



# Portfolio Update

June 2018

**TAMIM Asset Management**  
ABN 97 608 304 963 | AFSL 421469  
P 1300 750 007



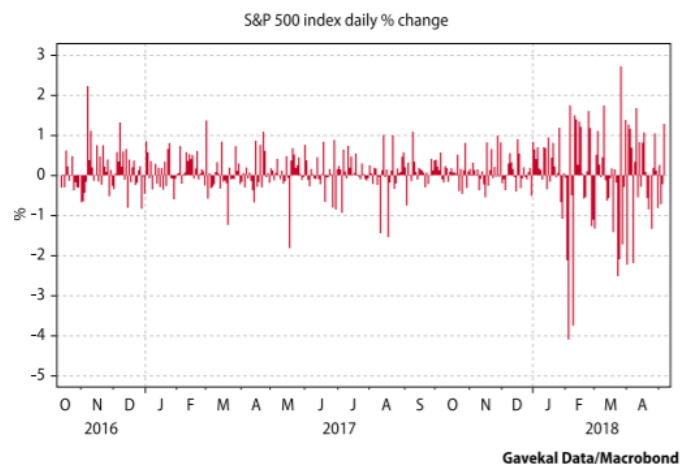
# From the Directors

## June 2018 Review

Sometimes I get the feeling that I am harping on a subject. This is normally accompanied by my kids rolling their eyes at me when they don't think I can see them. Well at the risk of repeating myself, volatility is back! The first quarter of 2018 was tough from a long only equity investment perspective but the second quarter reversed the negative returns and delivered good returns for investors that remained in the market.

The ASX/S&P 200 was up by 8.5% taking the 2018 return into positive territory - up 4.3%. Global equity markets, represented by the MSCI World Index, were also up through the quarter (+3.8%) taking the year to date gain to 1.6%. Across fixed income Australia once again stood out with the Bloomberg Ausbond composite up by 1.7% year to date versus the Global fixed income index, the Barclays Global Aggregate down -1.5% after a poor second quarter of -2.8%. Property in Australia, or should we say residential property prices, has weakened. We still continue to see strong demand for property in the retail, commercial and industrial segments though. Globally, property was up strongly during the quarter with the FTSE NAREIT Index up 9.8%. One must bear in mind the broad nature of this index and, as usual, property and its return is really governed by local conditions.

**A more volatile environment**

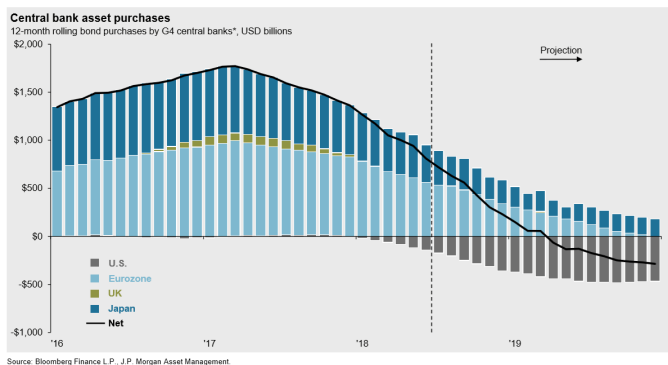


The increase in volatility across US equity markets has obviously carried across to other global equity exchanges with Chinese indices falling approximately 10% over the quarter with most of this occurring in June. The Shanghai index is now down about 20% from its peak. This is not just about the Trump trade wars though. Tighter monetary and fiscal policies have caused the Chinese economy to soften. The People's Bank of China is working hard to curb off-balance-sheet lending which is weighing on growth. This short term pain will help lead to the longer term goals of financial stability and reduced leverage in the financial system but that does not help our short term focused world.

While China was weak, US equities were strong in the first two weeks of June but retreated as trade war tensions returned to the fore. As we have discussed in

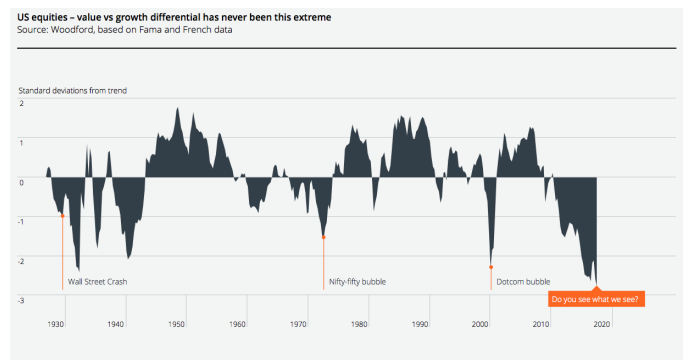
previous monthly reports, we need to understand that the tariffs are really of little consequence currently. BUT, as the negative news flow continues it may start to have an impact on business and consumer confidence which will then start creating an issue for investment markets. The Fed raised rates in June and has signalled two more increases this year plus another three next year. We should paused here and consider the amount of debt currently swilling around the US, I don't only mean government debt of \$21.2T - think corporate debt and unfunded pensions with total US debt at \$70T!!! These interest rate increases will start to hurt going into 2019 (interest paid of \$2T per year). US debt levels and a large current account deficit will weigh heavily on the US dollar.

