Global High Conviction Unit Class
TAMIM Fund

At 31 July 2024

The TAMIM Global High Conviction unit class was up +6.02% for the month of July 2024, this was in comparison to the index return of +4.08%. The strategy has generated a return of +22.71% over the past 12 months.

Everybody has a plan until they get hit?

July was a month in which our expected market rotation from over-priced 'theme' stocks to under valued profitable 'smaller' companies finally occurred. Global equities rose about 2% but the small caps global index was up over 5%. Active managers should have performed well.

As we wrote in July about the focus on Momentum factors and the mega caps' domination of the indices, "Looking more closely it doesn't seem a healthy market; nor one based on an improving economic backdrop. The concentration of the US market is now far greater than it was in the dotcom era. 10 stocks continue to dominate. Their balance sheets are indisputably strong with many holding net cash. Thus, their managements' ability to buy back shares, increase dividends and fund capital expenditure is unquestioned. It's just that 'trees don't grow to the sky'; something can go wrong and sentiment regarding momentum can shift. They might make bad capital allocation decisions such as the one Apple made in its search for a car? Lina Khan at the FTC might be successful in reining in some of the oligopolistic practices? Most probably the sheer gap in performance and valuation will cause a reversal? Momentum based strategies and the cap weighted indices are now very driven by the momentum factor, can have rapid reversals."

The strategies had been positioned for such a rotation and thus July was a solid month for global returns.

Other news in July was the announcement by President Biden he would not seek a second term and support his VP, Kamala Harris for the Democratic Party nomination. The curious case of the confusing US jobs data was resolved with the Labor market clearly a lot less robust than the BLS surveys had been indicating. We were sceptical about the benefits of 'Bidenomics' and the accuracy of the economic data.

From our May 2024 commentary,

"It's actually quite feasible that the data on labor and prices (and other economic measures) is incorrect and misleading all of us, including those central bankers upon whom we rely to 'have our backs'. Therefore, invest with the knowledge that statistics and data are not perfect in normal times let alone the way we live now with continued extraordinary fiscal and monetary policies. Complacency in markets is very high (manifested in low levels of volatility and credit spreads) and the equity market very narrowly based. Even if the backwards looking data is accurate, the extraordinary fiscal and monetary policies of recent years are quite likely to be distorting the usual relationships for a few more years and thus producing the GIGO effect. Central bankers can and do make mistakes. Ask Arthur Burns.

Let's cite a couple of problems with the data that seemingly justifies these 'data driven' platitudes.

1. On inflation: the divergence between the PCE (provided by the BEA) and the CPI (provided by the BLS) in the USA has recently widened to its highest ever level. It's not the gap between the two but the fact that the gap is changing makes this harder to interpret the level of price pressure in the economy.

2. On employment: labor market statistics collected by the BLS and the ADP are also diverging and we are thus unsure about likely wage pressures, labor shortages, and the general health of company hiring intentions.

Given the divergence of these data sets, what reliance should we give them to set policy? Less than we currently trust. Diversify your portfolio and use a risk model to reduce the interest rate bets on a decline or a rise. Elsewhere the reaction to the Meta results, and their communication to the market, was interesting and reveals the schizophrenia prevailing? Meta, kind of, met market expectations and showed strong advertising growth. (It has long been a point we make that the likes of Meta are advertising platforms rather than true technology companies) Yet the shares fell heavily as the company guided toward much stronger capital investment to remain competitive in A.I. This price reaction strikes us as strange in the extreme."

Thus, we argued to be diversified and careful about impossible valuations. We positioned ourselves for a broader market and something of a return to a focus on Valuation and away from Momentum factors.

Helped along with some 'average' results from companies such as Microsoft, a valuation extended US large cap sector underperformed. Significant price moves in stocks held in July were in Evercore +20%, Sprouts Farmers Market (which we featured in a recent video) +19%, Affiliated Manager Group + 18% and Morinaga Milk in Japan + 16%. Lam Research, Teradyne, and Applied Materials were detractors, a portend of what was to come in August?

