Australia Small Cap Income Unit Class

TAMIM Fund

At 31 October 2020

The ASX300 was up +1.89% in October while the Small Ords was slightly up +0.46%.

The portfolio was off to a strong start in the first three weeks of October as holdings reported solid updates. Unfortunately, most of the gains were lost in the last week of the month, as investors turned their attention to the upcoming US election and renewed concerns over Covid-related lockdowns in Europe.

TAMIM Fund: Small Cap Income finished the month up +2.58%. The dividend yield is currently 8% fully franked.

October is a busy month as many companies provide first quarter updates and some hold AGMs, providing outlook statements. Generally, we have seen the continuation of a strong recovery from the last quarter of FY20 and many sectors, such as retail spending, e-commerce, payments and telco/data providers, are seeing record levels of demand. Cyber security is also a hot thematic.

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We have also identified several new “old world” economy businesses that are currently unloved and overlooked by the market but should see good recovery in the next six months. ***There is no lack of opportunities to invest in right now and we see significant value in many companies despite some in the media offering contrasting views.*** Investors should keep in mind that the media primarily focuses on the most popular stocks on the market. These tend to be overvalued and over hyped. We try and uncover companies that are yet to be as popular and look to profit when they become so.

On a final note, as we go to print the 2020 US Election has been decided and Joe Biden has been elected. Although there is still a court case or twenty to be brought by the Trump campaign, we struggle to see any indication that this will change the outcome. The good news is that the Senate should remain in control of the Republicans which means most, if not all, of the unfavourable policies proposed by the Democrats will not get through. ***This is an investor’s ideal outcome*** and should see the market continue to perform well over the next few years.

Key Facts

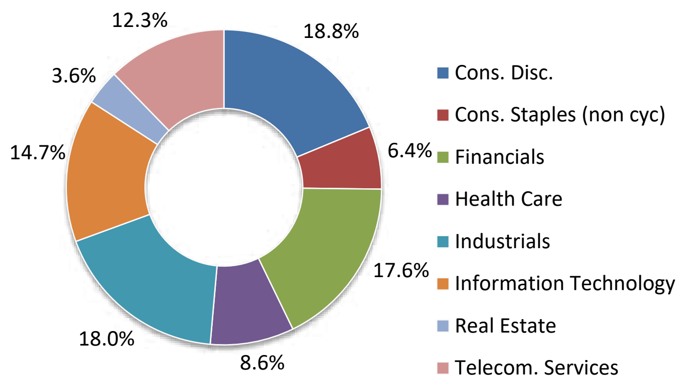
Investment Structure:	Unlisted unit trust
Minimum investment:	A$100,000
Applications:	Monthly
Redemptions:	Monthly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Semi-annual
Management fee:	1.25% p.a.
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash 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$	$1.1575	$1.1546	$1.1517

Portfolio Allocation

Equity	95.53%
Cash	4.47%



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%	-8.52%	-40.88%	16.46%	10.24%	0.73%	3.75%	13.73%	-0.65%	2.58%			-14.04%

