Asia Small Companies Unit Class
TAMIM Fund

At 30 November 2019

November 2019 Comments

The Asian region recorded a small gain of 0.1% in November in USD terms which was converted into a gain of 2.0% in Australian dollar terms due to ongoing weakness of the local currency. In the year to date, the index has increased by 10.4% in USD terms and by 15.0% in AUD terms.

The long awaited phase one of the trade deal between United States and China wasn't signed during November and the expected completion date pushed out to 15th December. Market responses to positive and negative news associated with the likelihood of a deal being signed have become more muted in recent months. Sentiment was depressed in the final week of November when President Trump signed the U.S. Bill supporting protestors in Hong Kong, an action that angered the leadership in China and could well add to delays in signing the trade deal.

The markets that have generated most performance in the current year are Taiwan up 23.8% and Japan/Singapore both up 16.3%. Order flows into the Taiwanese electronics sector from the United States have been very strong in 2019 in a reaction to trade tensions with China. China itself has recorded a gain of 8.9% despite those trade tensions with the United States. Hong Kong which continues to struggle to restore law and order in the face of widespread social unrest has nevertheless achieved a small gain of 2.7%. The only one of our investment markets to display significant weakness is South Korea with a fall of 15.4% largely as a result of the poor state of relations with Japan which has put imports of key electronic components from Japan under the threat of restrictions. South Korea's boycott of Japanese goods and travel to Japan seems to have backfired. Towards the end of November South Korea announced that they would renew their intelligence sharing pact with Japan. We are hopeful that this marks a step back towards normalised relations between the two countries and offers the chance for a strong recovery in the South Korean market in 2020. The wide dispersion of returns achieved between Taiwan and South Korea shows the benefits of diversification across markets, the sharp falls in South Korea haven't damaged the overall performance of our Fund which has delivered a strong positive return ahead of the benchmark index in 2019.

We added one new position to the portfolio in November, the Japanese retail pharmacy and medical dispensing group Sugi Holdings. Sugi Holdings started as a business of the Sugiura family who still retain a 33% stake in the USD 3.5 billion company. Sugi Holdings has a balance sheet with net cash, high quality earnings with a strong demand profile and trades on a 20x price earnings multiple which is modest for the consumer staples sector. We also added to existing positions in Toho Holdings and Tokuyama Group.

Four of our companies registered double figure percentage gains during the month, the best being conveyor belt sushi restaurant chain Sushiro Global Holdings up by 15.8%. Other companies with strong gains were Novatek Microelectronics in Taiwan + 14.0% and in Japan, Zeon Corporation +13.4% and Tokyo Seimitsu +12.0%. Open House announced full year revenue up 38% and profits up 23%, the shares at one stage rallied by 26% then closed the month with a gain of 5%. Mapletree North Asia Commercial Trust was marked down 7.8% due to damaged sustained at their Festival Walk property in Hong Kong due to the protests, we believe that insurance will fully compensate for the damage and the sell-off is an overreaction, we are retaining our position.

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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Stock Review

SUSHIRO GLOBAL HOLDINGS

Sushiro Global Holdings (SGH) is a sushi restaurant chain with history dating back to July 1975, however, the current conveyor belt sushi format that has underpinned growth was introduced in 1984. SGH delisted from the Tokyo (second section) market in 2012 and formed a strategic alliance with UK private equity house Permira (spun out of Schroders). In February 2015 Koichi Mizutome was appointed President & CEO and the current corporate structure of SGH was implemented in March 2015. SGH has 10% market share in the Japanese market for sushi restaurants operating 541 stores in Japan and 25 internationally in Korea, Taiwan, Singapore and Hong Kong.

Accounting, Strategy and Governance Comments

Accounting

1 - The accounts for SGH and nine subsidiaries are prepared in accordance with IFRS.

2 - SGH operates a nine person internal audit team that reports directly to the President.

3 - The key difference between IFRS and Japan GAAP is the treatment of Goodwill, the latter requires a write-down schedule and the former does not. With Goodwill of JPY 30.371 million in the SGH balance sheet, this represents 23% of total assets. We recognise the advantage to SGH from using IFRS versus the local GAAP with respect to Goodwill held on the balance sheet. Given the growth trajectory of the company towards international markets, the consistent use of IFRS across the business is justified.

Strategy

1 - SGH has demonstrated a strong business model and excellent platform for growth. Results for the year to September 2019 showed revenue growth of 13.8% and net profits increased 24.1%, while like for like sales increased 7.4%. SGH has a strong presence with 541 restaurants in Japan spread across 47 prefectures. The Sushiro conveyor belt sushi restaurant brand is growing nicely with 26 new stores opened in 2018/2019.

2 - SGH is developing a casual dining brand called Sugidama which offers scope to expand into a different pricing segment of the market in Japan. International expansion is a major strategy for SGH, currently Korea is the only market that has been developed with more than 10 restaurants, while Taiwan, Hong Kong and Singapore are under development. Revenue from the international business is expected to rise from 5% to 10% of total revenue during the current medium term business plan. Taiwan will provide the main geography for growth in the next few years, this is a high confidence strategy for SGH in the near term. In the longer term the international growth strategy will focus on Singapore followed by North America.