In Europe, the ECB has confirmed that rates will stay on hold until June of 2019 however their quantitative easing program will likely start to be curtailed by the end of this year as can be seen in the chart below. We still find it difficult to believe that the wholesale reduction of these asset purchase programs will continue over the next two years. Is it possible that there will need to be further QE with "debt forgiveness" programs over the next decade in order to help remove the massive debt burdens across the globe? At this stage I am moving from thinking this is going to happen to believing this will be the only way out (apologies to Robert Swift).



Source: JP Morgan

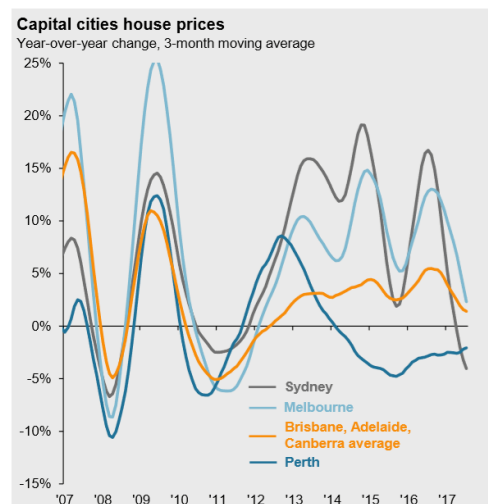
Over the last 12 months the Eurostoxx index has delivered no return in local currency terms. June was no different with a flat return. This is despite the fact that earnings for European companies across 2017 and 2018 have been steadily increasing. In the US we have seen strong returns with growth stocks continuing to drive returns over value stocks. The Nasdaq is up 24% and the S&P 500 is up 19%. In Asia we have Japanese equities up 10% over the year while we see China down almost 20%.



Australian equities are up just over 10% over the past twelve months with a significant portion of this increase (8.1%) coming in the last three months. While we are close to the end of the cycle it is still a good environment to remain long risk. It is interesting that there has been a significant out-performance of growth equities to value equities through this period (see the chart above) and there will be a significant swing back towards value. We have been positioning client portfolios for this albeit too early.

Strength in commodity prices (iron ore up 2.7%) across the quarter has helped drive local equity returns with materials and energy accounting for a significant amount of the increase in returns. Year to date materials are up 7.9% and energy is up 11.8% this alongside the best performing segment - health care - which is up 24.5% has been sufficient to more than offset the falls of in telecoms (-23.2%) and financials (-2.1%).

From an economic perspective the lack of growth in wages continues to be a concern and the falls, albeit quite moderate in house prices, will keep the RBA on hold. Offshore funding costs and tightening of lending standards may result in out of cycle rate hikes by the banks. In this situation we may even see the RBA lower rates to keep financial stability.

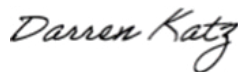


\*Dwelling price is the year-over-year change in the hedonic index for eight capital cities. Past performance is not a reliable indicator of current and future results. Guide to the Markets - Australia. Data as of 30 June 2018.

Source: JP Morgan

To conclude, globally and locally we see corporations in a good position from an earnings perspective and growth remains positive. We are still happy to remain invested into risk assets however we are nearing a period where rising interest rates and a fading of fiscal stimulus impacts will start to hurt. We should be investigating how to immunise our portfolios against these coming changes. Traditionally this role was carried by investing into government or corporate bonds. With yields so low and now increasing as well as compressed credit spreads this is not going to work this time round. Our view is that private debt will act as an excellent ballast to our equity portfolios rather than traditional fixed interest investments.

Yours Sincerely,

A handwritten signature in cursive script that reads "Darren Katz".

Darren Katz,  
*Joint Managing Director*



# TAMIM Australian Equity All Cap Value IMA

The Australian equity market had a strong month to end the financial year. The June return came primarily from the ASX top 20 with smaller companies lagging behind. The Energy sector was the best performer on the back of a 10.6% rise in the price of oil. Financials (+4.0%) rebounded on the back of the banks with the troubles of the royal commission forgotten temporarily. The worst performing sector yet again was Telcos (-5.8%) as Telstra disappointed investors with the guidance given at their strategy day. It now appears FY19 will see another significant dividend cut. Our portfolio underperformed the broader market with a downgrade from Hansen Technologies and a merger announced between SRG and GCS both having an impact. On the positive side, Horizon Oil (+11.1%) and Veris (+8.9%) both had strong gains

## Portfolio News

The portfolio was impacted by two events over the course of June. The major impact was a downgrade from Hansen Technologies.

**Hansen Technologies** is a business we have owned off and on since 2015. We initially purchase a large position around \$1.60, after trimming a few times we completely exited on valuation grounds above the \$4 mark. Following our exit the price dropped backed down towards \$3 and we re-entered with a small position. Then in November last year, the company announced a strong trading update at its Annual General Meeting. With the price still in the \$3.30 range, we added a little bit more. The price then drifted up over \$4.50 over the next 6 months and we seemed justified in our purchases.

However, that all changed when the company reported a drop in profit in the 2nd half and a flat

outlook for FY19. The 2nd half drop was expected but the guidance for the next financial year was a disappointment. We had expected the company to continue to grow revenues and profit in FY19 on the back of its latest acquisition, Enoro. Within that acquisition the company had acquired a price of analytical software that it could cross sell across its existing client book. This cross sell has not eventuated and as a result our long term growth expectations have been revised down. We exited our position above the \$3.30 mark with a broadly flat round trip on our most recent purchases.