We write this in early August and it's remiss not to comment briefly on the month even before it is barely under way. News that Berkshire Hathaway had sold c. half of the Apple investment and was selling Bank of America shares was then reinforced by an announcement by Nvidia that it's next gen AI GPU known as Blackwell, would be delayed allegedly due to design flaws. TSMC the Taiwanese chip manufacturer which makes the Nvidia equipment also fell heavily. The sell-off has been savage especially in the Japanese equity market where a small rise in interest rates and a rapid rise in the Yen has seemingly caused an unwinding of leveraged carry trades: short Yen to fund long US mega tech positions. The index in Japan is down about 20% month to date. We are overweight but unhedged and so 'losses' are mitigated by a rise in the value of the Yen of about 8%. We are also heavily underweight the so called Mag 7 in the USA.

We believe the policy makers' Zeitgeist is still to worry about wealth effects or widespread asset price falls and that inflation remains of secondary importance. Consequently, interest rate cuts are now likely to be accelerated and further rate rises in Australia and Japan unlikely. The 'wealth effect' on inflationary expectations will be used as justification. This strikes us as a sell-off in the froth but with unexpected consequences. As an example of the illogicality of thinking, the Yen / US$ cross rate is only up year to date by 2% and over 3 years the US$ has actually appreciated by over 25% against the Yen. To argue that the Japanese companies have lost competitive positioning due to an overvalued currency after an 8% rise, is unsound to put it mildly. What we do from here with portfolios is to re-run our stock selection models since relative prices and valuations will have moved to an abnormal extent, and think about the macro-economic consequences if we get rapid rate cuts.

Portfolio Highlights:

Bristol-Myers Squibb Co (NYSE.BMY)

Bristol-Myers is a global biopharmaceutical company; however, from an investment perspective, it's best viewed as a purveyor of intellectual property. The primary "asset" equity holders own is IP Bristol-Myers has built over many decades in researching and manufacturing treatments for serious diseases. The goal is to earn a return on the IP, reinvest the proceeds to R&D, obtain new patents, and expand the treatment. As the flywheel spins, resources (human, financial, intellectual) grow and ultimately deliver earnings to shareholders. In the case of Bristol-Myers, the flywheel has spun slowly. As patents for its legacy treatments expired the business hasn't developed "breakthrough" new products to fill the void. The result is limited earnings growth and a market multiple below that of similar peers. Plainly, Bristol-Myers is viewed as a company of yesteryear. We think the market however has missed the transformation of the business since the introduction of new CEO Chris Boerner. The number of late-stage assets has doubled over the past year. Moreover, the business has made three sizable acquisitions, the most notable of which is Karuna and its KarXT treatment, which has shown high efficacy and safety levels in treating schizophrenia – a disorder with limited effective therapeutic options. In the most recent quarterly update, revenue increased 9% to US$12.2 billion underpinned by an 18% jump in growth portfolio revenue. Management subsequently increased earnings guidance for the full year. With a dividend yield above 5% and a single-digit earnings ratio, Bristol-Myers is a company with low risk and high upside should the business capitalise on its newly acquired IP.

Johnson & Johnson (NYSE.JNJ)

Johnson and Johnson are a global supplier of medical products. The company operates two broad divisions: Innovative Medicine and Medical Technology. Innovative Medicine focuses on drug development and commercialisation specialising in infectious diseases, oncology, neuroscience, cardiovascular and immunology. The MedTech segment focuses on equipment used for electrophysiology (heart rhythm disorders), orthopaedics, surgical solutions and vision. The diversified nature of J&J's operations means the business is a proxy for global healthcare demand. This is one sector where demand is consistently increasing owing to rising and ageing populations, the growing prevalence of chronic diseases, economic progress and higher private health uptake. Admittedly, J&J in recent times hasn't capitalised on this opportunity, evidenced by modest revenue and earnings growth since 2019. To drive shareholder returns, the business last year spun off its consumer health division. While a valuable business in its own right, the consumer segment had lower growth prospects and skinnier margins. We commend management for shrinking the business to focus on higher-returning end markets where the company has a true competitive advantage. The decision looks to be paying off, with a more focused J&J recording its first US$14 billion revenue quarter. Management has guided for 5-7% annual revenue growth to 2030 underpinned by the launch of 10+ medicines with US$5 billion sales. The company appears to be balancing its growth ambitions with shareholder returns, with US$14 billion expected to be spent on R&D with a further US$12 billion distributed to shareholders this year. At today's prices, the business trades on an earnings multiple of 16 and a dividend yield above 3%.

