Asia Small Companies Unit Class
TAMIM Fund

At 31 December 2019

December 2019 Comments

The Asian region recorded a strong gain of 2.84% in December in USD terms which was converted into a loss of 1.04% in AUD terms due to a recovery by the local currency. The fund outperformed in December with a return of +0.36% which was 1.40% ahead of the index. In the 2019 year, the fund increased by 17.80% versus the index return of 13.75% in AUD terms. Strong performance in 2019 was generated by stock selection in China and Japan and the asset allocation overweight towards Taiwan and China.

The partial (phase one) trade deal between the United States and China was announced as agreed in early December, we await the release of full details and confirmation of a date when documents will be signed. Unlike previous announcements, the tone indicated "equality" instead of a victory for the United States. The deal appears to revolve around an agreement for China to increase their purchases of agricultural produce from the United States. The agreement is said to run to 86 pages and includes wording that recognises the "One-China Policy" in relation to Taiwan. This is an important issue for China ahead of the Presidential election in Taiwan due to take place on 11th January, China views this election as a local matter and a win by the opposition KMT would be taken positively by the authorities in Beijing. Overall, this has the feel of a trade "truce" rather than a solution and phase two is likely to be a much more difficult discussion that could extend well beyond the November 2020 Presidential election in the United States.

The strongest markets in December were China and South Korea, up 7.8% and 7.2% respectively. The gain in China was a response to the phase one trade deal, measures to boost domestic infrastructure spending and an easing of residency restrictions. South Korea was lifted by a dramatic improvement in relations with Japan following high level bilateral discussions and a lifting of the embargo on key technology products from Japan. South Korea remains the only market in our investment universe that recorded a loss in 2019. If the improved relationship with Japan can be maintained into 2020, we should see an ongoing recovery in the South Korean market. Taiwan continued to perform well with a return of 5.1% bringing the full year gain to 30.1%, the best in our region, helped by a very strong technology sector. Singapore increased by 2.7%, Hong Kong by 2.9% and Japan lagged with a gain of 1.6% for the month in USD terms.

Seven of our portfolio holdings increased by double digit percentages during December, the best was China Lesso up 21.8%, the manufacturer of plastic pipes in China is a beneficiary of the increased infrastructure spending noted above. China Lesso was our best performing stock during 2019 with a gain of 145% from our average cost of entry. Our next best company for the month and year was semiconductor test equipment maker Advantest which gained 15.2% during the month and 127% from our initial entry in March of 2019.

We undertook a number of transactions during December, building new positions in Acom Co, Tokyo Century Corporation, NOF Corporation and SCSK Group all of which had far superior value, momentum and quality characteristics versus the companies they replaced in the portfolio; Aeon Financial Services, Heiwado and Nishi Nippon Financial Holdings. Towards the end of the month we also sold our position in Showa Denko KK in response to their decision to bid for Hitachi Chemical. While we like elements of the Showa Denko KK business, we view the Hitachi Chemical business as too big an acquisition requiring too much debt to be safely absorbed by the acquiring company.

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

LESSO 联塑

China Lesso Group Holdings Limited (Lesso) manufactures and sells building materials and interior decoration products in the People's Republic of China and internationally. The company primarily offers plastic pipes and pipe fittings for use in the fields of water supply, drainage, power supply and telecommunications, gas transmission and agriculture. Lesso offers its products primarily to independent distributors, civil contractors, property developers, utility companies, and municipalities. The company was formerly known as China Liansu Group Holdings Limited and changed its name to China Lesso Group Holdings Limited in May 2013.

Accounting, Strategy and Governance Comments

Accounting

1 - Ernst & Young (EY) audit the accounts, use of a big name accounting firm is a positive.

2 - Unqualified accounts over all time periods, no issues raised by EY.

3 - Full compliance with the Hong Kong accounting standards.

Strategy

1 - China Lesso has 23 production facilities across 16 provinces in China which gives the company a competitive advantage in the urbanization of Central China. China Lesso has one new production base under construction in Fujian. Lesso has a strategy of increasing the development of plant automation which helps in the control of costs and output quality. Current plant capacity is 2.69 million tonnes, up from 2.62 million tonnes in 2018.

2 - Sales are largely generated through 2,206 exclusive distributors which provides a secure distribution platform within China. Lesso won multiple brand awards in 2018 which underpins demand from additional exclusive distributors to join the China Lesso network.

3 - Government measure to reduce water pollution is providing a demand stimulus for replacement pipelines. Total investment of RMB 4.6 trillion (USD 665 billion) is planned for pollution control in the next five years. Demand for pipes is split across new water supply (23%), new urban rainwater pipelines (28%), centralized heating network (10%), new gas pipelines (33%) drainage and replacement of old pipelines (6%).

4 - Plastic pipes account for 90% of sales, given to level of ongoing demand for plastic pipes there is no need to aggressively pursue diversification opportunities. The company has a limited international programme and expansion into aluminium products. The company has been building a portfolio of international investment properties in the United States, Canada, Australia and Thailand.

5 - The balance sheet is geared, 50% debt to total capital, the debt is largely denominated in USD at rates between 2.83% and 5.32%. Interest cover in excess of 10x is comfortable and the gearing is consistent with the demand profile and strategy of the business.

