



Portfolio Update

October 2018

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From the Directors

October 2018 Review

October was a month where volatility reared its head with a vengeance. Markets globally ended the month in the red with very few exceptions, the MSCI World was down -6.8%, while the ASX 300 finished lower too, down almost -6.2%. What has been surprising has been the lack of catalysts, though certain valuations have been looking pricy, the fundamentals remain strong. The latest seasonally adjusted employment figures in Australia show that the economy added 32,800 jobs in October while the unemployment rate remained unchanged at 5%. Third quarter earnings in the US were off to a splendid start with the vast majority of companies beating EPS estimates.

We remain cautiously optimistic that the October equity sell-off is temporary and asymmetrical. The "correction" seems to have been largely led by a switch from high-growth to value. Markets are increasingly pricing in the one-off nature of the US tax cuts and the possibility of greater policy uncertainty. Issues ranging from trade, the end of monetary accommodation, Brexit and closer to home the state of the housing market creates significant headwinds.

United States

US equities struggled through the month of October (and early into November) amid concerns over the durability and resilience of the economic cycle. However, the underlying economy remains on a stable footing and has been supported by strong consumer sentiment. Q3 GDP showed annualised

growth at 3.5% which, though down from 4.2% in Q2, was better than expected. The labor market continues to be tight and wage growth remains robust at 2.8% prompting the Federal Open Market Committee to note that there was "difficulty in finding qualified workers" raising inflation expectations.

On the earnings side, the third quarter on the whole exceeded consensus estimates with corporate earnings up 28% y/y. A significant portion of this was bolstered by the tax cuts and represents a cyclical high for earnings growth, we do not believe this to be the peak. US earnings are forecasted to grow at 10% well into 2019, about a 1% above the long-term rate.

The biggest surprises have been the tech giants, with Amazon and Alphabet reporting softer growth and seemingly giving credence to fears over their earnings strength. The month also saw a significant sell off in cyclically sensitive sectors including energy and industrials whilst defensive sectors held up relatively well. The large-cap indices also significantly outperformed the tech-heavy Nasdaq Composite with the slower-growing value stocks outperforming along with health care. Toward the end of October the midterms also offered some reprieve with investors welcoming the potential for gridlock.

We continue to be overall positive for US equities whilst being cognizant of signs of overheating and capacity constraints. The gradual tightening of the Fed balance sheet and the ballooning deficit continues to add upward pressure to rates and of course the trade war creates significant implications for both inflation

and corporate margins, especially in industrials.

Europe

European Markets saw a sell-off across the board during October, with the Stoxx 600 down close to -6%. Though markets seemed to have stabilized somewhat in recent months, concerns ranging from Italy's growing rift with the EU, Brexit and continued signs of trade tensions were front of mind as investors grapple with the policy uncertainty. The recent Euro PMI data continued to add to the woes with the composite falling to 52.7 in October and the ECB still on track to end its net asset purchases by the end of calendar year adding cause for concern.

Italy continues to be the biggest worry with the deficit poised to breach the 3% budget deficit limit by 2020. The new Italian government's spending measures make it increasingly likely that the European Commission will have to initiate the excessive deficit procedure (EDP), making the future increasingly uncertain for the Euro's third largest economy. This has pushed the 10-year sovereign to above 3.4%. GDP data also confirmed soft growth pushing investor sentiment down even further. The weakest sectors were Materials and IT while Telecommunications offered some reprieve.

The UK proved to be a bright spot for Europe in October with economic data broadly positive. Wage growth grew at a record 3.1% and domestic inflation seemed to be firming. The UK stock market also outperformed global equities with the FTSE 100 holding up relatively well, retreating only -4.9%. More recently the political uncertainty around the newly released draft Brexit proposal meant that investors have increasingly sought a wait and see approach with the May government's position increasingly uncertain following a series of cabinet resignations.

Overall, Europe remains concerning primarily as a result of policy uncertainty and political gridlock. In addition, a disorderly Brexit would have severe implications for the UK in terms of the level of sterling, public finances and asset prices. Though the one significant upside seems to be that valuations look relatively cheap especially where it concerns financials.

Emerging Markets

Emerging markets continued their sell-off during October, underperforming the MSCI World. Mexico

was the weakest index market as equities and the peso sold off sharply on rising concerns over the incoming government's policies. Turkey had some much needed reprieve following signs that Washington and Ankara might be able to diffuse some of their tensions following the release of Pastor Brunson. The markets nevertheless remained in solidly sold-off territory with the Lira continuing its downward trajectory.

In Asia, Korea was the weakest equity market, trade concerns being the primary driver (Korea being primarily an export-led economy). While in China the Shanghai Composite entered bear territory having fallen 20% from its peak in January. Companies in the technology and industrial sectors being the worst affected.

