

Asia Small Companies Unit Class TAMIM Fund



At 30 September 2020

With stock markets around the world continuing to experience or anticipate a recovery in economic activity as Covid-19 lockdown restrictions are eased, Asian small to mid-sized equities increased during quarter by 9.1% in US dollar terms. The recovery in Asian markets was once again partially offset by strength in the Australian currency, which restricted the index return to 4.8% in AUD terms. In USD terms, Asian small to mid-sized companies now stand 0.1% above the start of year levels, while in AUD terms the year to date return is -1.8%. Overall, it is pleasing to see that markets have recovered from the shock and fear associated with the global Covid-19 pandemic that saw the very sharp sell-off in markets in the early months of 2020.

It was a positive quarter for all of our investment markets, South Korea was the strongest with an increase of 19.1% in USD terms, followed by China +11.6%, Hong Kong +9.3%, Japan +8.0%, Taiwan +6.2% and Singapore +2.6%.

Bloomberg reported that China has fallen further behind the target for imports agreed in the phase one trade deal with the United States, at the end of August China had purchased less than one third of the full year target of USD 170 billion leaving an outstanding balance of USD 115 billion to be purchased in the final four months of the year. The United States response to any failure to meet the commitment made in the phase one trade deal will depend on the result of the upcoming Presidential election. During early September, the World Trade Organisation ruled that the original set of tariffs imposed on USD 200 billion of exports from China was inconsistent with global trading rules. The United States could appeal that ruling however that is likely to enter a legal void since the United States has blocked the appointment of judges leaving the appellate body of the World Trade Organisation short of the minimum number required to hear cases.

The key political event during the quarter was resignation of Japan's 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 and is seen as likely to continue the same policies as Mr Abe. In particular we will be watching for a continuation of the policies allowing a greater flow of immigration in order to address Japan's serious demographic problems. Covid-19 has completely stopped the movement of people into Japan during 2020 and we will be looking to the new Prime Minister to enact measures to accelerate immigration during 2021 and beyond.

In a move which we take as a sign of increasing confidence, China's foreign exchange regulator granted new quotas under the outbound QDII scheme from \$104 billion to \$107 billion. China keeps a tight hold on official outbound capital movements and only allows the numbers to rise when there is confidence regarding the economy.

The best performing stock in the portfolio was Taiwanese semiconductor manufacturer United Microelectronics

Corporation which increase by 80% for the quarter as a result of excellent results and being seen as a beneficiary of the action being taken against Chinese semiconductor companies. In particular, suppliers of equipment to China's Semiconductor Manufacturing International Corporation are being threatened with requirements to apply for individual export licences to the United States. Our next best performing company was Xinyi Glass up 64% for the quarter. Xinyi Glass is benefitting from increased demand for glass in China, both automotive and float glass combined with lower raw material costs. Xinyi Glass was able to use a strong position in the domestic market in China to expand capacity while many competitors were being forced to cut production lines during the Covid-19 lockdown in the first half of the year. Our weakest performer in the portfolio was NetDragon down 23% for the quarter following slightly disappointing interim results. NetDragon has two key business segments, mobile games and online education, the latter received significant demand interest during the early stages of the Covid-19 pandemic and has since dropped away from the "panic" levels seen in March, April and May. We believe there is good scope for both business segments in the medium term and the company trades on a prospective price earnings ratio of 8x.

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.

Stock Review



Kerry Logistics Network Limited (KLN) is a diversified group based in Asia with core businesses that encompass integrated logistics, international freight forwarding, express, supply chain solutions, seaport management and operations as well as insurance brokerage. KLN operates under two master brands: Kerry Logistics, a logistics service provider with extensive operations across the globe and Kerry Express a business offering last-mile delivery to B2C, B2B2C and C2C customers. KLN has more than 47,000 employees in 55 countries and territories worldwide. The Company is listed on the Main Board of the Hong Kong Stock Exchange and is a selected Member of the Hang Seng Corporate Sustainability Index Series 2017-2018.

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

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Accounting, Strategy and Governance Comments

Accounting

1 - KLN is audited by PricewaterhouseCoopers covering a network of operations in 55 countries, there are no qualifications to the accounts.

2 - Full compliance with accounting rules is maintained in each jurisdiction in which KLN operates. The most recent annual results were fully compliant with the relevant Hong Kong accounting standards.

3 - The 2019 audit had a focus on the value of goodwill in the balance sheet, revaluation of investment properties and accounts receivable. PwC expressed satisfaction regarding the audit evidence being appropriate for their "true and fair" opinion. PwC conducted the audit in compliance Hong Kong standards for Auditing.

