



Portfolio Update

May 2018

TAMIM Asset Management
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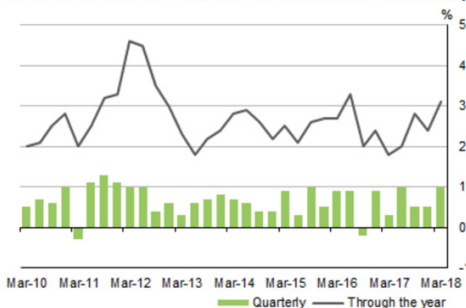


From the Directors

May 2018 Review

Australia extended its amazing run of positive growth quarters with an increase in GDP of 1% from an upwardly revised 0.5% in the December 2017 quarter. The growth during the quarter was largely driven by increases in the export of mining commodities. This marks the 27th year without a recession in Australia. The annual growth rate of GDP moved up to 3.1% from December's 2.4% according to the Australian Bureau of Statistics (ABS). In addition to the contribution from strong exports, a jump in business investment helped although household consumption does remain a worry.

GROSS DOMESTIC PRODUCT, Volume measures: Seasonally adjusted



According to Bruce Hockman, the Chief Economist for the ABS, growth in exports accounted for half of the growth in GDP. Production of coal, iron ore and liquified natural gas (LNG finally coming online) showed strong increases. Private investment was particularly strong in the non-mining sector with strong investment in machinery and equipment. Household consumption was a paltry 0.3% and the household savings ratio fell to 2.1% which was its lowest rate since 2007 although the rate of decline has

moderated over the last year.

Employment in Australia has grown strongly over the past year but this has slowed recently. Due to a strong increase in the participation rate, the actual unemployment rate has not altered. The big issue facing our economy is wages growth remains low at 2.1% and this does not seem to be reversing. While some level of growth would be welcomed as it would help the savings ratio and help reduce household debt, the counter argument to this, is that this would be inflationary.

The Australian market represented by the ASX 300 was up 1.19% in May 2018. Year to date it is up a measly 1.5%, driven largely by healthcare stocks (up 23% for the year) with CSL in particular up 33.45%.



Telecoms (-19.6%), utilities (-7.3%) and financials (-6.7%) are all down for the year. While the Royal Commission moves forward the pressure on the

banks will continue. There will be a time to buy the banks but this is not quite it. While CBA is on a 6.2% dividend yield before franking, it is still down 27.7% from its peak back in March 2015. Over the last 12 months IT, energy and materials have been the sectors to be invested in.

Residential house prices have slowed in Sydney and Melbourne. Interestingly APRA's supervisory measures and tougher credit standards on lending have slowed credit growth and contained the risks in the household balance sheet. We would expect lending standards to tighten further with the Royal Commission. Interest rates on outstanding mortgages continue to decline.

The RBA kept rates steady at 1.5% at the recent June meeting with a hike not being priced in until late 2019. According to the statement by Governor Philip Lowe, the global economy has strengthened over the past year with developed economies displaying above growth trends and low rates of unemployment. Risks to the growth of the Chinese economy are being focused on by authorities help keep growth at solid levels. Inflation remains at low levels globally despite what we read in the the sensationalist headlines of the past few months although some labour market tightness may see a slight pick up over the shorter term.

Global Markets

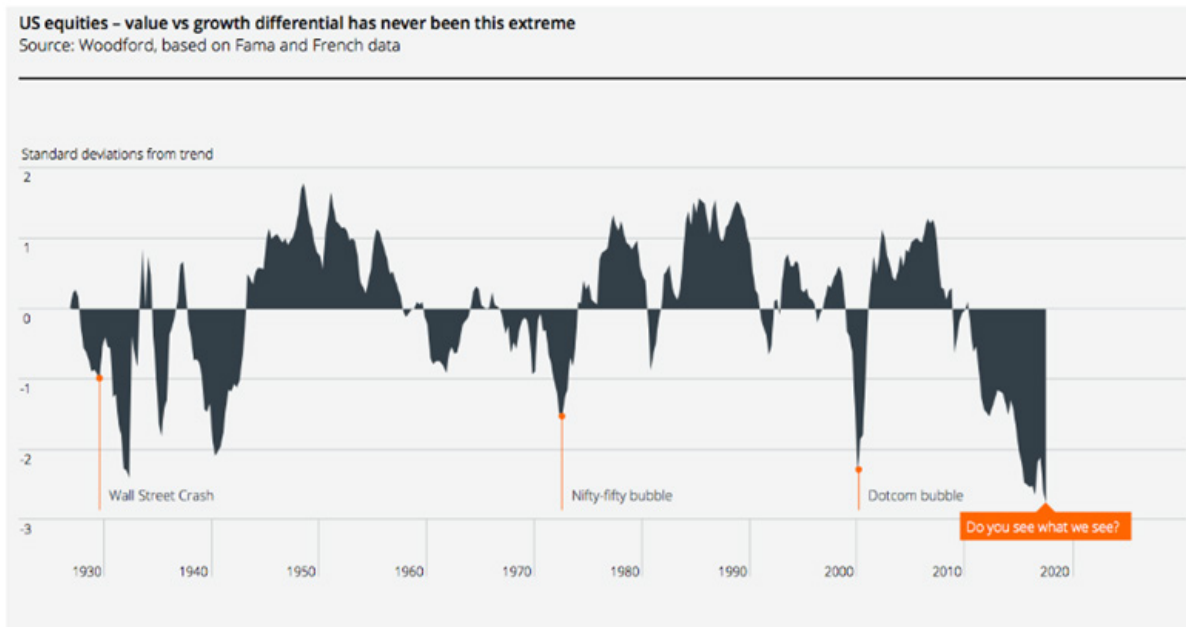
Italy has a new Prime Minister, Giuseppe Conte, who leads a coalition government of the Movement Five Star (M5S) and League. This has created significant movement and volatility in Italian debt (it has gone from being the best to the worst performer over the course of the month) and equity markets as a result of the populist nature of both of these parties. Some of the parties more radical proposals of the past such as a referendum on the Euro were dropped in the lead up to the elections as a result of the economic recovery in Italy. The new government will focus on tax reform, a socialist minimum income for Italy's poorest households as well as a tougher stance on immigration and a revival of infrastructure projects. The new government will however cause feathers to be ruffled in Brussels which ultimately will have no lasting impact on markets. Overall momentum in the European economy has moderated, labour markets have remained strong with unemployment at 8.5%. Manufacturing PMI declined for the 5th straight month but still equates to 2% growth rate. Core inflation of 1.1% is still well below the ECB's target