Though several commentators insist that the sell-off in this instance was mostly driven by rising US interest rates and trade tensions, we tend to believe that the underperformance of mainland Chinese indices can be attributed to the government's push for deleveraging. The slowdown in Chinese GDP growth, while noteworthy, is not substantial cause for concern at this stage. We remain convinced that underlying economic growth will continue, bolstered by government policies targeting a transition towards consumption led growth. The impact of higher tariffs also seem likely to be offset somewhat by a relative strength in the USD and strong domestic retail sales. Chinese consumption and the recalibration of supply chains in the region might also have flow-on effects in the medium-to long term through increased intra-regional trade further mitigating the impact of deteriorating trade conditions. Regulators have also made substantial moves to bolster market sentiment by supporting share buybacks and the PBoC has intervened by cutting the reserve requirement ratio yet again.

Conclusion

At the risk of boring you with repetition, our view has not changed. It is a significantly more volatile environment. Portfolios need to be liquid in their equity component and correctly diversified across asset classes. The volatility will create opportunity so this is the time to be cautious but not scared.

TAMIM Australian Equity All Cap Value IMA

The Australian equity market had a sharp pullback in October finishing the month down 6.2% with the small caps down 9.6%. The falls were led by the IT sector (-11.4%) where the market finally started to care about valuations. This is a sector we had been warning about in recent times as we felt share prices had disconnected so far from reality to the point of a bubble. Falls in the sector were led by Afterpay Touch (-30.4%) and Wisetech Global (-27.3%). Both of these companies had recently been trading at multiples of over 100x. The selloff though was broad-based with all sectors in negative territory. Real Estate (-3.8%) and Utilities (-4.0%) fell the least. We have built a significant position in Utilities over the course of this year as it is a sector where we see value currently. That in conjunction with our elevated cash position saw us outperform the market significantly over the month

Portfolio News

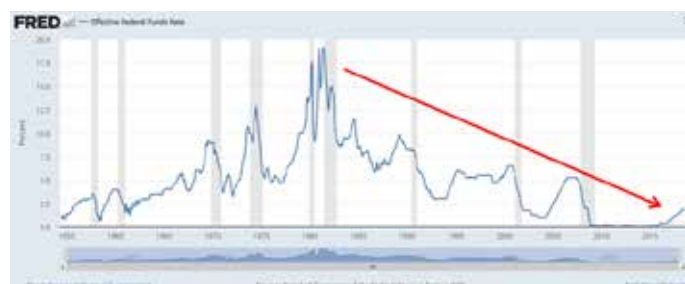
We took two new positions in October. These positions are different to most in that they are “Macro” driven. We have taken a short position on the Australian market and a long position in US Dollars. We believe we are now in the late part of the cycle and momentum driven gains will be limited from here. Due to this we have included our recent article looking at the signs we are watching with regards to the end of the market cycle.

How this cycle will (may) end

Bridgewater’s Ray Dalio recently gave an interview where he said he believes that we are in around the 7th inning of the current economic cycle. To spell it out, baseball games having 9 innings and so this suggests he believes that we are closer to the end of the

cycle than the beginning. We would agree with this assessment and whilst we acknowledge that we don’t have a crystal ball (and this article does include plenty of speculation), there are some signs we are watching what looks like late cycle indicators. In examining current economic conditions we have discovered that we are considerably more concerned with risks and vulnerabilities in the Australian economy at present than the US economy.

To understand the global economy, it’s important to look back to history. The story of the last 30 odd years is one of a credit super cycle in the developed world. This started back in the 1980s when interest rates started to come down from record high levels in the high teens. Globally, interest rates since that time have trended down towards zero as can be seen with the most important interest rate in the world, the Federal Funds Rate.

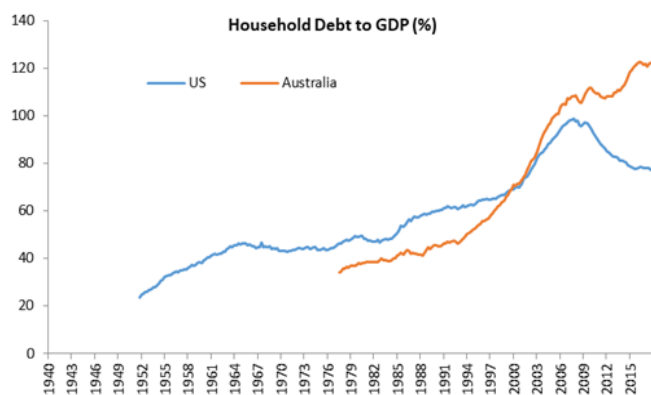


Declining interest rates combined with deregulation in the banking sector led to a huge boom in household credit. The banking sector globally took on more leverage. Prior to 1980, the global standard for banks was a leverage ratio of 7x, this has changed dramatically since. Just prior to the Global Financial Crisis, leverage in the European Banking system stood at 40x, in the US it stood around 30x and in Australia it stood at over 20x.

