Portfolio Update

January 2018

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From the Directors

Death by Debt: a decade of addiction

February has been a stark reminder to those who had forgotten what volatility was, January on the other hand was a much quieter month. Global equities continued their strong run in the first month of the new year, led by Asia and the USA. Australian equity markets disappointed in the context of the continued global equity melt up. So what happened in February? The beast - inflation - reared its (ugly?) head in the form of possible wage inflation. This triggered a sharp rise in the US 10 year bond rate, as it now moves towards 3%, and a sharp increase in volatility.

Source: Investing.com

Interestingly, or perhaps painfully, the sharp increase in volatility was triggered by leveraged selling into equity markets driven primarily by inverse VIX (volatility) ETF's. Imagine that… Investment banks selling leveraged exposure to volatility which was at or near multi period lows. I guess we just don't learn, when you are offered a deal that is too good to be true and you can't explain what it is to your mother, then RUN!

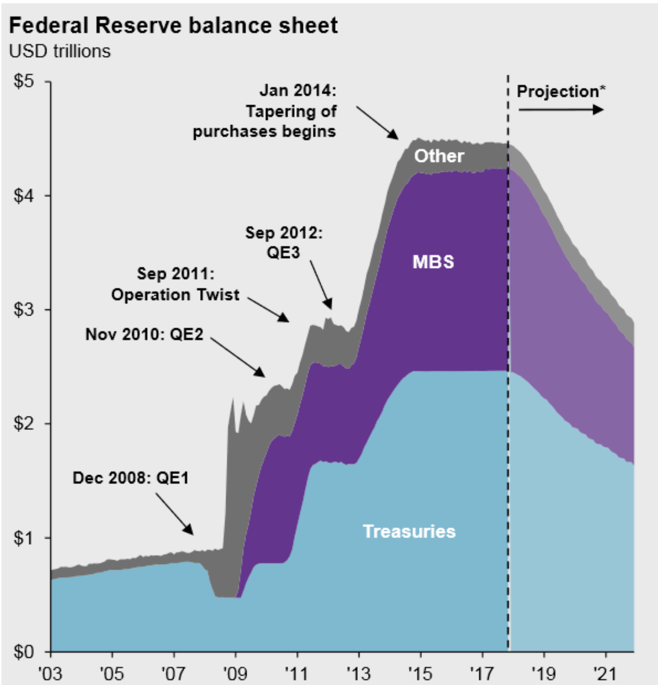
So does that mean we should hide under the bed for the rest of 2018? Definitely not, the economic environment is strong globally and this is still a good environment to be invested. WE should however take some time out to understand the storm clouds that are forming on the horizon. This refers to the massive amount of US debt and the impact this will have on the global economy in 2019 and beyond. Let us take a good look at what is happening with US interest rates and more specifically the 10 year US bond rate. The yield of a bond, as you would no doubt remember, moves inversely to the price of the bond. So when yields go up, that means the price of the bond is going down. The yield/price of a bond is determined through the economic forces of supply and demand. Supply relates to the issuance of additional US government debt in the form of bonds. Demand relates to the need from buyers to purchase this government debt.

Supply

The supply of US debt is about to explode. US Debt levels currently exceed \$20.7 trillion and that does not include, state, local or agency debt. It also does not include the unfunded liabilities of social security and medicare. In 2017 the US Federal deficit was \$667bn and this is estimated to be up to \$877bn for 2018. For those of you who are interested in these numbers please check out this site for all the figures. In February congress passed bills mandating the spend of \$300bn on military and domestic programs over the next two years. Additionally, the Trump tax cuts will cost the nation \$1.5tn over a 10 year period. Not to mention the mooted $1.5tn infrastructure spend.

All this spending needs to be paid for and this will come from debt issuance to assist the shortfall in revenue collection from taxes. This year the US Treasury expects to issue $955bn of debt instruments and over $1tn per year in 2019 and 2020. This represents an 84% increase over 2017 when it borrowed $519bn. While this all sounds ugly, it still does not include the off balance sheet items such as social security and medicare.

