Australia Small Cap Income Unit Class
TAMIM Fund

At 30 September 2020

The ASX300 was down -1.38% in September while the Small Ords down -2.82%.

Following the strong portfolio performance in July and August (+18.00%), September was always going to be a struggle as short-term valuations ran too high across many of our holdings.

The TAMIM Fund: Australia All Cap portfolio finished the month slightly down at -0.65%.

September provided us and other investors the opportunity to meet management teams and discuss their recent results in more detail and gauge their sense of the outlook for the next few months. Overall, we feel very comfortable with our portfolio holdings. We have also identified some new and exciting opportunities with significant upside.

As we head into October, AGM season begins and, along with a raft of conferences, we expect most companies to provide trading updates and outlook commentary. We believe any positive updates will be well received by investors and this will be a catalyst for further share price gains. We are very bullish on many of our holdings and anticipate the reporting of strong outlook statements.

Below we provide a brief update on some portfolio news in the Portfolio Update section of the report. ***We also spotlight one of our largest holdings in Resimac (RMC.ASX).***

Sincerely yours,

Ron Shamgar and the TAMIM Team.

Key Facts

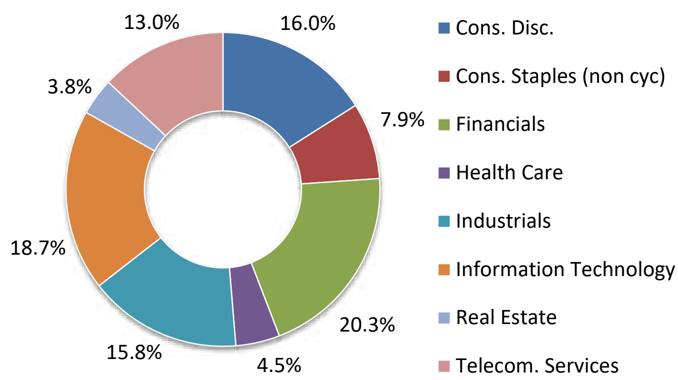
Investment Structure:	Unlisted unit trust
Minimum investment:	A$100,000
Applications:	Monthly
Redemptions:	Monthly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Semi-annual
Management fee:	1.25% p.a.
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash 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$	$1.1284	$1.1256	$1.1228

Portfolio Allocation

Equity	92.00%
Cash	8.00%



NOTE

Covid-19 is a situation that continues to evolve; the facts and figures are changing day by day. What applies today may not apply tomorrow. One must stay informed and have their opinions and actions evolve accordingly. Stay safe, take appropriate precautions and be sensible.

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%				-16.20%

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

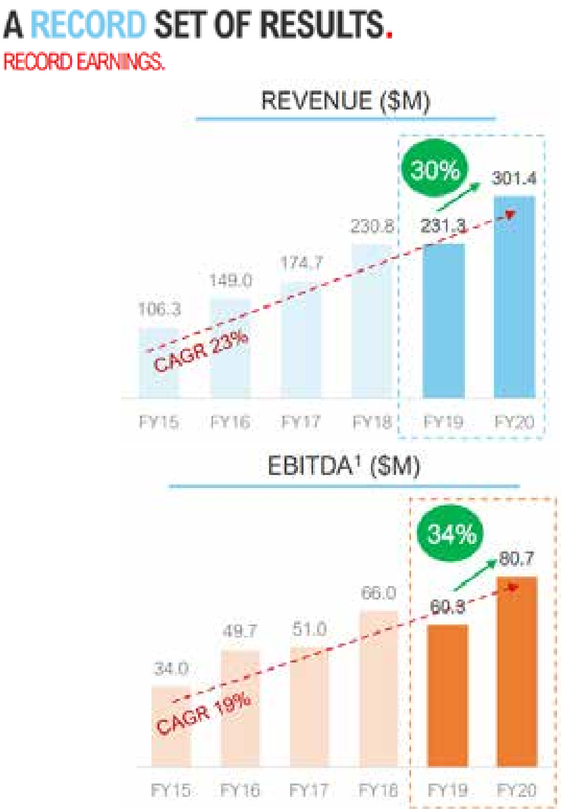
Portfolio Update:

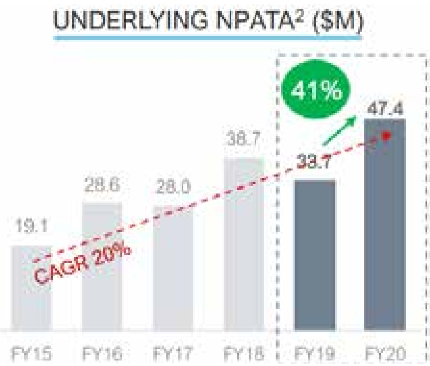
Service Stream (SSM.ASX). The NBN has announced that it is spending $4.5bn to facilitate 75% of premises in Australia being able to access transmission rates of up to 1GB/s for those on appropriate plans. This means that the existing HFC (hybrid fiber-coaxial) network requires additional fibre and transmission technology installed as follows:

- Fibre to the Node (FTTN) connections are in line to be upgraded to Fibre to the Curb (FTTC). This requires running fibre along street curbs from the existing nodes, with a new fibre connection required from the curb to the premise. This pertains to 4.7m connections and NBN has set aside $2.9bn for this work
- Existing FTTC connections may require a fibre connection into the premise to upgrade.

