Asia Small Companies Unit Class
TAMIM Fund

At 30 April 2020

The past month has seen a near four-fold increase in the official number of Covid-19 cases, a marked deceleration from the ten-fold increase recorded in March. Asian small to mid-sized equities increased during April by 9.1% in US dollar terms and 1.7% in Australian dollar terms. There were continuing bouts of extreme volatility in both positive and negative directions at various points during the month. The partial recovery in local markets was largely offset by strength in the Australian dollar which has continued to reduce the impact of global market volatility for Australian investors. During the year to date Asian small to mid-sized companies have fallen by 14.5% in US dollar terms and 8.7% in Australian dollar terms.

All of our investment markets recorded positive returns during April, the best was Taiwan up 18.4% in US dollar terms and an increase of 5.6% over twelve months, the only market in the region with a positive annual return. South Korea (+14.1%), Singapore (+10.5%) and Hong Kong (+10.3%) all increased by double figure percentages during April, while China and Japan registered gains of 7.0% and 5.6% respectively.

April was a busy month for corporate reporting and in most cases the results were pleasing, although it should be remembered that these reporting periods were largely prior to the economic impact from Covid-19. In many cases Japanese companies have refrained from their usual policy of forecasting profits for the next twelve months. Our retail pharmacy chain Sugi Holdings in Japan reported annual earnings to the end of February 2020 with earnings per share up 16.8% year on year and return on equity improved from 10.8% to 11.8%. NEC Networks reported earnings per share in the year to end March 2020 up 6.0% and return on capital of 8.8%. Video games maker Koei Techmo pleased the market with earnings per share up 12.0% and return on equity of 12.7% from 11.7%. Semiconductor testing company Advantest reported annual results that delivered a dividend well ahead of market expectations and the shares increased by 21% during the month.

Our best performing stock in April was Singapore supermarket business Sheng Siong which increased 25% in April and announced Q1 profits up by close to 50%. Sheng Siong is controlled by the three Lim brothers who started the business with a market stall selling surplus pork from their father's farm and subsequently expanded to 59 supermarkets in Singapore and 2 in China, their shareholding in the business is now worth more than a $1 billion.

Political tension between the United States and China has continued to build during the past month, President Trump and senior members of his administration have been more vocal in blaming China for the Covid-19 pandemic. The United States is pressuring China by promoting the interests of Taiwan following the enactment of the TAIPEI Act. Former United States Ambassador to the United Nations, Nicki Halley has launched a petition for the US Congress to investigate whether China covered up the Covid-19 outbreak and supporting Taiwan's membership of the World Health Organisation. Taiwan's geographic proximity to China and extensive social/economic linkages left Taiwan very exposed to the Covid-19 outbreak. Taiwan has restricted Covid-19 to 432 confirmed cases and 6 deaths without the scale of economic lockdown we have seen in many countries. International travel to Taiwan was shutdown very quickly and contact tracing of all known cases has proved to be very efficient. The current United States Ambassador to the United Nations Kelly Craft added fuel to the tension with Beijing by retweeting a message that originated from the US mission in Taiwan, "Barring Taiwan from setting foot on UN grounds is an affront not just to the proud Taiwanese people, but to UN principles". Beijing responded with their usual assertion that Taiwan "is an inalienable part of China". This tension between China and the United States looks likely to be a feature of the remaining months of the Trump administration.

Economic news during the latter stages of April has started to show the impact of economic lockdowns in operation to varying degrees across the region. The most recent figures for department store and automobile sales in Japan recorded year on year declines of 70% and 30% respectively. Weak economic data will impact market volatility, however, short-term disruption to corporate profits will not have a significant impact on the long-term equity market returns. Japanese companies have adapted to be able to thrive in an environment of slow growth in recent years. In the past decade Japanese companies have achieved 10% annual growth of profits on revenue increases of less than 3% per annum which exceeds 8% annual profits growth in the United States on revenue growth of 4% per annum over the same period.

In this environment we have kept portfolio transactions to a minimum, our trades in April were executed only in response to client subscriptions and redemptions. The portfolio holds 60 companies and remains fully invested. We will continue to invest in Asian small to mid-sized companies with strong value, momentum and quality attributes together with accounting, strategy and governance standards that meet our requirements. Long-term returns will be generated by the ability of our companies to deliver growing profits and dividends.

