Asia Small Companies Unit Class
TAMIM Fund

At 30 June 2020

The past month has seen a 69% increase in the official number of Covid-19 cases globally, a continuation of the deceleration from the 90%, four-fold and ten-fold increases recorded in May, April and March, respectively.

With stock markets around the world continuing to anticipate a recovery in economic activity as lockdown restrictions are eased, Asian small to mid-sized equities increased during June by 2.9% in US dollar terms. The continued recovery in local markets was offset by strength in the Australian currency, rising 3.7% versus the US dollar during June which resulted in a 0.8% decline in the regional equity index in Australian dollar terms. The quarter wound up finishing up 17.4% in US dollar terms. This was offset once again by strength in the Australian currency, which restricted the index return to 4.4% in AUD terms. It was a volatile 12 months for small to mid-sized companies in Asia that ended with a small negative return of -1.8% in US dollar terms and flat in Australian dollar terms. The best markets in the region were Taiwan +18.0% and China +13.0%, Japan was flat, while Singapore, Korea and Hong Kong fell by 16.7%, 13.9% and 11.0% respectively. The year has been dominated by three events: political unrest in Hong Kong, trade tensions between the United States and China and the Covid-19 global pandemic.

Asian Market News

The Greater China markets recorded strong performance in June in USD terms with China increasing 13.2% followed by Hong Kong up 10.8% and Taiwan up 8.6%. Korea and Singapore recorded gains of 3.7% and 1.9% while Japan declined 1% having increased by more than 7% in the prior month. There was positive news for China when S&P confirmed an unchanged credit rating of A+/A-1 and the Purchasing Managers Index (PMI) for June exceeded expectations in both the manufacturing and non-manufacturing sectors. This marks a fourth consecutive month in positive territory for the PMI after the lows recorded in February. It was a strong quarter for all of our investment markets, Taiwan was the strongest with an increase of 30.7% in USD terms, followed by Korea +23.2%, China +20.3%, Hong Kong +17.2%, Japan +12.3% and Singapore +12.2%. Hong Kong fell by more than 10% in the early months of the year as a result of civil protests which expanded from an initial objection to the proposed extradition treaty with Taiwan into broader demands for greater democracy. Those protests have continued sporadically into the period of Covid-19 lockdown and most recently in reaction to the national security law imposed by Beijing.

Following months of uncertainty, the "Phase One" trade between China and the United States was signed in January 2020. This should have removed one of the key risk factors that has hindered Asian markets, marking the end of pre-emptive tariff increases imposed on China by President Trump until at least the other side of the US Presidential elections. The agreement was more of a "truce" than a long-term solution for the United States trade deficits with China.

June was month of high day to day volatility in the equity markets in the region. Some of the market volatility was generated by mixed messages from the White House. Concerns regarding the state of the "Phase One" trade deal with China were raised early in June when President Trump tweeted that options were open for completely decoupling the United States from China. United States Trade Representative Robert Lighthizer also indicated that a full decoupling from China was possible in the past but not a reasonable policy option at this point in time. White House trade adviser, Peter Navarro in an interview with Fox News appeared to indicate that the "Phase One" trade deal was off. There was a negative reaction in equity markets of the order minus 2%, followed by a tweet from President Trump indicating the "China Trade Deal is fully intact" which prompted an immediate market recovery. Secretary of State Pompeo had previously met with China's top trade policy official Yang Jiechi in Hawaii with little to say following the meeting except that Beijing had recommitted to the trade deal. This will require an acceleration of purchases in the coming months since China made a commitment to purchase USD 170 million of goods and services from the United States during 2020. At the end of May, purchases by China stood at USD 31 billion, leaving a balance of USD 139 billion in the remaining seven months of the year. These numbers are likely to draw ever increasing scrutiny in the remaining months of 2020.

China's top law-making body the National Standing Committee passed Hong Kong's national security legislation on 29th June which will cause further tension with the United States, the United Kingdom and European Union. The United States has started the process of terminating Hong Kong's special status which will result in reduced access to high technology products. Hong Kong's Chief Executive Carrie Lam was quoted as saying "I urge the international community to respect our country's right to safeguard national security and Hong Kong's aspirations for stability and harmony". Under the new law Beijing is expected to set up a national security office in Hong Kong to "supervise, guide and support" the Hong Kong government.

Despite the Phase One truce, political tension between the United States and China has continued to build during the quarter, 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. 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 United Nations principles".

Beijing responded with their usual assertion that Taiwan "is an inalienable part of China".

In Taiwan, the Democratic Progressive Party (DPP) won a second term in a landslide result securing 57.1% of the votes. This was an incredible comeback for President Tsai Ing-wen who recovered from very-low approval ratings and major losses in the 2018 mid-term elections. There were two key factors in the DPP success, first, Taiwan's fourth quarter GDP growth of 3.8% was the fastest since mid-2018 helped by a strong electronics sector as factory production switched from China to Taiwan. Second, the protests in Hong Kong has increased pro-independence sentiment which is a key DPP theme.