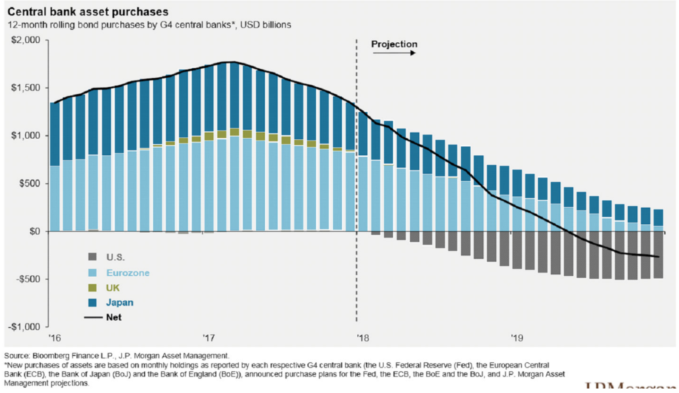
Rising interest rates will have a curious effect on this ever increasing debt mountain. The days of zero interest rates where the cost of servicing this debt was, rather conveniently, low or non existent are now over in the US. With the Fed predicting short rates at 2.25% by year end, the cost of financing the debt will increase significantly. Low rates were not the Feds only gift to Treasury, the Fed also purchased significant amounts of US debt. In 2007 the Fed balance sheet was $858bn rising to $4.5tn in 2017. This massive balance sheet expansion is now ending and actually reversing.



Source: JP Morgan Asset Management

Demand

So onto the demand side of the discussion. As discussed above, over the last decade the Fed purchase of US Treasury securities (and mortgages) was significant. That is all about to end, as of October the Fed committed to actively reducing its balance sheet by selling treasuries and mortgages.

