

Global High Conviction Unit Class

TAMIM Fund

At 29 February 2020

Global High Conviction Portfolio Update

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February 2019 Comments

February was dominated by fears associated with the global spread of the coronavirus COVID-19. February started in relatively quiet fashion as we observed a generally positive Q3 results season in Japan, however, towards the end of the month corporate news was overwhelmed by a rising scale of panic in global markets associated with COVID-19.

The Australian dollar continued to weaken during February bring the World Value Weighted index return in AUD terms to -c.6% with the currency ending the month trading at just above US 65 cents.

At the time of writing, there are 86,032 confirmed cases of COVID-19 in 64 countries and territories, of which 92.1% of cases (and 96.4% of the 2,942 deaths) are in China, the country of origin. It may therefore come as a surprise to hear that the market in China rose by 1.96% in February. Hong Kong fell by just 0.80%. There were significant falls in Japan, the USA and Europe, which all fell around 9%.

A key factor in the relative stability of the equity market in China appears to be the news that since 18th February the number of patients recovering from COVID-19 is exceeding the number of new cases. We are not downplaying the tragic events associated with COVID-19, however, in strictly market terms this is a familiar response to an unexpected event with an uncertain impact and time frame as the number of new cases COVID-19 rises in exponential fashion. That initial panic and negative response moves to a period of recovery when the degree of impact is better understood and the level of uncertainty declines. The pattern of market recovery in China is therefore “normal” in the context of the apparent reduction in the number of new cases and the volume of recovering patients. That pattern of recovery can be expected to follow in other countries around the world as the response to COVID-19 plays out in valuations of equity markets.

We are maintaining our view that China’s better communicated and proactive response to COVID-19 in 2020 versus SARS in 2003 may have exaggerated the global stock market volatility, however, that isn’t a reason to abandon risk assets. We provide in bullet point format, some of our thoughts on “where to” from here.

- We wrote at the end of 2019 that returns of 8% pa may be the best outcome for equities which is less than we saw in very recent times but is good relative to zero returns on cash and barely above that on government bonds. This is still our central estimate.
- We positioned the Global High Conviction strategy in stocks on lower than average multiples with evidence of change for the better. The returns to Momentum investing relative to Value have been extraordinary over the last 5 years. This is unlikely to continue.
- Equities are again the ATM and some of the selling is becoming indiscriminate. Interestingly Asia and China held up well against the USA and Europe. Cheaper markets and stocks tend to do better on the downside in the face of unforeseeable events.
- This gives companies and politicians a chance to blame COVID-19 for what were already softening earnings and growth.
- The structural response to the epidemic may have longer term ramifications which we are pondering. Inventory management has become ‘just in time’ to the considerable benefit of company cash flow but supply chain disruption has caused problems for Apple, Microsoft, HP and probably every company with global sourcing. Just in time may not cease but we may see the end of single supplier/country sourcing. Additionally, the extent to which global companies should have lower risk premiums (higher P/E) because they are more diversified by geography and product line will be re-assessed. Mobile and temporary labour seem to be big inputs into Technology hardware supply chains and consequently their premium P/E will need re-assessing if they are vulnerable to viral outbreaks?
- It is now unlikely that interest rates will be going higher in 2020. At current levels of interest rates and cost of capital, the cost of a loss of 6 months’ earnings is very low in such a long duration asset as equities.

Investors selling into this type of volatile environment typically “forget” to re-enter the markets as fear generates too many confusing signals. In terms of long-term investment outcomes, it is always better to be a net buyer in this type of situation. We expect to look back at the early months of 2020 as a period of market “noise” and not the key component of our investment returns.

We made one major change in the strategy in February, selling Amada Tools and re-investing in NTT Docomo. This is a Japanese mobile telecommunications company on a P/E of 16x and a yield of 4%. The most interesting part of the business is the Smart Life business segment which handles the finance or payment services, shopping services, and life-related services.

Note: Returns are quoted net of fees. Past performance is no guarantee of future performance.

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store service, and online shopping service. We anticipate this division boosting the overall growth rate of a mature but financially stable company; one which is also buying back its own shares.

The high conviction strategy holds 30 stocks and remains value biased with risk taken stock positions with an underweight in Europe and to the Euro; an underweight in global banks and overweight positions in Japan and Asia, particularly IT companies and industrial companies trading on significant discounts to their USA equivalent.

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Overview

The TAMIM Global Equity 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

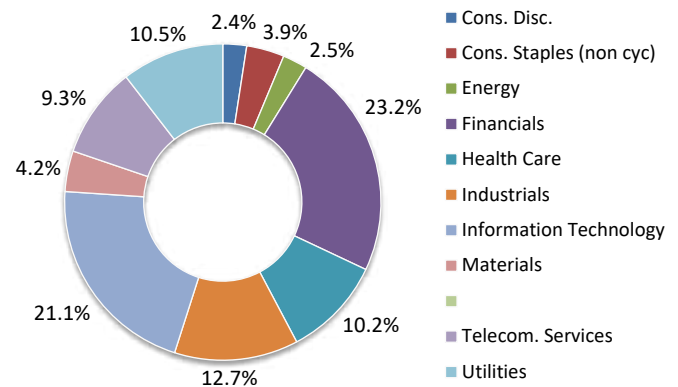
Investment Structure:	Unlisted Unit Trust
Minimum investment:	A\$100,000
Management fee:	1.00% p.a.
Admin & expense recovery fee:	Up to 0.35%
Performance fee:	20% of performance in excess of hurdle
Hurdle:	MSCI World Net Total Return Index
Exit fee:	Nil
Single security limit:	+/- 5% relative to Benchmark
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%)

Selection of 5 Holdings

Stock	Country
Verizon Communications Inc	USA
Legal & General Group PLC	UK
China Mobile	China
Hoya Corporation	Japan
Ping An Insurance	China

Portfolio Profile

Equities	98.4%
Cash	1.6%



Monthly Return Stream

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2011	-	-	-	-	-	-	0.02%	0.24%	1.48%	1.75%	-0.24%	3.14%	6.51%
2012	0.67%	3.83%	8.03%	-3.05%	-1.56%	0.57%	-1.64%	4.74%	2.58%	-0.68%	-1.95%	2.92%	14.78%
2013	2.51%	1.29%	-0.03%	3.27%	11.01%	1.11%	7.27%	-1.75%	-3.65%	3.32%	8.56%	3.41%	41.71%
2014	-3.32%	0.56%	-0.97%	0.74%	0.80%	0.02%	1.34%	3.13%	6.43%	2.11%	5.75%	2.40%	20.26%
2015	1.32%	7.07%	-0.65%	-0.53%	4.95%	-2.87%	6.09%	-3.37%	-0.76%	7.00%	1.06%	-1.24%	18.75%
2016	-0.96%	-3.34%	-0.61%	0.68%	6.24%	-5.53%	1.38%	3.05%	-2.97%	-0.93%	4.37%	4.78%	5.60%
2017	-4.04%	0.78%	0.91%	2.53%	-1.14%	-1.29%	-0.73%	0.64%	4.22%	3.47%	2.99%	-1.79%	6.41%
2018	2.12%	0.54%	-0.80%	3.80%	-1.01%	-0.62%	2.01%	3.43%	-0.46%	-4.37%	-2.68%	-4.57%	-2.99%
2019	4.39%	5.55%	0.43%	3.29%	-6.28%	7.20%	2.26%	-3.75%	3.79%	1.37%	5.21%	-0.52%	24.46%
2020	0.19%	-4.45%											-4.27%

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.