Global High Conviction Unit Class

TAMIM Fund

At 30 September 2023

The TAMIM Global High Conviction unit class was down 2.07% for the month of September 2023, this was in comparison to the index return of -3.98%. Pleasingly the strategy has generated a return of 19.59% over the past 12 months. Since the inception of the strategy it has returned 13.01% p.a. net of fees to investors.

Bondfire of the Vanities?

World markets fell in September and in the 3rd quarter. The weak Australian $ helped mitigate the declines. The US market cannot continue to see such a narrow spread of rising to falling stocks. 7 stocks account for pretty much all of the rise in the USA market year to date. The main difference of returns for the Global High Conviction unit class to the reference benchmark remains underexposure to these 7 US stocks.

Rising yields on government bonds are the cause of this equity sell-off. Bear steepening is evident in most major bond markets as the realisation that rates have been too low for too long and that the supply side of the economy is deliberately impaired, have created inflation and inflationary expectations. These have to be killed and too late policy makers are trying to shut the stable door.

We expect price rises to continue although base effects will help temper increases from here, as will slowing growth in monetary aggregates. Money supply is faltering, and the first-round effects of the slowdown are being felt in consumer spending and levered asset price deflation, most notably Commercial Real Estate Values in the USA. Many of the transactions in this market are showing significant double digit % price declines over the last few years. This can only have an deleterious impact on banks' loan portfolios. Given that their bond portfolios will also be showing losses on a mark to market basis, we continue to think there will be a better entry point for banking shares and remain significantly underweight.

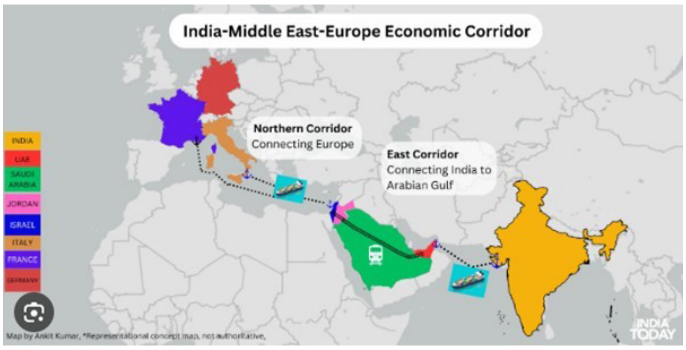
Official interest rates may not go much higher, but our expectation is that they will stay higher for longer, a clear message from central bankers to which market participants have not been listening. They will have to with US 10 year note yields are approaching 5% which is a multi year high.

We anticipate (hope?) that the Bank of Japan becomes clearer about the end of Yield Curve Control. The Yen is very undervalued but in the short term interest rate differentials tend to dominate, and these are currently working against the Yen. We anticipate long term rates in Japan will start to rise as they have everywhere but China. China's economy is worrying many investors but signs of a shift are emerging. We may touch on this in next month's update.

If it's not woke, don't fix it?

On the positive side there is clear step back from some of the most expensive and deleterious Net Zero policies. The poorly managed transition and mistaken attitudes to nuclear power, now mean that coal fired power stations are being re-started. Given that we believe air quality is a serious global issue, this is a ridiculous development and is a direct result of bad policy. Regardless, this shift is likely to lead to support for commodity prices, oil prices and oil stock P/E multiples, and stocks in the Materials sector. Despite China's economic problems, it is interesting to note the resilience of the commodity complex. We sold AES a "green energy" utility a while back in the Global High Conviction unit class which was timely as it was sold off heavily during the month.

Another positive development somewhat under reported is the announcement of a Middle-East India economic corridor. This appears to be an attempt to rival the Chinese OBOR project, and of course, may fail, but has led to an interesting rapprochement in the Arab -Israeli world and of course provides an investment thematic to be promoted – this should help the ratings of materials companies, oil companies, engineering/ industrial companies and of course infrastructure specialists.



We remain underweight banks, although did invest in UBS which rose 30% in the quarter, and overweight oils and industrials. The latter because there is much hidden technology within companies placed under this classification. We remain unhedged for Australian investors.

Portfolio Highlights:

Sprouts Farmers Market Inc (NASDAQ.SFM)

Sprouts is not your typical supermarket chain. For example, the business does not stock grocery staples such as Coca-Cola or Cadbury chocolate. The business model is based on providing unique, fresh and organic produce typically only found at a farmers market with the convenience of a supermarket store. The store network currently stands at 400 across 23 states.

Sprouts customers are health enthusiasts and willing to pay a premium to access quality groceries. As a result, Sprout's gross margin (ticket price minus cost of goods) is 37%, compared to just 25% for Walmart and 26% for Coles. A higher gross margin enables the business to reinvest back into expanding the logistic network and pass on savings to customers.