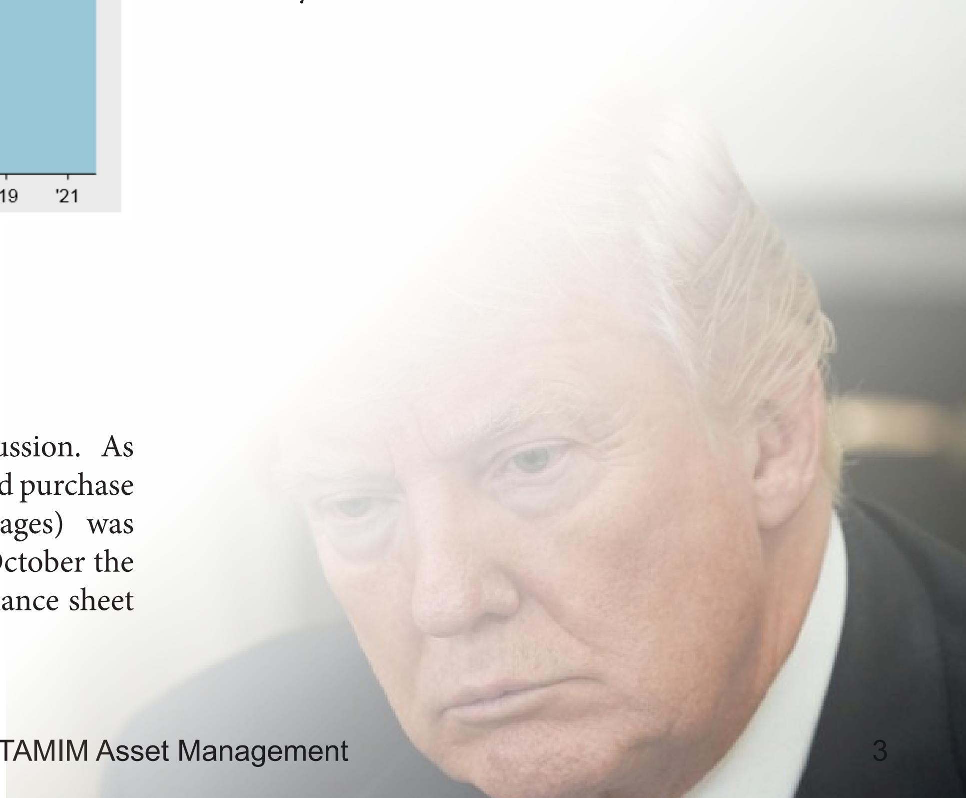


Source: JP Morgan Asset Management

In January 2018 it reduced its balance sheet by $18bn and it has committed to reducing by a further $420bn in 2018 and $600bn in 2019, this $1bn that the Fed needs to sell back to the market will cost the deficit an additional $20-$25bn per year in lost interest revenue.

So to get the arithmetic straight, in 2018 the deficit will be $1.1tn, assuming an optimistic off budget deficit of $400bn and the Fed bond sales of $420bn, that means the Treasury is going to need to find buyers for close to $2tn of US Government debt in 2018.

It is not clear that US investors, US pension plans and certainly the poorly funded state and local pensions will be able to purchase the additional government debt. China will continue to buy US Government debt but you can be sure that over time they will want to reduce their exposure. The once reliable OPEC buying is now less reliable as the US purchases seven million fewer barrels of oil a day resulting in less OPEC dollars to fund US debt purchases. US Government debt levels held by foreign purchasers increased from $1tn in 2001 to $6tn in 2013 but has largely moved sideways since that time.



MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES
(in billions of dollars)
HOLDINGS 1/ AT END OF PERIOD

Country	Dec 2017	Nov 2017	Oct 2017	Sept 2017	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017	Mar 2017	Feb 2017	Jan 2017	Dec 2016
China, Mainland	1184.9	1176.6	1189.2	1180.8	1200.5	1166	1146.6	1102.2	1092.2	1088.1	1059.7	1051.1	1058.4
Japan	1061.5	1084.1	1094	1096	1101.7	1113.1	1090.8	1111.3	1106.9	1120.5	1115.5	1102.5	1090.8
All Other	4063.9	4072.4	4066.3	4046.2	3968.2	3973.2	3942.5	3912.1	3876.6	3870.5	3844.8	3799.4	3857.1
Grand Total	6310.3	6333.1	6349.5	6323	6270.4	6252.3	6179.9	6125.6	6075.7	6079.1	6020	5953	6006.3

Source:US Department of Treasury

Should you wish to see this data in more depth, it can be found at:
http://ticdata.treasury.gov/Publish/mfh.txt.

Our final analysis of the supply and demand imbalance is simple the US debt addiction means that US interest rates will have to go up. Possible solutions to the addiction could be:

- Stop spending money you don't have. This is unlikely.
- Debt forgiveness (or defaults). This is possible.
- More quantitative easing (Robert Swift will be seriously unimpressed). This is possible.

Our investment position remains the same for 2018, remain invested as the economic fundamentals are still strong. Do make sure that your equity exposure is more liquid and make sure your portfolios are diversified. **Do not look for your diversification in US bonds.**

Yours Sincerely,

Darren Katz

Darren Katz,
Joint Managing Director

TAMIM Australian Equity **All Cap Value IMA**

The Australian Equity lagged global peers in January. Whilst US markets appeared to hit all-time highs virtually every session, the ASX 200 traded sideways and finished the month slightly in negative territory. Retail was the best performing subsector on the market (+5.0%) whilst REITs and Utilities were amongst the worst performers, down 3.3% and 4.5% respectively. The fund underperformed the broader market, retracing 1.8% after having four strong months in a row. The main detractors were in the IT space (Melbourne IT -12.4%, Data #3 -10.8% and Gentrack -10.7%). This is an area that has done very well for us over the course of the last year. Recently we have moved to reduce our IT weight and lock in profits. This has built up our cash level. One of the top performers for the portfolio over the last month was Resmed (+13.5%) on the back of a strong quarterly result.