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

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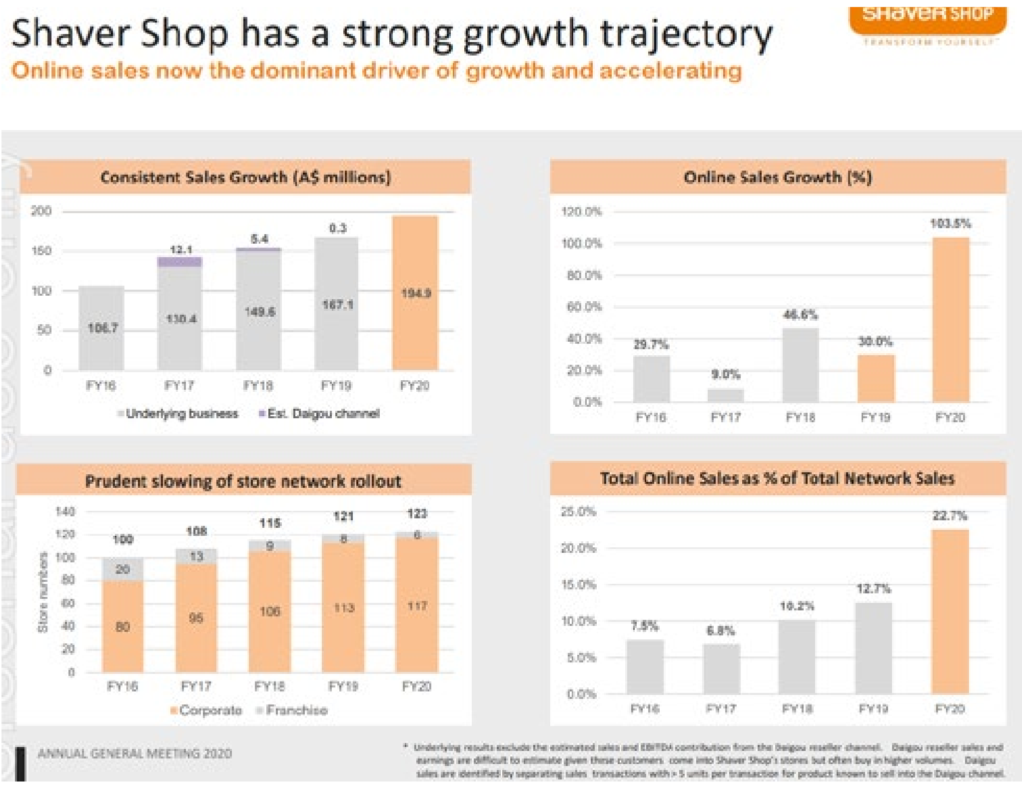
We provide a brief update on some news flow from our holdings in the Portfolio Update section of the report. ***We also detail our successful SPV investment in Amaysim.***

Sincerely yours,

Ron Shamgar and the TAMIM Team.

Portfolio Update:

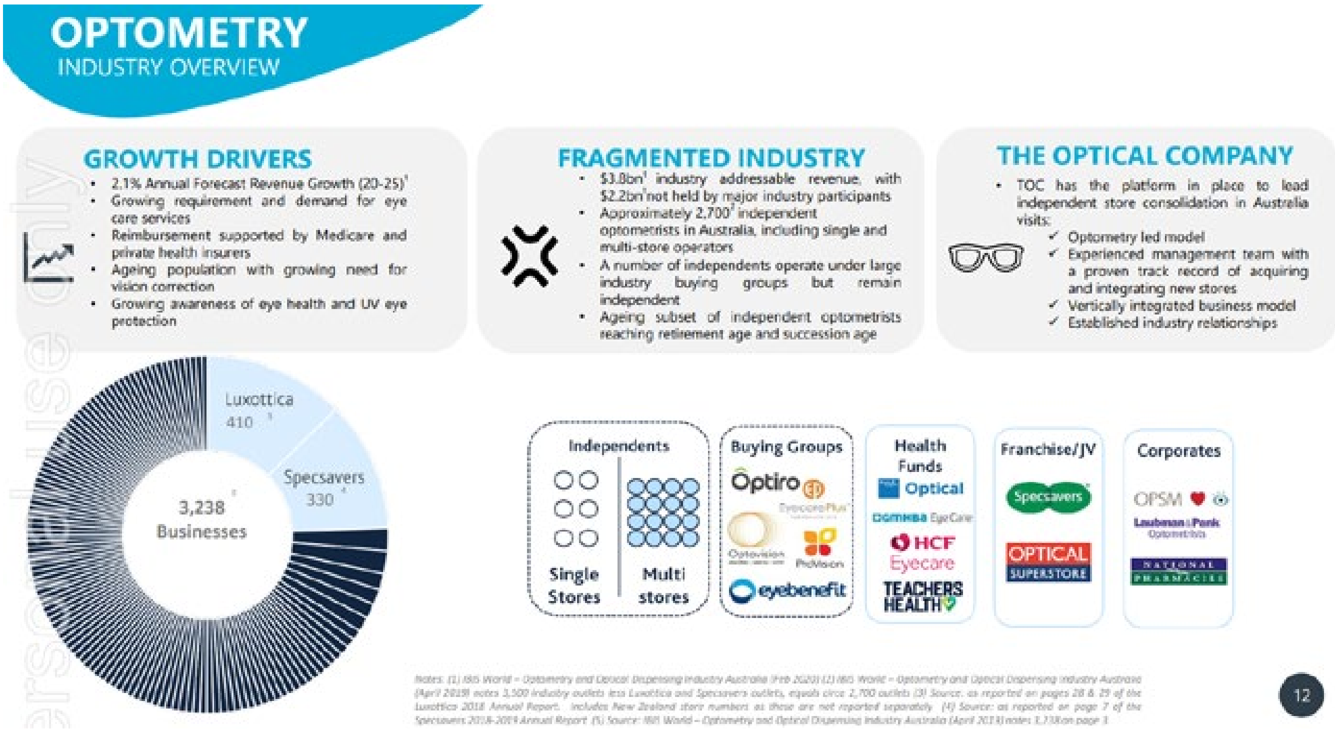
Shaver Shop (SSG.ASX) provided a stellar first quarter update with sales up 20% to $49m, online sales growing 192% (now 33% of group sales), and NPAT up 185% to $4.9m. For perspective, SSG reported $11m profit for the whole of last year! Unlike many other retailers, SSG never received JobKeeper. We see the company benefitting from the structural shift online as consumers are still discovering the Shaver Shop brand.



