Global High Conviction Unit Class

TAMIM Fund

At 30 September 2024

The TAMIM Global High Conviction unit class was up +0.09% for the month of September 2024, this was in comparison to the index return of -0.41%. The strategy has generated a return of +20.77% over the past 12 months.

Never mind the Quality; feel the Breadth!

World markets rose again in the 3rd quarter. Interest rate cuts by The Fed and then China's PBOC late in the quarter, helped move basic materials stocks, infrastructure stocks and Chinese stocks rapidly higher. We got the interest rate cut wrong but benefitted from long exposure to these industries. In September there was a broadening out of the market and a vicious short squeeze in China and Hong Kong stocks. Anhui Conch Cement rose 35%, Alibaba 27% ENN Energy 18%. A broader market is a sign of strength and increases the likelihood that valuation, as a predictor of returns will matter more than the last couple of years where momentum as a factor has dominated.

The Fed has probably been spooked by the downward revision of jobs data but is cutting in the face of statistics that point to continued economic strength and persistent inflation. Given this long-standing Continued Reflation of Asset Prices policy, sovereign bonds are essentially a return free risk and income strategies such as listed equity infrastructure provide a better source of inflation hedged income. The AI obsession appears over although shares of companies that provide the power to run AI equipment manufacture and computations, performed spectacularly. Utilities outperformed Tech. Microsoft and Constellation Energy agreed to restart 3 Mile Island, the nuclear power plant. We purchased Hitachi in q3 to add to our nuclear exposure. We have long argued Nuclear is THE solution.

Interesting to note that Vistra a Texas utility, and Sterling Infrastructure have now outperformed Nvidia over 3 years? Tortoises and Hares?

Source: Capital IQ

The Infrastructure theme has been (finally) catching other investors' attention. In the 3rd quarter, Vistra rose 38%, Constellation Energy 30%, (on the planned restart of 3 Mile Island to supply power to Microsoft) Capital Power 26%, and Xcel Energy 22% - all in US$.

The next American Society of Civil Engineers' quadrennial report on the state of USA infrastructure is out next year. Following Hurricane Helene, dams in North Carolina and Tennessee were close to failure. Hard to see how the 2025 report will give a better grade than the 2021 report which was a C-?

Given the attempt by China to kick start its economy with rate cuts and fiscal stimulus we anticipate more interest in the Materials sector, where we own CRH, BHP, and Heidelberg Materials, and the Energy Sector. Nuclear Power will take a few years to be 'road ready' and instead of using coal, politicians should admit errors, rehabilitate oil, and gas exploration and production. We're positioned for this. Crude oil stocks are quite low, the Biden administration has released oil from the Strategic Petroleum Reserve to keep a lid on prices in the election year thus artificially dampening prices, and the Middle East is again erupting.

The Japanese Yen strengthened, and the Japanese market was very volatile. We believe fears regarding loss of competitiveness from currency appreciation are misplaced. The Yen on a PPP basis is cheap. The decision on the new LDP leader spooked Japanese equities on the last day of the quarter which was quite annoying after a strong run and outperformance!

In Europe, the decline in living standards, in part caused by unnecessarily higher energy prices, is causing protest votes and demands for a return to pre-'green' policies. Western consumption and private sector capital investment is being hurt by stagnant incomes, regulation, and rising prices. A report into the loss of competitive positioning in the EU was delivered by Mari Draghi. Suffice it to say that the critical issue of the fiscal strain caused by the "green" energy shift was glossed over, as were the negative consequences of more state directed capital. From afar it looks like Europe is embracing a Chinese solution to its economy just as China has discovered it doesn't work.

We wrote last quarter, "elections in the EU look like returning a more traditional or right wing set of representatives"; this turned out to be accurate. The German economy is struggling from high government- imposed costs and companies are considering re-locating. The ECB will cut interest rates again, and this will benefit companies that meet needs not wants ie Infrastructure in Europe. Shares of companies in the European auto industry (VW, Stellantis, Aston Martin) have been in steady downward trajectory and offer classic value traps. Profit forecasts continue to be cut. We have no direct exposure to Car companies, but of course the industry is a significant provider of orders and work to many other sectors and weakness will have spill-over effects which we'll try to minimise. A good task for a sophisticated risk model. The German economy has contracted in 4 out of the last 7 quarters even as the population has grown in size. It's not a recipe for stability.

We made more trades than normal in the month in our strategies. We added to US Utilities, AEP, NRG, AECOM, and to healthcare stocks HCA and Tenet. We purchased Italgas in Italy. We added to EMCOR. We sold NYK in Japan, Atkore in the USA, and trimmed Vistra and MDU after strong outperformance.

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Portfolio Highlights:

MDU Resources Group (NYSE.MDU)

MDU Resources is a US-based provider of energy and associated services. The business operates several related but independent companies including electricity and gas retailing, gas pipelines, electrical construction services and until recently construction materials. MDU management has been implementing a simplification program, divesting non-core business units to focus on its regulated energy divisions. The divestiture of the materials segment into its own separately listed company named Knife River Corp has traded exceptionally, with the share price up 120% in less than 18 months.

MDU has also flagged a spinoff of the electrical services division called Everus. This is an excellent business in its own right that provides exposure to the energy transition and specifically the "electrification of everything". The Infrastructure, Investment and Jobs Act proposes US$65 billion for upgrades to grid and electricity infrastructure to support emerging industries such as data centres and electric vehicle chargers. Moreover, the CHIPS Act and Inflation Reduction Act have boosted demand for domestic manufacturing, with total construction starts increasing by 50% since 2020 as companies look to reshore operations.