Portfolio News

Our cash levels rose over the course of January as we reduced a number of existing positions. These positions had either become too expensive for our liking or something had changed. Ultimately though we are concerned around the prospect of a correction in equity markets and we believe the most likely source will be rising global interest rates.

The most important number to watch in the world currently is the US 10 year bond rate. The reason is that it is effectively known as the global risk free rate and in the world of finance all other assets are effectively priced off of it. Since September last year this rate has had a dramatic increase, going from a low of around 2.05% to above 2.80% now. The rise has come on the back of global GDP upgrades and the rising expectation that the Federal Reserve will raise interest rates at least three times this year.

Rising interest rates mean different things for different sectors. With higher yields available in the fixed income universe, yield sectors such as Utilities, Infrastructure and Real Estate sell off. Unsurprisingly, Utilities (-4.5%) and Real Estate (-3.3%) were the worst performers domestically last month. Since mid-December we have seen dramatic moves in the Infrastructure space with Transurban and Sydney Airport down over 7%, APA Group down 14% and Spark Infrastructure down over 15%. Whilst there may be further falls to come, it is an area that we are starting to get interested in. In particular companies with regulated earnings which now offer yields close to 7% in some cases. We have had no Utilities exposure over the last few years given the compressed yields on offer, however we have started initiate a small position in this sector and will potentially add on further weakness.

Outside of the yielding sectors, there are likely to be some other sectors that will be impacted. To understand what could happen, it's important to look back at the past. Thankfully we don't have to go back too far to find a similar period. Back in the second half of 2016, the US 10 year rate went from below 1.40% to over 2.60% as the Federal Reserve started to talk about further tightening. In the initial stages of this rise in bond yields, the sectors mentioned above started to fall, but what happened after that is interesting. Stocks with high price to earnings multiples started to fall dramatically. These stocks are typically ones with high levels of expected growth and are known as high duration assets. What that means is the payback from earnings typically falls further into the future. With rising interest rates the value of future cashflows begins to fall. The further out the cashflow, the longer the duration of the asset and the greater impact rising interest rates will have on the valuation.

Back in 2016, the healthcare sector was the second worst performing on the ASX. This is despite it arguably having the best long-term growth stories in the market. After a stellar run, the share prices of companies such as CSL, Resmed, Cochlear and Ramsay all fell over 15% from peak to trough. At the time, we used the weakness to establish positions in CSL and Resmed.

So what sectors are at risk this time? One of the best performing sectors in the last year has been Information Technology. Whilst we believe in the long term future of this sector (and it is our largest exposure), we do note that valuations across parts of it are feeling very frothy. Early stage companies such as GetSwift and Big Un have seen significant rises. It's fair to say that speculation at the smaller end of town has been well and truly alive, however more often than not these fast paced gains in early stage companies reverse. Raising interest rates could very well be a catalyst. In our portfolio we have moved to reduce some of our positions in higher multiple stocks within the Technology in recent months. Within our top five holdings at the start of last year were Gentrack which returned 85% for the year, Altium which returned 67% and Integrated Research which returned 42%. We have locked in profits most notably in Altium and Integrated Research (we still hold positions in both but in a greatly reduced size). We have rotated into lower multiple stocks in sectors such as Industrials and Energy and have also built up our cash position. We feel this cash position will allow us to take advantage of what will be a more volatile market in 2018. In particular quality high growth companies which may become significantly cheaper and provide good long term opportunities for patient investors.