of 2% which will keep the bank in an accommodative stance for a while to come.

The ongoing US trade wars and the disastrous G7 meeting last week will take a back seat to this weeks #TrumpKimSummit, we will wait to see what comes of this. I am pretty sure there will be fireworks but ultimately there will be a deal. We have seen US short term money market conditions ease recently and longer yields have retreated slightly. The PMI in the US showed the economy accelerating into the second quarter while consumer confidence is still close to February's 17 year high. The first quarter saw record profits, with the S&P 500 earnings per share growth of 24% year-over-year and revenue growth over 8% year-over-year. Profit margins improved to a new record of 11%, with over three quarters of companies beating earnings expectations. U.S. corporates are well on track to meet the consensus 20% earnings growth for this calendar year. The key risk of a more aggressive Fed abated in May, a quarter point hike is almost a certainty this month and we are likely to get at least one further hike during the balance of 2018.



Despite the technology stock melt down in February and March most of the FAANGS are back at highs and a concern is whether the prices of these technology companies are sustainable. As can be seen in the chart above the price of Facebook is up over 700% in the last 5 years. Across the sector the gains have been spectacular and semiconductor businesses have been enjoying supersized gains as well. While we are not calling an end to the cycle our preference at a global level is with the more value oriented companies which have under-performed in the past three years. It is time for the trend to reverse and for value to move back to the forefront once again.



Across portfolios we favour value over growth in both Australian small caps and global equities. We favour private lending solutions to gain exposure to fixed income as opposed to government or corporate bonds. Finally we continue to be highly selective when looking at property assets but find assets are still being highly contested. We will remain patient. As we stated at the start of the year, it is important to keep portfolios well diversified to help reduce risk levels.

Yours Sincerely,

Darren Katz

Darren Katz,
 Joint Managing Director

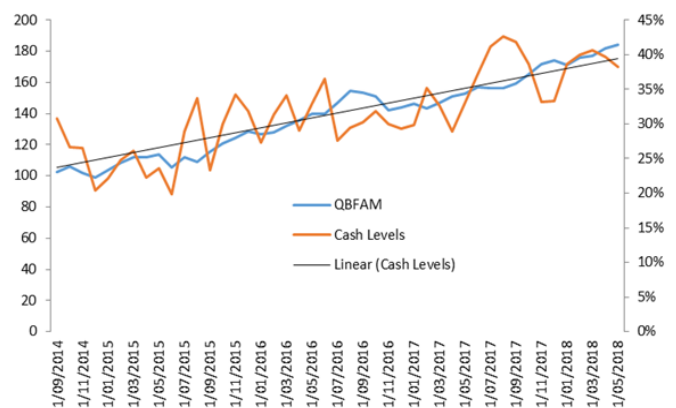


TAMIM Australian Equity All Cap Value IMA

The Australian equity market pushed higher in May despite significant drags from Telstra (-12.0%) and the financial sector (-1.8%). The Banks continue to weigh on the market as further revelations came out from the Royal Commission. Commonwealth Bank finished the month near its lowest level for the last five years. Healthcare (+5.6%) was the best performing sector helped by an earnings upgrade from CSL (+9.1%). We continue to hold CSL although have been trimming our position in recent times on the back of the share price appreciation. Overall, the portfolio had a solid month (+1.3%) helped by strong performance from Veris (+12.5%), Axsess Today (+10.7%) and Paragon Care (+10.3%).

Portfolio News

Over the last year the cash weighting has steadily risen from below 30% to 38%. Our cash has built up as we have realised or trimmed a number of positions that have done well for us. On the other side, we have added a significant number of new positions. These new positions we have taken are typically smaller, if the investment thesis plays out over time we will likely add to them. However, as of right now there are some obvious risks (why the stocks are cheap) and we are less willing to risk a significant amount of capital. The best way to describe our portfolio at the present time would be as one in transition. The below chart shows the evolution of our cash position over time compared to the overall performance of the portfolio (blue line). This shows that during periods of strong performance our cash levels tend to rise and when we find opportunities it tends to dip. Also, it is worth noting how our cash levels have risen over time as the market cycle has become more mature.