This increased leverage enabled more lending and lower interest rates meant households could service more debt. Household consumption over the period was a key driver of growth in the developed world whilst a large portion of the manufacturing base slipped off to China.

With increasing debt levels, households become more vulnerable to small changes in interest rates. From the chart above we can see that since the Mid 1990s each US recession has been preceded by a tightening cycle from the Federal Reserve. We can also see that every time the Federal Reserve has concluded a tightening cycle, the peak in interest rates has been lower the previous time. In 1989, the effective rate peaked at 9.85%, in 2000 it peaked at 6.54%, and in 2007/08 it peaked at 5.25%. This shows to us that whilst we love to talk (or complain) about politics, the key variable in economic cycles is interest rates and those setting them.

The question then becomes when will the Federal Reserve raise rates too far and what will the impact be? One of the key variables in this equation is household debt and one of the key differences in the US now as opposed to 2007 is that households have deleveraged.



Source: Bank of International Settlements

This deleveraging cycle has been a key reason why the economic recovery in the US since 2008 has been anaemic. However, the effect that deleveraging has is that it makes households less vulnerable. In addition the banking sector has deleveraged over this period with the help of bailouts and Quantitative Easing. The result, a repeat of 2007/08 in the US, is unlikely in our view. Note that Australia's household debt has continued to rise, more on this later.

The greater risk we see as interest rates rise is an increase in risk pricing. One of the side effects of low interest rates is speculation and malinvestment as investors are pushed into riskier assets to find returns. Currently the price of risk is low and we see that

through credit markets where the high yield spread is currently at its lowest level since July 2007 (note it hit an all-time low earlier in 2007 at 241bp). Investors have driven spreads down as they currently see little risk; previous spikes in the chart below coincide with the GFC, the European crisis and the fall in the oil price.



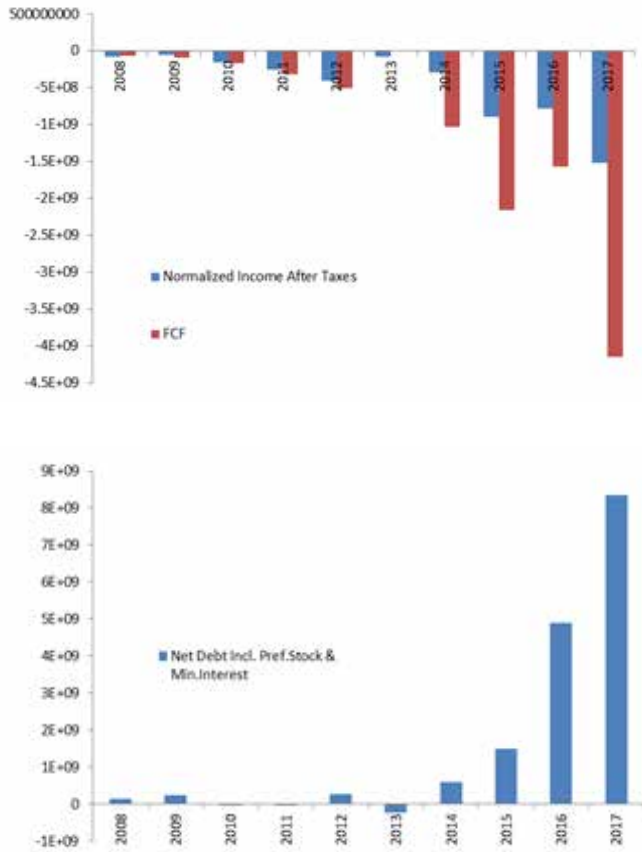
Source: Pension Partners

As interest rates have come down over the last thirty odd years we have seen capital flow into the Tech sector back in the 1990s and in the early 2000s it flowed into real estate. This time around a record amount of capital has flowed into private capital markets. This has increased competition in the space and pushed up multiples that private equity firms have to pay to buy companies. Risk is increasing in the space and we have seen our first major blow-up in Theranos. The story of which is covered superbly by John Carreyrou in his book "Bad Blood".

There have also been other areas of speculation. Last year we saw speculation in Cryptocurrencies. In the listed space, we have record divergence between growth and value. We have also seen wild moves in speculative sectors such as Cannabis, most recently in Canadian company Tilroy. Last week saw its market capitalisation exceed \$28 billion despite its revenue last half only being \$20m.