As the global economy slows, there has been concern that consumers will opt for cheaper groceries. Sprouts does not compete on price. Management made a deliberate decision in 2019 not to sacrifice margins to retain cost-sensitive shoppers. This led to 20% of its customers departing when the pandemic hit, but ultimately resulted in a higher-value customer base less sensitive to price changes. Subsequently, Sprouts has passed on inflationary pressures to customers, with profit margins increasing over the past twelve months. Conversely, competitors have had to erode margins to maintain market share.

Management is targeting annual network growth of at least 10% and has identified 1,300 potential locations for new stores. As the store rollout accelerates, Sprouts will benefit from increased utilisation at its distribution centres and better bargaining power with suppliers, reinforcing its position as a premium grocer at an affordable price point. Trading on an earnings ratio of just 15, we believe this understates the growth opportunity for Sprouts.

Williams Sonoma Inc (NYSE.WSM)

Williams Sonoma is a global retailer of furniture and kitchenware across a variety of brands including its namesake, Pottery Barn and West Elm. Discretionary retail is currently the canary in the coal mine as the market expects earnings to revert into a slowing economy. While this will no doubt be a headwind to lower-quality brands, we don't expect this to be the case for Williams Sonoma.

Demand for homewares should prove robust as homeowners opt to renovate rather than relocate. Unlike in Australia, US mortgages are predominantly fixed-rate. Most US households will have a fixed-interest loan of 3-5%, compared to new loans that are being written above 8% due to recent interest rate hikes. Subsequently, remodelling and upgrading existing dwellings has become relatively more attractive than relocating to a new home and a more expensive home loan.

Williams Sonoma earns returns on capital above 40%, owing to its vertically integrated model where 90% of homewares are designed internally. Proprietary products enable the business to adopt a premium pricing strategy and earn market-leading profit margins. Future growth will be bolstered by expansion into new geographies and further built out of the commercial homewares channel. Trading on an earnings ratio below 11, today represents an opportunity to buy a world-leading retailer at a discounted valuation.

Valero Energy Corporation (NYSE.VLO)

Valero is a downstream refiner of petroleum and low-carbon transportation fuels. In recent times the business has benefitted from demand outstripping global refining capacity, which was only exacerbated by the Russia-Ukraine war.

The transportation sector, including cars, ships, planes and trucks accounts for 28% of global greenhouse gas (GHG) emissions. Governments across the globe are subsequently legislating low-carbon fuel policies, spurring demand for renewable fuels. Europe aims to replace 14% of transport fuels with renewables. Similarly, California's goal is to reduce carbon intensity by 20%.

Since 2020, management has deployed around 50% of growth capital into low-carbon fuels. Today, Valero is the world's second-largest producer of corn ethanol and renewable diesel. Corn ethanol is blended with unleaded petrol to create a cheaper and more environmentally friendly fuel, commonly referred to as E10 at the bowser. Historically diesel has been derived from fossil fuels. Renewable diesel is instead extracted from fats and oils such as soybeans and canola. As a result, green diesel reduces GHG emissions by up to 80% and does not require extra infrastructure environments, making it a simple and cost-effective solution to reaching net zero. Interestingly, a diesel engine with renewable diesel produces 25% fewer emissions than an electric vehicle.

We believe Valero is uniquely positioned to capitalise on the energy transition. In the near term, profits will be underpinned by demand for petroleum in addition to limited new supply. Zooming further out, renewable diesel and E10 will play an integral role in helping governments reach net zero commitments.

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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

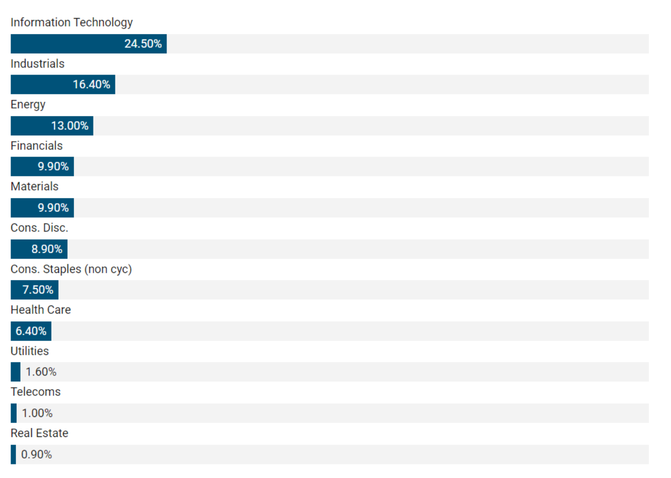
	Buy Price	Mid Price	Redemption Price
AU$	$1.2521	$1.249	$1.2459

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	98.4%
Cash	1.60%



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	-2.07%	19.59%	12.50%	7.95%	13.01%	345.16%
MSCI World	-3.98%	21.49%	11.93%	9.74%	13.27%	357.88%
Cash	0.34%	3.54%	1.41%	1.20%	1.95%	26.66%

Strategy inception: 15/07/2011 | TAMIM Fund: Global High Conviction unit class inception: 31 December 2019