



The Australia Small Cap Income unit class will invest into a portfolio of growth and value stocks. The portfolio is structured around the key themes of:

1. Strong businesses with value and growth characteristics; and
2. Cash generating businesses paying regular dividends.

Investment Objective: To outperform the reference index over rolling 5 year periods via an actively managed ASX-listed equity portfolio constructed of a concentrated mix of dividend paying small cap companies exhibiting value and growth characteristics.*

*Returns not guaranteed

INVESTMENT PROCESS

The portfolio will contain two components to capitalise on the two themes mentioned above:

1. Value Component

The Value component of the unit class' portfolio ($\leq 50\%$) focuses on value companies through the construction of a portfolio of between 10 and 20 companies that pass TVG Capital's proprietary value investment filters. The Value Component targets companies with an annualised gross dividend yield of at least 4%, a history of paying dividends in at least 3 out of the last 5 years and that are trading at a minimum 20% discount to their Intrinsic valuation.

The unit class investment philosophy is focused on ASX Small Cap stocks. TVG Capital believes the smaller segment of the equity market exhibits the greatest degree of pricing inefficiency. We look for stocks which we believe are under-priced with near term catalysts likely to generate share price appreciation over the medium term. A key feature will be companies that can fund, maintain and grow dividend payments out of free cash generation.

The portfolio primarily seeks to identify smaller companies that are trading at a discount to their intrinsic value and have earnings momentum over the next two years. We favour companies that operate businesses that can be easily understood, have earnings that are less exposed to economic cycles, generate (or expect to generate) good cash flows, have gearing levels that are appropriate with regard to the cash generative abilities of the business and are sustainable in the future, and are run by management preferably with verifiable track records whose interests are demonstrably aligned with those of shareholders.

Overlaying all these factors, we are always conscious of identifying near term catalysts that are likely to turn an undervalued and overlooked, or an emerging growth company into a market darling.

Conviction Investors

We believe the best way to generate excess returns for the unit class is to construct a concentrated but appropriately diversified portfolio (between 20 to 40 stocks from a cross section of different industries) of the very best investment opportunities available. With a concentrated portfolio, we are able to spend our time comprehensively understanding each business the unit class invests in.

The investment process, primarily, involves three key steps:

- Firstly, fundamental, bottom-up investment research involving a thorough analysis of all available information;
- Secondly, applying several valuation methodologies to work out a company's inherent value and;
- Thirdly, meeting or speaking with the company's management.

Should appropriate investment opportunities not be available, the unit class will keep a large percentage of the investable assets in cash.

The manager believes in active and high conviction management of investments. Each investment opportunity for the portfolio is assessed using TVG Capital's proprietary investment filters based on factors including:

- Quality of management and alignment with shareholders
- Earnings Per Share growth
- Cash-flow conversion and sustainability of dividend payments
- ROE and ROIC
- Forward Price Earnings ratio and gap to Discounted Cash Flow valuation
- Catalyst identification

The investment process for the unit class ultimately consists of the following:

1. Idea Generation – identifying companies within our investable universe (ASX Small Cap) through traditional screening of financial metrics and industry dynamics.

- 2. Fundamental Research** – the investment team conducts rigorous analysis on potential investment opportunities including company management visits, industry analysis, financial modelling and valuations and talking to industry experts. A key focus is on sustainable free cash generation of a company.
- 3. Macro considerations** – focus and understand key macroeconomic factors that may impact the intrinsic value of the company.
- 4. Key catalyst identification** – seek to identify key events that can serve as valuation catalysts.
- 5. Fund portfolio** – will be made up of 20 – 40 stocks that pass all of our investment criteria and filters and are paying dividends. Investment will be weighted towards companies that we feel provide the best upside and near term catalysts.
- 6. Portfolio review** - ongoing review by the portfolio manager and rebalancing as investment theses and risk profiles

Downside Protection: Option Overlay

If deemed appropriate, we may utilise options over Australian and Global equities and indices to provide protection to our Australian equity portfolios. This is designed to reduce market risk while still allowing portfolios to take on the stock specific risk they seek.

We will typically hold out of the money options (strike 10% or more away from spot) with a 3 to 6-month duration. This does two things for the Portfolio Manager:

- Provides cash to the portfolio in a large downside market move.
- Allows the portfolio to buy positions in companies it would like to own while removing the market noise from the decision.

INVESTMENT TEAM

Ron Shamgar

Portfolio Manager, Head of Australian Equity Strategies

Ron Shamgar has successfully overseen the Australian Equity Strategies at TAMIM for over five years, establishing himself as one of the top-performing Australian equity fund managers during this period. Prior to TAMIM, Ron was the co-founder of TBF Investment Management (The Boat Fund) and was Portfolio Manager of the TBF Small Cap Value Growth Fund from 2013 to 2018.

At TBF, Ron was responsible for research, company analysis, portfolio construction and marketing the Fund. Ron has a passion for value investing and believes in a systematic approach to researching and evaluating businesses with a strong bias on assessing management teams. He has been investing actively on the ASX for over 20 years.

INVESTMENT STRUCTURE

KEY FACTS

Investment Structure: *Unlisted Unit Trust*

(only available to wholesale or sophisticated investors)

Minimum Investment: \$100,000

Management Fee: 1.25% p.a.

Administration & Expense

Recovery Fee: Up to 0.35%

Exit Fee: Nil

Performance Fee: 20% of performance in excess of hurdle

Hurdle: Greater of

RBA Cash Rate + 2.5%

or

4%

Buy/Sell Spread: +0.25%/-0.25%

Applications: Monthly

Redemptions: Monthly with 30 days' notice

Distributions: Semi-annual

Management Style: Active

Investable Universe: Australian Small Cap

Number of Securities: 20 - 40

10 - 20 Value

Target min. gross dividend yield of 4% p.a.

Target min. discount to Intrinsic Value of 20%

10 - 20 Growth

Target min. gross dividend yield of 1% p.a.

Target min. earnings growth p.a. of 15%

Single Security Limit: +/- 5%

Market Capitalisation: Small Cap

Derivatives: Yes

Leverage: No

Portfolio Turnover: < 50% p.a.

Cash (typical): 0-100% (0-50%)

APIR Code: CTS8008AU

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