Australia Small Cap Income Unit Class
TAMIM Fund

At 31 August 2019

August was a volatile month for global equities as the US/China Trade War rhetoric intensified. Equity markets sold off aggressively at the beginning of the month as investors took a conservative approach following a strong bounce in July. All indices were down during the month, most notably the ASX Small Ords Accumulation index was down -3.85% while the ASX200 was down -2.36%.

Despite this, ***the TAMIM Small Cap Income portfolio delivered a very strong performance of +3.79% during August. Calendar year to date the portfolios are up +23.52%.***

Although we report on a monthly basis, we invest on a multi-year time frame. In saying that, we are quite pleased with our performance in August for two reasons.

Firstly, we are coming off a month of very strong performance in July and, with our holdings already trading higher, it was always going to be difficult to replicate such performance in consecutive months. Secondly, the markets sold off aggressively at the beginning of August and our portfolios were not immune. The Small Cap Income portfolio was initially down almost -5% alongside the market. To finish the month up +3.79% is a ***+9% swing and shows the benefits of active investing over passive investing.***

We would like to dwell on the second reason. As we always highlight, we are investing in companies. These are real businesses with highly entrepreneurial management teams behind them. ***The share market is driven by noise on a daily and weekly basis***. Media headlines dominate investors mind about global economic growth concerns. This often distracts investors from the fundamentals of the companies they own. ***It is only when fundamentals are pushed into the foreground,*** at times like the reporting periods in February and August, that investors turn their attention back to basics and forget about emotions or distractions. It is this reason why our portfolio has outperformed the market in August as most of our holdings delivered strong growth in revenue and profits. This saw their ***share prices revert closer to their fundamental based intrinsic value.***

August also saw housing prices rebound with prices in Sydney and Melbourne up +1.5%. We don't see this as the start of a housing market resurgence. Rather, we suspect this is just investors who sat on the sidelines from recent market uncertainty coming back in. We are bullish on Australian equities in the medium term as investors will seek better returns compared to what property and cash in the bank has to offer.

Key Facts

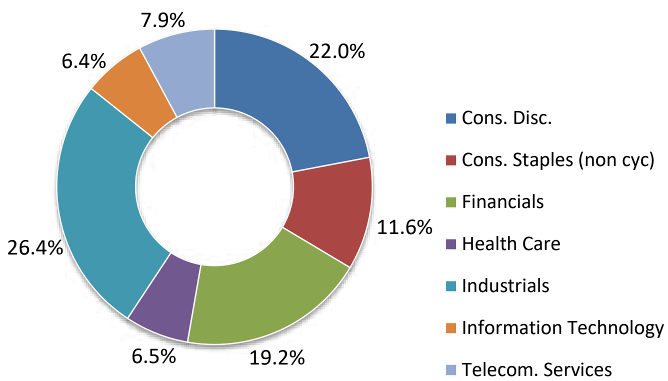
Investment Structure:	Unlisted unit trust
Minimum investment:	A$100,000
Applications:	Monthly
Redemptions:	Monthly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Semi-annual
Management fee:	1.25% p.a.
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash Rate + 2.5%
Lock up period:	Nil
Buy/Sell Spread:	+0.25%/-0.25%
Exit fee:	Nil
Administration & expense recovery fee:	Up to 0.35%

NAV

	Buy Price	Mid Price	Redemption Price
AU$	$1.1917	$1.1888	$1.1858

Portfolio Allocation

Equity	64.3%
Cash	35.7%



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Monthly Return Stream

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2019	-1.07%	7.97%	1.03%	3.07%	1.99%	-0.97%	5.05%	3.79%					23.52%

Note: Returns are quoted net of fees and assuming distributions are reinvested. Past performance is no guarantee of future performance.

We provide some highlights of portfolio holdings results in the Portfolio Update section of the report. During September we will be meeting many more companies who are road showing their FY19 results and we will provide further updates in our next monthly reports.

Sincerely yours,

Ron Shamgar and the TAMIM Team.

Portfolio Updates:

Noni B (NBL.ASX)

The Noni B result was solid and as expected. Sales came in at $864m with EBITDA of $45m. Guidance of $75m EBITDA this financial year was also reiterated. The positive surprise from the result was the balance sheet sitting in a net cash position ($7m) and the higher dividend which brings FY19 to 14.5 cents fully franked (ff). Online sales are now 10% of group sales and should continue to increase. ***The company has confirmed that they expect profit growth in FY21.***

A new store opening strategy was also announced and should mean 100 new stores annually for the next three years. Management has also indicated that, with a huge database of customers, they are trying to capture additional share of wallet by launching new online stores in beauty, luggage and other accessories. These stores will white label other online retailers which means no risk or working capital drag for NBL. ***We expect any positive like for like (LFL) sales growth or improved gross margin updates for FY20 to help prompt a re-rating of the stock.*** We are expecting $80m EBITDA this year with dividends of 25-30 cents ff which bodes well when the shares are at $2.90. ***NBL is worth closer to $4.50 by our maths.***

People Infrastructure (PPE.ASX)

PPE reported a quality result and is experiencing strong industry tailwinds. Worth noting was:

- Revenue was up 27% to $278m and NPATA was up 55% to $12m;
- Cash flow conversion was strong and dividends for full year were well up to 9 cents ff;
- EBITDA margin at 6.4% is tracking upwards to company target of 8% over the long term. These are world best margins for a staffing business.