Although they make for interesting stories, the fallout impact from Blockchain and Cannabis is likely to be small. What could have a bigger impact is the Information Technology sector which has been the key driver of sharemarket returns in recent times. We could get into a debate around the valuations of companies such as Amazon and Facebook (as well as potential regulatory risks) but we think the greater risk lies in a number of companies which are reliant on capital markets. The most notable and debated of these is Tesla.

Proponents of the company claim that the company is revolutionising the car industry whilst critics point towards financial statements that are troubling. In fact, last year the company had negative free cash flow of over \$4bn (followed by almost \$2bn in the first six months of this year) and has accumulated a net debt position of over \$10bn now. In fact the company has never made a single cent of free cash flow (as can be seen in the chart below) and is completely reliant on capital markets to fund their operations.



Source: Thomson Reuters, Company filings

The company reports next month and it is a crucial period as the company has \$900m worth of convertible notes due in February next year. In order for conversion to be worthwhile, the company needs the share price up above \$359 (currently \$299). A major bankruptcy for a darling company such as Tesla could have a similar impact as the fall in Enron back in 2000.

Tesla isn't alone in this regard. Netflix, another market darling, is spending significant amounts of capital to create its own programs in response to a coming competitive threat from the likes of Disney. The result is an increasing cash burn funded by the debt market.

Overall, the risks to the US are similar to the early 2000s. Back then an equity market fall led to a very mild economic recession. The fallout came from primarily from one sector and had a greater impact on asset markets than it did on the overall economy.

The other reason we don't fear a major recession or crisis in the US is the housing market. Regular readers of ours will be familiar with Edward E. Leemer's 2007 economic paper, "Housing is the business cycle". In this paper, Leemer looks at all the recessions in the United States since World War 2 and finds that 8 out of the 10 were "preceded by substantial problems in housing and consumer durables." This leads him to conclude that "Housing is the most important sector in our economic recessions, and any attempt to control the business cycle needs to focus especially on residential investment."

The only two US recessions that are exceptions to the above were the end of the Korean War in 1953, caused by a decline in defence spending, and the 2001 "Tech Wreck". As the paper was written in 2007, we can now improve the success ratio to 9 out of the last 11 recessions following the 2008 recession, something that Leemer warned about.

The key reason Leemer gives for housing being so important to the economy is that "house prices are very inflexible downward, and when demand softens as it has in 2005 and 2006, we get very little price adjustment but a huge volume drop. For GDP and for employment, it's the volume that matters."

In other words, a housing cycle will typically see a drop in transaction volumes and building activity that will lead to job losses and ultimately a downturn in the economy. So it's important to note that whilst housing activity has increased since the 2009 lows, it remains well below the 2005-2007 levels. Whilst a slowdown may occur, the overall economic fallout will be less.



Source: Deutsche Bank, Bloomberg Finance LP

This of course brings us to Australia. Since they saw the end of the mining construction boom coming, the RBA have cut interest rates from 4.75% to 1.50%. The result has been that they have effectively replaced a commodities boom with a residential boom. Households have taken on more debt (as seen above). House prices have risen and construction has followed suit.



Source: ABS

After the experiences of countries like the US, Ireland and Spain in the early 2000s, organisations such as the Bank of International Settlements have warned that one of the worst things you can do to your economy is fuel a speculative real estate boom with cheap credit. Unfortunately the RBA and APRA weren't listening.

Now that the residential boom is ending, we believe the fallout is likely to be bigger than any previous cycle. The reason we believe this is twofold.

Firstly, this boom since 2012 has been coupled with a record boom in residential construction. With demand starting to fall, supply (construction) is likely to fall and lead to a rise in unemployment. The multiplier effect from construction activity is large with all ranges of employment from developers, constructors, trades, property agents and financiers impacted. As we said above, we can see the impact of a fall in construction via the United States where 9 out of the 11 recessions they have had since World War II have been preceded by a fall in residential investment.

Secondly, all of the previous declines in house prices locally have been reversed by the RBA entering an easing cycle. Typically when the RBA starts cutting, the market starts to rebound. This time is different for two reasons, firstly with interest rates at 1.5% there is very little scope to cut rates and secondly, the RBA has been very firm on the fact they won't cut just to save the property market. In addition, recent increases in wholesale funding costs are starting to flow through to "out of cycle" rate hikes from most of the second tier banks and forced switching from interest only to

principal and interest is expected to pick up over the course of 2019 and 2020.