Source: SSG company filings

We believe the company is taking market share away from traditional brick and mortar retailers and department stores. The personal care market in Australia is worth $11bn and we believe SSG will continue to grow and take share for the next few years. The stock is trading on an estimated 9x PE and a 7% fully franked yield. We see the 2H sales momentum as key for the stock to rerate to a multiple that is more reflective of its growth rates, a quality cashed up balance sheet and relative peer valuations. ***We value SSG at $1.50.***

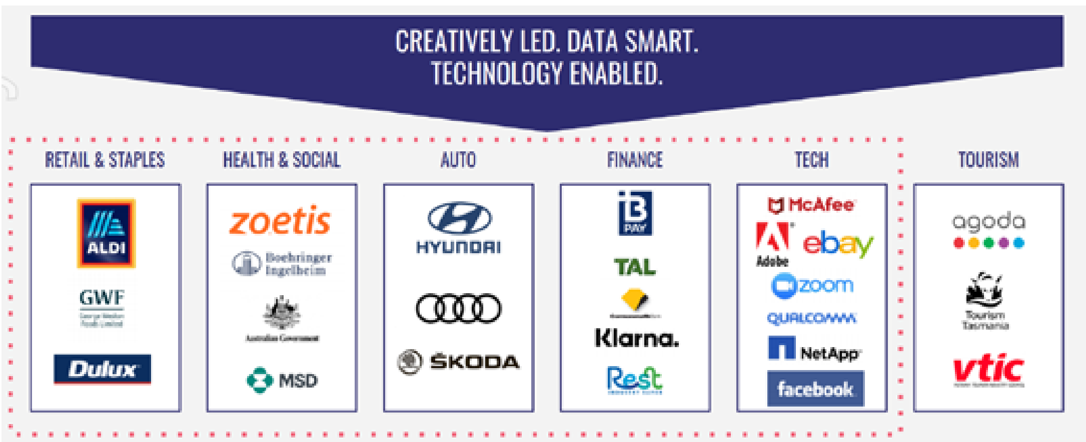
Healthia (HLA.ASX) announced a transformational deal to acquire the Optical Company for $43m. The business generated $36m and $5.7m EBITDA last year and diversifies HLA into the highly fragmented and defensive optometry sector. On a combined basis, the group is now a substantial allied health company with $180m of revenues and $30m EBITDA in FY22. Since listing, HLA management has delivered on expectations and has shown to be disciplined in its progressive acquisition of podiatry and physiotherapy clinics.