Health and Community services is now 50% of revenues and management is targeting 70% over the next few years. This provides the company with higher margins, better pricing power as the current market leader, and a ***defensive earnings stream***. FY20 guidance is for 25 cents cash EPS and we see further acquisitions coming in 2H20. The balance sheet has capacity for $20M+ of deals before needing to come back to investors for more equity. ***We value PPE at ~$4.50.***

Collection House (CLH.ASX)

Collection House was sold off heading into reporting season as the company received some negative publicity in August due to the escalation in bankruptcy proceedings against some of their customers. In addition, their listed peer, Pioneer Credit (PNC), is currently suspended for accounting audit issues. Combine that with their largest shareholder selling out and a stretched balance sheet, and there is ***not a lot to get excited about here.***

CLH's results basically met company guidance but the ***quality of the result wasn't great*** with many one offs and accounting adjustments to get there. Cash collections did not improve in 2H19 as expected although FY20 forecast is for substantial improvement. The company will need that improvement as capacity to borrow further is quite limited. We question management's rationale for increasing dividends and some of their investments this year. Heading into the reporting season ***we had sold down our holding on these concerns*** and completely exited the stock in the wake of their results. ***Past mistakes have taught us to be more risk averse in these situations.***

Flexi Group (FXL.ASX)

FXL is a new holding, we initiated this position at $1.50. The company is a consumer and commercial/business lender and has recently appointed a new CEO, Rebecca James, who has ***finally pivoted and focused the business to target millennial customers*** in the Buy Now Pay Later (BNPL) sector. Under her stewardship, FXL has consolidated many different and confusing brands to a handful that are clearly resonating with their target market. We believe the company is ***on the cusp of not just lending volume growth but also a valuation re-rate.***

FY19 results came in at guidance of $76m Cash NPAT after an impairment. The company is forecasting volume growth of 15% in loans for FY20 and has also seen strong traction for their newly launched BNPL brands. ***In addition to being profitable, FXL also pays a dividend*** of 7.5 cents fully franked. Both these metrics compare well to other listed BNPL stocks that not only don't make a profit but won't be paying dividends anytime soon. We feel that further evidence of customer and lending traction will see FXL re-rate materially. ***We value the company at about 100% upside to our buy in price. Our valuation is $3.00+.***

Jumbo Interactive (JIN.ASX)

Jumbo is the largest online reseller of lotteries for Lottery license holder Tabcorp (TAH.ASX). We have known the business and the Managing Director for many years now. JIN reported strong growth in FY19 and exceeded guidance. Revenue was up 62% to $65m on ticket sales (TTV) of $320m and 776k active customers. ***Active customer growth and the number of large jackpots are the key drivers of revenue growth.***

Management has also, for the first time, given a 2022 TTV target of $1bn. This will be a mixture of lottery sales and the new and emerging vertical of charity lottery. The company has over $70m in net cash and we expect acquisitions to help drive international expansion of charity lotteries. ***Based on the 2022 target, we estimate that JIN can earn $70-$80m of EBIT. We value the company at $30.00+.***

Baby Bunting (BBN.ASX)

Baby Bunting was probably ***the standout retail result for the year***. Net profit came in 12% above market consensus with sales up 20% to $362m with like for like sales up 8.7%. Online sales grew 46% to 12% of group sales. The balance sheet is strong with net cash and dividends also up 60% to 8.4 cents ff. ***Guidance for FY20 is 30% growth and further margin expansion.***

BBN is benefiting from dominating its baby goods category. In fact, there's no direct competitor left with more than a handful of stores. ***We see BBN as a "category killer" and will continue to take share away from competitors***. The company is forecasting as many as five new stores to open this year. Private label brands are now 28% of sales and the long term target is 50%. This should see group EBITDA margins lift to 10%+. We bought BBN for the growth/dividend component of the Fund at $2.15. ***Our valuation is $3.00 and since the shares now exceed this level we have been trimming our position.***

MNF Group (MNF.ASX)

MNF is a telco software provider of managed services to businesses and other telco wholesalers. The company specialises in cloud based hosted phone numbers (Voice Over IP or VOIP calls) and other applications to help businesses manage all their communication needs in the cloud. The increase of cloud based technology adoption and the rollout of services such as the NBN are benefitting the company in growing its user base. ***A key leading indicator for MNF is phone numbers hosted. This has grown 18% last year to 3.8m numbers.*** We like the large proportion of recurring revenue within the business with $50m of recurring gross margins within a total of $83m in FY19 (up 20%).

FY19 results were a bit messy due to one off costs and acquisitions. More importantly ***2H19 underlying numbers are showing strong momentum in the business*** and, on an annualised basis, are already within the mid-point range of the $33-$36M EBITDA guidance given for FY20. We expect the company to slightly exceed guidance, with a full year contribution from acquisitions and further organic growth, as they expand into Singapore and other parts of South East Asia. ***MNF is experiencing strong industry tailwinds*** as their small business and large customers - Google, Uber and the like - all require their services and innovation due to technology trends for the use of in-app and online communication technology. ***We value MNF at approximately $5.80.***