6 - In September 2019 Lesso announced an investment of USD 60 million in a new production facility to be constructed in Indonesia with an initial production capacity of 60,000 tonnes rising to 100,000 tonnes. This production base will allow Lesso to develop a customer base in SE Asia.

Governance

1 - Lesso has five independent non-executive directors on the Board comprising fifteen directors. Lesso holds eight Board Meetings per annum and they are fully attended by the directors. Lesso has the appropriate level of risk management monitoring, internal audit and an anti-fraud management system.

2 - The company has adopted the Model Code for securities transactions by Directors. The Chairman Wong Luen Hei and his wife Zuo Xiaoping together control 2,124,793,000 shares equivalent to 68.49% of the share capital. The Chairman has been active buying shares in the Hong Kong market, all transactions have been fully disclosed in the appropriate manner and timing. The Chairman's most recent purchase was for 22 million shares on 29/30 May 2018 at an average price of $5.56.

3 - Lesso publishes an annual corporate social responsibility report which is fully compliant with the requirements in Hong Kong.

Value, Momentum and Quality Comments

1 - Our VMQ score for Lesso has been maintained at a very high level in the current year. The company offers close to the best value available in the market and quality score is typically top decile. The score for momentum has been maintained in the top tier of companies in the region. Earnings forecasts have been upgraded by 10% during 2019 and the company trades on a p/e of 9.3x.

2 - Lesso has very disciplined control of costs which allowed

earnings per share to rise by 20.6% in the latest interim earnings in 2019 against a revenue increase of 6.6%.

3 - There are only six analysts actively covering this stock, this has reduced from seven analysts twelve months ago. All analysts have a buy/outperform rating on the company, although their price targets have tended to lag behind the share price performance. In the month of December 2019 alone, Lesso's share price has increased by 18% and the gain since the start of 2019 is 147%. There is scope for further upgrades in Q1 2020.

4 - Return on capital employed in excess of 18% helps to underpin strength in the score for quality.

Conclusion

Lesso comfortably meets our standards for accounting, strategy and governance. Lesso has a strategy directed towards the development of China, the company has a strong home market in Southern China and is well placed to benefit from urbanization of the interior of China and major infrastructure projects funded by local and national government. Lesso's international expansion strategy is consistent with the scale of the opportunities still available to grow in their home market.

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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.	0.07%	7.06%	11.46%	10.53%	17.80%	2.89%
MSCI AC Asia SMID	-1.04%	3.55%	6.84%	6.27%	13.75%	2.92%

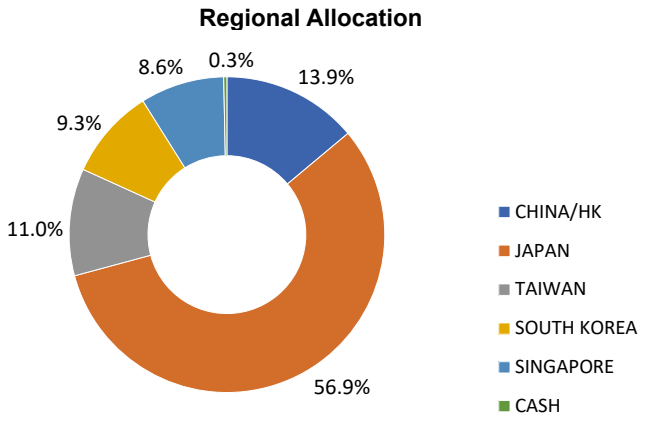
Note: Returns are quoted net of fees and assume distributions are reinvested. Past performance is no guarantee of future performance. MSCI AC Asia SMID refers to the MSCI AC Asia Small & Mid Cap Index in AUD. Inception 1 October 2018.

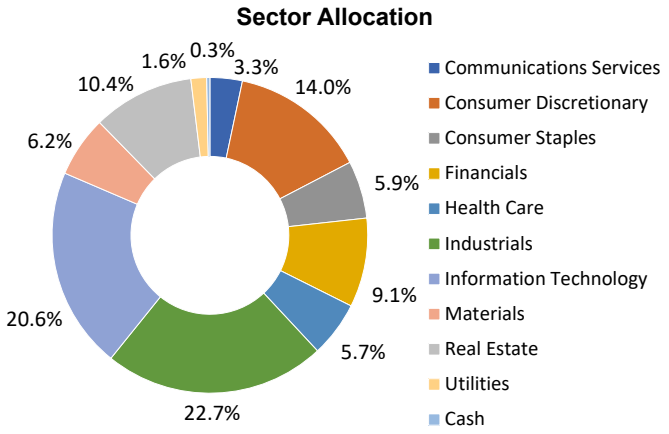
NAV

	Buy Price	Mid Price	Redemption Price
AU$	$8.3142	$8.2893	$8.2644

Portfolio Profile

Equity	99.7%
Cash	0.3%





Selection of 5 Holdings

Stock	Code	Exchange
Sojitz Corp.	2768	Tokyo
Simplo Technologies Co.	6121	Taiwan
Kerry Logistics Network	0636	Hong Kong
Venture Corp.	VENM	Singapore
China Lesso Group	2128	Hong Kong