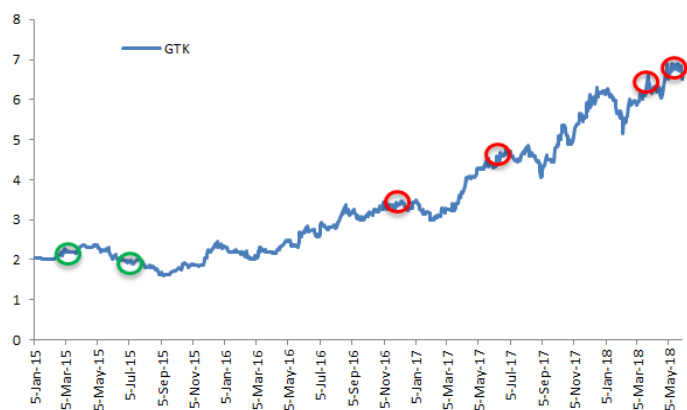


The first part of the recent transition in the portfolio has been the realisation of a number of positions that have worked well for us in recent times. We have written previously about exiting positions in Altium and IMF Bentham. Both were positions we had held for around 3 years and had done well out of. More recently we have begun to trim our holdings in two of our larger positions, Gentrack and AxsessToday. We continue to hold both Gentrack and AxsessToday but have reduced our exposure.

AxsessToday is a little different than most of our positions as it was a short term mispricing we thought we could take advantage of. We first acquired a position in September 2017 in the mid \$1.50 range. It then became our 2nd largest position following a capital raising late last year. We felt the multiple at the time was significantly underestimating the FY18 growth of the company and the platform for further growth in FY19. The key to the company's success is in its IT platform which can approve loans in 15 minutes as compared to up to four hours for competitors. In addition, the company has the ability to white label its finance offering for the equipment providers whilst others do not. With the shares closing last month at \$2.38, we feel our initial view has been vindicated.

The price appreciated last month as a number of market participants became very excited about AxsessToday and their future prospects. AxsessToday is a provider of equipment finance to small and medium sized enterprises. With the Royal Commission moving onto to business lending, the consensus view has become that the banks will start to scale back on lending and small nimble players will be able to take advantage. Whilst we agree with this view, we do believe investors are now underestimating the risk of a broad based “credit crunch”. The risk is building that we will see a regulator driven contraction in lending (most notably in the housing sector). In that scenario we don’t believe any financial companies will do well. We still continue to hold AxsessToday and believe the company to be superior to its peers. In an “Everything’s OK” environment the company will continue to do well but we have moved to lock in some profits and protect our capital.

Gentrack remains our largest position but we have taken some profits in recent times. The chart below shows how we accumulated our position in the low \$2 range back in 2015 (green circles represent purchases) and over time we have trimmed it (red circles indicate sales).

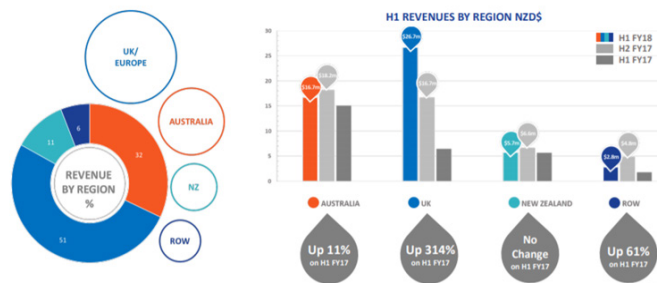


With the Gentrack share price closing last month at \$6.61, we are currently sitting on a 45.8% IRR for our investment. Over the past few months we have trimmed our position, taking it from 8.8% of our portfolio at the end of March to 6.3% now. The reasons behind this were purely valuation based, we initiated our position at a Price to NPATA ratio of around 16x, this had drifted up over time into the mid 20’s. We also knew that Gentrack reports at the end of May and that any slight disappointment could lead to a selloff.

The end of May came and Gentrack’s result arrived. The result was solid in our view with a 50% lift in NPAT largely driven by the acquisition of Junifer Systems. Operationally the business is performing well and in a significant move they have signed two

of the “Big 6” energy retailers in the UK as customers over the last six months. In fact, the UK business is now their largest region with revenue having grown by 314% over the last year. This is an industry where clients rarely change providers; hence these wins are a big deal.

GEOGRAPHIC ANALYSIS



Source: GTK company filings

Despite the strong result, the share price did fall 5.1% on the day. We put this down to two factors, firstly at \$6.85, the share price had probably gotten ahead of itself (hence why we had reduced our position) and secondly the guidance given by the company. Management has effectively guided to a flat 2nd half, which was below consensus expectations. We do have reason to believe management are being conservative however and we can see evidence of this in the listed history of the business. When they first listed on the share market back in 2014, the company gave quite aggressive guidance and were forced to downgrade six weeks after listing. Having learnt the fickle nature of public markets the hard way, the company has since then applied a philosophy of guiding low and beating. Due to this, we believe that management have given themselves a low target and should outperform its guidance in the second half.