The other major impact on the portfolio was a merger announced between **SRG and GCS**. We are in an unusual position here as we own both companies and unfortunately both sold off during the month. The merger though appears to make sense to us. From an investment perspective we viewed SRG as the higher quality business with a more diversified revenue base whilst GCS was trading on a cheaper multiple with a better balance sheet. The combination of the two businesses is an attempt to fill a void in the midtier sector of the infrastructure construction market. In recent years there has been significant M&A activity with Cimic being aggressive in taking out companies such as UGL and Sedgman. The new entity as a result should be well positioned to win work and in addition there are significant potential revenue synergies between the two.

Elsewhere, two of our current holdings provided solid trading updates.

Veris provided guidance for the FY18 year with revenue growth of 35% and for revenue growth in FY19 of 30%. In addition the company expects margins will be higher next year with the inclusion

of recent acquisition, Elton Consulting. The company is benefitting from the ramp up in East Coast infrastructure spending and through its Urban Planning division has early stage exposure to new projects being planned.

Locality Planning Energy put out its most comprehensive update since being listed. The most intriguing part of their announcement was their forecasts for the next few years. These can be seen below.

Shown in \$ millions	FY 18/19 E	FY 19/20 E	FY 20/21 E
Gross Revenue	\$44.2	\$79.7	\$115.2
Cost of Goods	\$34.4	\$63.6	\$92.8
Gross Profit	\$9.80	\$16.0	\$22.4
Margin %	22%	20%	19%
Operational Expenses	\$9.10	\$11.3	\$13.0
Profit (NPAT)	\$0.68	\$4.65	\$8.20

Source: Company filings

Whilst these are aggressive forecasts, the company has since listing hit all their targets and their revenue is on average locked in for 7.2 years. The company currently has a market capitalisation of \$43m and if they come close to the FY21 number we would expect the shares to trade at a multiple of where they are now.

## The Portfolio

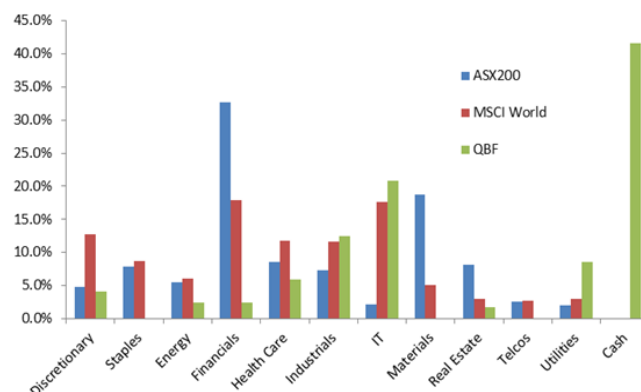
The portfolio is currently invested in 22 companies. The cash level is currently 41.6% (up from 38.3%). We trimmed our positions in CSL, Resmed, AxessToday and Gentrack whilst selling out of Hansen Technologies. We added to existing positions in Spark Infrastructure, Locality Planning Energy and Adacel Technologies. We also added a new position in Cimic.

**SKI** 6.0%  
**SRG** 4.9%  
**GTK** 4.3%  
**TME** 4.0%  
**DDR** 4.0%

**Other Positions** 35.2%  
**Cash** 41.6%

## Sector Positioning

The fund maintains a strong overweight to the IT sector with other exposures in Industrials, Healthcare, Utilities, Consumer Discretionary, Financials, Energy and REITs. Our IT weight has been falling in recent times whilst we have been adding to Industrials (with an Infrastructure focus) and Utilities.



# TAMIM Australian Equity Small Cap IMA



## Portfolio Review

During the month, we saw weakness across some of our larger positions, with Pioneer Credit (-5%), Zenitas (-5%) and Joyce Corporation (-6%) all weaker on the back of no specific news. Elanor Investors (+6%), Apollo Tourism (+3%) and Easton Investments (+8%) showed pleasing gains. There was also general weakness across some of the more illiquid names in the portfolio, arguably resulting from end of financial year tax loss selling. Reflecting some of this, the XEC (Emerging Companies) micro-cap Index was down c. 2% for the month. We expect some of these losses will reverse in July.

For the 2018 financial year to June, the portfolio returned a modest +4.00% after all accrued fees and fund expenses (each individual IMA will obviously display a unique return). We view this result as disappointing given the generally strong equity market conditions. Whilst the fund has traditionally performed at a low correlation with the broader market, with better performance in weaker markets, some specific reasons for this underperformance are as follows:

- A number of our key holdings - Elanor Investors (ENN), Joyce Corporation (JYC), Blackwall Limited (BWF), Zenitas Healthcare (ZNT) and Gale Pacific (GAP) tracked sideways or generated negative returns for the year. However, these are all well run businesses that ended the financial year with far more compelling fundamentals than they started the year with.
- The returns from successful investments such as Pioneer Credit (PNC) and People Infrastructure (PPE) have been offset by some poor performers, namely Konekt (KKT) and Mitula (MUA).
- Strength in the broader market has been driven

by high growth, high liquidity “momentum” an environment, a value-biased micro-cap investment strategy focused on earnings driven stocks, has been challenging.