Stock Review

Sheng Siong Group (SSG) was founded in 1985 by the Lim brothers (Mr Lim Hock Eng, Mr Lim Hock Chee and Mr Lim Hock Leng). Prior to that, the Lim brothers were helping out at their father's pig farm in Punggol. As the farm was facing an over-supply situation, Mr Lim Hock Chee and his wife rented a stall at one of the now-defunct supermarket chain stores in Ang Mo Kio (BLK 122 Ang Mo Kio Ave 3) to sell chilled pork.

Just when the couple managed to clear the excess stock, the supermarket owner ran into financial problems and put up the various stores for sale to existing tenants, including the one where Mr Lim Hock Chee and his wife were manning the pork stall. With the government phasing out pig farms, and armed with seed capital from their father, Mr Lim Kim Siong and his brothers took the plunge and ventured into retail business by taking over the store at BLK 122. This becomes their first Sheng Siong store and remains operational today. Sheng Siong has subsequently expanded to operate fifty nine stores in Singapore, two joint venture stores in China, a warehousing and logistics business in Singapore (CMM) and two co-branded payment cards (Diners Club and Bank of China). The Lim family recently broke into the ranks of self made billionaires through the family shareholding in SSG.

Accounting, Strategy and Governance Comments

Accounting

1 - SSG implemented SFRS (1) 16 regarding valuation of leases which reduced net profit by S$1.6 million in the year ending 31 December 2020. There was no adjustment to prior years to reflect this accounting policy change.

2 - SSG pays a full corporate tax rate of 17.5% versus the statutory rate of 17% in Singapore.

3 - SSG has two international firms of auditors, PwC for internal audit work and KPMG for the independent audit. The accounts have been signed off with a clean bill of health from KMPG over all time periods since listing in 2011.

Strategy

1 - SSG has a simple strategy of sustainable growth, building out the network of supermarkets in Singapore where the numbers meet their return on investment requirements. Unlike their competitors SSG are happy to operate supermarkets in Housing & Development Board (HDB) complexes which typically puts SSG within walking distance of the majority of their customers. The tendering process for HDB properties has become more "rational" in the past year which makes it easier for SSG to operate stores at their target parameters. SSG opened five new stores in 2019 and ten new stores in 2018. New store openings accounted for the majority of the 11.3% growth in revenue in 2019.

2 - SSG has installed ATMs outside all of their stores in Singapore under the brand of "$tm" accepting cards from all of the major banks. SSG has also showed interest in the new era of digital banking. The Monetary Authority of Singapore is due to issue five digital banking licences and SSG is one of the bidders in a consortium with Razer Fintech.

3 - The early months of 2020 have seen a sharp increase in demand for supermarket products in response to the Covid-19 pandemic. SSG reported net profit growth of 49.9% on sales growth of 30.7%, the gross margin increased from 26.1% to 27%. The SSG supply chain which is operated through their in-house logistics business CMM was able to meet the additional demand. SSG recognised the nature of these exceptional results by awarding all staff an additional month of salary to reflect their response to extreme work loads in the current environment.

4 - Mainland China, for an investment in single figure millions represents a large opportunity for SSG. Their approach to China is sensible and patient, offering significant upside in the medium to long-term when Singapore will have reached maximum capacity.

Official retail sales numbers to February 2020 in Singapore, showing strength in supermarket sales and weakness in luxury goods

Source: Singapore Department of Statistics

Governance

1 - SSG is fully compliant with the governance code and has a Board comprising ten Directors, including three members of the Lim family in the most senior executive positions. There are five non-executive Directors of which four are independent. Given the nature of the ownership structure with the Lim family as controlling shareholders we have no objection to the Board comprising minority independent directors. The Board meets on a quarterly basis and other times as required. Directors are appointed for a term of three years subject to shareholder approval.

2 - SSG has two female directors on the Board and doesn't have a specific gender diversity target.

3 - SSG is fully compliant with the governance regulations in Singapore. The Board operates with clear governance guidelines in three major areas: (a) Any action involving more than 5% of Net Tangible Assets requires Board approval, (b) Appointments and remuneration of Directors and senior management requires Board approval and (c) three sub-committees are all structured with majority independent Directors.