As for the remaining energy retailing and pipelines divisions, MDU has guided to long-term earnings of 6-8% underpinned by utility base rate growth of 7%. Given the supportive regulatory environment in Northern US states, we see these targets as more than achievable. These are stable operating businesses with infrastructure-like characteristics producing reliable cash flow and satisfying our preference for companies that meet needs not wants. Finally, management has committed to no equity issuances until 2027 and a dividend payout in the range of 60-70%.

F5 Inc (NASDAQ.FFIV)

F5 Technology is a global provider of security software used to secure networks, APIs, applications and databases for the world's largest organisations. Many, if not all, corporations and governments are transitioning IT infrastructure from internal data centres to various public clouds to reduce operational costs while also improving uptime and efficiency.

The reality however is that few organisations have successfully transitioned because the cloud is not always suitable. For example, an insurer may wish to split customer data across several internal and external data centres to provide redundancy; certain legacy software applications can only be run on-site for security reasons; or teams in Tokyo may prefer a different enterprise vendor to employees in London. The net outcome is a confluence of applications and data spread across several network infrastructures and providers, resulting in higher costs, operational headaches and amplified risk of infiltration.

F5 differentiates itself by offering the only platform that secures any app or API irrespective of the deployment environment. Competitors may compete in a particular infrastructure or security niche, but none have the breadth or expertise F5 offers. As a result, F5's platform has become a cost of doing business for large organisations that require protection across multiple environments. Over 77% of the company's revenue is recurring with a revenue pipeline has remained consistent for the past five quarters.

Unlike most software companies, F5 has committed to returning 50% of free cash to shareholders each year in the form of buybacks. This provides internal discipline regarding research and employee resources while also increasing earnings per share over the long run. Trading on an earnings multiple of 16, the market appears to underestimating its potential for growth and shareholder returns.

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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

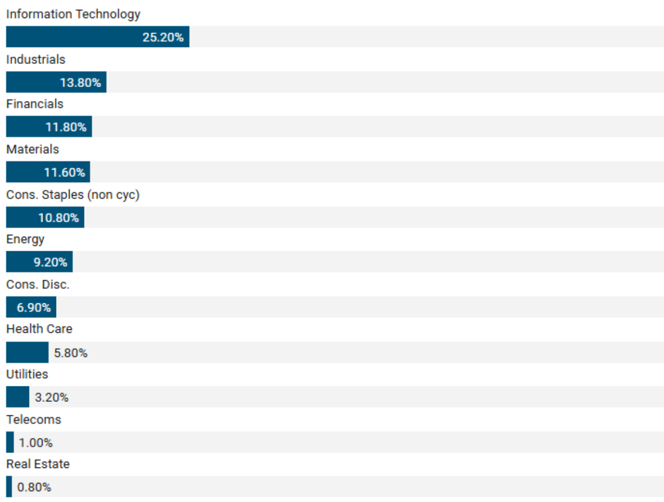
	Buy Price	Mid Price	Redemption Price
AU$	$1.4378	$1.4342	$1.4306

Selection of 5 Holdings

Stock	Country
Hitachi	JP
Schlumberger	USA
Corning	USA
Cummins	USA
Ebara	JP

Portfolio Profile

Equities	99.30%
Cash	0.70%



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	0.09%	20.77%	9.83%	11.19%	13.58%	437.64%
MSCI World	-0.41%	23.20%	10.56%	12.41%	13.99%	464.10%
Cash	0.36%	4.33%	2.81%	1.79%	2.13%	32.14%

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

Returns prior to 31 December 2019 reflect the Individually Managed Account (IMA) underlying portfolio returns. IMA returns reflect a higher fee structure. Individually Managed Account (IMA) returns will, by their nature, vary from the underlying portfolio and TAMIM Fund portfolio. Should you wish to see your individual return, please log in to your account online. Returns are quoted net of fees and assume dividends/distributions are reinvested. Past performance is no guarantee of future performance. The information provided should not be considered financial or investment advice and is general information intended only for wholesale clients (as defined in the Corporations Act). The information presented does not take into account the investment objectives, financial situation and advisory needs of any particular person nor does the information provided constitute investment advice. Under no circumstances should investments be based solely on the information herein. You should seek personal financial advice before making any financial or investment decisions. The value of an investment may rise or fall with the changes in the market. Past performance is no guarantee of future returns. Investment returns are not guaranteed as all investments carry risk. This statement relates to any claims made regarding past performance of any Tamim (or associated companies) products. Tamim does not guarantee the accuracy of any information in this document, including information provided by third parties. Information can change without notice and Tamim will endeavour to update this document as soon as practicable after changes. Tamim Funds Management Pty Limited and CTSP Funds Management Pty Ltd trading as Tamim Asset Management and its related entities do not accept responsibility for any inaccuracy or any actions taken in reliance upon this advice. All information provided in this document is correct at the time of writing and is subject to change due to changes in legislation. Please contact Tamim if you wish to confirm the currency of any information in the document. The MSCI Word refers to the MSCI World Index in AUD. Returns shown for longer than 1 year (other than Inception) are annualised. All returns shown are AUD denominated.