Source: HLA company filings

Pleasingly, the organic growth rate was 11% in Q1 showing that the business is not just growing via acquisition. The stock is currently trading on 5x EV/EBITDA, 8x PE for FY22 and has a 5% fully franked dividend. We believe the stock is now in the crosshairs of most fund managers based simply on scale and the market cap exceeding $100m. We expect a significant rerating of the earnings multiple in the next few months. ***HLA is a conviction holding and we value it at $2.25.***

Enero Group (EGG.ASX) is a digital marketing and creative brand agency with offices in Australia, US and UK. The company is not being impacted by the reduced media and advertising spend experienced by peers as the majority of their customers are either in defensive sectors, such as fast-moving consumer goods (FMCG), and technology companies, which are prospering. The Q1 update released in October was almost jaw dropping with revenues up 11% to $37m but EBITDA up 81% to $9.8m (this number includes $1m of JobKeeper).



Source: EGG company filings

Trading update for the three months ended 30 September 2020 (unaudited):

$A million	YTD 30 Sept 2020	YTD 30 Sept 2019	Variance
Net Revenue	37.2	33.3	11.0%
Operating EBITDA	9.8	5.4	81.4%
Operating EBITDA margin	26.3%	16.2%	10.1 bps
EBITA	9.2	4.9	87.8%
EBIT	9.0	4.6	95.7%
EBIT margin	24.2%	13.8%	10.4 bps

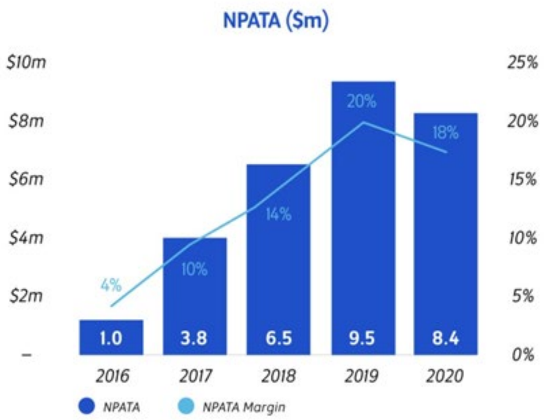
Source: EGG company filings

Underlying EBIT margins are now an industry best at 21%. Although revenue visibility for EGG is short, management expects Q2 to remain strong. The business is cashed up and we expect dividends and further acquisitions next year. We forecast 25 cents EPS and 15 cents of franked dividends. We took the opportunity to acquire shares as some long term stale holders have lost patience. ***We value EGG at about $2.50.***

CML Group (CGR.ASX) provided a trading update and a digital rebrand to Earlypay. Management are trying to digitally transform the company from an "old world" invoice financing business to a "new world" fintech. The acquisition of Skippr has enabled the company to accelerate its onboarding capability of smaller sized clients from two weeks to 24 hours. This should see growth rates accelerate in future.

Pleasingly, the Q1 update is showing invoice volumes rebounding to FY20 annualised run rate levels of $1.7bn, although at a reduced margin due to customers repaying earlier than usual due to government stimulus assisting small businesses. The equipment finance segment is doing record lending of $3.5m per month with the loan book now at $100m. With their new fintech name and the business expected to return to growth mode in FY22, we believe CGR will slowly be rerated by the market and the takeover activity from earlier this year may resume. ***We value CGR at 55 cents.***

Underlying	FY16	FY17	FY18	FY19	FY20
TTV	406m	1001m	1328m	1579m	1710m
Revenue	27.1m	40.0m	46.7m	47.7m	47.5m
EBITDA	5.3m	13.1m	17.6m	20.4m	19.8m
NPATA	1.0m	3.8m	6.5m	9.5m	8.4m
EPS	0.98	2.90	3.80	4.70	3.96
DPS	1.00	1.25	1.50	2.40	1.75
ROE	6.9%	23.1%	16.2%	21.2%	15.6%
EBITDA Margin	20%	33%	38%	43%	42%
NPATA Margin	4%	10%	14%	20%	18%



earlypay

Source: CGR company filings

Stock Spotlight

Note: This spotlight was first published online under the title *An Amaysim Opportunity* on 5 November 2020. AYS has been a holding in the TAMIM Fund: Australia All Cap portfolio for some time, the SPV mentioned below was launched in October.

Last month we launched a unique TAMIM special purpose vehicle (SPV). This Fund has invested in what we saw as a special opportunity to invest in a company that had reached a seminal moment in its history. A milestone that would be the catalyst for crystallising significant shareholder value. Our thesis was bang on (if a little early) and we now expect further upside. Read on to find out why.