So having taken money off the table in a number of positions, we have been scouring the market looking for new ideas. To date this year we have established four new positions. These positions are small as each has some fairly obvious risks. The four companies we have added are:

1. Netcomm Wireless (ASX:NTC)
2. MSL Solutions (ASX:MPW)
3. Locality Planning Energy (ASX:LPE)
4. Adacel Technologies (ASX:ADA)

All four of these companies have significant Intellectual Property associated with a product or products. They all appear cheap on a 2-3 year view if the take up for their product meets our expectations. The reason these companies are cheap relative to similar product companies on the ASX comes down to

a lack of a significant track record. Effectively they are all early stage companies or have early stage products (although still profitable) and the next few years will be key in determining their success.

NetComm Wireless (NTC.ASX)
(portfolio weight: 1.8%)

NetComm Wireless is a manufacturer of products for the Telecommunications industry. The company has two main products, a Distribution Point Unit (DPU) and a Fixed Wireless Transmitter. The DPU takes a single Fibre connection and redistributes it to up to four existing copper lines. It is a pivotal component of the “Fibre to the curb” rollout for the NBN.

The Fixed Wireless product is designed to provide broadband access to semi-rural areas. It provides an infrastructure grade 4G signal that can be accessed in a 13km radius. The company is in the process of rolling out this product for the NBN as well as the US for AT&T and in Canada for Bell Canada.

Back in 2015, the NetComm share price surged from below 50 cents to above \$3. This was on the back of the agreements signed with the NBN and AT&T. The company used the elevated share price to raise capital. They raised \$50m in equity in early 2016 at \$2.95 a share. This capital was used to expand their R&D resources as well as their production infrastructure in order to meet the new significant orders. The company has since seen significant investment in their business (as can be seen by the green circle below).

The equity raising was well timed by the company as the share price has subsequently fallen from above \$3 to \$1.16 now. The expected ramp up in revenue has disappointed slightly and the market has lost patience. However, to us the first half result this year showed the first impact of the NBN rollout and could be a sign of things to come. Revenue has risen steadily since 2015 but took a big jump up in the last six months. The company also swung to profitability.



Source: Thomson Reuters, NTC company filings

The majority of the recent growth has come from an accelerated NBN rollout. This will underpin earnings over coming periods as well. For the DPUs, the company receives US\$430 upfront. Telstra continues to own the copper wires for the next 18 months, and at the end of that period, the household must switch to the NBN. At this point NetComm receives US\$120 per connection for a Network Connecting Device. On average there are 3.2 connections per DPU meaning the company receives on average US\$834 per DPU over an 18 month period. With the NBN having well publicised problems recently, most notably around “Fibre to the Node” connections, “Fibre to the Curb” is set to have a bigger role. As evidence of this, NBN Co recently announced a further 440,000 premises will be covered by “Fibre to the Curb”.

In addition to the NBN rollout, there are other avenues of growth. The fixed wireless rollout with AT&T is live in 18 states and is set to accelerate over the next year. They have also recently announced a fixed wireless agreement with Bell Canada, consolidating their position in North America. The company is also undertaking testing of its DPU for BT. All of this activity shows us that the company is slowly carving out a niche amongst the global telecommunications industry. The great thing about this industry is that the major players aren’t in direct competition as they typically operate just in one country. As they don’t compete, they talk and it appears word is spreading about NetComm’s abilities.

We acquired a small position in the company after its most recent result which showed the significant swing to profitability. Consensus expectations have the company making \$19.95m in EBITDA this year followed by \$40.13m next year. At a market cap of around \$180m and with no debt, the market is clearly doubting these numbers. If the company delivers on its current contracts and continues to gain traction with other tier one telecommunications companies, then the shares are well and truly undervalued.



Source: Thomson Reuters, NTC company filings

MSL Solutions (MPW.ASX) (portfolio weight: 2.5%)

MSL Solutions is a global provider of Software to clients in the sport, leisure and hospitality sector. The company has over 2,000 clients across 20 different countries varied across Golf Clubs, Registered clubs, Stadia and arenas as well as other hospitality venues.

The company is a recent listing and in 2017 they raised \$15m to complete several acquisitions. When they listed, the company put out some aggressive assumptions for the FY18 year expecting 22% revenue growth and 62% EBITDA growth (as can be seen below). Unfortunately for shareholders, shortly after listing the company missed its FY17 EBITDA and NPATA numbers. The revenue line was as expected but the company underestimated acquisition costs and took a hit on their treatment of Employee share based payments. The result has been a share price that has fallen from a post IPO peak of 34.5 cents per share to 20 cents per share.

A\$'000S	PRO FORMA HISTORICAL RESULTS		PRO FORMA FORECAST RESULTS	
	FY15	FY16	FY17	FY18
Revenue	27,176	29,590	29,263	35,557
EBITDA	3,512	3,636	3,988	6,450
NPATA	2,549	2,370	3,476	5,918

Source: MPW company filings

The situation reminds us a little bit of Gentrack. Both are software companies that missed earnings shortly after listing. The great thing though about software companies is the business model, which typically sees:

- A high degree of recurring revenue;
- Low additional costs of bringing on customers, leading to high margins.
- And very low capital costs leading to high returns on capital.

