

# Australia Small Cap Income Unit Class

## TAMIM Fund

At 30 June 2019

The month of June saw a strong bounce back in equity markets. The US markets reversed their savage sell off from May and managed to recover most of the previous declines. The S&P500 was up 6.84%. In Australia, the ASX300 was up 3.64% and led largely by the banks and other large cap stocks. The Small Ords index did not perform as well and was up 0.92% for the month.

Investor enthusiasm was high on the back of several key factors. Overseas, The US Federal Reserve held rates steady but, more importantly, signalled their willingness to lower rates if economic conditions do not meet their expectations in future. In addition, trade talks between the US and China took a positive turn as it seems both sides are now willing to make some good will gestures and compromises to get a deal done.

In Australia, the Reserve Bank (RBA) cut rates by 25 bps to 1.25% in June and, as of the first week of July, they cut rates again to 1.00%. As we have predicted all year long, we expect interest rates to continue going lower as the Australian economy is not currently showing signs of growth as hoped. So far retail sales have been mixed and car sales are still falling off a cliff. On the positive side, the markets are continuing to climb higher and are now finally at the previous pre-GFC highs of 2007.

Since the GFC the US and European central banks have lowered their interest rates to near zero and engaged in Quantitative Easing (QE) to promote credit growth and spending. The result has seen their respective markets, especially the US, rally significantly over the last ten years. In Australia we have not quite seen that yet, but we are about to. The RBA has effectively signalled to the market that, if the current lower interest rate environment does not work, it will engage in its own version of "Down Under" QE. The consequences of that will likely be higher equity markets.

**There is one place investors do not want to be right now - and that is cash!**

The TAMIM Fund: Small Cap Income portfolio delivered a return of -0.97% during June. Calendar year to date the portfolios are up +13.29%.

We continue to find attractive stocks to invest in and are focusing on companies that are showing positive earnings growth and, more importantly, steady or growing dividend income streams.

Positive contributors to performance during the month of June were People Infrastructure (PPE.ASX), CountPlus (CUP.ASX), and Service Stream (SSM.ASX). Detractors were Global Traffic Network (GTN.ASX), Adairs (ADH.ASX) and CML Group (CGR.ASX).

### 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%							13.29%

Note: Returns are quoted net of fees. Past performance is no guarantee of future performance.

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### Key Facts

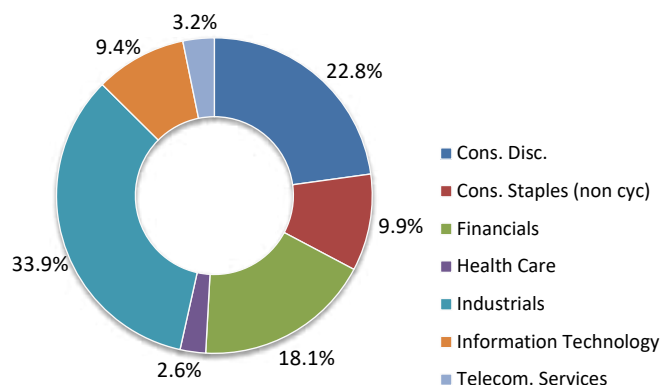
<b>Investment Structure:</b>	Unlisted unit trust
<b>Minimum investment:</b>	A\$100,000
<b>Applications:</b>	Monthly
<b>Redemptions:</b>	Monthly, with 30 days notice
<b>Unit pricing frequency:</b>	Monthly
<b>Distribution frequency:</b>	Semi-annual
<b>Management fee:</b>	1.25% p.a.
<b>Performance fee:</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
AU\$	\$1.1357	\$1.1329	\$1.1300

### Portfolio Allocation

Equity	59.21%
Cash	40.79%



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At 30 June 2019

We discuss updates and news flow from some of the portfolio holdings during the month in the portfolio update section of the report. We will share further insights in our next monthly update.

Sincerely yours,

Ron Shamgar and the TAMIM Team.

### Portfolio Updates:

**Countplus** (CUP.ASX) announced the brilliant acquisition of Count Financial from Commonwealth Bank (CBA.ASX) for \$2.5M this month. The acquisition brings with it 160 firms and 369 advisors, \$25M revenue, and more importantly \$12M of net cash. Yes that's right, **CBA is essentially paying CUP to take Count Financial off their books.**

The late Kerry Packer once said that **"you only get one Alan Bond in your lifetime"**, well it is possible that **CUP could say the same about CBA a year from today.** Keeping the fallout of the Royal Commission in mind, the deal also includes full indemnity from any potential remediation costs for inappropriate advice above the \$200M that is already guaranteed.

Post-acquisition, CUP management will be busy transitioning the acquired firms to the new financial advice "fee for service" model and extracting synergies from the business. We estimate \$2M EBIT contribution next year from Count. **CUP's share price has rallied by around 70% since the deal was announced** and is getting closer to our near term valuation of \$1.00+. Any further acquisitions or better than expected earnings from Count Financial could see that valuation increase dramatically.

**Global Traffic Network** (GTN.ASX) is a radio advertising company operating in Australia, Canada, UK and Brazil. The business has been around for twenty years and has performed consistently through both the economic and advertising cycles. The company model revolves around providing stations short traffic report radio segments and, in return, the GTN receives discounted radio advertising slots which it can then on sell to advertisers on a national level. The model has proven very profitable in both Australia and the UK and is gaining traction in Canada and Brazil.

Unfortunately, GTN reported a second downgrade for the year in June. This was mainly driven by their Australian division which still makes up over 50% of profits. The company has blamed this on a loss of focus by their sales team which led to some loss of major advertising customers. Additionally, higher costs associated with launching new radio station partnerships in Canada and Brazil also impacted the bottom line.

Overall the company is now guiding to flat revenues of \$185M and EBITDA around \$38M. This equates to EPS of 10.5 cents for this year. The share price since the downgrade has fallen to 85 cents, which makes the stock look cheap with a forecast dividend for the full year of 4 cents fully franked and a strong balance sheet. Unfortunately we don't see a clear catalyst to re rate the stock unless performance can turn around next year. In addition there's some concern that radio is no longer the resilient advertising medium it once was with the advent of music streaming in cars. **We reduced our holding post the update and will review it again at the August results.**

**People Infrastructure** (PPE.ASX) continued their acquisition strategy in June with two more deals announced. PPE has acquired a pair of Queensland based healthcare staffing agencies, First Choice Care and Carestaff Nursing. These two firms are the leading nursing placement agencies in the state. The acquisition, costing \$16.8M, will bring \$3.4M of EBITDA to the group next year. Funding was provided from the recent \$20M share placement. PPE is now forecast to earn at least 25 cents of cash EPS next year. **We expect further acquisitions to come and value the business at \$4.00.**

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