The property market is set in our opinion to have a significant impact on the equity market. If the RBA, APRA and the government can engineer a soft landing then the equity market as whole will be an ok investment. Investors will pick up solid dividends but limited earnings growth. However, it has to be acknowledged the risk of a hard landing is building. The impact in this scenario will be felt broadly with Residential REITs and building companies at the front line. It will spread through the financiers (Banks) who have residential exposures well above international peers (mortgage books equivalent to c. 60% of their assets as opposed to 30-40% globally). It will also impact retail stocks most notably those exposed to furnishing new dwellings (Harvey Norman, Nick Scali, JB Hifi through The Good Guys). We are not sure how this plays out but we do believe the overall market is too sanguine about the risk currently.

Investment Implications

We have no idea when this equity market cycle will end but we do see risks ahead. The US will lead global markets but we believe the risks are more pronounced in Australia where high household debt, a slowing property market and stretched valuations in certain sectors are all prevalent. If the US (or even more importantly China) sneezes, Australia may well catch a cold (or worse still the flu).

Australian investors need to be aware of these risks and position accordingly, we believe that the following should be some key considerations.

- 1) Portfolios should be more defensively positioned than recent years. Cash levels should be higher and fixed income should be considered for its diversification benefits.
- 2) International equities remain preferable to Australian equities. Look to tilt towards Value. We believe that a "risk off" environment will lead to a reversal of the current record outperformance of growth companies.
- 3) In Australian equities, look to limit exposure to financials, residential exposed companies and retail. Look to companies exposed to the boom in infrastructure construction, regulated utilities and quality companies with offshore earnings that are

trading at a reasonable price.

The Portfolio

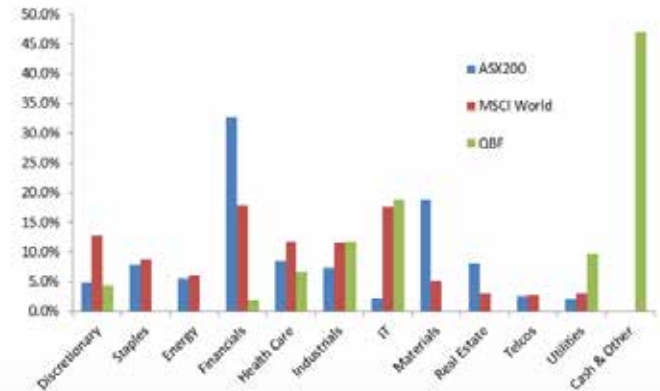
The portfolio is currently invested in 18 companies. The cash level is currently 44.0% (up from 40.8%). We added two new positions during the month – a short on the ASX 200 index and a leveraged position in US Dollars. Our net equity exposure is 49.9%.

GCS 7.6%
SKI 6.2%
MPW 5.7%
TME 4.3%
DDR 4.1%

Other Positions 28.0%
Cash 44.0%

Sector Positioning

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

The portfolio declined in October 2018. The ASX All Ordinaries Index experienced its worst month in over three years, declining -6.5% during the month. Smaller companies fell more than the broader indices, with the XEC (Emerging Companies Index) down -11.0% and the XSO (Smaller Companies Index) down -9.6%.

Within our portfolio, some of our more illiquid holdings were impacted by the negative market sentiment:

- Key detractors included Blackwall (-10% on no news), Janison Education (-12% on no significant news) Legend Corporation (-8%, see below);
- Kip McGrath (+29%, see below) generated a material positive contribution for the portfolio.

For the first four months of the 2019 financial year, the portfolio is up +3.29%.

AGM Updates

During the month, a number of portfolio holdings held their annual general meetings. The trading updates delivered at these meetings were on the whole positive and supportive of the investment thesis.

We are absolutely focussed on ensuring that the portfolio is exposed to growing, well run businesses that represent attractive long-term investments

Sealink Travel Limited (ASX:SLK) – AGM 17 October 2018

Leading tourism and travel operator Sealink announced that it expected strong profit growth in FY19. Key drivers of profit growth in FY19 include the anticipated reversal of trading losses from new ferry routes in Sydney and Western Australia and the contribution from a new service to Bruny Island (Tasmania); the full year contribution of its Fraser Island acquisition, together with continued organic growth in existing businesses in SA, NSW, Qld and NT. Sealink noted that inbound tourist numbers out of Europe and US remained very strong, and that fuel, a key operating cost, has been approximately 50% hedged. While it did not provide formal guidance, SeaLink noted that it was positioned to substantially improve upon its FY18 result, assuming average seasonal and current business conditions remain stable.

Kip McGrath Education Centres Limited (ASX:KME) – AGM 26 October 2018

At its AGM, leading tutoring company Kip McGrath noted that its FY18 result (41% increase in profit) was the 7th consecutive year of increased profits, and said that based on results to date, FY19 will continue that trend.