So if the problems that led to downgrade are due to one-offs or project timing then we can have some faith that things will recover. The company continues to maintain its guidance for FY18 but the market quite clearly doesn't believe it. Based on its NPATA guidance, the stock currently trades on below 9x. In addition the balance sheet is in good shape with \$7.3m in cash (no debt) and an asset called "Zuuse" which they have been selling at a price which values their stake at \$6.4m.

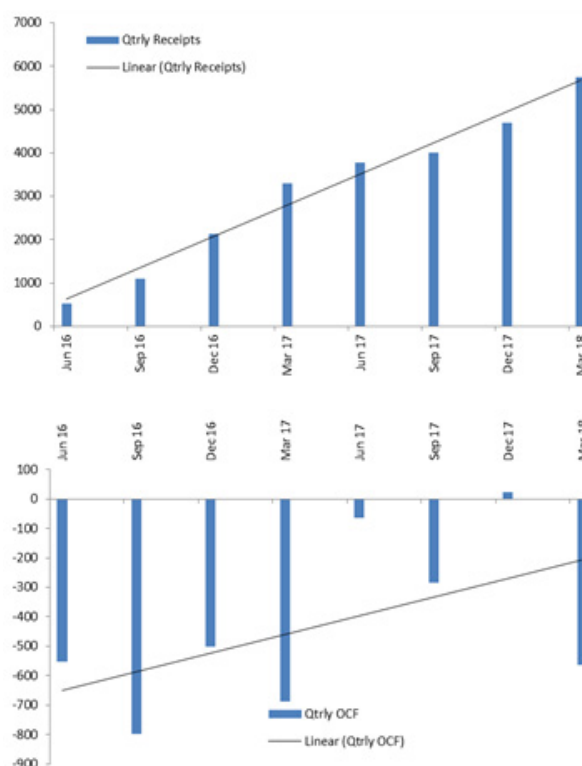
The market clearly believes they will miss their FY18 forecast and that could be true. In fact the company has already quasi-downgraded by announcing they

will sell Zuuse shares to reach the guidance. However, when we step look at the business we see it moving in the right direction. The company recently provided its most impressive quarterly update as a listed company with Operating Cashflow swinging into positive territory. They also announced that they had utilised some of the excess cash to make a small acquisition. While it is early days, and our position in the company is a small one, the signs are positive.

Locality Planning Energy (LPE.ASX) (portfolio weight: 1.2%)

Locality Planning Energy is a Queensland based operator of embedded electricity networks. Essentially they provide energy services to strata communities. When they take on a new strata community, they install a "parent meter" in front of all the existing individual meters. As a result, a single metering and network charge now applies. In total, the company estimates they can save the residents around 20% on their electricity bills. For their trouble, Locality Planning make a gross margin of 18.2%.

The company backdoor listed in January 2016 and some early hype saw the share rise, peaking at 5 cents. Since then the market has lost patience and the shares have traded down to 1.9 cents. Despite this the company has made significant process. Quarterly receipts have gone from around \$500k to \$5.7m and the cash burn has almost disappeared. In fact, in the December quarter the company had its first positive



Source: Thomson Reuters, LPE company filings

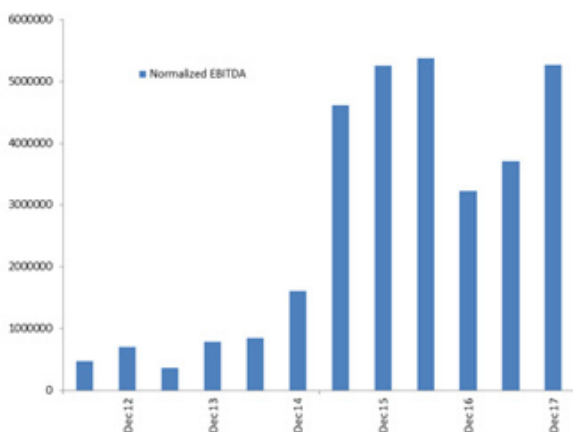
Typically we don't invest in companies that don't make a profit but in the case of Locality Planning a few things give us some comfort in the future. Firstly, the company has experienced significant take up and growth over recent years (as evidenced above), and secondly (and probably most importantly) the average contract length they have is 7.2 years. In other words, their current run rate of revenue is locked in for the next 7.2 years and all additional strata communities they add will lead to growth. It's rare to see such a stable revenue base for a company with a market cap of \$45m.

With the company more or less at breakeven and still growing, we expect that additional growth over the coming years will lead to profitability and a rerating of the shares.

Adacel Technologies (ADA.ASX)
(portfolio weight: 1.0%)

Adacel is a software company that operates within the aviation sector. They have two primary sources of revenue, their simulation software is used to train air traffic controllers (c. 58% of their revenue) and their air traffic management (ATM) software directs real world flights (c. 42% of their revenue). The ATM software is used primarily in smaller countries such as Fiji, Portugal and the French Territories. Larger countries tend to like bigger players to monitor their airspace so Adacel subcontracts to companies such as Lockheed Martin. Their Air Traffic Control simulation business is incredibly valuable though. It is the most widely used by the Federal Aviation Authority in the US.