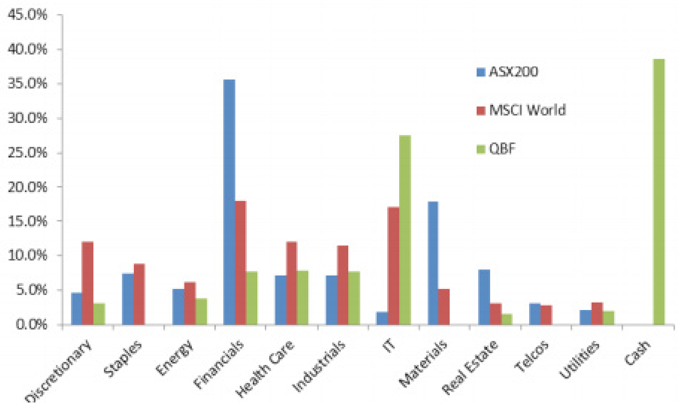
The Portfolio

The fund is currently invested in 21 companies. The cash level is currently 38.6% (up from 33.3%). We added one new position, exited our position in SDI, whilst trimming our positions in Axsess Today, Data #3, Beach Energy and Integrated Research.

GTK	8.2%
AXL	5.4%
CSL	3.7%
DDR	4.3%
HSN	4.0%
Other Positions	35.9%
Cash	38.6%

Sector Positioning

The fund maintains a strong overweight to the IT sector with other exposures in Healthcare, Financials, Industrials, Energy, Consumer Discretionary, Utilities and REITs.



TAMIM Australian Equity
Small Cap IMA

Portfolio Review

The portfolio finished January slightly up, against the back drop of a generally flat broader market. Key contributors to the result were Money3 (MNY) (+9%), Dreamscape (DN8), (+7%) and Blackwall Limited (BWF) (+6%). Detractors included Elanor Investors (ENN) (-7%), Joyce Corp (JYC) (-5%) and Paragon Care (PGC) (-4%).

Newsflow across the portfolio during the month was somewhat limited as the half year reporting season approaches, commencing in early February.

Key portfolio news during the month included:

Gale Pacific (GAP.ASX) upgrading its half year guidance due to better than anticipated trading during November and December, particularly in its Australian retail business. GAP confirmed it is on track to exceed its FY17 earnings. A strong global business, it is currently trading on 10x FY18 earnings and exhibiting pleasing growth in its American operations.

Paragon Care (PGC.ASX) announced the acquisition of its South Australian distributor as it looks to grow its presence in that state to consolidate its national coverage. PGC is currently trading on 10x FY19 earnings, with a strong outlook. Recent broker coverage of the stock highlighted the "deep value" opportunity that PGC now represents.

Dreamscape Networks (DN8.ASX), Australia's largest domain name provider, continued the expansion of its hosting business with the bolt on acquisition of a Gold Coast based hosting provider. The acquisition multiple is expected to equate to approximately 2.7x FY17 EBITDA, post-synergies.

In the latter part of 2017, we subscribed for small positions in two new, interesting, micro-cap listings.

A selection of top portfolio positions as at 31 January 2017 (in no particular order):

ASX: JYC
m/c: $40m
Outlook: "business units are forecasting solid performance gains"

ASX: KKT
m/c: $50m
Outlook: "70% increase in revenue and EBITDA

ASX: PGC
m/c: $129m
Outlook: "Strong growth in FY18 across all key metrics"

ASX: PNC
m/c: $183m
Outlook: "48% increase in earnings expected"

ASX: ZNT
m/c: $91m
Outlook: "EBITDA of between $13m to $13.5m" (pre acquisitions) (FY17:$7.0m)

TAMIM Global Equity
High Conviction IMA

Market & Portfolio Review

The strategy rose by 2.2% in AUD terms and 5.8% in USD terms for the month of January, outperforming MSCI World by 0.5%.

Equity markets rose again in January although some understandable 'fatigue' appeared toward the end of the month. We maintain our Value bias.

Healthcare stocks fell as Amazon, Berkshire Hathaway and JP Morgan announced plans for a JV in the space. This is how capitalism is supposed to work and excess returns on capital tend to get driven down by increased competition.