The increase in profit has been (and will continue to be) driven by an increase in the number of students taught. Students being tutored are increasing as a result of:

1. The global market has shown an annual growth rate in excess of 10% in recent years;

2. The company's initiative in doing national advertising has yielded significant student growth; and
3. KME's products and service have improved with the new software that has been written.

We continue to expect strong revenue growth and margin expansion to deliver an EPS increase of 20% in FY19.

Gale Pacific (ASX:GAP) - AGM 26 October 2018

Gale Pacific reported a pleasing trading update – noting that it expected growth in first half earnings for FY19, and was confident in achieving earnings per share growth in FY19.

Growth is underpinned by the roll out of product into United States, where GAP see a large opportunity given sun protection awareness is building and there is no one market leader in the category. GAP has an impressive distribution capacity through national retailers such as Home Depot as well as a strong Amazon presence.

The company continues to focus on becoming a faster growing, more profitable, innovative, global fabrics technology business, and while progress to date has been slower than expected, at 10x NPAT, there is compelling value on offer here. We recently spent time with Management where they demonstrated some new innovative fire-resistant coverings for the commercial market. We continue to believe that GAP has significant earnings upside.

Apollo Tourism and Leisure - AGM 24 October 2018

ATL manufactures, rents and sells campervans, and bullishly noted that increased market activity was generating a wealth of opportunities. ATL highlighted that the global rental business outlook is positive, with tourism industries performing strongly in all operating regions, however did note that geo-political risks are an area of focus, and in particular, Brexit and US trade tariffs have the potential to impact confidence in those geographies. Recent feedback from tourism operator Sealink was that inbound tourist numbers from Europe and United States remain very strong, which is positive for Apollo's Australasian high season.

Apollo continues to invest in digital initiatives to provide industry leading guest experiences while

adding new retail sales sites and leveraging of distribution network synergies is expected to boost RV sales revenues. Ancillary revenue streams such as finance and insurance and servicing remain a focus for growth.

Apollo reaffirmed its NPAT guidance of \$22m – \$24m (representing ~20% growth), and with a market cap of \$255m, puts it on a PE of ~11x.

Legend Corporation - AGM 26 October 2018

Electrical component manufacturer and distributor Legend advised that it expected its FY19 half year EBITDA to be in the range of \$7.3m to \$7.6m, an increase of 32% to 37%. NPAT is expected to be in the range of \$3.6m to \$3.8m versus \$2.8m last financial year. This follows an increase in NPAT of 60% in FY18.

Ordinarily, such an announcement would have been greeted very positively by the market. However, in September the company had announced that profit was up 70% for the first 2 months of the year. This raised expectations and attracted plenty of 'hot' money into the stock, which was disappointed by the news that (not unexpectedly) the previously highlighted initial level of growth had not been maintained. LGD still remains very attractively priced (~8x) and provides strong growth in a buoyant sector, so we continue to hold.

A Quick Zenitas Update

During the month, allied health care operator Zenitas (ASX:ZNT) released its Scheme Booklet in relation to its takeover by a private equity consortium. The Scheme Booklet noted that the Directors believed the offer was fair and reasonable and in the best interests of shareholders to accept it.

Accordingly, Zenitas is now set to delist from the ASX in December 2018, concluding our involvement in the stock that commenced in December 2015. Over those 3 years, ZNT has grown from 4 medical centres, to operating 77 allied health centres with over 3,000 clinicians, nurses and support workers.

Whilst it is disappointing that ZNT has been taken over at what we consider to be below fair value, we believe it provides a great example of the opportunity that we are trying to capture – providing long term growth capital to profitable, small, under-the-radar businesses that are well priced and have attractive growth profiles.

TAMIM Global Equity High Conviction IMA

October 2018 Review

October saw a general and marked decline in equity markets. The USA fell approximately 7%, Japan 9%, and Hong Kong 11%. We were due a fall in markets after a strong run over many years, but the extent surprised us. The portfolio was defensively positioned and so outperformed, declining -4.37% in AU\$ terms. Numerous causes can be identified but we think that equity market participants are realising that the era of easy money is ending and no equity 'taper tantrum' is going to cause a change of mind at the Federal Reserve this time. Given that it is not the mandate of the central bank to support asset prices we think this is a positive development but may cause pain or withdrawal symptoms. The last Chair of the Federal Reserve to act this way was Paul Volcker in the 1980s.

We still think equity risk is worth having but that the Value style will be more appealing than investing in companies with high expectations incorporated already into their ratings. Value has under performed Growth by an unusually wide margin in the last three years and mean reversion back to the benefit of Value is now more likely than ever - especially if we are right about central bank tightening. This means companies with good balance sheets, progressive dividend policies and earnings multiples that only require moderate growth will be seen as more attractive, and outperform.