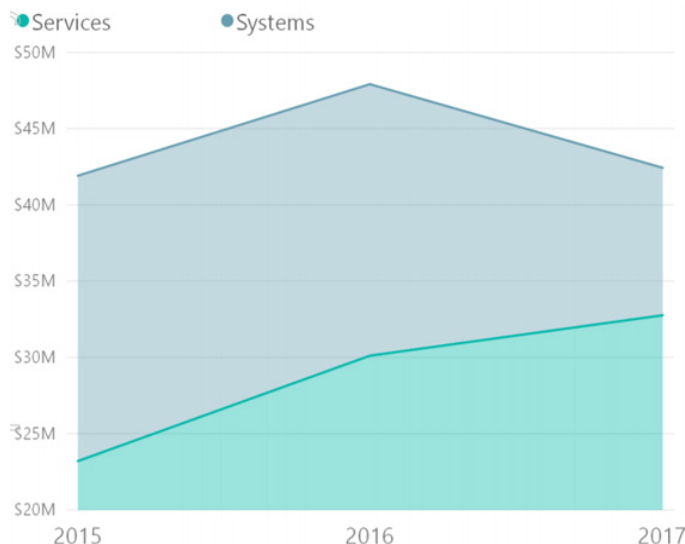
The company saw significant growth in earnings from around FY13 to FY16. More recently earnings have stagnated.



Source: Thomson Reuters, ADA company filings

The reason behind this is that there is a lumpy Systems

component to their revenue and that has fallen over the last few years. The ongoing services revenue has continued to grow.



Source: ADA company filings

Pleasingly, 2018 will see a bounce back with Profit Before Tax expected to grow 35%. Despite this, shares in Adacel have fallen heavily in recent times. After peaking at \$3.30 back in 2016, the shares have fallen to \$1.71. The recent pressure on the shares has come despite the company maintaining its earnings outlook. A big part of the reason behind this is the company missed out on a contract with NASA which would have significantly increased its revenue, profit and hence value. Whilst unfortunate, we don't think this changes the viability of the business going forward. On the current guidance the company trades on below 15x pre-tax profit. With a significant amount of tax losses accumulated, this profit should flow through to cash. We believe the current price underrepresents the significant amount of IP within this business.

Whilst we like all four of these companies, our positions in them are currently small. Their share prices have all been under pressure in recent times for issues that we have highlighted. At this point we see value but we do acknowledge the risk. We are well aware that as investors we will never get 100% of our buy calls right. The law of averages suggests we are wrong on at least one of the above. Therefore, to minimise the risk, we have taken small positions to start with and will build these over time if the story plays out as we anticipate.

The Portfolio

The fund is currently invested in 22 companies. The cash level is currently 38.3% (down slightly from 39.7%). We trimmed our positions in Gentrack, SRG, CSL and AxsessToday. We added to existing positions in Netcomm Wireless, MSL Solutions, and Spark Infrastructure. We also added a new position in Adacel Technologies.

GTK 6.3%

SRG 5.1%

HSN 4.3%

TME 4.1%

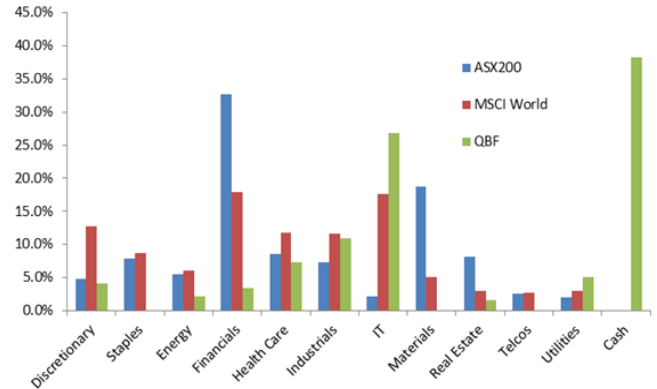
DDR 4.0%

Other Positions 37.9%

Cash 38.3%

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.



TAMIM Australian Equity Small Cap IMA



The TAMIM Australian Equity Small Cap IMA remains invested in the most compelling ASX listed small and micro cap opportunities which are in our opinion both high quality and under-valued. The fund provides exposure to a genuinely differentiated portfolio of profitable companies, with bright prospects, and at attractive valuations. Correlation with the broader market remains low, and thus an investment in the small cap IMA is expected to bring diversification benefits to our shareholders' broader portfolios.

Portfolio Review

The portfolio finished May slightly ahead. Solid performances were recorded by our key healthcare stocks **Paragon Care** (+10%) and **Zenitas** (+8%). Both stocks have recently confirmed their FY18 earnings numbers and have guided for very strong earnings uplifts in FY19. Both stocks are also likely to benefit from initiatives introduced in May's Federal Budget.

The budget also includes \$45 million in grants through the Building Better Regions Fund to help move tourists beyond the major cities. These funds will support projects in regional areas and encourage more visits and expenditure in regional locations. The Government continues to focus on Australia's most valuable inbound tourism market, China, with further funding for the Approved Destination Status Scheme which allows Chinese tourists to travel to Australia in guided groups.

