Global High Conviction Unit Class
TAMIM Fund

At 31 May 2021

The past month has seen an 13% increase in the official number of Covid-19 cases globally, a significant deceleration from the 17% growth rate recorded in the month of April and back to the growth rate recorded in March. While this is an encouraging trend globally, within the Asian region there have been new hotspots in Japan and Taiwan in areas that previously appeared to be under good control.

USA

The USA continues to re-open as herd immunity and an accelerated vaccination programme provide practical and psychological support. Although we are potentially looking at maximum year on year GDP comparisons in the USA, the economic trajectory medium term looks upward with the sizeable fiscal transfers from government to households, and the increased value of home equity having improved consumer confidence.

USA equities were mixed to flat in May, but smaller companies rose more than large and have done so year to date.

Republicans have agreed that Infrastructure needs fixing. We're now on to an 'animated discussion' about the definition of "Infrastructure" and the necessary size of the package, but it looks like it's happening. How it's paid for, is another topic, but Congress has always been good about proroguing that particular discussion on everything. A greater risk seems to be cyber-attacks and the major refined oil products pipeline on the East Coast, the Colonial Pipeline, had to be shut and ransom paid. If ever there was an advert to showcase the need for better infrastructure, then we haven't seen it.

Colonial Pipeline, USA

Europe

In Europe, German GDP declined 1.8% year on year and in France consumer spending fell over 8% year on year. This reflects a poorer Covid response for sure, but we believe we are unlikely to see a sizeable economic rebound in Europe without a viable fix to the mutualisation of debt. This would allow sustained spending, renewed confidence in debt issuance by the peripheral countries, and allow the ECB to step back even if only a little, to allow the market to function again.

The UK was given support from Japan in its application to join the Trans-Pacific Partnership. Switzerland walked away from a 7-year long negotiation with the EU on trade terms. The EU needs to reappraise its political and business model.

In Europe we remain focussed on basic materials companies and Industrials with an aversion to Financials.

Asia

In general, positive economic news in Asia has been offset by the imposition of new Covid-19 restrictions especially in Japan and Taiwan and concerns regarding the slow pace of vaccinations across the region.

Despite being the leading regional market during May, Hong Kong has been a significant laggard in the past twelve months, rising by just 4%, the only one of our investment markets in the region that has failed to make a return of at least 20%. The Hong Kong market has a valuation discount and dividend yield premium versus the rest of the region, however, the main downward pressure on the equity market is likely to remain political. Towards the end of May the High Court in Hong Kong ruled that the first defendant to face trial under the controversial national security law will be heard by a panel of three judges not the normal jury format. The judgement cited "safety of jurors" as the reason for directing a trial without jury. The implementation of national security laws in Hong Kong is sure to continue to receive close scrutiny from the international community.

The market in China increased by 2% during May as the economy continued to demonstrate positive numbers. The purchasing managers index for manufacturing remains in a growth phase at 51 during May, while the services sector measure showed good acceleration from 54.9 to 55.2 helped by improving domestic consumption numbers.

The equity market in Japan was broadly flat during May, held back by ongoing concerns about rising Covid-19 numbers and the pace of the domestic vaccination programme. The jump in exports reported for April was the biggest for more than a decade with a 38% rise year on year, well ahead of the market consensus of 31% growth. Exports to the United States in increased by 45% while the numbers for China as a destination increased by 34%.

Portfolio

Overall, our larger positions performed creditably. Fedex rose over 7%, UPS over 5%. Seagate Technologies 5%, and Ebara the Japanese industrial machinery company over 15%. We sold NXP Semiconductor on valuation grounds and reinvested in Evercore an investment banking and advisory company.

On Inflation

We wish to make a more general observation on an emerging ling term risk from inflation, interest rates and regulation. Price increases are sticking and volumes returning, especially in the USA, and our judgement now requires us to evaluate the trade-off between momentum and valuation. Portfolio turnover has been muted particularly in terms of name turnover, and we may be required to increase this as relative valuations are looking stretched.

The risk of inflation is becoming more apparent and interest rates will most likely resume their rise at the long end of the curve. Our global equity portfolios are positioned for this. We also anticipate some risk emerging from the need to deal with the strong monopoly and monopsony power enjoyed by US companies. Unlike the 1970s, the power of labour to force inflationary wage demands is completely subdued. On the other hand, companies now have the upper hand and can force through price increases and keep wages subdued, due to their increased power and changes in the law over the last few years. The inflationary sources, and necessary response, will be different.

Federal Reserve Chairman, Jerome Powell

Consequently, interest rate increases alone may be necessary but not sufficient since these increases will not change the monopolistic pricing power. Anti-trust legislation is being mooted and this will introduce large company and tax risk into equity portfolios. Smaller companies have already begun to outperform since these are typically less hurt by legislation and forced divestitures.

It is not our intention to muse on macro-economic solutions to the problems of wage suppression, wealth inequality, and a lack of social mobility in general but there is most certainly a new paradigm being developed.

What worked in the last 10 years for investors may not work so well in the next 10.

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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

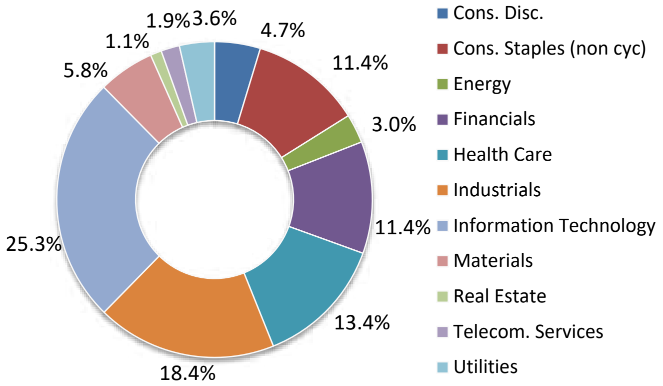
	Buy Price	Mid Price	Redemption Price
AU$	$1.1691	$1.1662	$1.1633

Selection of 5 Holdings

Stock	Country
Verizon Communications Inc	USA
Euronext N.C.	France
Quest Diagnostics	USA
Kurita Water Corporation	Japan
Sony Corporation	Japan

Portfolio Profile

Equities	93.33%
Cash	6.67%



Portfolio Performance

Inception: 15/07/2011	1 month	3 months	6 months	1 year	2 years (p.a.)	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)	Since inception (total)
Global High Conviction	1.70%	10.08%	13.48%	22.43%	15.77%	10.00%	8.99%	14.69%	287.21%
MSCI World	1.23%	9.72%	10.53%	20.60%	15.94%	13.54%	12.68%	14.59%	283.84%
Cash	0.01%	0.02%	0.05%	0.16%	0.43%	0.78%	1.08%	1.99%	21.55%

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