However, we are excited by the opportunities we have identified in a number of ignored, under-valued and under-appreciated micro-cap stocks.

The portfolio comprises a unique selection of profitable, small, growing, under-valued, undiscovered opportunities, with strong business momentum. While we can't predict performance in the short-term, we start the new financial year excited about the current portfolio holdings, and their medium to long-term prospects.

## Supporting small companies with growth capital

We continue to be supportive of, and provide capital to, emerging, profitable, growing companies. We believe smaller companies investing is about helping build the best business models on the ASX over the long term by careful allocation of the capital we manage.

During the financial year we participated in our third round of funding for Zenitas Healthcare (following its reverse takeover in 2015 and subsequent IPO in 2016), whilst we also participated in a number of other capital raises for portfolio companies including Paragon Care, SRG and Konekt and in the reverse takeover for Janison Education.

Some recent opportunities that we have participated in are set out below:

**UCW Limited** - Market Cap: \$17m

UCW provides vocational, higher education and graduate courses to international and domestic students. During June, UCW undertook a \$4m equity raising to acquire a higher education provider that offers Bachelor degree courses.

Director related entities underwrote \$2m of the amount raised. We like participating in equity raises where the directors set the price, and then take the opportunity to invest heavily.

UCW has grown its international student numbers at more than 30% over each of the last 3 years, and offers a strong organic growth profile.

We estimate UCW is trading on 10x FY19 earnings, while its key comparable Redhill Education (RDH) is trading on 18x FY19 earnings.

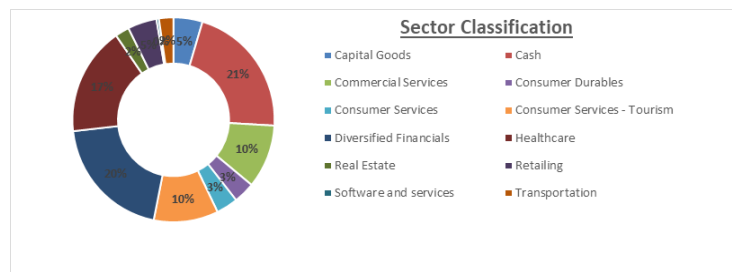
**Traffic Technologies Limited** - Market Cap: \$16m

Traffic Technologies is Australia’s leading supplier of road signage and traffic management systems. It recently raised \$6m of which Directors and associated parties contributed ~\$1.2m, the proceeds of the raising were used to significantly improve TTI’s balance sheet. As a national infrastructure group of scale (\$60m turnover), TTI also represents an attractive takeover target for a number of industry players.

**Sector Exposure**

The TAMIM Australian Equity Small Cap strategy provides exposure to a genuinely differentiated portfolio of profitable smaller companies, with bright prospects, and at attractive valuations. Correlation with the broader market remains low, and thus an investment in the portfolio is expected to bring diversification benefits to our investors’ broader portfolios.

As set out below, the portfolio is exposed to sectors with some encouraging tailwinds, including above average weightings to healthcare, diversified financials and tourism.



**Outlook**

We continue to remain wholly focused upon what is within our control: executing on a well-considered, time-tested, value-conscious investment philosophy.

We are enthused by the medium to long-term prospects across our current portfolio holdings. These are high quality businesses, with great management teams with whom we’ve built strong relationships. Importantly, pricing remains attractive, and ultimately will drive returns over time. We continue to add new holdings to the portfolio that have significant medium to long term upside.



# TAMIM Australian Equity Income IMA

## Market Outlook & Portfolio Positioning

Based on Merlon's bottom-up assessment of long-term cash-flow based value, discounted at through-cycle discount rates, the market remains around 15% overvalued post the strong quarter (see below). There continues to be wide dispersion across sectors, with resources, healthcare, property and infrastructure overvalued relative to other parts of the market. In our March report, we reflected on asset prices more broadly and concluded equities might well be the 'least worst' option if inflation and interest rates normalise as we expect

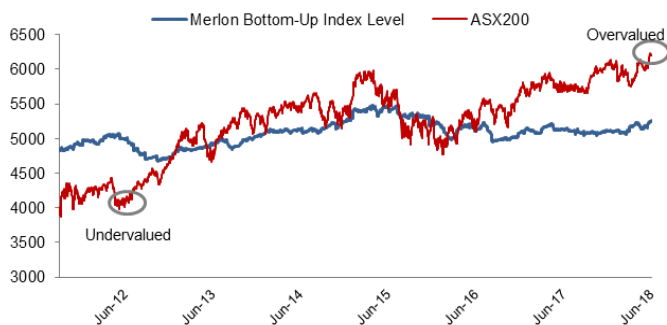
We invest on the basis that, over time, inflation and by implication interest rates will revert back to long term levels. This will put pressure on 'defensive yield' and 'bond proxy' names to which the portfolio has relatively little exposure. Even if rates were to remain low, we would expect this to lead to a re-rating of our investments given their strong cash flow appeal.