4 - The dividend payout ratio of 70% has been maintained in recent years. SSG can maintain a high payout ratio given the conservative nature of the balance sheet and investment requirements of the business.

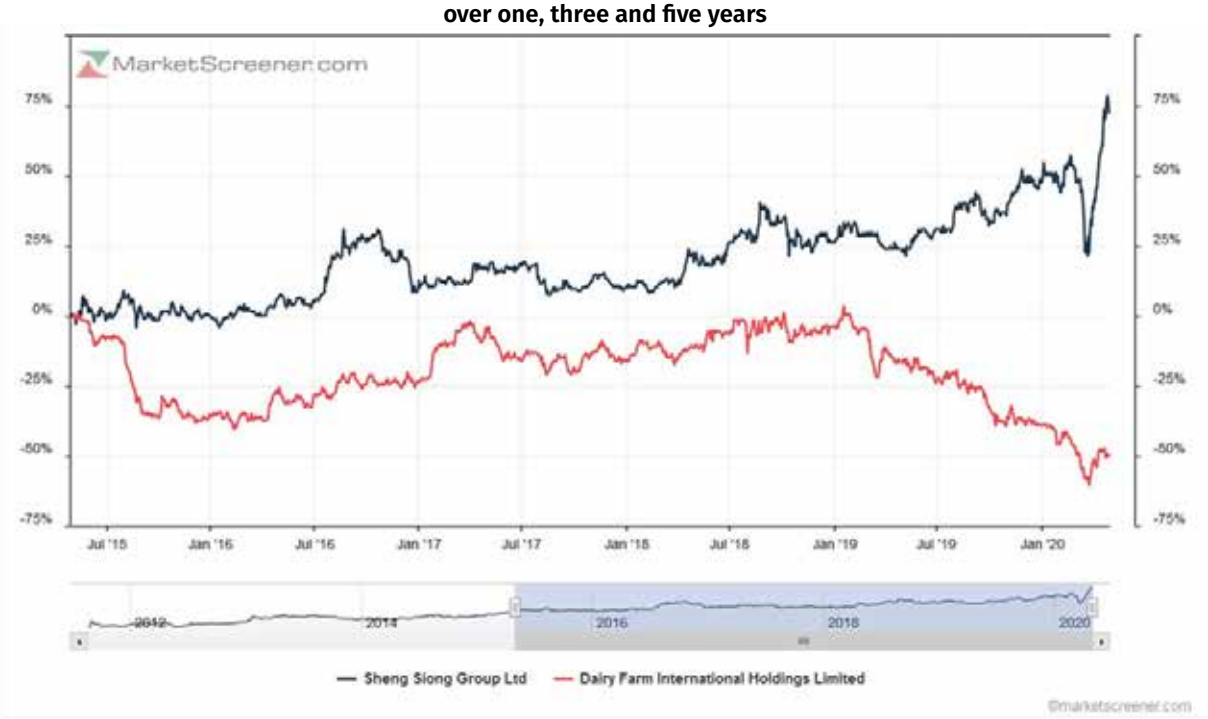
.Value, Momentum and Quality Comments

1 - SSG holds net cash of SGD 76 million on the balance sheet and positive cash generation running at more than double the level of capital expenditure, SGD 117 million versus SGD 54 million in 2019. The very conservative capital structure helps to bolster our rating for quality.

2 - Sheng Siong consistently maintains a return on equity in excess of 20%, the current level is 26% and is expected to be maintained at levels above 25% into the medium term. The strong and consistent return on equity figures are another factor in our strong rating for quality.

3 - There are nine analysts providing regular coverage of Sheng Siong, the company currently trades at or above most of their price targets as a result of recent share price strength. A prospective P/E ratio of 23x isn't cheap in absolute terms but rates well in the consumer staples sector where companies frequently trade in excess of 30x. Forecast 2020 earnings for SSG have been upgraded by 15% in the past twelve months and are likely to be subject to further upgrades given the strength displayed in Q1 results just published and ongoing uncertainty associated with Covid-19.