Intel pleased with results and the stock rose strongly. Apple fell as iPhone X sales were rumoured to be disappointing. We remain holders of both.

We have begun to invest in USA utilities and auto parts companies.

Market Outlook

US tax changes are complex but seem beneficial to business. US Treasury yields backed up toward the end of the month. A yield nearer 3% on the 10 year seems about right given higher levels of global growth.

An end to ZIRP is in sight (thankfully) but there will be some nasty surprises as refinancing becomes more expensive. We are mindful of corporate balance sheet strength currently.

Valuations look only ok in the USA and attractive in Japan and Europe. We remain keen on Japanese stocks. They have strong balance sheets, are increasing dividends and will be likely beneficiaries of Chinese infrastructure spending. We remain fully invested in the model portfolio and unhedged for AUD based investors.

TAMIM Income Fund
Series 1

The Tamim Income Fund 1 generated an interest return of 0.73% in January. The portfolio was allocated as follows through January:

Platform	Allocation
RateSetter	66%
Society One	30%
Cash	4%

The portfolio is currently invested into two loan platforms being the Ratesetter platform and the SocietyOne platform. The Ratesetter platform loans comprise 66% of the overall portfolio. It is important to remember that the Ratesetter platform operates with a provision fund which protects the portfolio loans to approximately the first 6% loss. This does however operate at a portfolio level so is not a guarantee of capital.

The Ratesetter provision fund balance is currently $8,048,404 which is 6.36% of the outstanding loan book. Key Ratesetter details are summarised below:

The SocietyOne loans comprise 30% of the overall portfolio and this is split across over 300 loans as follows:

Category	Allocation	Yield (gross)
A	19%	8.95%
B	32%	10.92%
C	49%	14.44%

RateSetter Key Statistics

Key Statistics Since Inception	
Claims on Provision Fund	100% of late payments and defaults
Claims paid by Provision Fund	100% of total claim value
Total amount lent	$236,274,172
Total principal repaid by borrowers	$101,149,132
Current funds on loan	$135,125,040
Current estimated bad debt rate*	<3.5%
Current estimated bad debt*	$4,716,750
Current estimated default coverage ratio*	1.7x

Source: RateSetter

TAMIM Alpha Fund

Shalom,

The TAMIM Alpha monthly report aims to provide our investors with a general review of the Israeli market and describe the key events that occurred in the fund through January 2017. We will be sending these reports on a monthly basis with a more in-depth report coming each quarter.

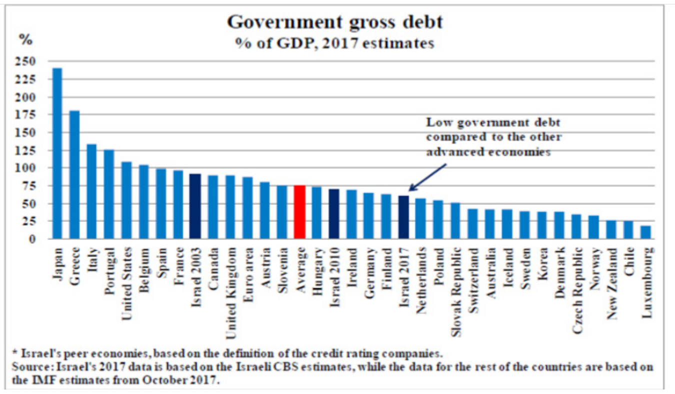
Market Review

The first month of the year was, in many ways, a continuation of the bullish global equity market we saw in 2017.

Israel's economy also continued to show signs of ongoing improvement against a backdrop of low inflation and a strong shekel, factors that should enable the Bank of Israel to keep its policy rate at near-zero levels for the time being and potentially offer continued support to Israeli financial markets. Israel's economy remains robust. The Bank of Israel's composite state-of-the-economy index was up 0.3% in December, pointing to a slightly faster pace of economic expansion. A business survey for the same period was also upbeat, indicating continued solid expansion amongst Israeli businesses.