3 - SGH considered a merger in 2017/2018, however, the management decided to terminate discussions with Shinmei Holdings, the operator of Genki Sushi restaurants when terms for a deal couldn't be reached. We are happy with the decision to walk away from that merger given the strong underlying growth in the business. Shinmei Holdings held as much as 32% of the shares of SGH during the merger discussions, that holding is now reduced to 6.6%. Shinmei Holdings is the largest shareholder on the register, other large shareholders tend to be investment management groups. International investors own 25% of SGH which is lower than the 30% average for Japanese equities overall. The structure of shareholder register wouldn't impede a future consolidation transaction.

Governance

1 - Full compliance with the Governance Code in Japan with four outside independent directors on the Board comprising eleven directors in total. The Board meets on a monthly basis.

2 - The outside directors form the majority of the Remuneration and Nomination Committee which operates as a sub-committee of the main Board. The outside directors are all suitably qualified in the fields of accounting and law, while one of the directors has business experience in the highly regulated arena of pharmaceuticals.

3 - SGH has long-term debt of JPY 36.2 million that is equivalent to the 77% of the equity held in the business, the debt burden is sensible given the growth profile of the business and is properly managed. SGH have indicated plans to adjust the current mix of debt which will reduce overall financing costs.

Value, Momentum and Quality Comments

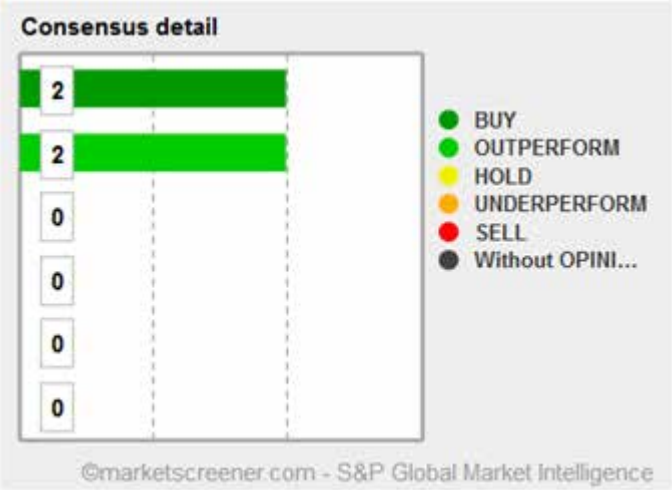
SGH has an overall VMQ score in the top 20% of our regional universe, with particular strength in the areas of momentum and quality. SGH has a very strong return on equity of 22% which has been consistent over time and contributes to the quality score. The strong momentum score has been boosted by a persistent trend of upward revisions to earnings.

There is limited analyst coverage of SGH, just 4 analysts providing regular forecasts which is low for a company

capitalized at USD 2 billion with a strong growth profile. In the past 12 months forecasts for 2021 earnings per share have increased by 25%, however those estimates still indicate a flat earnings per share outcome which we believe underestimates the likely outcome in that year by at least 10%. We believe the prospective market p/e multiple is nearer to 15x in 2022 versus market consensus at 16.9x. This provides good scope for the value component of VMQ to improve in the next two years while we expect the strong quality and momentum characteristics to be at least maintained.

Analyst Coverage of SGH

Consensus	Sell — Buy
Mean consensus	BUY
Number of Analysts	4
Average target price	8 575,00 JPY
Last Close Price	8 560,00 JPY
Spread / Highest target	7,48%
Spread / Average Target	0,18%
Spread / Lowest Target	-10,0%



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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.	3.71%	9.29%	15.48%	9.46%	14.99%	3.04%
MSCI AC Asia SMID	1.96%	7.63%	10.51%	9.16%	13.30%	4.07%

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.

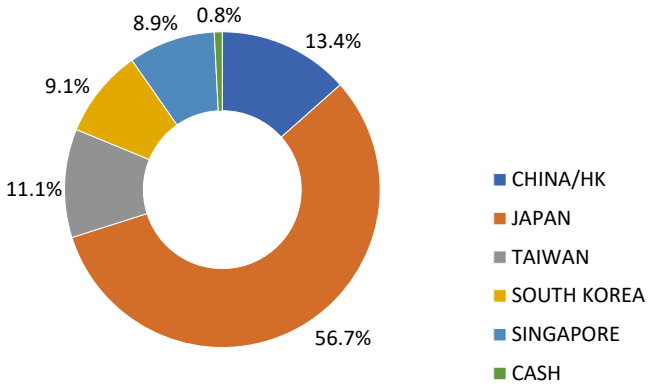
NAV

	Buy Price	Mid Price	Redemption Price
AU$	$8.3083	$8.2835	$8.2586

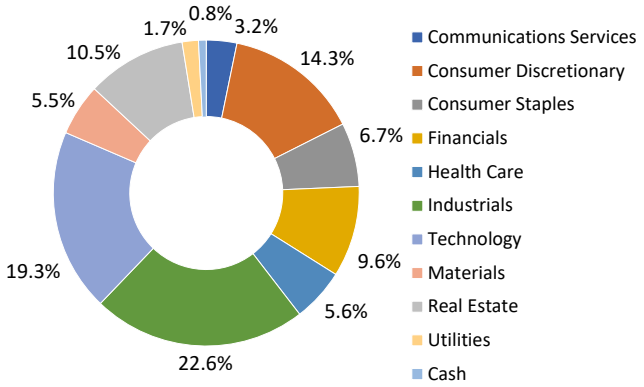
Portfolio Profile

Equity	99.2%
Cash	0.8%

Regional Allocation



Sector 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