Global High Conviction Unit Class
TAMIM Fund

At 31 May 2020

Global High Conviction
Portfolio Update

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After the strong bounce in equity markets we saw in the last week of March and in April, the month of May saw more modest gains. The Global High Conviction unit class significantly outperformed its benchmark as markets fell heavily due to Covid in February and March, as it was significantly underweight Financials and Europe. The subsequent rise in the markets have been led by more highly rated US Technology stocks so it is not surprising to see the portfolio lag the index as markets have bounced back. The GHC unit class was broadly flat in May at -0.15% in AUD while the MSCI World Value Weighted index rose 2.38% in AUD. As markets have recovered so has the Aussie Dollar with a further rise of just under 1.4% for the month against the USD.

Governments around the world have continued to announce further measures to help their economies through the crisis, and as countries have started to announce plans to ease lockdown restrictions so sentiment has improved in markets. Equity trading volumes have been relatively light and a lot of the market moves have been quite technically driven, as shorting activity by hedge funds exacerbates individual share price movements. So, we should not try to read too much in to a lot of the movements we have been seeing.

From the start of the crisis we have believed that any underlying economic recovery from the Covid tragedy is likely to be a protracted one and this has now become the consensus view in the market. Many sectors will struggle to operate anywhere near the levels they used to pre-Covid, whilst social distancing measures are in place – travel, leisure, hospitality, certain manufacturing processes, etc. Many workers throughout the world are currently furloughed and so not counted as unemployed; but as these schemes come to an end - governments can't run these expensive schemes for much longer – so we are likely to see unemployment levels rise further, as companies are likely to resume their businesses cautiously and only re-hire as they see demand re-build.

As such we still prefer to focus on companies with greater visibility of earnings and strong balance sheets. During the month we sold Celanese Corp (USA) and bought Bristol Myers Squibb.

A Dead Cat Flying? Is The Future Becoming Clearer?
Originally published 10/6/2020

Some equity managers, who presumably sold heavily in March and April, are still calling this a 'dead cat bounce'. It is unusual for the cat to bounce higher dead than where it was when alive. Yet this is now where we find ourselves. And so we must ask, is the future becoming clearer?

Briefly returning to our rebounding deceased feline, the bounce was always likely and we did suggest that it would cause maximum pain by being rapid and large!

We recently began to switch back toward safe and steady stocks and away from our cyclical positions. We did this too early but we did remain fully invested. It is our investment philosophy to remain fully invested and to re-invest dividends.

At current levels on the S&P 500 (3,200 as we write this) we calculate long term nominal returns as being a little over 6% p.a.. This is based on a long term present value dividend and buy back model. All models are wrong but some are useful; we have found this approach useful in anchoring our expectations.

This annual return might not sound much but, when compared with the US Treasury Note (10 year bond) yielding less than 1%, this is a decent risk premium. Don't forget that there is some relationship between asset class returns and bond yields near zero imply lower rates of profit growth and productivity growth.

Our equity return forecasts do assume dividend cuts and a reduction in share buy backs in the USA. Given the long term risks for equities and investors in all asset classes rising, this 5% premium may however be needed as a bare minimum?

We pontificated in an article a few weeks back that the new world post Covid-19 would look different in that the three key participants (government, corporations, and individuals) would behave differently.

It is becoming a bit clearer now what these trends may look like. Consequently we summarise what we think the new risks are for investors. Risk is an essential part of investing but it is better to identify the sources to avoid big mistakes.

What are these emerging long term risks?

We see clearer evidence of a rise in government intervention in corporate strategy. National interests are increasingly cited and companies are 'encouraged' to re-invest back 'home'. This is true of USA, Japanese and Chinese companies. Foreign takeovers of businesses are also likely to be more heavily scrutinised. Consequently, there will be fewer efficiencies in future from global capital flows and knowledge sharing than there were before. Fewer takeovers mean lower short term returns. More government ownership means dividend reductions, suspensions and cancellations.

Examples abound - Cathay Pacific has received a Hong Kong government rescue package (the first in the history of HK) in the form of preference shares and two positions sitting on the board. The French have announced a rescue package for their aerospace industry and this is likely to affect Airbus, Thales and Dassault Aviation. All are listed companies and, based on their negative share price reaction, more French government intervention is not viewed positively?

We await the terms of any Boeing package. Notwithstanding the self-inflicted travails of the 737 Max programme, Boeing is an important Defense contractor and so can't be allowed to go under.

