Global High Conviction Unit Class
TAMIM Fund

At 31 October 2023

The TAMIM Global High Conviction unit class was down 1.79% for the month of October 2023, this was in comparison to the index return of -1.02%. The strategy has generated a return of 9.16% over the past 12 months. Since the inception of the strategy it has returned 12.75% p.a. net of fees to investors.

Well, we got what we expected in October, but it is darkest before dawn. November is typically a good month for equities.

In September and October, we cautioned that the higher for longer interest rate message was being dangerously ignored, that the banking system was exposed to significant Commercial Real Estate (CRE) risk, and that a seasonal sell-off was a distinct possibility. So, it went. October saw a decline in equity markets with global markets falling almost 3.5% in US$ terms.

To exit from equity risk now though is sub optimal. We have no doubt CRE problems will reverberate, and some over levered badly placed companies won't and shouldn't make it (eg WeWork). However much of the equity market is not stretched even against 5% bond yields. It is likely we are coming to the end of this rapid and significant bond market sell-off.

We believe the "Boom Bust and Bail" of the last 20 years is dead as an economic paradigm, and so don't even anticipate the rate cuts that are discounted for late 2024, but also reckon it is unlikely that the "Scorched Earth" of the monetarist 1980s will be revived. From our network we pick up vibes that the asset price pain won't be allowed to extend from CRE into house prices, and that large scale unemployment is also not considered the answer to the problem of inflation. We're not going back to the early 80s when real interest rates were at 6%+ levels, and unemployment hit 10%. Increased adoption of "National Industrial Policies" is likely to be supportive of employment but consequently Government is going to get bigger. This will reduce potential economic growth rates but be deemed necessary and popular. You should invest with that in mind. In short, we're through the worst of the rate pain - at least at the short end, the bit that central banks can influence.

We await the next paradigm shift from the 'well-educated but completely stupid' technical geniuses in central bank and Treasury department dungeons and suspect that "inflation is good for you" and "we need to redistribute wealth more and intervene more, to be fairer" will be three of the key tenets.

One should therefore invest in equities that pay dividends and meet "needs not wants" if one wishes to survive the double taxation increasingly imposed by inflation and government, and some increased regulatory risk. Perhaps one should evaluate the skill and technical competence embedded within governments and on that basis Japanese MITI bureaucrats are worth backing? That's for the long run. Short term, we now point out that November is typically the second-best month for returns, behind April which is the best. So, after the 10% sell-off it's time to put any cash to work? Here is our reasoning:

1. US growth is coming almost entirely from a large increase in government stimulus which will abate. There are clear signs of a slowdown in the private sector. Thus, as the government stimulus fades so will growth, and thus long bond yields are approaching a peak, and certainly a peak in the rate of increase in their yields. More subtly, the volatility in price due to duration and convexity effects, is also past its worst for bond holders such as the mid -tier banks whose balance sheet problems are now well known and perhaps therefore discounted by the equity market.

2. Central Banks are unlikely to wish for a repeat of a 1980s asset price massacre and unemployment surge, but will have to, or wish to, let inflation run a little hot declaring victory at 3% "with expectations of a trend reversion to 2% in the long run" or some such soothing meaningless platitudes. If inflation is at 3-4% this is ok for equities which are a claim on nominal growth.

3. Bond investor discipline appears to be returning meaning that Yellenomics will be harder to continue into 2024, the election year. Thus, this quarter's issuance of $1 trillion in debt by the US Treasury is probably the worst period of fiscal incontinence.

4. If bond investors can become happy to buy debt issuance with yields at 5%, versus official rates of inflation at 3%, and we're correct about issuance size declining, then we're pretty close to equilibrium already? Base effects will bring inflation down from here.

5. China has begun to stimulate by CUTTING TAXES - PM Albanese please take note. Japan has hinted at and is gradually now moving away from Yield Curve Control. They'll be trying something else - we believe 'less control more market' will be positive for economic growth in this region.

6. Elsewhere in the world a move to the right in politics generally and swing back from the Net Zero / Year Zero fanaticism, will help stabilise input costs for EVERYTHING. This will help inflation abate.

The best hedge against mild inflation is equities and given the high correlation currently between bonds and growth stocks (long duration assets) the best diversification for risk purposes could well be within equity styles - combining value and quality tilts, or investing in Asia including Japan for example.

We made a few trades in October as one should in the face of heightened cross-sectional volatility. We sold Honeywell, Tokyo Electron and Fortum in the Global Equity portfolios and purchased Emcor, a US construction and engineering company specialising in the installation and maintenance of, and services for, the electrical power grid.

We're still overweight and max bullish on Japan. It's a net creditor nation, the Yen is very undervalued on any PPP measure, and many companies have ceased to overinvest and are returning cash to shareholders.

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Portfolio Highlights:

EMCOR Group (NYSE.EME)

EMCOR is a specialty commercial electrical and mechanical contractor in the United States. The business has significant expertise in large-scale infrastructure projects including installing and maintaining power grids, electric vehicle charging stations, solar farms, advanced and traditional manufacturing, utilities and data centres. Commercial buildings of all types require extensive electrical distribution, computer systems and storage, power supply, internet, plumbing and fire protection. EMCOR's diverse technical expertise and skilled workforce make them one of the few contractors capable of completing these projects on time, on budget and to the required safety standards.