The United States appears more progressed in the journey towards higher interest rates than Australia with increasingly clear signs of wage pressures and inflation. The Federal Reserve is likely to continue increasing interest rates over the next 12 to 18 months. The divergent path of US and Australian interest rates coupled with our cautious outlook for commodities lead us to expect depreciation in the Australian dollar. Our positions in Magellan Financial, News Corporation, QBE Insurance and Clydesdale Bank should benefit against this backdrop.

A weaker Australian dollar will provide a necessary offset to housing construction activity and house prices that are likely to continue moderating to mid-cycle levels. In conjunction with unprecedented strength in household balance sheets driven by recent house price inflation, the potential flex in the currency gives us some comfort that the outlook for the domestic economy, and by implication the discretionary retailers and media companies, may not be as bad as what is currently priced into the stocks. Further, we have updated our thoughts on Amazon's Australian business and continue to believe the impact of Amazon is being overplayed and therefore see value in the discretionary consumer sector.

Our non-benchmark approach means we are content holding no major banks when the market is overly complacent about their risks and equally are happy to invest in them when the market is overly concerned – as is the case now. While political risks, such as the Royal Commission, cannot be ignored, we do not believe they will have a permanent impact on industry returns and cash flow generation. However, we do expect credit growth to slow, further loan repricing

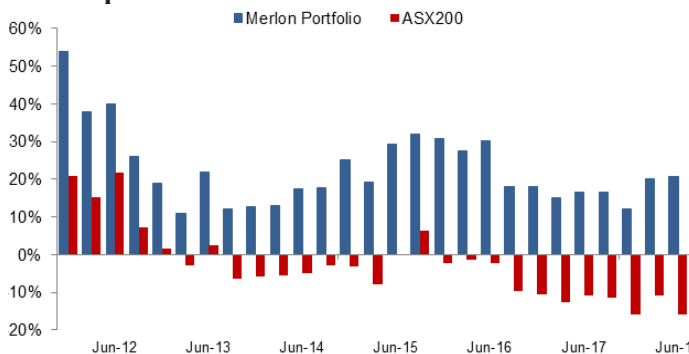
### Merlon bottom up market valuation vs ASX200 level



Source: Merlon

The TAMIM Equity Income portfolio comprises our best research ideas, based on our long-term valuations and analyst conviction. As seen in below, the Merlon portfolio offers 20% absolute upside and is looking increasingly attractive relative to the index.

### Expected return based on Merlon valuations



Source: Merlon

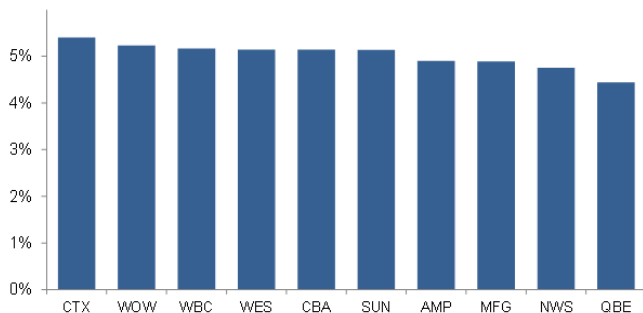
outside of a credit cycle to be limited and bad debts to rise towards mid-cycle levels. All this leaves the banks moderately undervalued in an expensive market.

## Portfolio Aligned to Value Philosophy and Fundamental Research

As we discuss above, there are clearly some macro themes built into the portfolio. However, these are outcomes of a strategy to invest in companies that are under-valued relative to their sustainable free cash flow and the franking credits they generate for their owners. The market's continued tendency to extrapolate short-term conditions too far into the future; participants' fear of forecasting a meaningful change in earnings power; and, investors' focus on nonsensical measures of corporate financial performance instead of cash flow continue to present us with opportunities.

The portfolio reflects our best bottom-up fundamental views rather than macro or sector-specific themes. These are usually companies that are under-earning on a three year view, or where cash generation and franking are being under-appreciated by the market.

**Top ten holdings (gross weights)**



Source: Merlon

Our larger investments are typically in companies 'unloved' by the market but current prices can be justified by the higher quality and more predictable parts of their businesses.

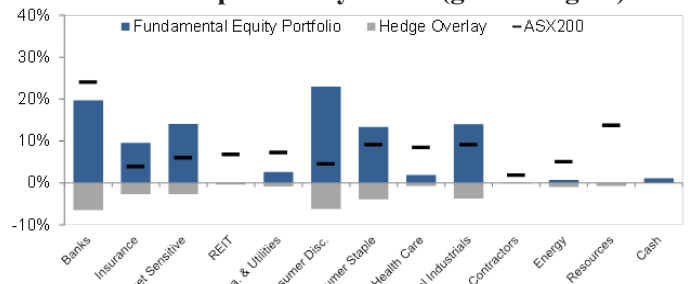
The supermarket operators, Woolworths and Wesfarmers, are generating good cash-flows by competing rationally on convenience, range and value, not just price. We may have seen the worst in terms of industry price deflation, with Aldi market share maturing and Coles likely to be more rational as a separate listed entity.

The Royal Commission might constrain sales commissions to mortgage brokers, perversely

favouring incumbent retail banks with strong branch footprints such as Commonwealth Bank, Westpac and Suncorp. We continue to see current retail bank returns as more sustainable than consensus given the near doubling of mortgage capital in recent years and re-pricing linked to regulatory handbrakes applied to investor lending.

