Asia Small Companies Unit Class
TAMIM Fund

At 31 May 2019

May was a poor month for equities in the region, the net result was an index decline of -5.6% in USD terms and -4.2% in AUD terms. The Fund fell by -5.9% in AUD terms during April bringing the year to date return to 1.9% versus the index return of 4.0%.

In terms of country returns, all of our markets fell to varying degrees in USD terms; Singapore -4.4%, Japan -4.9%, Taiwan -7.0%, Hong Kong -7.4%, Korea -9.8% and China -10.3%. The decline in Korea was particularly notable, bringing the year to date return to -9.0%, our other investment markets in the region retain a small positive return for 2019.

The month was dominated by negative sentiment associated with the trade talks between China and the United States, not only did negotiations stall, the United States announced a new round of tariff increases on imports from China while Beijing considered actions in response to these events. China's State Council took the unusual step of publishing a white paper with details of their rebuttal of the claims made in the tweets from President Trump that preceded the move to invoke increased tariffs on imports from China. The White Paper has provided some clarity regarding a key stumbling block in negotiations; the desire from the United States to have "enforceable commitments" such that the United States could impose additional tariffs on Chinese products if it was not satisfied with the progress of the agreement and China had to promise not to retaliate in that situation. The White Paper prompted a response from The Office of the US Trade Representative and the US Treasury suggesting that China was pursuing a blame game and misrepresenting the history of trade negotiations between the two countries. The White Paper and the subsequent response from the United States has at least provided some clarity regarding the nature of the disagreement. The opportunity remains for a resolution to be achieved during informal talks scheduled at the G20 meeting to be held in Japan on 28/29 June.

There were no significant adjustments to portfolio during May, we added new subscription funds to ten of our existing positions. Company results announced during the month were generally in line or positive, a good example was Showa Denko in Japan with first quarter consolidated numbers showing sales up 9.3% and net income up 34%. The company is forecasting earning per share in the current year of ¥822 and a dividend of ¥130 which has the company trading on a p/e of 3.7x and a yield of 4.2%. We are at a loss to explain why the shares of Showa Denko fell 20% during the month after such good results. Eight out of ten analysts researching the company have ratings of buy or outperform and the average target price is more than double the current level. We are maintaining our position and Showa Denko remains one of our top ten stocks in the portfolio.

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 9.4x and yield of 3.8%, our companies have the scope to generate strong investment returns.

Stock Review

Singapore Technologies Engineering (STE) (STEG.SI) is a global technology, defence and engineering group specialising in the Aerospace, Electronics, Land Systems and Marine sectors. Across the globe, STE brings innovation and technology together to create smart engineering solutions for customers in the defence, government and commercial segments. Sales are split, 39% Aerospace, 32% Electronics, 19% Land Systems, 9% Marine and 1% others. By customer type, 69% are commercial and 31% defence. STE has 22,000 employees of which 16,000 are performing engineering and technical roles.

Accounting, Strategy and Governance Comments

Accounting

1 - In 2018 the Company adopted Singapore Financial Reporting Standards (International) for the first time which resulted in some one-off adjustments from the previous FRS regime.

2 - The Company has a policy of good transparency with investors. The Annual Report is excellent and includes a statement of Economic Value Added and Weighted Average Cost of Capital.

3 - The auditor KPMG LLP have been reappointed for 2019, there have been no qualifications issued with respect to audited accounts which provided a true and fair view of the financial position of the company.

Strategy

1 - STE is a business that is focused on the long-term and not on quarter by quarter delivery. 2018 was a consolidation year with 3% growth in group revenue and net profit that fell 2%, the net profit was impacted by one-off charges, profits would have been 7% higher without those charges. The business is

well diversified and ended the 2018 year with orders exceeding USD 13 billion with an expectation that USD 5 billion will be recognised in 2019. First quarter 2019 results recorded earnings per share growth of 11% over the same period in 2018.

2 - Capital expenditure increased by 23% to SGD 335 million in 2018 in support of future growth opportunities, the biggest item was a new aircraft hangar in Germany and a new building in the West of Singapore in support of the electronics division.

3 - STE maintains a high dividend payout ratio of 80% and a yield of 4%.

4 - The Company has a medium term plan that extends to the year 2022, core businesses are expected to maintain growth in the range of 2-3x global GDP growth while the "Smart City" initiative is expected to more than double revenue to SGD 2 billion. There are three broad categories within the "Smart City" business; Mobility, Security and Environment. STE has a track record of 500 "Smart City" projects across 70 cities worldwide. The main thrust of the business is in the United States, Middle East and SE Asia.