One parameter that we mentioned quite often in our presentations before launching the fund was the Debt to GDP ratio of Israel. Israeli government debt as a percentage of GDP is at 60% - below the government target and low when compared internationally. According to an announcement by the Bank of Israel the decline in the government debt in relation to GDP last year occurred mainly as a result of the continued growth of nominal GDP last year.

Israel's low government debt, as a ratio of GDP, is notable in comparison to other countries. As can be seen in the chart below, Israel's debt to GDP ratio for 2017 is below that of many developed countries - Japan, the United States, Canada, Britain, and the euro bloc countries to name a few.



The continuing improvement in Israel's fiscal position, as expressed in the continuing decline in the country's debt/GDP ratio, is likely to be reflected in lower capital raising costs for current fiscal activities. This will contribute to the continued decline in the interest rate burden on debt. In addition, it is important to note that the downward trend in the debt/GDP ratio of the Israeli government in recent years was an important factor in the upward revision of the credit outlook for Israel by the S&P credit rating company. Israel progressed from "stable" to "positive" in August 2017. It is important to emphasize that, if the declining debt trend continues, then the possibility of an upgrade in Israel's credit rating by S&P, from "A+" to an historic peak of "AA-", in the coming 18-24 months cannot be discounted.

Portfolio Review

January was focused on construction of the portfolio with the goal of deploying the funds carefully.

With a carefully selected list of target companies, we are looking to be approximately 40% invested in the near term. It is always a challenge to deploy funds in a market that has such strong positive momentum and, as such, we are very mindful of stretched valuations and the price we are willing to pay for the companies we have targeted.

The following two portfolio companies provide a strong example of the type of holdings we are targeting. As we have stated on many occasions, these companies can be low or high tech that have some form of cutting-edge advantage which allows them to have a global presence and market share.

A growth investment: Ham-let

One of Israel's leading industrial companies, a supplier of industrial and high-tech compression fittings and valves with a worldwide manufacturing, distribution and marketing infrastructure.

Ham-let is involved in the following industries:

- Semiconductors
- Energy
- Oil & Gas
- Ground turbines
- Chemical
- Petrochemical.

With more than 900 employees around the world, Ham-Let Group has branches and subsidiaries in the US, Canada, England, Germany, Holland, Japan, China. Russia, France, Norway, Australia and Singapore.

The company's customers are among the world's leading companies in the processing and semiconductor industries.

We believe that the continued global growth of the semi-conductor industry and the entry of Ham-let into the Chinese market in mid-2017 will continue to support the company's growth and global market share.

A value investment: Allot Communications

Established in 1996 and traded on the NASDAQ and Tel Aviv Stock Exchange, Allot is a leading provider of innovative network intelligence and security solutions for service providers and enterprises globally. Allot's solutions are deployed globally for network and application analytics, traffic control and shaping, along with network-based security services.

Allot's multi-service platforms are deployed by over 500 mobile, fixed and cloud service providers and over 1000 enterprises globally in the most demanding environments.

Allot's industry-leading network-based security, as a service solution, has achieved over 50% penetration with service providers and is used by over 20 million subscribers worldwide.

Allot recently introduced "Allot IoT Defense" which enables Service Providers to secure IoT (Internet of Things) deployments at the network layer and deliver IoT value-added services to their customers. We believe that this new product - allowing Telco companies worldwide to provide their customers comprehensive cyber protection - will be a lucrative source of income as Telco companies buy the product and end users pay for monthly subscriptions. This sector is growing rapidly and Allot has already signed an agreement with a Spanish Telco company.

It is our view that that, with the continued efficiency of its traditional products and the beginning of a successful penetration into the IoT segment, Allot is trading at an attractive valuation.

Sincerely,

Sagi Ben Yosef, Darren Katz
& the combined TAMIM Alpha Team

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