Caltex is shifting to lower capital intensity within an improving industry structure; News Corporation is shifting from advertising to digital subscriptions and has net cash on balance sheet; AMP has suffered reputational damage with the Royal Commission but we believe the franchise will prove more resilient over time than what is factored into the share price, and cash generation remains strong as insurance is exited and the mix shifts to more cash generative funds management and advice; QBE Insurance has valuation support assuming minimal value outside of the domestic Australian and Lloyds businesses; and Magellan Financial generates strong and growing cash-flows with upside from performance fees, a debt-free balance sheet and USD-denominated FUM.

**Portfolio exposures by sector (gross weights)**



Source: Merlon

Some of our research ideas with the most valuation upside do not appear in the top 10 in terms of size as they are constrained by liquidity. These include, among others, Seven West Media, Nine Entertainment Group, Southern Cross Media, Virtus Health and Sky TV New Zealand.

## June Quarter Portfolio Activity

During the quarter we introduced six new investments and exited three. The new investments are all below our maximum 5% position size at this time, as they are either not very undervalued, not yet at maximum analyst conviction or are smaller capitalisation stocks constrained by our liquidity limits.

We invested in fund managers, Platinum Asset

Management and Janus Henderson, with both offering long-term cash-flow based value after factoring in market concerns around fund outflows and high asset prices generally. International fund managers are more defensive than the market perceives given the highly cyclical nature of the Australian Dollar and relatively low operating and financial leverage. Furthermore, Platinum has a defensive investment style and Janus Henderson a diversified product and asset class mix.

We invested in Super Retail Group, with the impact of online competition already factored into our sustainable cash-flow estimate for the sports and leisure retail businesses, and the auto parts business more immune in line with overseas experience.

We invested in Aurizon Rail with long-term fundamental value upside emerging after a poor regulatory decision on its monopoly rail business that we believe will improve over time.

We initiated a small investment in Asaleo Care, a manufacturer of personal hygiene and tissue products, with some strong brands and margins now more realistic after rebasing from unsustainable levels at the time of the IPO.

Within banks, we re-invested in ANZ Bank, with the major banks offering more fundamental upside after 20% underperformance relative to the market. A slowing mortgage market, rising fund costs and unsustainably low bad debts present risks, but lower, but still positive, credit growth and normalising bad debts are already factored into our estimate of sustainable free cash flow. All the banks, but ANZ in particular, are well capitalised and focused on reducing cost to offset weaker revenue trends.

We also added to existing positions in AMP, with the franchise expected to prove more resilient over time than what is currently factored into the share price; and Amaysim, with more confidence in long-term valuation upside after the CEO change, rebased mobile plans ahead of the fourth network operator and potential for energy retailing cross-sell.

We funded these new investments by exiting our long-held position in Origin Energy, with the share price now exceeding our fundamental valuation as the market extrapolates high oil prices and wholesale electricity margins.

We also sold our Coca Cola Amatil position with the

higher share price implying the market is now less concerned about declining soft drink consumption, the impact of the NSW Container Deposit Scheme and difficult trading conditions in Indonesia.

We reduced but still retain investments in Clydesdale Bank, given less optimism around the Virgin Money acquisition, and Metcash, with the share price rallying strongly prior to the announced loss of a major SA customer.

## **June Quarter Market Review**

The market posted its strongest quarter since early 2015, advancing 8.7% (including franking). US 10 year bonds climbed 14bp (+45bp since December) but the yield curve continued to flatten with 2 year bonds rising by more. Interestingly, the US 10 year bond yield extended its record spread over its Australian equivalent. Oil prices rose 14% but iron ore was little changed. The AUD edged lower, and according to RP Data, house prices declined 1% in the June quarter, with Sydney down mid-single digits over the past 12 months.

Unsurprisingly, Energy was the best performing sector, joined by Materials, Consumer Staples and Healthcare, which all posted double digit gains. Financials, including Banks, lagged again with political heat, concerns over tightening lending standards and rising short-term funding costs weighing on sentiment. Real Estate Investment Trusts (REITS) & Infrastructure kept pace with the market with corporate activity outweighing the impact of rising bond yields for now.

## **Portfolio Performance Review**

Seven West Media was the best performing holding after signs the rate of decline in the TV advertising market is slowing, ratings improved and a good 'relative' deal was struck on snatching cricket rights from Channel Nine. Wesfarmers outperformed after exiting the disastrous UK hardware sector, announcing a demerger of Coles and reaffirming earnings have bottomed in the number two supermarket operator. Southern Cross Media outperformed after improved market share trends in metro radio. Woolworths outperformed on the back of another good quarterly sales result and signs Coles could be discounting less going forward. Rounding out the top five contributors was Fletcher Building after recapitalising the balance

sheet and not issuing any more construction downgrades.

AMP was the biggest detractor after suffering reputational damage during Royal Commission proceedings, leading to significant management and board change. However, following our detailed review, we added to our position on the view the AMP is more diversified and the Advice franchise will prove to be more resilient than the market currently assumes. JB HiFi underperformed after announcing difficult trading conditions with The Good Guys, which is proving more difficult than expected to transition to corporate ownership. Magellan Financial underperformed on weaker than expected retail fund flows and Navitas on weaker than expected student enrolment data. Metcash rounded out the bottom contributors after announcing a key customer loss in South Australia.

