

Asia Small Companies Unit Class

TAMIM Fund



At 30 June 2019

June was a better month for equities in the region, the net result was an index increase of 3.7% in USD terms and 2.2% in AUD terms. We estimate the Fund increased by 3.8% in AUD terms during June bringing the year to date return to 5.4% versus the index return of 6.3%.

Singapore was the strongest market during June rising 9.0% in USD terms, followed by Taiwan up 6.2% while Hong Kong and China both increased by 4.4% while Japan and South Korea were the marginal laggards with returns of 3.2% and 3.4% respectively for the month.

During June we increased exposure to the real estate sector with new positions in; Open House Co Ltd, Kenedix Residential REIT and Mapletree North Asia Commercial Trust. These new holdings provide increased exposure to Japan, Open House has a small business in the United States while 95% of business activities are in Japan. Kenedix Residential REIT is entirely in Japan while the Mapletree North Asia has some exposure in China and Hong Kong with the majority in commercial property in Japan. We added to the existing position in Sunlight REIT in Hong Kong and Korea Reinsurance in South Korea. Aozora Bank and Bank of Kyoto were sold following reviews prompted by persistently weak VMQ scores and a poor outlook. We now have a total of 77 positions in the portfolio and remain 98% invested.

The markets in June were mildly positive following the very weak month we experienced in May, economic news and sentiment remained subdued as all eyes turned to the G20 Summit in Japan that started after markets closed for the month on 28 June. The long-awaited conversation between Donald Trump and Xi Jinping on Saturday 29 June provided a temporary pause to the recent threats of escalating tariffs and the promise of a restarting the trade talks. It was reported that President Xi Jinping has given commitments for China to increase purchases of U.S agricultural goods, ending the recent “buyers strike” that is having a very detrimental impact on the U.S. farming sector. President Trump offered to relax the pressure on Huawei allowing U.S. companies a limited resumption in sales to that company. Overall, the messaging from the meeting gave increased hope for an eventual trade deal and provided positive sentiment for equity markets into the early days of July.

We will continue to invest in Asian small 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. We need to continue to look beyond short-term reversals in market sentiment that we have experienced in late 2018 and the first half of 2019. We take comfort from the portfolio P/E of 9.7x and yield of 3.7%, our companies have the scope to generate strong investment returns.

Stock Review



Open House Co., Ltd. is principally engaged in the real estate development business, the Company operates in the following segments: real estate brokerage business, construction of detached houses, construction contracts, development of new apartments and property management. Open House was founded in September 1997 as a franchisee of Century 21 and is headquartered in Tokyo. The franchise agreement with Century 21 was dissolved in 2012 and the business then operated with its own brand name. Masaaki Arai is the major shareholder and President/CEO of the Company. Open House was one of only five Japanese companies included in the Asia Fab 50 list compiled by Forbes in 2018. The Company has 1,522 employees.

Accounting, Strategy and Governance Comments

Accounting

- 1 - Full compliance with Japanese GAAP.
- 2 - Company policy with respect to recognition of revenue is compliant with ASBJ Statement No.29 and ASBJ Guidance No.30 which became applicable from 1st April 2018. Revenue is recognised when the company transfers a promised asset to the customer. Compliance with this standard avoids a common problem with companies in this sector that often recognise revenue on payment of a deposit and therefore leave the business vulnerable to revenue write-downs if the property purchased isn't completed. The impact of implementation of this standard acted to increase revenue by ¥193 million in the second quarter reporting and retained earnings decreased by ¥1,853 million.

Strategy

- 1 - Open House has a focus on providing affordable single family housing, the Open House lot size tends to be half the historic norm in Japan, averaging 640 square feet versus the long term average of 1,400 square feet in the Tokyo 23 Wards. This strategy has proved very effective in an environment of declining household size in Japan. Revenue growth in the single family homes segment increased by 61% in the second quarter of fiscal 2019 and accounted for 68% of total revenue.
- 2 - Open House has a strategy of building market share in their key markets of Kawasaki City, Tokyo's 23 Wards, Yokohama City and Nagoya. This strategy is proving successful, market share in Kawasaki City has grown from 2.6% in FY2103 to 13% in FY2018.

Note: Returns are quoted net of fees. Past performance is no guarantee of future performance.

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Market share in Tokyo's 23 Wards has grown from 2.8% in FY2013 to 8.4% in FY2018. Open House will open 7 new sales centres in the current year, bringing the total number of sales centres to 39.

3 - We like the fact that the company achieves a strong return on equity of 30%, while maintaining good balance sheet discipline. The Hawk One acquisition increased the debt ratio from 42.6% to 55.3%, while the proportion of short-term debt fell from 57% to 45% of the loan book.