Weyerhaeuser Co (NYSE.WY)

Weyerhaeuser is one of the world's largest owners of timberlands. The business owns or leases over 24 million acres of land used for harvesting trees which are ultimately converted into wood products such as lumber, boards, engineered wood and pellets. Management takes an active approach to the timber portfolio, with US$775 million spent in the past three years acquiring incremental timberlands. Conversely, properties with use cases worth more than commercial timberlands are divested to third parties for development. In select cases, Weyerhaeuser will grant rights for external companies to use timberlands for non-core activities such as mineral exploration or telecommunication infrastructure. A nascent opportunity is emerging in Natural Climate Solutions, where Weyerhaeuser will lease excess land for renewable energy projects. So far over 70 agreements covering more than 130,000 acres has been signed for new solar projects. The business also expects two carbon credit projects to be approved this year. Looking forward, timber demand is supported by new and renovated residential dwellings in addition to the growing importance of sustainable construction. Weyerhaeuser will play a pivotal role in decarbonising the planet given the benefits of wood over other construction materials. One tonne of concrete and steel releases 159kg and 1,240kg of carbon dioxide respectively. Wood by comparison absorbs 1,700kg of CO_2.

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Overview

The TAMIM Global High Conviction strategy is a portfolio of global equities from major developed global exchanges. The portfolio holds approximately 60 of the best ideas from around the globe. The portfolio uses a systematic and consistent approach to stock selection and portfolio construction to deliver strong risk adjusted returns to our clients while focusing on attempting to preserve their wealth.

Key Facts

Investment Structure:	Unlisted Unit Trust
Minimum investment:	A$100,000
Management fee:	1.00% p.a.
Admin & expense recovery fee:	Up to 0.35%
Performance fee:	20% of performance in excess of hurdle
Hurdle:	MSCI World Net Total Return Index
Exit fee:	Nil
Single security limit:	+/- 5% relative to Investable Universe
Country/Sector limit:	+/- 10% relative to Investable Universe
Target number of holdings:	80-110
Portfolio turnover:	Typically < 25% p.a.
Investable universe:	MSCI World Net Total Return Index
Cash level (typical):	0-100% (0-10%)
APIR code:	CTS5590AU

NAV

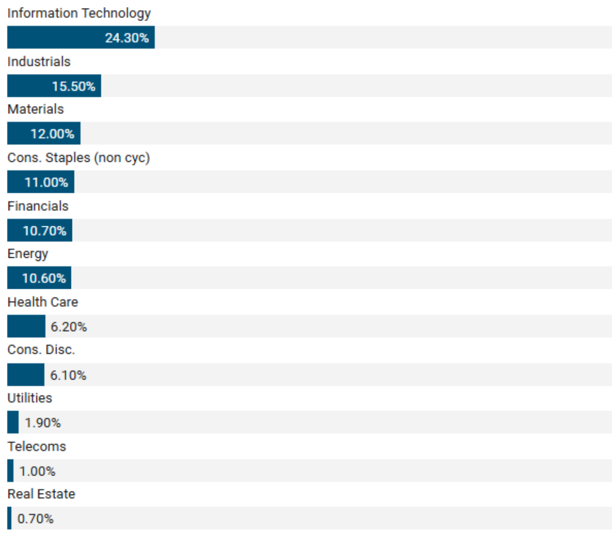
	Buy Price	Mid Price	Redemption Price
AU$	$1.4669	$1.4632	$1.4596

Selection of 5 Holdings

Stock	Country
Johnson & Johnson	USA
Emcor	USA
KLA Corporation	USA
Fujifilm Holdings Corporation	Japan
Sony Corporation	Japan

Portfolio Profile

Equities	99.50%
Cash	0.50%



Portfolio Performance

Inception: 15/07/2011	1 month	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)	Since inception (total)
Global High Conviction	6.02%	22.71%	10.40%	11.61%	13.94%	448.51%
MSCI World	4.08%	22.11%	11.15%	13.27%	14.32%	473.37%
Cash	0.36%	4.29%	2.58%	1.68%	2.10%	31.21%

Strategy inception: 15/07/2011 | TAMIM Fund: Global High Conviction unit class inception: 31 December 2019