At a sector level, not owning Resources and REITs detracted, as did exposure to Consumer Discretionary stocks, while Consumer Staples was the best performing sector for the Fund.

The benchmark unaware portfolio construction was a slight positive as the banks weighed on the market index. Key stock specific detractors included AMP, Magellan Financial, QBE Insurance, Fletcher Building and TradeMe Group. On the other side of the ledger, Origin Energy, Wesfarmers, Metcash contributed most positively to relative returns.

# TAMIM Global Equity High Conviction IMA

## Portfolio Review & Market Update

The Strategy return for June 2018 was a disappointing -0.5% in AUD terms vs the MSCI World Index +2.4%. However, the strategy continues to deliver strong returns in absolute terms over the last 12 months and since inception.

We took some profits in June in Cisco and Intel believing their position size too big given our risk control policies and Value bias.

We sold Daimler and BNP, the French bank, during the Italian elections believing that the result would once again expose dissent on appropriate economic and fiscal policy in Europe, and cause pressure on the Euro and the capital markets. We redeployed the proceeds into new holdings in Anthem, a USA based health care provider, and Ping An, a Chinese insurance company.

The sales in the USA and Europe we got right. The purchases came right as President Trump announced more aggressive trade policies, and this caused a significant sell off in stocks perceived to be exposed to global trade and global supply chains.

Our portfolio holds stocks which we believe to be globally diversified and resilient. What was a strength is currently perceived a weakness. We think a more measured approach to equity risk will return to markets.

We remain fully invested in the portfolio and unhedged for AUD based investors.

## Ten Largest Holdings

Company Name	Country	Weighting
Verizon Communications Inc.	USA	5.2%
Legal & General Group PLC	Great Britain	4.8%
Apple Inc.	USA	4.6%
Valero Energy Corporation	USA	4.5%
Intel Corporation	USA	4.4%
Gilead Sciences Inc.	USA	4.3%
Caterpillar Inc.	USA	4.2%
DowDuPont Inc.	USA	4.1%
AES Corporation	USA	4.0%
Manulife Financial Corp.	Canada	3.9%
<b>TOTAL</b>		<b>44.0%</b>

# TAMIM

## Income Fund

The Tamim Income Fund generated the following returns in June.

<b>Series 1</b>	0.56%
<b>Series 2</b>	0.50%

The Series 1 portfolio was allocated as follows:

Platform	Allocation
RateSetter	67.2%
Society One	28.6%
Cash	4.2%

The Series 2 portfolio was allocated as follows:

Platform	Allocation
RateSetter	49.4%
Longreach	50.1%
Cash	0.5%

The SocietyOne loans comprise 28.6% of the overall portfolio of Series 1 and this is split across over 348 loans as follows:

Category	Allocation	Yield (gross)
A	18.9%	8.95%
B	29.2%	10.92%
C	47.1%	14.40%

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 \$10,160,777 which is 6% of the outstanding loan book. Key Ratesetter details are summarised below:

### 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	\$310,705,742
Total principal repaid by borrowers	\$141,481,927
Current funds on loan	\$169,223,816
Current estimated bad debt rate*	<3.7%
Current estimated bad debt*	\$6,235,618
Current estimated default coverage ratio*	1.6x

Source: RateSetter

The TAMIM Alpha monthly reports aim to provide our investors with a general review of the Israeli market and describe the key events that occurred in the fund through the month. We will be producing these reports on a monthly basis with a more in-depth report at the end of each quarter.

## General Quarterly Report

As we have stated before, the process of deploying capital when structuring a new fund is a slow and complex process. With six months behind us we can comfortably say that, at this point, we have accomplished a significant portion of this process and feel we have a solid and promising portfolio in place.

Following a relatively strong first quarter reporting season and anticipating the second quarter results that will start coming out in July/August (Israeli companies trading on the Nasdaq usually report in July), we will summarise the first half of 2018, both from a Macro economic point of view and a fund perspective.

If we had to pick the one thing that characterised the first half of the year (and will likely dominate the second half) it is that Israeli equities with primarily global sources of revenue outperformed primarily domestically exposed Israeli companies. In our case, these were mainly technology companies (dual listed or trading solely on the Nasdaq).

## Market Review

Following a strong first quarter, the second quarter of 2018 displayed a slightly more moderate pace in Israel's economy. When we consider key factors like the estimates of investors regarding economic growth in the local market, Israel's economic potential (discoveries of natural resources, etc.), and the Bank of Israel (BoI) monetary policy (the central bank interest rate and foreign currency purchases) the long-term view continues to be of a sustainable and healthy economy. The 2018 BoI GDP growth forecast for Israel continues to stand at 3.5%.

The Israeli currency (Shekel) was characterised by very high volatility in the first half of 2018. During this time the nominal effective exchange rate of the shekel compared to the currency basket depreciated 2.3%. In addition, the shekel also depreciated against the three main currencies: the US dollar (5.3% depreciation in the first half of the year), the Euro (2.5% depreciation), and the pound sterling (2.7% depreciation).

