a better balance between wages and profits through income subsidies for lower wage earners. They will also subsidise jobs 'at home'.

Of course, Japan, China and India never abandoned National Interest in economic policy. The return of the West to this approach will result in:
• generally lower levels of free global trade,
• less immigration competing for lower wages,
• less technology transfer,
• lower levels of capital exports (overseas capital investment)
• More regulation and monitoring by government agencies and thus higher news flow-based share price volatility. For example, did AMAT or NVIDIA break tech export rules or not? These are not events that can be analysed in the traditional sense. Management can't predict when governments decide to act and so cannot communicate this to the market.
• Higher hidden inflation. If you think the official inflation constructs reflect true price increases and/or no price increases for lower quality goods and services, then I have a bridge to sell you. Shrinkflation and 'Skimpflation' are both words we will hear more often!
"Skimpflation is defined as businesses 'skimping' on the quality of a product or service," says Scott A Wolla, economic education officer at the Federal Reserve Bank of St Louis.
And on Shrinkflation - https://www.mouseprint.org/category/downsiz/
• The potential for capital controls in so far as persuading the markets to take all this debt at a time when the above trends are reducing potential growth rates to service this debt, may become difficult. We add a piece on what current US fiscal spending will mean for the US economy and debt markets below but if foreigners won't buy US debt, and the Federal Reserve is reducing its balance sheet and is thus also a seller, then what remains are insurance companies and banks and pension funds to pick up the slack. We have been here before, and it was the 1950s. It will be dressed up as bond purchases for capital adequacy and risk reasons but will be financial repression none the less.

Putting the US debt and debt trajectory into perspective. If it all goes wrong and debt / GDP does not stabilise
The US government debt obligations have grown to over $30 trillion after a splurge in spending post GFC, Covid and now Bidenomics. This is over 120% of US GDP and has grown 3x in today's $ from $10 trillion in 1997. This 30+$ trillion is probably an underestimate for a number of reasons.

Government deficit spending, which adds to the debt pile, is c.6% GDP annually. Inflation can't erode this debt pile if it grows faster than nominal GDP!

Debt servicing on this large and growing pile is estimated to be over $800 bn p.a. (ceteris paribus on interest rates) and if current spending trends and interest rates continue then will reach over 3% of GDP pa in a couple of years. This will approach US Defense Spending levels.

The US is not alone in this profligacy and Europe and China are also loading up on debt. However, the US is supposed to be the world's reserve currency. There appears to be no acknowledgement of this in Congress and thus an absence of 'governance' rather than the size of the debt pile was used as the reason for the downgrade by Fitch.

A downgrade from now all the major agencies is to be welcomed because this is an unsustainable trajectory without the re-introduction of capital controls and centrally directed lending and borrowing. If these controls were introduced, it would return us to the 1950s era which actually wasn't so bad for the population BUT was in a much less well-connected world with lower trade flows and immigration.

Capital controls would be necessary because the marginal buyers of US debt, foreigners, would become averse to funding these deficits unless rates rose higher to compensate them for risk of inflation and/or default. Higher rates at 120%+ debt / GDP mean higher annual outlays to pay for the debt. It becomes a vicious cycle. Japan and China own c 25% of o/s US debt. Recent auctions indicate less enthusiasm from these countries to buy US debt. Thus, rates will rise to attract other buyers including domestic investors. Higher rates increase debt servicing costs.

So, if something can't continue forever it will stop.
The stoppage will happen in perhaps three ways. They are not mutually exclusive.

1. US fiscal probity returns, and government spending is cut in real terms. This of course will exacerbate any slowdown since government spending 'helps' activity. A better option would be for useless programmes to be eliminated while keeping productive ones. The Net Zero obsession for example is very damaging.
2. US government spending (CHIPS Act, Inflation Reduction Act etc) turn out to increase the growth rate of the US economy. Debt to GDP stabilises as GDP grows faster than the debt pile. Rates stabilise.
3. Capital controls and fiddling with the inflation series (it is done repeatedly anyway) obligate US institutions and Social Security and other government agency pools, to buy debt at artificially low rates but ones which satisfy the prudent requirement insofar as they are near or above the newly reduce inflation series. This will be accompanied by more MAGA or Build Back Better subsidy programmes.

We prefer 1 and 2 together. Corporations are currently spending c$1 trillion on buy backs which could be better utilised on capital investment. Less government and more private enterprise would achieve 1 and 2 most easily. It is unlikely Democrats believe this and so without change we go to 3.

Conclusion – start this programme for equities in 2024. Equities are still the best hedge against persistent inflation.
We may well be wrong and often are. However, one can invest in equities in a way that provides a decent return if we're too pessimistic, as well as benefitting if we are correct in the long-term shift to more government. Of course unlike bonds, equities will provide some inflation protection and thus should

be part of the portfolio of risk.

From an equity perspective therefore invest in:
• Quality/Profitable mid cap firms. The Russell 2000 in the USA, excluding the loss-making firms, is an optimal choice. The loss-making companies in that index account for an astonishing 25% of companies (based on the last 3 years) and thus the profitable ones are on a significant P/E discount (the P/E is 12.5x) to the S&P 500 which is dominated by "The Magnificent 7" at high P/Es. Equal weighted indices have already begun to perform better relative to the capitalisation weighted ones. If one seeks equity risk then it's highly unlikely that the mega caps outperform the mid-caps from here as much as they have done? If the whole equity market is de-rated then there is less to lose from a P/E of 12.5? One might as well be hung for a sheep as a lamb?
• Companies which meet needs and not wants since these will be harder to tax and regulate further. They will also provide an inflation hedge in that any product price rises will be harder to avoid by switching consumption preferences. In this area we still like Infrastructure companies energy providers and Basic Materials businesses.
• Japan – much is changing at the corporate level with share buy backs rewarding shareholders. Companies are keen to enter the Nikkei 400 index which is weighted based on how well a company is managed for shareholders. https://indexes.nikkei.co.jp/en/nkave/index/profile?idx=jpxnk400 In a world where bureaucrats will have more say on how a company can operate with respect to 'national interest', one might as well invest in a country where the bureaucrats are well trained and have done a fairly effective job, rather than one where they are unproven?!