Given the importance and size of this sector, there are surprisingly few tourism related names on the ASX. Nevertheless, our Small Cap portfolio has strong exposure to this increasing tourism spend, through

exposure to this increasing tourism spend, through our holdings in Elanor Investors (ASX:ENN) and Sealink Travel Group Limited (ASX:SLK). Elanor Investors owns and/or manages a number of hotels and tourism assets including the Featherdale Wildlife Park and the Cradle Mountain Lodge, while Sealink is one of Australia's largest tourism and travel operators operating Captain Cook cruises business on Sydney Harbour and Perth's Swan River, ferry services in Queensland and the Kangaroo Island ferry off South Australia. We also remain invested in Apollo Tourism and Leisure (ASX:ATL) which owns the largest fleet of recreational vehicles (camper vans) in Australia.

With economic growth heading towards 3%, unemployment falling and business confidence rising, the key economic metrics in Australia are trending in the right direction. Our portfolio is well positioned to capture this momentum through investments in well managed high quality companies, purchased on low multiples, and benefiting from favourable tailwinds.

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 Global Equity High Conviction IMA

Market & Portfolio Review

The Strategy return for May 2018 was down -0.9% in AUD terms, MSCI World Index return 0.4% . Value securities generally underperformed with the MSCI World Value Weighted Index returning -1.4% for May 2018. The strategy continues to perform strongly over the last 12 months and since inception. We anticipate a stronger period for Value.

We sold Sanofi (SAN.EPA), Daimler (DAI.ETR) and Singapore Telecom (Z74.SGX) during the month. We replaced them with Steel Dynamics (STLD.NASDAQ) in the USA, Singapore Technologies Engineering (S63.SGX) in Singapore and Ping An Insurance (601318.SHA) in China.

Macy's (M.NYSE) posted strong results which was pleasing to us; the shares rose strongly. Cisco (CSCO.NASDAQ) posted results in line with expectations and the shares fell. Having made numerous acquisitions, it is important to us that Cisco continues to show revenue growth in the reconfigured company.

Our Japanese names performed poorly. It is only one month and we never over-react.

Oil remained strong as Iranian and Venezuelan sanctions were threatened. Shale oil supply is likely to remain strong. We remain invested in Valero (VLO.NYSE) which is benefiting from very high spreads.

Market Outlook

The Italian elections proved again that the Euro has serious fault lines. Currency union needs fiscal union needs political union. The solution to the problems of 'Club Med' appears obvious to everybody but Germany.

We also 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 0.78% in May. The portfolio was allocated as follows:

Platform	Allocation
RateSetter	67.1%
Society One	30.1%
Cash	2.8%

The portfolio is currently invested into two loan platforms, these being the RateSetter and SocietyOne. The RateSetter platform loans comprise 67.1% 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 \$9,489,971 which is 5.94% of the outstanding loan book. Key RateSetter details are summarised below:

The SocietyOne loans comprise 30.1% of the overall portfolio and this is split across over 348 loans as follows:

Category	Allocation	Yield (gross)
A	19.0%	8.95%
B	29.4%	10.92%
C	46.7%	14.40%

Data for Tamim Income Fund 1 Series 2 will become available from next month as the portfolio is now invested.

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	\$289,377,760
Total principal repaid by borrowers	\$129,532,151
Current funds on loan	\$159,845,609
Current estimated bad debt rate*	<3.6%
Current estimated bad debt*	\$5,765,658
Current estimated default coverage ratio*	1.6x

Source: RateSetter

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 during the month of May. We will be producing these reports on a monthly basis with a more in-depth report at the end of each quarter.

Market Review

In our last report we paid tribute to Israel's achievements over its 70 years of existence from an innovation perspective. It is important to point out that in recent years we have seen this recognised globally through the continued acquisition of mature Israeli companies that have reached leading positions in their field.

Such was the case with two recent listed industrial companies, each with a distinct cutting edge technological advantage in its their fields:

1. Frutarom Industries (FRUT.TLV) – A rapidly growing global flavour and fine ingredients company which, in the field of flavours & fragrances, is numbered among the leading companies in the world. The company was just acquired last month by one of the world's leading companies in this field – International Flavours & Fragrances Inc (IFF.NYSE) in a US\$7bn deal.
2. Avgol Industries (AVGL.TLV) – A leader in the global hygiene market with the most comprehensive range of ultra lightweight spun-melt non-woven fabrics. Indorama, a global chemicals company controlled by the Indian businessman Alok Lohia with 75 production sites in 25 countries and 2017 revenue of \$8.4 billion, has acquired Avgol in a US\$500m deal.

These two companies are proof of our investment thesis that there are public Israeli industrial companies that have a leading technological edge, that have a global presence and are a target for the world's largest companies in various industries. This is the innovative edge that Israel is known for.

The sale of the above companies is projected to provide an income of over \$1bn in taxes for the state of Israel.

The Central Bureau of Statistics (CBS) recently published its initial estimate on activity in the Israeli economy for the first quarter of 2018. According to this, GDP increased by a real rate of 4.2% (year on year) compared to the preceding quarter (annualised; seasonally adjusted data). This figure concludes three consecutive quarters of growth above the 3.8% long-term average (since the beginning of 2007). Furthermore, we note that the business sector product, which does not include the contribution to GDP of government expenditures or a number of additional small components, increased by a higher rate of 5.2% (annualised).

