

# Asia Small Companies Unit Class TAMIM Fund



At 30 June 2021

Asian equity markets for small to mid-sized stocks in June ended the year up 35.2% in USD terms and 23.7% in AUD terms. Market returns were boosted by a recovery from the sell-off that occurred in the early stages of the Covid-19 pandemic followed by strong economic data from across the region in the early months of 2021.

By far the two strongest of our investment markets during the year were South Korea and Taiwan which gained by 68.5% and 64.7% respectively. The next markets were China and Hong Kong which increased by a near identical 39.7% and 39.5%. Japan and Singapore both lagged behind the rest of the region with still very respectable returns of 21.8% and 18.9% for the year.

## South Korea

There was a strong trend in economic data reported in South Korea, with exports rising at their fastest pace in 26 months in December up 12.6% year on year, this number was more than double the market consensus with semiconductors being the strongest component. The improvement in economic activity has been the key to dramatic strength in the local stock market together with sentiment that improved when President Moon Jae-in made a visit to the United States including meeting with President Biden at the White House. Both sides issued post-meeting comments reflecting positive sentiment regarding future cooperation regarding combating Covid-19, rebuilding the global economy and addressing climate change. Despite positive words following the meeting there was no movement on South Korea's request for additional vaccine supplies which are running behind schedule from manufacturers in the United States. Both countries have vowed to continue to work towards denuclearisation of the Korean peninsula.

## Taiwan

Taiwan enjoyed strong market returns despite an appearance on the front cover of "The Economist" announcing Taiwan as the most dangerous place on Earth. President Tsai Ing-wen responded by assuring "everyone that our government is fully capable of managing all potential risks and protecting our country from danger." The equity market in Taiwan was much more interested in the news that the local economy grew by 8.16% in the first quarter, the fastest growth recorded in a decade



and well above consensus expectations. The positive surprise was driven by stronger domestic manufacturing and demand for exports. The market in Taiwan was also able to benefit from positive sentiment regarding news of a resumption in the long-stalled trade talks with the United States. The United States is using the Trade and Investment Framework Agreement (TIFA) that remained unused throughout the Trump era to resume talks. Taiwan has been seeking a free trade deal with the United States, such a deal would be another source of tension with China. A key precursor for the TIFA talks was Taiwan's decision to lift the ban on imports of pork from the United States. There was good news for Taiwan on the COVID-19 vaccine front when the United States pledged 2.5 million doses, a big increase from the original amount of 750,000 doses. Taiwan has struggled to secure supplies of vaccine globally and this move by the United States is another source of irritation for China, with Taiwan having rejected supplies of Chinese made vaccines. Taiwan is expected to achieve economic growth in excess of 5% for the full year of 2021.

## Hong Kong/China

The first July 2021 marked the 100th Anniversary of the Chinese Communist Party which saw the award of a new medal of honour to 29 recipients in a special ceremony to start a series of celebrations of this event. President Xi Jinping awarded the first July medals for outstanding contributions to the Party which at the most recent count had more than 95 million members. President Xi made a speech that warned Taiwan regarding any push for independence with a promise of "resolute action". Xi went on to state that China had an "unshakeable commitment" to achieve complete reunification with Taiwan. The wording was interesting in that Xi refrained from any use of the word "war" in his speech. The tone of the speech was firm and didn't signal any change in the policy that has been in place for five decades. Economic news from China was positive throughout the past nine months with the purchasing managers index for manufacturing remaining in a growth phase at 51 during May, while the services sector measure showed good acceleration from 54.9 to 55.2 helped by improving domestic consumption numbers.



The Hong Kong market made upward progress despite the continued implementation of the national security law. As

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expected, China's parliament passed reforms of the electoral system in Hong Kong. In future Beijing will vet potential candidates in Hong Kong elections for the Legislative Council, with the vetting process directed towards ensuring loyalty to China and compliance with the National Security Law. The Legislative Council will see an increase from 70 to 90 seats while the directly elected contingent will drop from 35 to 20 seats. These steps are a clear tightening of China's direct control over Hong Kong. The Hong Kong Court of Appeal upheld the decision to deny a trial by jury for the first person to be prosecuted under the National Security Law. The popular pro-democracy tabloid newspaper Apple Daily ceased publishing following the arrest of the owner and several senior executives and the freezing of company assets in connection with the national securities law. The market in Hong Kong now seems to largely ignore this type of negative news which suggests it is fully priced into valuation levels that stand at a discount to the region.

## Japan

The key political event during the year in Japan was the resignation of Prime Minister Shinzo Abe and the election of Chief Cabinet Secretary Yoshihide Suga as party leader and Prime Minister of Japan. Mr Suga, 71, spent nearly eight years as Chief Cabinet Secretary in the Shinzo Abe administration. Mr Suga has struggled to maintain the high levels of popularity enjoyed by his predecessor. The domestic economy in Japan has struggled due to lockdown measures aimed at controlling the Covid-19 pandemic, however there are positive signs from the minutes of the Bank of Japan's April Meeting indicating an expectation that consumer spending will increase sharply in the coming months. It is estimated that Covid-19 restrictions generated substantial "forced savings" which could quickly be turned into consumption spending. It is estimated that these "forced savings" are equivalent to 20 trillion yen or 7% of disposable income and contributed significantly to the 50 trillion yen increase in household savings during 2020. We expect the market in Japan to achieve better returns as the various lockdowns to contain Covid-19 are relaxed and the vaccination programme continues to be accelerated.