We do not invest in broken businesses but ones which are unpopular, misunderstood, or being resuscitated by management. The P/E of the portfolio is 10.1x; the yield 3.63% and we are currently invested predominantly in Asia and the USA. Brexit and the problems with the Euro have yet to be resolved or indeed any credible plan to be aired. Our expectation is that the European Central Bank will have to pull back from its threat to unwind easy money in the light

of the Italian government's recalcitrance on intended fiscal spending. Given the ageing, and failure, of European (and USA) infrastructure, the Italians are correct to want to spend money.

Our strategy is to capitalise on the expected imminent improvement of USA China trade relations to a pragmatic status, and to invest in companies which build, make or provide real services and products. The next decade should see growth coming from an increase in physical investment to replace the ageing highways, trains, hospitals, airports rather than from capturing 'eyeballs and clicks'. In that regard, Asia is well placed because of its financial strength and ability to get projects 'shovel ready'. The USA less so but we do have bipartisan agreement that the infrastructure in the USA needs to be fixed. Europe is dysfunctional.

After the falls in October we do not anticipate a rapid rebound and return to low levels of volatility. We will invest into price weakness and continue to favour companies which reward shareholders with dividends.

Ten Largest Holdings

Company Name	Country	Weighting
Verizon Communications Inc.	USA	6.15%
Legal & General Group PLC	UK	4.87%
Apple Inc.	USA	4.55%
Gilead Sciences Inc.	USA	4.27%
Macy's	USA	4.16%
Caterpillar Inc.	USA	4.04%
AXA	France	3.80%
Anthem Inc.	USA	3.76%
Intel Corp.	Canada	3.74%
Cisco Systems	USA	3.70%

TAMIM

Income Fund

The Tamim Income Fund generated the following returns in October:

Series 1	0.48%
Series 2	0.62%

The Series 1 portfolio was allocated as follows:

Platform	Allocation
RateSetter	63.0%
Society One	32.1%
Cash	4.9%

The Series 2 portfolio was allocated as follows:

Platform	Allocation
RateSetter	49.0%
Longreach	50.8%
Cash	0.2%

The SocietyOne loans comprise 32.1% of the overall portfolio of Series 1 and this is split across over 313 loans as follows:

Category	Allocation	Yield (gross)
A	18.3%	8.95%
B	29.1%	10.92%
C	45.1%	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 \$11,793,431 which is 6.04% of the outstanding loan book. Key Ratesetter details are summarised below:

RateSetter Key Statistics

Claims on Provision Fund	100% of late payments and defaults
Claims paid by Provision Fund	100% of total claim value
Total amount lent	\$376,550,222
Total principal repaid by borrowers	\$181,454,497
Current funds on loan	\$195,095,725
Current estimated bad debt rate*	<3.8%
Current estimated bad debt*	\$7,498,006
Current estimated default coverage ratio*	1.6x

Source: RateSetter

TAMIM Alpha Fund



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.

Market Review

The Composite State-of-the-Economy Index indicated acceleration in the growth rate in the third quarter this year. Recently published data from the Bank of Israel (BoI) shows that the composite state-of-the-economy index increased 0.3% in September.

The third quarter Companies Survey by the Bank of Israel indicates continued expansion in business sector activity. The Companies Survey is based on qualitative, not quantitative, reports of companies from chosen sub-sectors of the overall business sector. As mentioned, it indicates a continuing expansion in business activity in the third quarter of 2018 along with a slight acceleration in the pace. The net balances in most of the sub-sectors (the percentage of companies reporting an increase in activity minus the percentage of companies reporting declining activity) were positive. That is to say, the results indicate an expansion in activity.

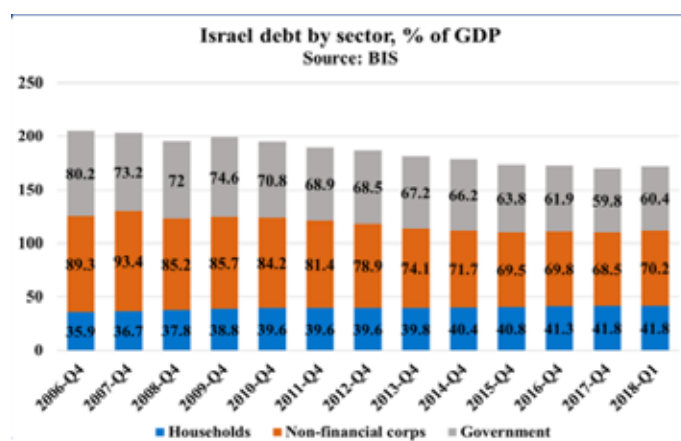
Robust domestic demand should keep economic momentum afloat next year while a lower tax burden and favourable financial conditions should support private consumption. Additionally, new gas- and oil-related projects will likely buttress fixed investment.