This TAMIM SPV was established to invest in just one company, amaysim Australia Ltd (AYS.ASX). No, the 'a' is not supposed to be capitalised in amaysim's case. AYS is Australia's largest mobile virtual network operator (MVNO) and is also the fourth largest mobile subscriber base in the country with 1.2m customers, but importantly 850k contracted subscribers.

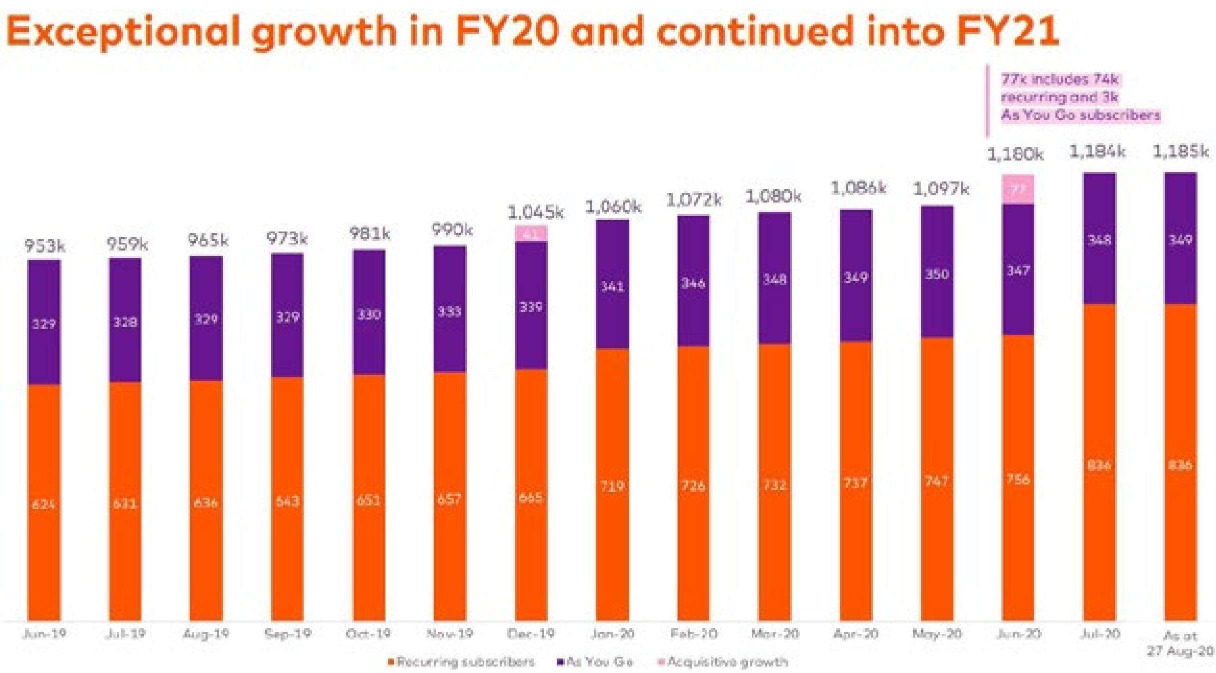
AYS, as a MVNO, utilizes the Optus mobile network. A MVNO is essentially a marketing company that helps mobile carriers fill up capacity on their networks in order to get a return on their large infrastructure investment. AYS owns its customers and its brand. AYS has a network service agreement (NSA) with Optus which expires in June 2022. At that point AYS can take their customers to another network if they chose to.

What is a MVNO?

Broadly speaking (the definition varies a bit from one market to the next) in this context, a Mobile Virtual Network Operator or MVNO is an organisation that provides a mobile service to its customers but does not have an actual network of its own. That is, they don't own or manage all or part of the underlying physical network and infrastructure. They typically 'piggy back' on an larger mobile provider's network while retaining the actual subscribers via a network service agreement (NSA).

MVNOs are very common and every competitive mobile market around the world has them. For a MVNO, in order to make a financial return you need significant scale. From time to time a MVNO becomes extremely successful and even a dominant player in its industry. AYS is such a case. This leads to profitability and strong cash generation.