## Singapore

The market in Singapore remained relatively subdued during the year, as the authorities responded to the second wave of Covid-19 infections and despite news of the biggest rise in manufacturing output in a decade, rising 30% year on year in June 2021. The median market expectation was for a rise of 23.6% year on year, so the reported number was well ahead of consensus. Singapore is emerging from a period of Covid-19 lockdown restrictions, the 7% growth in month on month manufacturing growth was a positive sign for the economy going forward.

## Portfolio

During the month of June our best performing company was Chinasoft International, the fourth ranked information technology and cloud services business in China which increased by 41%. Following this strong performance which has seen a return of 234% over twelve months the shares are trading on a price earnings ratio of 30x current year earnings which puts the share price within 3% of the average target expectation expressed by the 13 analysts actively covering the stock. After such a strong run and increase in the valuation of the company we are reviewing our position.

We sold one position in the portfolio during June, Kerry Logistics Networks was fully valued following a protracted bid for 51% control by SF Holdings. We used the proceeds to increase exposure to some of our existing positions in the same sector.

During the year under review, we owned five stocks that increased by more than 100%, our best performer was Chinasoft International (as mentioned above). Xinyi Glass was our next best performing company which increased by 233%. Xinyi Glass is benefitting from a combination of rising demand and prices for float glass in China. Xinyi Glass trades on a current year earnings multiple of 11.8x and a yield of 3.8% and we are happy to maintain our position with those valuation levels. Our worst performing stock for the year was China Resources Cement which fell by 22%, the company recently report interim earnings growth of 15.8% year on year, trades on 5.5x earnings and has yield of 8.8%. We are happy to maintain our position in China Resources Cement at the current valuation levels.

We now have 74 holdings in the portfolio and continue to be 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.

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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

<b>Investment Structure:</b>	Unlisted unit trust
<b>Minimum investment:</b>	A\$100,000
<b>Applications:</b>	Processed monthly
<b>Redemptions:</b>	Monthly, with 30 days notice
<b>Unit pricing frequency:</b>	Monthly
<b>Distribution frequency:</b>	Annually
<b>Management fee:</b>	1.00% p.a.
<b>Expense recovery fee:</b>	Up to 0.35%
<b>Performance fee:</b>	20% of performance in excess of hurdle
<b>Hurdle:</b>	MSCI AC Asia Small & Mid Cap Index
<b>Buy/Sell Spread:</b>	+0.30%/-0.30%
<b>Exit fee:</b>	Nil
<b>Single security limit:</b>	+/- 5% relative to Benchmark
<b>Country/Sector limit:</b>	+/- 10% relative to Benchmark
<b>Target number of holdings:</b>	60-80
<b>Portfolio turnover:</b>	< 30-40% p.a.
<b>Investable universe:</b>	MSCI AC Asia Small & Mid Cap (US\$ 500m - 10bn)
<b>Cash level (typical):</b>	0-100% (0-5%)
<b>APIR Code:</b>	CTS7571AU

## Returns

	1m	3m	6m	1y	2y (p.a.)	Since inception p.a.
<b>TAMIM Asia Small Comp.</b>	3.34%	2.07%	11.78%	20.28%	11.84%	5.64%
<b>MSCI AC Asia SMID</b>	4.28%	4.91%	11.91%	24.01%	11.41%	7.00%

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
<b>AU\$</b>	\$9.3298	\$9.3019	\$9.2740

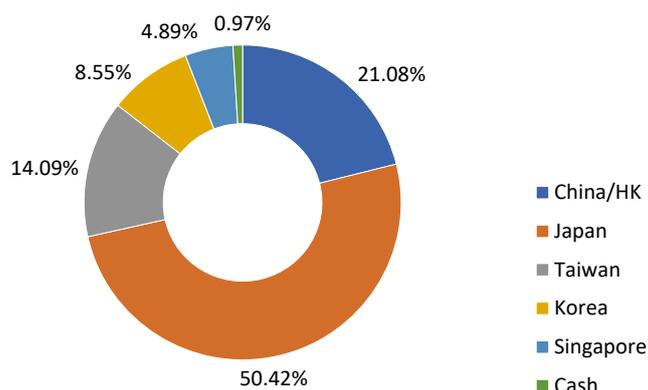
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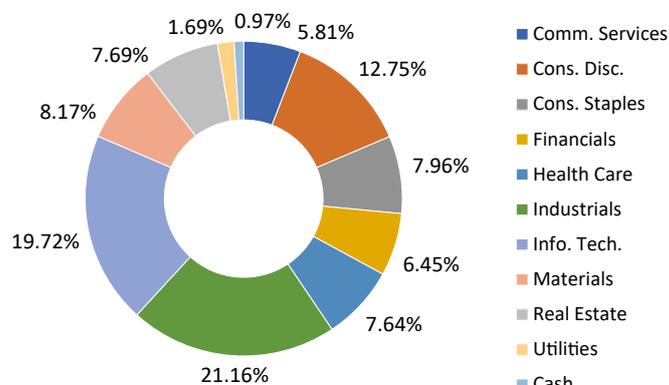
## Portfolio Profile

<b>Equity</b>	99.03%
<b>Cash</b>	0.97%

### Regional Allocation



### Sector Allocation



## Selection of 5 Holdings

Stock	Code	Country
Open House Co. Ltd.	3288.T	Japan
Sheng Siong Group Ltd	OV8.SI	Singapore
Novatek Microelectronics Corp	3034.TWO	Taiwan
China Lesso Group Holdings Ltd.	2128.HK	China/HK
SFA Engineering Corp.	056190.KS	South Korea