During the month, EMCOR released its third quarter results with revenue increasing 13.5%. For the second time this year, earnings guidance was upgraded, with the business expecting earnings per share of US$12.45. EMCOR maintains a record US$8.6 billion construction pipeline. Around two-thirds of the business is from construction, with the remainder from service contracts. As more projects are completed we expect services to become a greater share of revenue and therefore increase the quality of its earnings. Looking forward, EMCOR will benefit from three primary market tailwinds: the re-shoring of the global chains; growth in advanced manufacturing such as data centres and semiconductors; and the adoption of electric vehicles and the broader energy transition. The business has net cash of US$400 million and trades on multiple in line with the broader market. We think this underappreciates the significant construction runway for this business and the subsequent uplift in earnings.

Danone SA (EPA.BN)

Danone is a French multinational specialising in food products such as milk, yoghurt, infant formula and water. Brands found on supermarket shelves include YoPro, Evian Water and Aptamil. Danone products are needs rather than wants, meaning the business has pricing power with customers and can weather downturns relatively better than discretionary items. To illustrate, a mother is unlikely to switch to a competing infant milk formula when an existing Danone product is already well received by the child. Moreover, the majority of Danone's product range is health foods which is a broader market tailwind in developed nations.

In the third quarter, Danone announced a 6.2% increase in revenue. To recoup higher labour and input costs, Danone pushed through price rises of 6.6%, with a subsequent drop in volumes of just 0.3%. Management believes both volume and price will be positive in the fourth quarter as inflation pressure continues to abate. Positively, the business increased revenue guidance for FY23 from 4-6% to 6-7%. Danone is currently 18 months into a strategic turnaround led by chief executive Antoine de Saint-Affrique, with a renewed focus on core brands, product development and shareholder returns. In the dairy division, the 20% least valuable SKUs have been retired. The broader business will invest 4.5% of sales to support new products and brand initiatives. One of the growth corridors is medical nutrition, a business that has historically grown at doubt digits. Danone already offers Nutrison, a single source of daily calorie intake used in hospitals for disease-related malnutrition. Now it's offering an oral solution, to move from in-patient care to post-discharge. So far, we are impressed with the turnaround. We also given confidence from the change to management remuneration, with incentives now based on earnings and total shareholder returns.

Fujitsu Limited (TSE.6702)

Fujitsu is a Japanese multinational technology business. The lion's share of earnings are derived from consulting, cloud, IT and software services to organisations. The remainder is from hardware sales of servers, mainframes and telecommunications equipment. Fujitsu also holds stakes in several subsidiaries, most notably a 42% shareholding in Fujitsu General. This business is more familiar to Australians and is known for air conditioners and somewhat humorous adverts during the cricket featuring Mark Taylor.

The business recently launched Fujitsu Uvance, a new global business brand aimed at connecting digital services with sustainability. The division will be industry agnostic, and instead focus on the four key tailwinds of sustainable manufacturing, consumer experience, healthy living and trusted society. This will be underpinned by three technical areas of digital shifts (AI, automation and productivity), business applications (enterprise software) and hybrid IT. With labour and energy prices rising across the globe – in part due to the energy transition and reshoring of manufacturing - companies are increasingly relying on technology to manage cost bases. Fujitsu is well placed to capitalise on this demand with its workforce of global IT specialists. So far the new brand has resonated with customers, with revenue up 61% this year and on track to reach full-year sales of $3 billion.

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As we've covered in previous letters, we are bullish on Japan. The Yen is extremely undervalued and Japanese corporates broadly have committed to returning cash to shareholders. Fujitsu is targeting operating profits of around $5 billion in 2025. That level of growth is not currently reflected in the share price.

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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

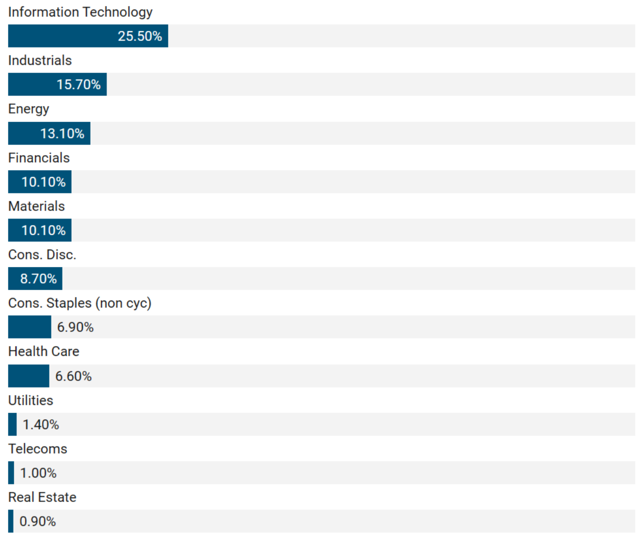
	Buy Price	Mid Price	Redemption Price
AU$	$1.2297	$1.2267	$1.2236

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	98.60%
Cash	1.40%



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	-1.79%	9.16%	11.94%	8.53%	12.75%	337.20%
MSCI World	-1.02%	11.58%	11.94%	10.74%	13.08%	353.20%
Cash	0.34%	3.66%	1.52%	1.24%	1.97%	27.08%

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.