In its last meeting on May 28, 2018, the Monetary Committee of the Bank of Israel (BoI) decided to keep its interest rate unchanged at the current level of 0.1%. The accompanying announcement noted that the Monetary Committee intends to maintain the accommodative policy as long as necessary in order to maintain inflation within the target range.

A number of factors behind the decision were noted in the Monetary Committee's announcement, including:

- although the inflation level continues to climb, it remains below the government's price stability target range (1%-3%), while inflation expectations for the coming year are also below this range;
- inflation levels for the medium- and long-terms are close to the middle of the target range; economic activity continues to grow at a reasonable rate, and with a more balanced composition compared to previous years;
- the labour market continues to display strength;
- and the recovery of growth in the global economy is continuing, although there are still geo-political risks as well as financial risks among the emerging economies.

A continuation of the positive economic activity data and a move of inflation to the bottom end of the price stability target range is leading the research department of the BoI to indicate a possible interest rate hike towards the end of the year. Looking forward over the longer-term, the process of rate hikes by the Bank of Israel is expected to be slow and gradual, and to be spread out over the coming years. It will be dependent upon the growth rate of economic activity in Israel and around the world amongst other things.

Portfolio Review

The month of May was the first month of the year where volatility was relatively low and we witnessed a positive trend throughout most of the month.

During the month we continued to increase our equity exposure by increasing our holdings in existing positions. We have now reached 57.2% (ignoring the 7% downside protection) equity exposure.

Our relatively sizable position in the renewable energy sector, including SolarEdge (SEDG.NASDAQ), Enlight Renewable Energy (ENLT.TLV) and Energix Renewable Energies (ENRG.TLV), continued its positive momentum contributing to this month performance. Enlight announced its involvement in Israel's biggest wind turbine project in the north of Israel. We continue to believe that this sector, one that Israel is renowned for, has significant upside in our portfolio.

As we mentioned in the later part of our report last month, we have recently concluded building two positions in our fund. The first of these is a dual-listed technology company by the name of Nova Measuring Instruments (NVMI.TLV & NASDAQ) - a leading innovator and a key provider of metrology that designs, develops and produces monitoring and measurement systems for the semiconductor manufacturing industry, deployed with the world's largest integrated-circuit manufacturers. The second position is in a company by the name of RADA Electronic Industries (RADA.NASDAQ). RADA is a defense electronics system house specialising in the design, development, production and sales of advanced electronic systems for airborne and land applications. RADA provides complete system solutions designed primarily for the aerospace and defense market.

With Nova we feel very comfortable with our position of 3% in the fund and we will probably look to increase this weighting to 4%. The fact that it is dual listed provides a relatively high level of liquidity and this has allowed us to reach our initial position of 3% rather quickly.

Nova is ideally positioned at the crucial crossroad of the semiconductor industry. Nova has exposure both to Flash Memory technology on the one hand and to Logic technology on the other.

Nova's technological advantage places the company in the forefront of the industry and ahead of its key competitors, the companies KLA-Tencor and Nano.

Nova's relatively high excess cash balance (US\$150m) allows the company to be well positioned for exogamic growth in the future by acquiring synergistic operations.

Being a leading global provider of technological solutions in the semiconductor sector allows Nova to benefit from the positive global cycle of this sector. Nova currently has a market cap of approximately US\$800m.

With RADA it is a completely different situation, RADA is a relatively small company trading solely in the U.S with a market cap of approximately US\$100m. One of the major shareholders in Rada is a very successful private equity fund by the name of DBSI which we are very familiar with. DBSI gained control of the company around 2016.

RADA is veteran company in the defense and military space in Israel which has seen a major shift in focus since the DBSI acquisition. The two key points of focus were:

1. Reinforcing the financial balance sheet of the company – an injection of money in to the company has allowed it to not be disrupted and continue running day to day activities.
2. Bold management decisions and focus - allowing the company to plan strategically for the long term.

RADA's unique technological advantage is in the area of supplying military capabilities to armies fighting against drones. As any fund manager worth their salt will admit, all of us benefit from a bit of luck with timing and that was the case with RADA. This issue has become a real threat in recent years and RADA, with its strong competitive technological supremacy in the field of sophisticated electronic defense systems (Radars), is well positioned to take advantage of this.

The company just signed a significant deal and sold this equipment to the U.S. Marines and received outstanding feedback which has led to negotiations for deals with the other arms of the U.S. military. To the best of our understanding there are no real competitors to RADA in this specific area.

RADA is now in the process of building an assembly plant in the U.S. in order to provide large quantities to the U.S. military. As it is only an assembly plant it does not require a massive investment and its cost is estimated at US\$4m.

There is another component with regards to the RADA investment thesis and it relates to another company in the portfolio - Elbit Systems (ESLT.TLV & NASDAQ). As we pointed out last month, Israeli Military Industries (IMI), a government company, is in the process of being bought by Elbit Systems. IMI is already a client of RADA and RADA could be a future target for acquisition by Elbit in its pursuit of market share against its main competitor Rafael Advanced Defense Systems.

As we mentioned above, due to the fact that RADA is a relatively small company, we view it with a higher risk/reward profile and for that reason we will only look to hold a smaller position of 1.5%.

Sincerely,

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

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