We are entering an election year in Israel (expected in November 2019) and we are starting to see a few signs of deviation of government budget as will often happen prior to elections.

Against the backdrop of postponed tax payments from September due to the local holiday period, government activity in October amounted to a relatively moderate fiscal deficit of NIS 0.8bn. The cumulative fiscal deficit since the beginning of the year (January – October) stands at NIS 24.3bn, This is substantially above that in the parallel period of past years.

The Ministry of Finance (MoF) emphasised in its latest announcement that the trailing 12-month figure includes December 2017 when government revenues were especially low. This pushes the current deficit (over the trailing 12-month period) higher. Therefore, with the exit of the December 2017 data from the trailing 12-month window, the deficit for all of 2018 (excluding December last year) is expected, according to MoF estimates, to be lower than that from the last 12 months ending in October 2018.

In our opinion and in accordance with the above, 2018 is expected to conclude with a reduction in the deficit. This reduction is likely to turn out to be relatively small but in the current environment any reduction in debt and deficit is positive.



Source: Bank of International Settlements & Bank of Israel

Portfolio Review

What a month to start the fourth quarter! October certainly brought volatility back to the markets around the world. This was a month where we witnessed days where the market was down 3% one day and up 3% the next. We have seen a mini correction take place in the technology sector in the U.S market as leading U.S indices (Dow, S&P and Nasdaq) declined by 5.7%, 6.9% and 8.7% respectively.

Emerging markets have seen a major decline in 2018, the MSCI Emerging Market Index is down 20% from January 2018 till the end of October. The Israeli leading stock market index, the TA 125 (which we use as a reference for the fund) was down 3.22% this past month but is still in positive territory for 2018 (+5.3% year to date). The SME60, also a reference point, was down -5.20% for the month and -11.66% year to date.

In light of the above and the volatility in the markets, we have made a few changes to our portfolio. The significant decline was rooted in the U.S. with emphasis on Technology companies. The semiconductor segment of the market went through a major correction; almost all companies in this space have come off (a few in the -50% range). We have seen a direct impact on a number of Israeli companies trading on the Nasdaq operating in this sector. In spite of good third quarter financial results and moderate to good forecasts, these companies (like holding Nova Measuring Instruments) declined along with the rest. As a result of this sector-wide weakness we have decided to increase our exposure to this sector through the purchase of another global leader in the field of metrology and inspection equipment. We will elaborate further on Camtek in our next monthly report.

Third quarter results for the companies in our portfolio have started coming out and will continue over the course of the next months. As we closely follow these reports, we intend to take advantage of recent declines and increase the equity exposure in the fund along with increasing our down side protection through out of the money put options.

When equity market volatility increases it is sometimes welcomed for the buying opportunities it presents but ultimately most investors naturally look for reassurance. We believe that what we wrote in our last report (that we use four different investment strategies: Value, Growth, Special situations and

Hedging to generate an optimal portfolio) holds true and is proving to be beneficial in light of the global trends and concerns. Our portfolio is properly balanced.

This month we would like to talk about a significant growth position we have in one of Israel's leading renewable energy companies - Energix Renewable Energies (ENRG.TLV).

Energix is Israel's largest renewable energy company (solar, wind and sustainability) with a market value of over US\$370m. They hold a portfolio of more than 1GW of projects under development worldwide. Energix was founded on 2009 and listed on the Tel Aviv Stock Exchange in 2011. A known real-estate investments group with investments in Switzerland, UK and the US, Alony-Hetz Properties and Investments (ALHE.TLV), holds the majority of company shares.

Over the last ten years Energix has built and connected to the grid the second largest wind farm in Poland (total capacity of 106MW) as well as dozens of photovoltaic (PV) projects in Israel with total capacity of 50MW. Energix is a one-stop-shop company which independently executes the construction of 142MW of PV projects in addition to the development of the largest wind farm in the country with a total capacity of 152MW.

Our position in Energix currently sits at 4.5% of the fund. We initiated our position at the beginning of March with a 2% stake and gradually built up our position as the company released first and second quarter results, during that period we have also seen the stock price of the company rise 25%.

We continue to believe in the renewable energy sector, a sector that Israel in particular is renowned for. Our investments in this sector include SolarEdge Technologies (SEDG.NASDAQ), Enlight Renewable Energy (ENLT.TLV) and the above mentioned Energix Renewable Energies (ENRG.TLV). We are holding our position in this sector as we see it contributing significant upside to our portfolio over the medium to long term.

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