

# Asia Small Companies Unit Class

## TAMIM Fund



At 31 October 2019

### October 2019 Comments

The Asian region recorded gains in the month of October, the index increased by 4.8% in USD terms and 2.6% in AUD terms as the Australian dollar reversed the recent trend by gaining against the US dollar. The market has now generated a year to date return of 10.3% in USD terms and 12.7% in AUD terms.

The key positive development during October was a signal from the United States that they are prepared to sign a “Phase One” trade agreement with China. The “Phase One” trade agreement covers 60% of the disputed items and largely represent the “easy” elements of a broader agreement, a signing ceremony was scheduled for mid-November in Santiago at the Asia-Pacific Economic Cooperation Summit, however, that event has been cancelled due to widespread protests in Chile directed at proposed increases in public transport pricing. A new venue for signing the “Phase One” trade agreement is being negotiated. This element of the trade deal represents a major win for China since their negotiating position has consistently attempted to delay the problematic elements of a broader trade deal that was being pursued by the United States.

All of our investment markets recorded gains in October, those gains ranged between 3.9% for Hong Kong and 5.7% for Taiwan in USD terms or 1.7% and 3.5% in AUD terms respectively. Hong Kong has started to make gains despite the protests that have continued for 22 consecutive weekends. Economic activity has been impacted by the protests, property transaction volumes and prices have declined, and the broader economy is likely to record a technical recession, however, the equity market is demonstrating an ability to look beyond the immediate bad news. In the year to date the Hong Kong equity market is now up by 4.0% in USD terms.

We are very pleased to see continuing strength in the Japanese equity market which was up 5.4% in USD terms which brings the year to date gain to 15.4%. There were a number of notable gains in our Japan portfolio, in particular Japan Aviation Electronics up 33.0% and NEC Networks up 17.0%, both companies are part of the broader NEC Group that could be moving towards a restructuring that unlocks value for shareholders. We were very pleased to see speciality chemical maker Tokyuama Corporation, which was added to the portfolio in September, rise by 17.8% during October when the company delivered better than expected interim results.

We sold three companies in October and added one new holding which brings the portfolio to 70 positions held which is in the middle of our 60-80 target range. The companies sold were; Kanematsu Corporation, Nichias Corporation and Tsubakimoto Chain Company all of which had seen their VMQ scores fall to levels requiring reviews. We added a new position in Sugi Holdings which is a USD 3 billion market capitalisation retail pharmacy business providing medicines, health foods and cosmetics in Japan. Sugi Holdings has a strong set of financial

attributes and is located in the top quintile of our VMQ scores for the region. The retail pharmacy sector in Japan is an area that is subject to ongoing merger activity helping to generate strong returns for investors.

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.

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

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2 - The Company incurred penalties from the United States in 1992 when accused of breaching sanctions imposed on Iran. Twenty-seven years have passed since that event and we are satisfied that there are now much stronger management controls in place to prevent any breaches of international laws. JAE has a significant number of defence contracts and has demonstrated full compliance with the requirements of those contracts.

3 - In late 2016, NEC increased their stake in JAE to just above 50%. We view the NEC stake overall as a positive, JAE has scope to benefit from the exchange of technology ideas with other companies in the NEC group.

### Value, Momentum and Quality Comments

JAE sits in the top 30% of our VMQ ratings universe for the region with a strong score for value and good scores for momentum and quality. The company has cash on the balance sheet in excess of USD 400 million and long-term liabilities equivalent to USD 60 million, a very conservative business structure. JAE has the capacity to fund future growth plans without the need for raising equity.

JAE has a return on equity (ROE) of 8% which we expect to rise to double figures in the next three to five years, that expected improvement in ROE will improve the quality score.

The momentum score has improved from well below average three months ago to average in the past month as the period of downgrades to earnings has ended. The expected recovery in earnings in the next two years is 11%, we expect that number to be upgraded during the next twelve months.

There are nine analysts providing coverage of JAE and their expectations are relatively modest with eight analysts rating the company as a hold and only one with a clear buy recommendation. We believe that the analysts are being too conservative in the assessments of JAE and there is significant upside to the company in the next phase of rising demand for connectors in vehicles and mobile devices.

### Analyst Coverage of JAE

Consensus	Sell	Buy
Mean consensus	HOLD	
Number of Analysts	9	
Average target price	1 648,89 JPY	
Last Close Price	1 703,00 JPY	
Spread / Highest target	17,4%	
Spread / Average Target	-3,18%	
Spread / Lowest Target	-11,9%	



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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%)

## Returns

	1m	3m	6m	9m	1y	Since inception
TAMIM Asia Small Comp.	3.15%	4.68%	4.68%	10.77%	9.27%	-0.15%
MSCI AC Asia SMID	2.63%	5.24%	3.91%	11.04%	12.41%	2.52%

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\$	\$8.0107	\$7.9868	\$7.9628

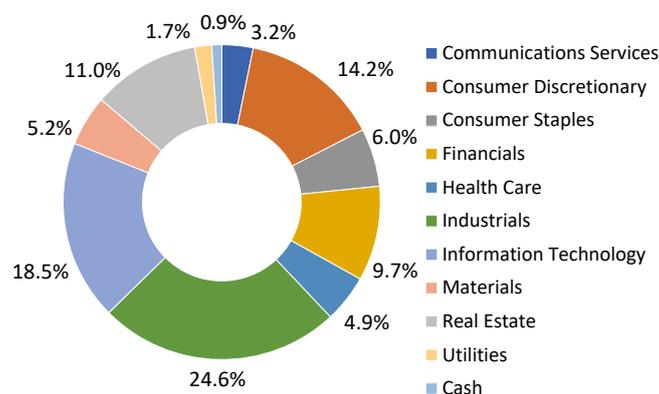
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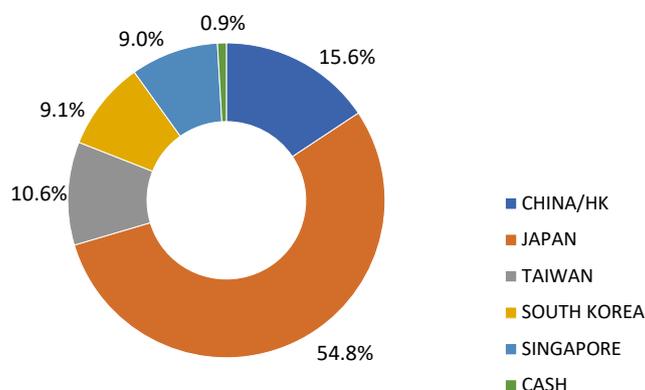
## Portfolio Profile

Equity	99.1%
Cash	0.9%

### Sector Allocation



### Regional Allocation



## Selection of 5 Holdings

Stock	Code	Exchange
Sojitz Corp.	2768	Tokyo
Simple Technologies Co.	6121	Taiwan
Kerry Logistics Network	0636	Hong Kong
Venture Corp.	VENM	Singapore
China Lesso Group	2128	Hong Kong