Sheng Siong (blue line) has clearly outperformed key local competitor Dairy Farm International (red line) over one, three and five years



Asia Small Companies Unit Class
TAMIM Fund

At 30 April 2020

Fund Overview

The TAMIM Fund Asia Small Companies unit class seeks to achieve a high real rate of return over the long-term within defined risk parameters acceptable to the Investment Manager through a diversified portfolio of Asian small and mid-cap shares.

Key Facts

Investment Structure:	Unlisted unit trust
Minimum investment:	A$100,000
Applications:	Processed monthly
Redemptions:	Monthly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Annually
Management fee:	1.00% p.a.
Expense recovery fee:	Up to 0.35%
Performance fee:	20% of performance in excess of hurdle
Hurdle:	MSCI AC Asia Small & Mid Cap Index
Buy/Sell Spread:	+0.30%/-0.30%
Exit fee:	Nil
Single security limit:	+/- 5% relative to Benchmark
Country/Sector limit:	+/- 10% relative to Benchmark
Target number of holdings:	60-80
Portfolio turnover:	< 30-40% p.a.
Investable universe:	MSCI AC Asia Small & Mid Cap (US$ 500m - 10bn)
Cash level (typical):	0-100% (0-5%)

Returns

	1m	3m	6m	9m	1y	Since inception p.a.
TAMIM Asia Small Comp.	2.85%	-7.66%	-3.88%	0.62%	-0.75%	-2.58%
MSCI AC Asia SMID	1.98%	-9.39%	-7.64%	-2.80%	-4.03%	-3.27%

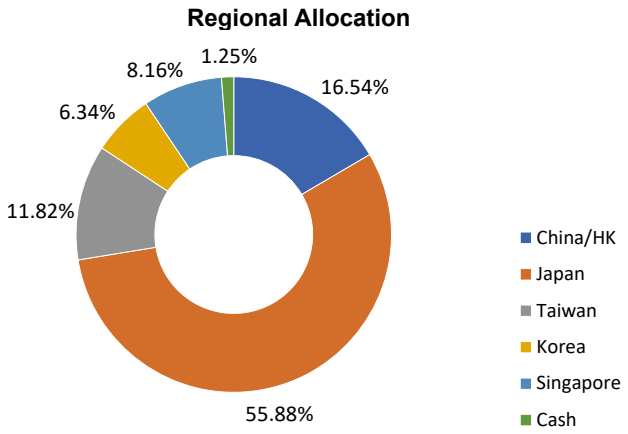
Note: Returns are quoted net of fees and assume distributions are reinvested. Past performance is no guarantee of future performance. MSCI AC Asia SMID refers to the MSCI AC Asia Small & Mid Cap Index in AUD. Inception 1 October 2018.

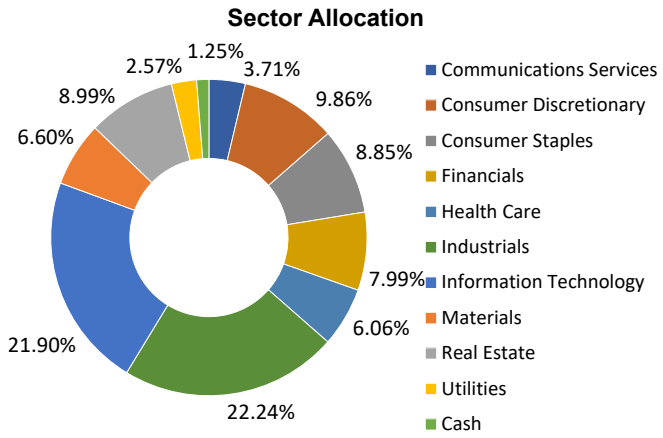
NAV

	Buy Price	Mid Price	Redemption Price
AU$	$7.6997	$7.6767	$7.6537

Portfolio Profile

Equity	98.75%
Cash	1.25%





Selection of 5 Holdings

Stock	Code	Country
China Lesso Group Holdings Ltd	2128.HK	China/HK
Sawai Pharmaceutical Co.	4555.T	Japan
Simplo Technology Co. Ltd	6121.TWO	Taiwan
Advantest Corp.	6857.T	Japan
Sheng Siong Group Ltd	OV8.SI	Singapore