4 - Open House makes good use of share buy backs to improve earnings per share and while the dividend payout ratio is low at 17.2%, there are targets in place to gradually increase the dividend payout ratio to 20% by 2020. The Company has bought back the equivalent of 2.88% of the issued shares in the previous fiscal year and has authority to buy back a further 1.78% of issued share capital in the current fiscal year.

5 - Open House has initiated a new business in the United States, targeting affluent Japanese investors, the business is achieving rapid growth in this early stage of development. Operating margins are expected to be maintained in excess of 10%.

6 - In the period from 2013 to 2017 the Company achieved a compound growth rate for revenue at 33.1%. The company forecast for the period 2018 to 2020 expects a growth rate for revenue of 24.6% per annum.

Governance

1 - The business was founded by Masaaki Arai in 1997, he retains a significant stake in the business at 41.7%. The other shareholder of note among the business management is Hitoshi Imamura who joined in 2005 holding a stake of 1.74%.

2 - Open House has a Board comprising seven Directors including two independent Directors which is the norm in Japan and fully compliant with the local corporate governance code.

3 - Washington based "friendly" shareholder activist investor Taiyo Pacific Partners (TPP) announced having a stake in excess of 5% in May 2019. TPP have endorsed the current strategy of the management team and stand ready to engage with management regarding future measures to enhance returns to shareholders.

Value, Momentum and Quality Comments

Open House is a consistently strong in our assessment of quality, the variation occurs in the scores for value and especially momentum. The momentum scores were hit by a wave of downgrades in the period of August 2018 to February 2019 which saw the average target share price decline from ¥8,500 to ¥6,100. In recent months there have been no net downgrades

to earnings or target share price, so the momentum score has ceased to be a drag on the overall VMQ analysis.

Open House delivered better than expected results in the first half of fiscal 2019, revenue increased by 42.9% year on year and net profits increased by 15.1%. A significant part of the revenue increase was derived from consolidation of Hawk One Corporation for the first time. The forecast full fiscal 2019 year are revenue growth of 30.5% and net profits growth of 16.3%.

Conclusion

Open House is a great success story in the Japanese real estate business, starting in 1997 as a franchise of Century 21, the business has developed a distinctive brand and strong market share in the field of single family housing. Open House was one of only five Japanese companies to be included in the 2018 Forbes Asia Fab 50 list. The Company is expected to maintain a compound growth rate of revenue in the mid-20s and trades on a single figure p/e ratio. The recent addition of activist group TPP on the shareholder register is a major positive for maintaining focus on shareholder returns, we expect continuing positive engagement between TPP and the senior management of Open House.

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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
TAMIM Asia Small Comp.	3.68%	-0.83%	5.69%	-	-	-7.04%
MSCI AC Asia SMID	2.47%	-0.43%	6.59%	-	-	-2.87%

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.

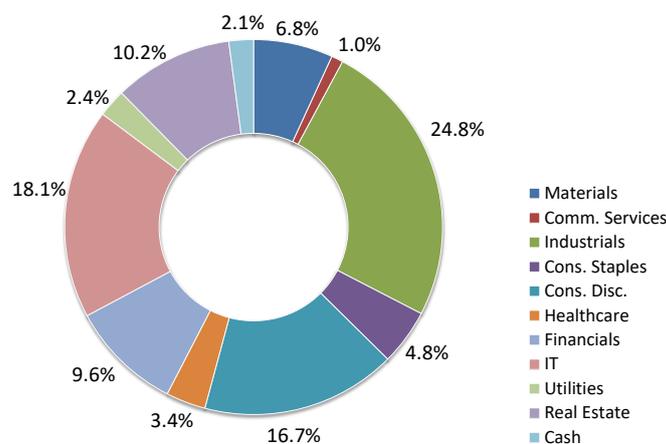
NAV

	Buy Price	Mid Price	Redemption Price
AU\$	\$7.4595	\$7.4372	\$7.4149

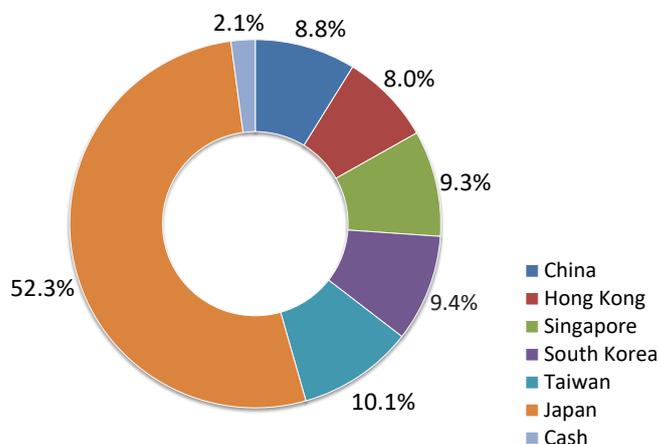
Portfolio Profile

Equity	97.9%
Cash	2.1%

Sector Allocation



Regional Allocation



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

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