In other non financially strapped industries such as Semiconductors, the USA government has instructed TSMC, a Taiwanese company, to apply for a licence if it wishes to manufacture chips using USA design, for foreign companies. This certainly shuts out Huawei, the Chinese telecom equipment supplier and 'encourages' TSMC to orient themselves to the USA. TSMC now intend to spend $12bn on a lab in Arizona so government intervention is not only bad news but may encourage additional capital investment?

We adjust our relative return expectations UP for companies with good balance sheets and low operating leverage; we adjust UP our expectations for Asia since this government company industrial policy is something they do while asleep. (NB it does NOT mean that all Asian companies are saved – quite the opposite...)

For a more detailed series of conjectures about this, please check in with The Hinrich Foundation website. They specialise in analysing global trade and capital flows.

There is a chance that 'moral hazard' can be partially removed from the system. For example - Hertz has been 'let go' and is now in Chapter 11, and clearly some companies will not be bailed out. Virgin Atlantic was refused a public 'loan' an has had to go to the private sector. Here is a selection of USA retailers & restaurants which have filed for Chapter 11: - J Crew; The Cheesecake Factory; Sears Holdings; 99 Cents Only; GNC, Ascena Retail (Ann Taylor, Loft). If you think this will have repercussions for town taxation revenue and high street spending multipliers, then you are correct. Do we hear a suggestion that internet based retailers pay at least some corporate taxation and a digital tax is a good idea?

Our sectoral considerations now assume that consumer stocks are on their own for survival. Be wary of financial leverage in owning these stocks. This is also likely to accelerate the on-line shift - sadly. There should be more investor risk which needs discounting – it hasn't been yet.

Geopolitical tensions are rising and these tend to last for years rather than months. In a USA election year it will be surprising for anti-China and anti-European sentiment to not be heightened. This will increase equity risk across the board.

The whole system depends even more now on confidence in paper or fiat money. Constant quantitative easing has achieved little in the way of sustainable growth or jobs; and yet whole careers at central banks have been built on the premise that zero interest rates are a correct policy setting but just haven't worked yet. (All resemblances to apologists for Communism are totally non coincidental.) So, denial remains likely. The pandemic has resulted in MASSIVE increases in debt. This is just not going to be paid back and so some form of default is likely. This is not necessarily bad for the right kinds of equities but certain currencies, bonds and companies should be avoided.

Signs of stress in this constant supply of easy money are appearing. Most notably in Germany where their constitutional court ruled that the ECB was not adhering to the rules to the extent they were instructing the German central bank, the Bundesbank, to buy Euro wide debt 'disproportionately'. Arcane perhaps, but relevant because without the Bundesbank buying Euro wide debt, the likelihood is that Euro bond spreads widen and cause a financial crisis. This will not be contained easily within Italy - the likely source of the crisis. On the other hand if it forces Germany to move toward fiscal union to support the Euro (currency union needs fiscal union needs political union) then this is a good thing for the Euro albeit not so good for the German taxpayer.

Our central case now assumes we have a higher inflation bias or tolerance in policy settings and the chances of a mistake are correspondingly elevated.

So, we therefore suggest that investors remain diversified; become a little more defensive in equity positioning; and favour dividend paying companies and debt issuance in strong currencies.

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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

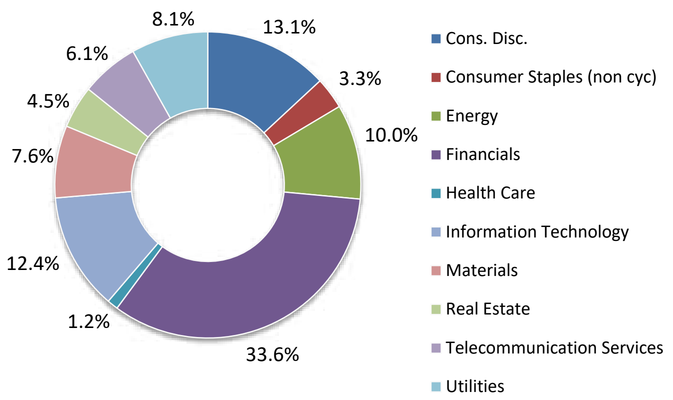
Investment Structure:	Unlisted Unit Trust
Minimum investment:	A$100,000
Management fee:	1.00% p.a.
Admin & expense recovery fee:	Up to 0.35%
Performance fee:	20% of performance in excess of hurdle
Hurdle:	MSCI World Net Total Return Index
Exit fee:	Nil
Single security limit:	+/- 5% relative to Benchmark
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	93.17%
Cash	6.83%



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%	-4.08%	2.78%	-0.15%								**-5.77%**

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.