In our opinion, fundamental factors still support the strength of the shekel but to a lesser degree during 2018 -2019. Underlying macro-economic factors are expected to support a strong shekel, but in the coming years (2018-2019) the strength of these factors should be more moderate compared to previous years. It is important to note that the moderation is expected to be temporary, such that at a later period the strengthening trend of the shekel is likely to be renewed.

Looking over the longer-term, with the initiation of natural gas production from the Leviathan reservoir

planned for the beginning of 2020 and the expected return of Intel Corporation to expanded operations following the upgrade of its facility, we expect the surplus in Israel's current account to start climbing again and to support a renewed appreciation of the shekel.

## Portfolio Review

The second quarter of 2018 was characterised by a rise in the Israeli equity indices. This was a correction of the declines in the market we witnessed in the first quarter of the year. Again, in sharp contrast to last year, the level of volatility in the markets has increased significantly and we are frequently experiencing daily movements of 2%. In our view, the main reasons are the actual and “imaginary” trade wars and the geopolitical risks and opportunities surrounding them (do you remember that Trump met Kim Jong Un...). We continue to work with our bottom up approach and seek long-term investment opportunities at comfortable valuations. The global economy is in the later stages of an extended bull run and markets in Israel and abroad have become more dispersed. We note that the rise in the markets is derived from a limited number (that becomes even more limited) of stocks and indices. The current quarter is a perfect example. We have seen a strong quarter from the TA-125 index with an increase of almost 4%, on the other hand the TA-90 index which represents broader trends in the local economy decreased by 1.3%. Similarly, in the U.S market it is important to note that the “FAANG” shares (Facebook, Amazon, Apple, Netflix and Google) were responsible for 80% of the returns of the S&P 500 this year! The technology sector is continuing to lead the U.S market. It is perceived by investors as immune to macroeconomic drivers and is continuing on a path of many years of growth.

In this report we would like to focus on another growth position we are holding in the fund: Spuntech.



Spuntech is a global leader in the non-woven fabric industry. The non-woven fabric Industry is another industrial sector where Israel is considered to be a leader, and Spuntech is a great example of this. The company specialises in the “spunlace” technology which is fiber blanket defragmentation using high pressure water jets. This technology is used to manufacture natural synthetic fibers such as cotton and Viscose and artificial fabrics such as polyester and polypropylene. The company's products are used in end products such as baby wipes, medical hygiene and cosmetics by clients such as Kimberly Clark and Procter & Gamble. The company's innovative developments provide consistent, unparalleled quality and performance. Spuntech has the winning combination of cutting-edge equipment and proprietary IP technology.

The non-woven fabric industry has enjoyed high growth in recent years. The growth resulted from both increasing production capacity of the major manufacturers and organic growth in demand. This sector of the Israeli market is composed of several companies which operate throughout the value chain. Israel is one of the leading countries in the non-woven fabric industry and has four public companies in the field.

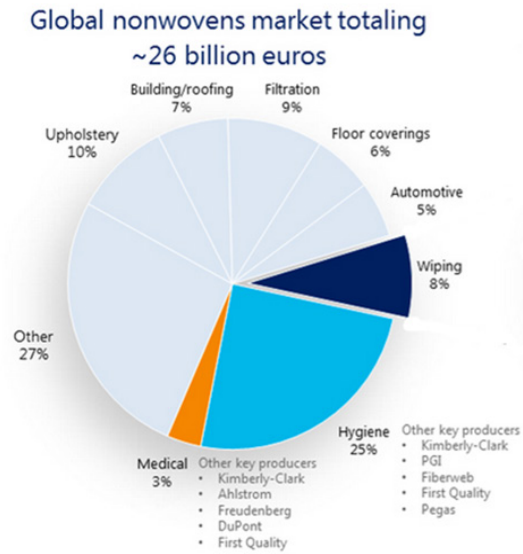
We have been following Spuntech since 2016 and in mid-year 2016 they decided to open a new line of production in the U.S in order to increase production. This new line brought cumulative running expenditures such as electricity, water, municipal taxes, rent, manpower etc. Some of these costs depend on the scope of the production line and are always a burden on the results in the first few years while the line does not work at maximum efficiency. Therefore, since June 2016, the company lacked performance compared to previous years which from this venture which dragged on results.

We decided to build our position in the company during the first quarter of 2018 after we had seen the new line in the U.S. begin filling up slowly (it was already at 70% in Q3 2017) and, as such, ceased to affect the results and began to contribute to the company's profit. As the company continues to fill out the production line in the U.S to the point of maximum efficiency in the coming years, we expect that the company's results will see continuous improvement.

Spuntech is a global player marketing to more than 26 countries worldwide. Spuntech's customers include



the largest global consumer goods brands and private label converters serving the world's largest retailers.



Source: Company filings

Spuntech is another example of an Israeli based company that generates almost 100% of its revenue outside of Israel in the global markets and generated revenues of USD 200 mil in 2017.

Sincerely,

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

## Contact

Should you wish to discuss your investments or the various TAMIM solutions please do not hesitate to contact us:

### **Darren Katz**

Joint Managing Director

**M** 0405 147 230

**E** darren@tamim.com.au

### **Jeff Taitz**

Joint Managing Director

**M** 0403 028 639

**E** jeff@tamim.com.au

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