Of the $4.5bn budget, $3.5bn has been allocated to the above works. Four contractors, with SSM being one of them, currently provide these services. ***We estimate that this means about $200m of annualised revenue for each contractor. If we assume a 10% EBITDA margin, this could add $20m of EBITDA to SSM,*** assuming it performed a third of the work on offer. ***This would be material for SSM and to its valuation.***

Hansen (HSN.ASX) is a software company providing customer billing solutions to utility companies all over the world. We initiated a position in August. The FY20 results surprised on the upside, showing improved margins and organic growth. The company has been acquisitive over the years but has struggled to grow organically as new customers take a long time to make technology decisions on switching billing software providers.





Source: HSN company filings

HSN's FY20 revenue was up 30% to $301m and they reported EBITDA of $78m. Management is confident that profit margins will be sustainable into this year. Cash flows were strong and the dividend yield is at 2.5% partially franked. Net debt of $116m provides upside for any acquisitions and the valuation of 16x PE and 11x EV/EBITDA isn't demanding for a software company. ***We value HSN at $5.00.***

Source: HSN company filings

SRG Global (SRG.ASX) is an engineering firm specialising in asset, mining, and construction services. SRG has been in turnaround mode after several years of disappointments and management has now positioned the business to be focussed on more annuity-based services work. They are targeting over 65% of revenue coming from annuity contracts within the next two years. Recent contract wins reaffirm this strategy.

Source: SRG company filings

FY20 saw $545m in revenue, $21m EBITDA and a reduction of net debt to $8m. Current work in hand totals $707m with up to $6.2bn in new contracts in the pipeline. A 1c fully franked dividend was paid in total. We don't usually invest in contracting companies, but we feel that ***the transition to annuity-based revenue, together with a strong FY21 guidance of doubling EBITDA to $40M+,*** gives us reassurance there is significant upside to our ***45c valuation.***

Source: SRG company filings

Stock Spotlight

Note: This spotlight was first published online under the title *Stock Review: A Capital-light Compounder* on 24 September 2020.

Resimac (RMC.ASX) is one of the largest non-bank mortgage originators in the country. Over the last four years, RMC has grown AUM from $8.9bn to $14.9bn, a CAGR of 14%. Over that same period ***NPAT has grown from $13m to $56m, or 44% CAGR, demonstrating the strong operating leverage in their business model***. This was driven by strong net interest margin (NIM) improvement to 190 bps, compared to 153 bps last year, and a significant improvement in their cost to income ratio, now 37.9% compared to 56.6% in FY19. Return on equity (RoE) increased from 17.3% to 25.5%, given the capital light nature of the business. The final dividend was raised from 1 cent to 1.8 cents while the net cash balance rose to $23m.

Source: RMC company filings

More importantly, RMC is benefitting from favourable cost of funding while its banking peers are seeing deposit margin pressure. RMC is growing at 7x system growth by offering quick turnaround time for brokers and an excellent service proposition and ***positioning itself as more of a digital non-bank with a strong direct to consumer digital brand in homeloans.com.au.***

Source: RMC company filings

RMC has the most extensive funding of any Australian non-bank both through their international RMBS issuance program and their seven warehouse facilities. This is a key competitive advantage while other lenders have struggled. ***This was demonstrated by RMC's AUM growth over the Covid period, where their rate of growth was maintained despite a significant dip in the market.*** Other non-banks were forced to reduce volume over funding and capitalisation concerns.

Source: RMC company filings

Also important is the fact that RMC's profit is driven not just by NIM but also strong volume growth and a tightly managed cost structure. ***Their AUM base is 22% higher as a starting point so, in the absence of any further growth in the loan book, RMC could still grow profit in FY21.*** Dissecting the NIM movement further, NIM increased from 153 bps to 190 bps in FY20, noting that NIM was 183 bps in the 1H FY20 and 197 bps in 2H. The increase was driven by a reduction in the spread between the BBSW and the Cash Rate and RMC only passing on three of the four rate cuts in FY20 (noting that 1 bps is worth $1.3M of PBT).

Source: RMC company filings

If conditions remain as they are today, we believe RMC could deliver a NIM result in excess of 204 bps. If this is the case, RMC could see NPAT in the range of $74m to $105m or a PE multiple of 5-7.5x based on a range of scenarios. Another way to look at the FY20 result is that in spite of the $16m special Covid provision, RMC were still able to grow 2H NPAT to $28.8m. This absorbed 100% of the incremental provision which gives a potential $90m profit start for FY21 plus additional growth.

We are forecasting potential for $100m net profit in FY21, which should then see the stock valued at around $3.00, more than double its current price.