5 - STE has an award winning aircraft maintenance business and is looking to expand its air-frames capacity in both China and the United States. Future growth is expected to be driven by strong demand for Passenger-to-Freighter conversions. STE's aircraft seats won the 2018 Japan Good Design Award and annual capacity is being increased to 5,000 seats. Demand for commercial aircraft is expected to be strong in the next two decades, the current order backlog is 14,000 aircraft with, according to Deloitte, at least 38,000 aircraft expected to be manufactured by 2038.

6 - STE has managed to expand their marine order book despite "bottom of the market" industry conditions.

7 - The defence business is being transitioned from a Singapore based production model to one that is located closer to customers particularly in the United States.

Governance

1 - STE has a Board comprising 11 directors with the majority being independent non-executive directors. STE operated in full compliance with the Singapore Code of Corporate Governance 2012. The Board met five times during 2018.

2 - STE has a strong U.S. Advisory Board with members very experienced in the needs of the U.S. Military. Retired General John Coburn headed the Advisory Board for 17 years and handed over the Chair to Tom Vecchiolla in 2018.

3 - In the second half of 2019, STE will implement a new Risk and Assurance function within the business overseeing governance, risk management and compliance within the business.

4 - STE has a secure shareholding structure with the Singapore national investment arm, Temasek Holdings maintaining a controlling interest of 50.7%.

Value, Momentum and Quality Comments

STE has achieved improved VMQ scores throughout the past six months, with a top quintile rating in the past three months. STE consistently achieves exceptional quality scores together with acceptable valuation and the swing factor has been better momentum in the current year.

The return on equity in excess of 25% is a key driver of the high score for quality. The strong order book that feeds revenue in the following two years, provides a higher degree of certainty regarding revenue than is the case for the majority of the market.

STE has a good depth of coverage with 14 analysts providing research opinions, 13 have a buy or outperform rating on the company with a single hold recommendation. Multiple upgrades by analysts have been recorded for the company in the current year and no downgrades, this is a key factor in our improved rating for momentum.

Conclusion

STE operates a business with a combination of traditional order book of defence and engineering together with high technology aviation products and technology associated with "smart city" solutions. STE operates in full compliance of the accounting and governance rules in Singapore and maintains a strong, well qualified Board of Directors. The shareholder register is very stable with the Singapore Government investment arm Temasek as a controlling shareholder, allowing the company to invest for the long-term and in the best interests of shareholders.

Asia Small Companies Unit Class
TAMIM Fund

At 31 May 2019

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.	-5.86%	-5.21%	-0.42%	-	-	-10.33%
MSCI AC Asia SMID	-4.13%	-1.22%	2.52%	-	-	-5.22%

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.

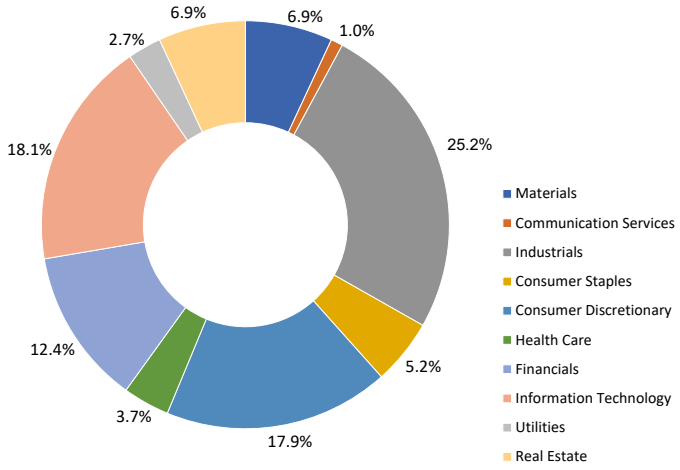
NAV

	Buy Price	Mid Price	Redemption Price
AU$	$7.1948	$7.1732	$7.1517

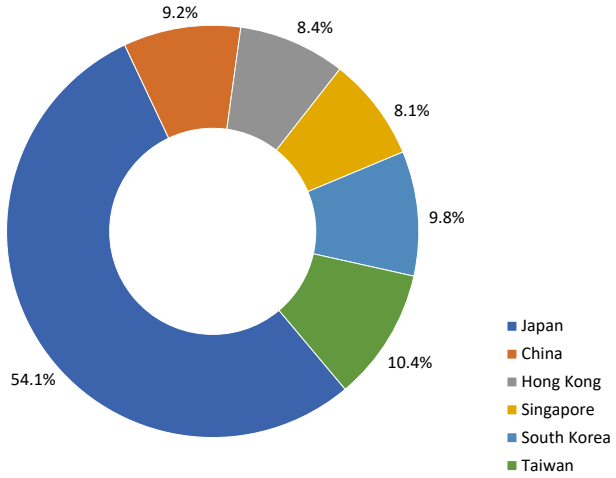
Portfolio Profile

Equity	98.1%
Cash	1.9%

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