

# Australia Small Cap Income Unit Class

## TAMIM Fund

At 31 January 2019

January was a strong month for equities both globally and in Australia. At one stage, in the first three weeks of the month, the index was up almost +5% as investors turned positive on an agreed phase one deal of the China US trade agreement. **We have been predicting this outcome since mid-last year.**

Towards the end of the month reports emerged of a virus with Flu like symptoms (the coronavirus) surfacing in China which has been spreading quite rapidly. As the news spread of further cases across the world and with China implementing city wide closures and extending the Chinese New Year holidays by another couple of weeks, the markets had a pull back as investors were concerned about the potential impact on the global economy.

As we write this in early February, we believe the virus is mostly being contained within China and we don't see much risk of widespread infection in other countries at this time. In saying that, if closures remain in place for several months, the situation in China could potentially get worse. As the Chinese are trying to contain the virus, the closure of cities could have a significant impact on their economy and global industries that rely on China for tourism, travel, manufacturing, supply chain logistics and the like.

Ironically, the global impact from the virus will most likely mobilise central banks across the world, especially in Australia, to stimulate their economies by continuing to lower rates. **In turn this will continue to drive equities higher over time and investors who are sitting on the sidelines with cash will have the most to lose.**

We have positioned our portfolio in a way that we don't see much exposure to the risks highlighted above.

During the month, the ASX Small Ords index was up +3.38% while the ASX300 was up +4.89%.

**The Small Cap Income unit class continued its positive run of performance with a return of +2.19% in January.**

As we commented in our 2019 end of year summary, from time to time one off events will emerge unexpectedly and end up distracting investors from company fundamentals. **We see any pullback in equities over the next few weeks as a great buying opportunity.** February will also see our companies report their half year results and we expect positive results to be welcomed by investors in general.

We provide a brief update on some of the January news flow from our holdings in the Portfolio Update section of the report.

### Key Facts

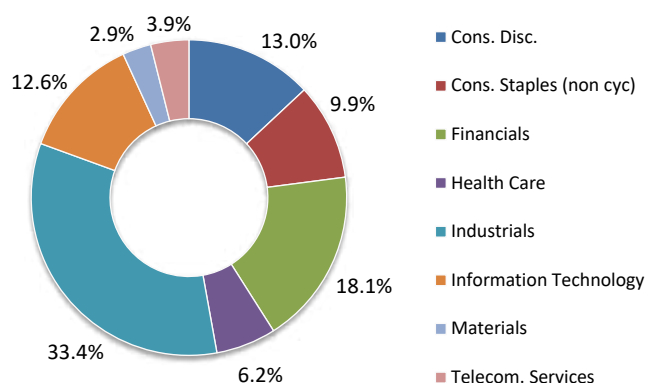
<b>Investment Structure:</b>	Unlisted unit trust
<b>Minimum investment:</b>	A\$100,000
<b>Applications:</b>	Monthly
<b>Redemptions:</b>	Monthly, with 30 days notice
<b>Unit pricing frequency:</b>	Monthly
<b>Distribution frequency:</b>	Semi-annual
<b>Management fee:</b>	1.25% p.a.
<b>Performance fee: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

### NAV

	Buy Price	Mid Price	Redemption Price
<b>AU\$</b>	\$1.3663	\$1.3698	\$1.3732

### Portfolio Allocation

<b>Equity</b>	98.9%
<b>Cash</b>	1.1%



### Contact

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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%	4.76%	0.91%	5.67%	0.69%	38.93%
2020	2.19%												2.19%

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

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## TAMIM Fund

At 31 January 2019

We will provide further commentary on the reporting period in our next monthly report.

Sincerely yours,

Ron Shamgar and the TAMIM Team.

### Portfolio updates:

**Mosaic Brands (MOZ.ASX)** announced a disappointing sales and profit update during the month. Weak consumer spending and a significant impact from the recent bushfires on their regional store footprint negatively impacted sales. The company announced EBITDA for 1HFY20 to be \$33m, a 13% increase over last year. This implies FY20 EBITDA of roughly \$55m which is materially lower than the previous guidance of \$75m.

Our thesis was based on a higher guidance which unfortunately did not eventuate. That being said, some of this is due to an unforeseen one-off event that, in hindsight, we should have probably been more aware of as a potential negative for the business. With the share price now significantly lower and directors not buying any shares personally, we now feel that the stock is a potential value trap.

MOZ's balance sheet is strong and we see the dividend as reasonable odds to be maintained, yet we don't see sales recovering in the short term and so we have sold down our position in the stock. **Although we got it wrong here, the Fund was up for the month which shows the strength of our diversification strategy** across the portfolio.

**Readytech Holdings (RDY.ASX)** is a software company providing solutions for the education sector (universities and colleges) and for employers (HR/payroll departments). During January RDY announced a major contract win with a Victorian TAFE provider, Bendigo Kangan Institute, for \$7m over 5 years. We have followed the stock since IPO and, after now meeting with management several times, we bought a position at a discount to the IPO price.

**We like the recurring and sticky nature of RDY's software solutions and the somewhat defensive industries they target.** The valuation of RDY is also attractive compared to other listed software companies. We estimate FY20 revenue of \$40m and EBITDA of \$16m. This places RDY on an EV multiple of 11x which compares favourably to the sector trading on 16x. **We value RDY at \$2.80** and expect an acquisition as the next catalyst for the stock.

**Healthia (HLA.ASX)** announced their entry into the North American market in January, beginning the selling and distribution of their 3D printed iOrthotics business. Management indicated that the potential revenue from one printer is \$1.5m and, based on demand, there is potential for a further two printers.

**This implies \$4.5m of revenue if penetration of the product is**

**successful over time.** HLA was up 20% for the month and we expect the company to deliver a good result this year with the market gaining further confidence in their roll up strategy of physiotherapy and chiropractic clinics across Australia. We value HLA at \$1.50.

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