Portfolio Highlights:

Advantest Corp (TYO.6857)

Advantest is the global leader in testing systems and equipment for the semiconductor value chain. Shares have increased 103% in 2023 buoyed by the proliferation of OpenAI's ChatGPT and broader interest in artificial intelligence (AI).

ADVANTEST.

Testing is conducted at the design, manufacture and end-product stages to eliminate defects and ensure quality control. Semiconductors are manufactured at the nanometer scale (1 nanometer = 0.0000001 centimetres) and therefore a short circuit, variations in voltage or timing can have an outsized impact on functionality. To assess tens or hundreds of semiconductors simultaneously, the test systems need to be equally complex.

Advantest operates in a duopoly with competitor Teradyne. Barriers to entry are wide due to the significant research and development (R&D) investment required to provide cutting-edge testing equipment. Customers seldom switch suppliers, owing to high replacement costs and the need to retrain staff. Just 4% of sales are located in Japan, with most coming from broader Asia where most chip foundries are located. This year Advantest earnings have been impacted by a cyclical low in end markets, such as smartphones, and suppliers winding down inventory. However looking beyond the next twelve months, demand for chip testing remains robust and will be further bolstered by the electrification of energy and advanced computing.

Tokyo Electron (TYO.8035)

Tokyo Electron is a global supplier of semiconductor production equipment. Shares in the company have increased 75% in 2023 owing to upgraded market guidance throughout the year and investors seeking greater exposure to Japan.

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Semiconductors are built using a process called wafer fabrication. This entails a set of core processes with hundreds of steps often repeated several times. The technology is highly sophisticated and involves precisely integrating tiny materials and components at the atomic scale. The equipment also needs to be efficient and cost-effective, which has resulted in the industry consolidating around a few dominant players, of which Tokyo Electron is one.

The primary steps in wafer fabrication are deposition, lithography and etching. Equipment manufacturers will sell machines within each of these steps, with varying degrees of market share. While equipment manufacturers do compete fiercely, there is little incentive to undercut competitors through pricing, resulting in a rational market structure and favourable economics. Tokyo Electron has a profit margin of 17% and earns a return on equity of 32%.

Instead of competing on price, Tokyo Electron competes on technology. The business spends $2.1 billion on research and development each year and has 21,645 patents registered. The sheer quantity of intellectual property in addition to the capital-intensive nature of the industry creates significant barriers to entry for new entrants to emerge and compete away the high returns. The company is also increasing revenue quality through recurring services. Tokyo Electron has 88,000 units installed which require maintenance and this is expected to grow 6,000 units per year. After the share price appreciation, we are currently reducing our position in the business, but remain bullish on the overall market and prospects for Tokyo Electron going forward.

Lam Research Corporation (NASDAQ.LRCX)

Lam Research is a global supplier of wafer fabrication equipment and services to the semiconductor industry. The business competes in many of the same markets as Tokyo Electron and has similarly seen its share price appreciate 71% in 2023.

Because semiconductor capacity is largely fixed in the short run, certain parts of the supply chain can go through periods of over and under-supply. Lam Research's sales are skewed towards memory chips, which are currently going through a cyclical low. Management noted when customer orders do recover, Lam will benefit from a large installed base and therefore increased demand for spares, services and equipment upgrades.

Despite the near-term weakness, the long-term story for Lam remains attractive. Semiconductors are of critical importance to society and are expected to only gain in sophistication and capacity over time. The sheer demand for data storage in addition to AI applications such as autonomous driving models is pushing the limits of existing technology (GPUs, CPUs and memory). The semiconductor industry is expected to grow to $1 trillion by 2030, of which $150 billion will be spent on wafer fabrication equipment. We expect this to underpin strong earnings growth for Lam Research in the years ahead.

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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

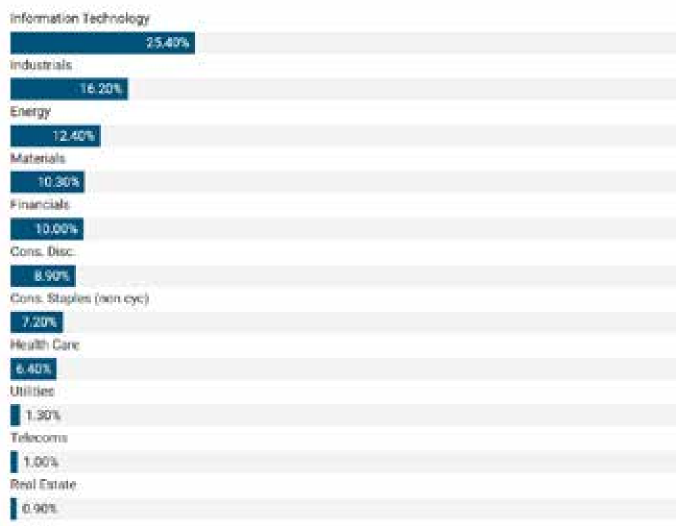
	Buy Price	Mid Price	Redemption Price
AU$	$1.2610	$1.2579	$1.2547

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	99.20%
Cash	0.80%



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	2.55%	8.83%	9.53%	9.67%	12.89%	348.33%
MSCI World	4.44%	14.12%	10.87%	12.12%	13.38%	373.34%
Cash	0.36%	3.79%	1.63%	1.29%	1.98%	27.53%

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.