Portfolio Update

Following two low turnover months for us in April and May, June was a month of high activity within the portfolio as we adjusted some of the sector weights and expanded the number of holdings in the portfolio from 62 to 75. We have expanded the number of companies in the portfolio as a risk control measure in times of extreme market volatility. We reduced our overweight in the information technology sector from 6% to 4% by taking profits in Advantest and NEC Networks both of which had performed well in the current year. We sold our entire position in Japan Aviation Electronics following a sharp fall in our assessment of the prospects for that company. We added seven new Chinese companies, six Japanese companies and one new position in Taiwan. These purchases increased portfolio exposure to the consumer, health care, industrial and materials sectors using the proceeds of sales in the information technology sector.

Our strongest stock during the quarter was Japanese housebuilder Open House which bounced by 66% from the end of March low and bringing the year to date return to 15%. Open House is now the largest stock in the portfolio with a weighting of 3.1%. Open House specialises in affordable single -family homes in urban markets and has an attractive combination of a single figure price earnings rating, strong return on equity and growth of earnings in double digits into the medium term.

Over the last 12 months, the best performing company in our portfolio was semiconductor equipment testing company Advantest, which increase by 104%. In July Advantest released first quarter profits 50% above the consensus estimates of the twelve industry analysts covering the company. Advantest made a gain of 60% in response to those results and has continued to make ground in the subsequent period on expectations of increasing demand for semiconductor testing equipment. Other companies in our portfolio that performed well were plastic pipe manufacturer China Lesso +62% and the previously mentioned Japanese house builder Open House +56%, both companies have rebounded strongly with the relaxation of Covid-19 restrictions and improving economic prospects in China and Japan.

Our weakest portfolio holdings over the last year have been in the property trust sector with Champion REIT -36% and Mapletree North Asia Property Trust -34%. Champion REIT is a trust formed to invest in grade-A commercial properties in Hong Kong and currently holds 2.93 million square feet of prime office and retail space in two landmark properties. Total rental income increased by 3.8% in 2019, the shares now yield 7% net and trade at a discount of 63% to the underlying value of assets. We are retaining our positions in Champion REIT and Mapletree North Asia Property Trust.

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.

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TAMIM Fund

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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.	-0.08%	3.61%	-6.70%	-0.12%	3.98%	-1.92%
MSCI AC Asia SMID	-0.79%	4.37%	-6.31%	-2.98%	0.09%	-1.66%

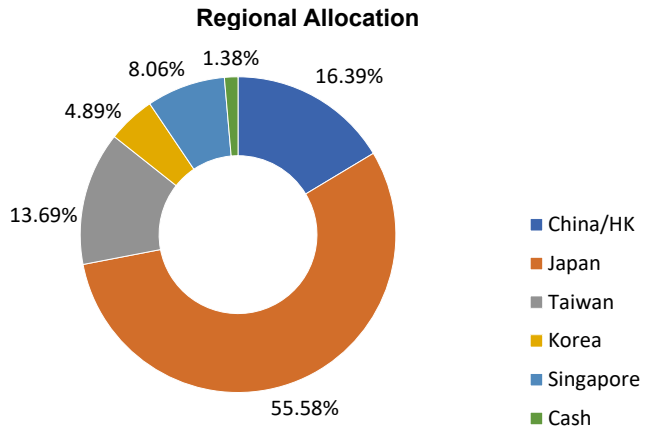
Note: Returns are quoted net of fees and assume distributions are reinvested. Past performance is no guarantee of future performance. MSCI AC Asia SMID refers to the MSCI AC Asia Small & Mid Cap Index in AUD. Inception 1 October 2018.

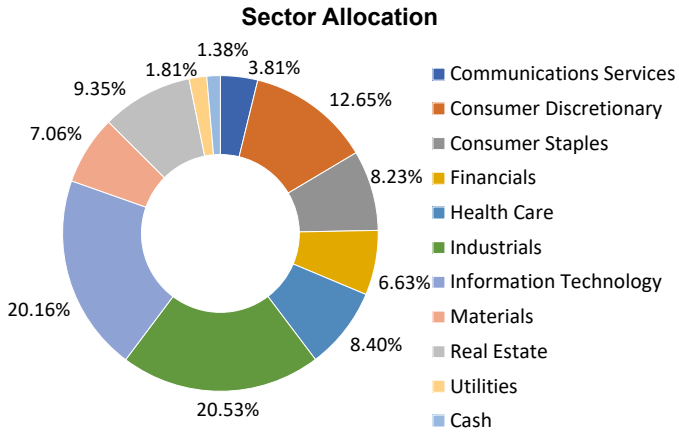
NAV

	Buy Price	Mid Price	Redemption Price
AU$	$7.7567	$7.7335	$7.7103

Portfolio Profile

Equity	98.62%
Cash	1.38%





Selection of 5 Holdings

Stock	Code	Country
Open House Co. Ltd.	3288.T	Japan
Sheng Siong Group Ltd	OV8.SI	Singapore
Simplo Technology Co. Ltd	6121.TWO	Taiwan
China Lesso Group Holdings Ltd.	2128.HK	China/HK
SFA Engineering Corp.	056190.KS	South Korea