In FY20 AYS' Mobile division generated $191m revenues and $10m in EBITDA. As MVNOs become large and a meaningful part of any given carrier's subscriber base, their NSAs become very strategic assets and valuable to their network partner or other carriers in the market. AYS' contracted subscriber base is now 8% of Optus' 10.5m subscribers and their only growth channel.



Source: AYS company filings

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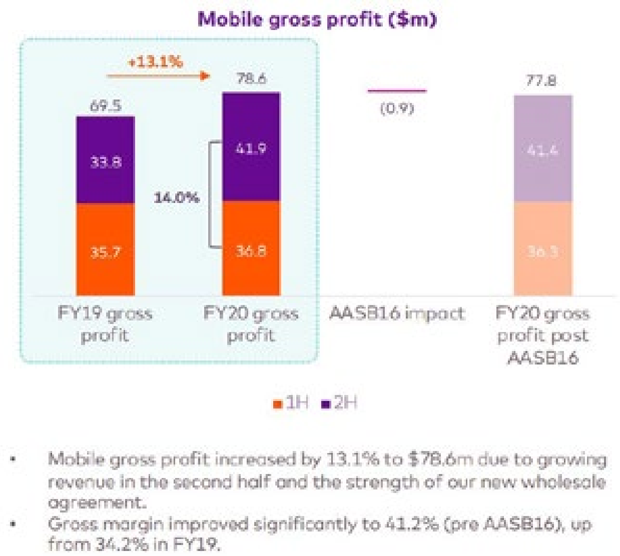
In a sense, Optus simply can't afford to lose the AYS contract in 2022. It is this unique situation that we saw as an opportunity and a catalyst for AYS to potentially be taken over. Although Optus is the natural owner of AYS, it is not too difficult to switch mobile subscribers onto another network and so AYS is a very attractive MVNO for the other players, including Telstra (18m subscribers) and Vodafone (now TPG with 5.4m subscribers).

Service providers capacity	Telstra	Optus	TPG Telecom
Major city spectrum holdings	238 MHz	326 MHz	223 MHz
Population coverage	99%	98.5%	96%
Base stations	10,000	7,000	5,613
Mobile customers	18.5 million	10.5 million	5.4 million
Mobile revenue	$10.5b	$5.7b	$3.5b

Source: TPG company filings



Source: AYS company filings

As we researched the entire global MVNO industry, we noticed that most players that have hit scale get acquired at this point of their evolution. The reason being that the carrier cost of a MVNO is the revenues and margins to a carrier. In FY20, AYS generated Optus $100m in revenues and this year we estimate that AYS will generate $140m in carrier revenues which, by our analysis, is 70-80% increments EBITDA margin to Optus or $100m EBITDA (Singtel is Optus' parent company).

Singtel, TPG and the like currently trade on 10x EV/EBITDA multiples, hence AYS is arguably worth $1bn in market cap to either of these incumbents. We believe that AYS is the last remaining opportunity in Australia for a carrier to simply grab 850,000 contracted mobile subscribers in one hit and thus add significant profitability right away.

This can happen through a couple of avenues. The first is simply an improved NSA agreement, which AYS has tendered out, or an acquisition of AYS or AYS' Mobile business. The initial thesis presented to our investors estimated that an acquisition attempt would take place within six months of the SPV's launch. It ended up taking less than four weeks...

The current situation has Optus offering to buy the AYS Mobile business. The sale is for $250m and is not, we believe, on favourable terms to investors. An outright scheme for AYS would be more attractive. The current offer will see AYS distribute approximately 84 cents (including franking) after costs and taxes to investors. On our entry prices, that is an approximate 25% return over an estimated nine month time frame - not bad but not good enough.

We believe this is an opportunistic offer by Optus and sets the scene for other players such as Telstra, TPG, or even the likes of supermarket chains and AGL to make competing bids or even just match the offer as a scheme. In any scenario, ***Optus can't afford to lose AYS's subscribers and Telstra and Vodafone/TPG can't afford to pass on the opportunity to grow their subscribers by 5% and 15% respectively.*** Optus will have to match or counter bid. Either way, we see AYS' worth well north of $1.00 per share and, with the AYS EGM slated for January 2021, we anticipate a bidding war emerging in the next couple of months.

Watch this space!