Strategy

1 - KLN has demonstrated a strong business model of developing their logistics coverage across Asia in order to benefit from the growth of intra-Asian trade which is growing at a faster rate than Asian trade with other continents. KLN delivered a strong interim result despite the impact of Covid-19 on parts of the business, revenue increased 10% and core operating profit increased by 12%. Within the group results, international freight forwarding increased profits by 40% and raised the contribution to overall Group profits from 20% to 26%. Asia accounts for 75 % of group revenue and 92% of profits. The Americas accounts for 13% of revenue and 6% of profits. The recent acquisition of the remaining 49% balance of shares in Apex, a major non-vessel owning common carrier between Asia and the United States, will provide a platform for growth into the North American market.

2 - KLN has been successful in making strategic acquisitions in the region and utilizing joint ventures to enter new markets. KLN's expansion into Taiwan has been built around the acquisition of Science Park Logistics, which specializes in electronic components. The business in Taiwan will receive a boost in 2021 when the 400,000 square feet facility in Guanyin reopens for the first time since the major fire in February 2019. The Company looks to extract value for shareholders by selling assets when appropriate. Profits in the current year have been substantially boosted by the sale of warehouse assets in Hong Kong which booked a gain of HK\$2 billion. The company has applied to list Kerry Express Thailand on the Bangkok exchange. In the interim results announcement KLN stated that the Kerry Express Thailand had received approval to list.

3 - KLN has new logistics facilities due to open in China in 2021 in Qingdao (827,000 square feet) and Guangzhou (646,000 square feet).

4 - KLN is making preparations for global distribution of Covid-19 vaccines when they become available in 2021.

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Governance

1 - Full governance with the Hong Kong governance codes. KLN was a spin-off from Kerry Properties Limited (KWOK family) which remains a major shareholder with 42.12% of the outstanding shares. The Company has declared continuing and ongoing connected transactions with the parent group in the appropriate manner. We are satisfied that connected transactions are appropriately authorized, disclosed and take place on an arms-length basis.

2 - The Board of nine people comprises four executive and five non-executive directors of which four are defined as independent. All directors have suitable qualifications and experience. The company publishes an ESG report annually in compliance with Appendix 27 of the Main Board Listing Rules in Hong Kong.

3 - The company has a 32% payout ratio in recent years and has paid special dividends following the sale of assets. The stated policy of the Company is to maintain a payout ratio close to 30% of core profits. That policy is consistent with the growth and investment plans of the business.

4 - KLN has reported that 59 of their staff globally contracted Covid-19 since the start of the pandemic, there was minimal impact on the operations of the company and appropriate safety measures were implemented.

Value, Momentum and Quality Comments

KLN consistently sits in the top decile of our VMQ ratings universe. The P/E ratio of 6.1x in 2019 was distorted by the sale of warehouse assets in Hong Kong, the prospective P/E in 2020 is 12.2x which offers good value especially in the context of KLN's growth prospects. There are eight analysts providing profit forecasts for KLN, collectively they have forecasts no significant growth in profits out to the year 2022, we believe that they are underestimating the outlook for KLN. Earnings forecasts fell in the early stages of the Covid-19 pandemic and have since fully recovered to the pre-Covid-19 levels.

The quality score for KLN is average, largely because of the gearing levels in the balance sheet. We view the gearing as appropriate for KLN's business model and evidence of a company that is prepared to invest for the future. Gearing fell from 44.7% to 34.6% in the past year. We view the risk level of the balance sheet as acceptable, especially as the net gearing is just 12%.

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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	1y	Since inception p.a.
TAMIM Asia Small Comp.	1.15%	0.26%	-1.72%	2.37%	-1.58%
MSCI AC Asia SMID	3.20%	-0.23%	-2.00%	0.35%	-1.23%

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\$	\$7.7927	\$7.7591	\$7.7361

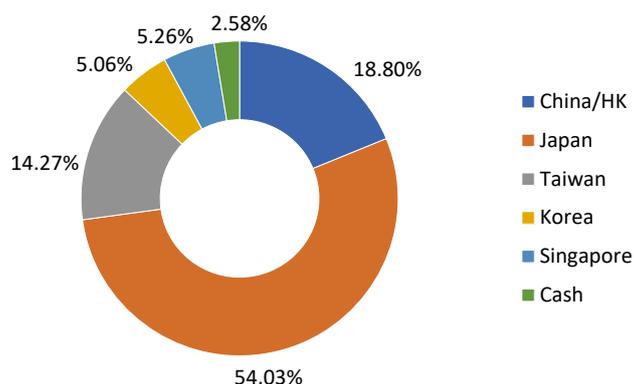
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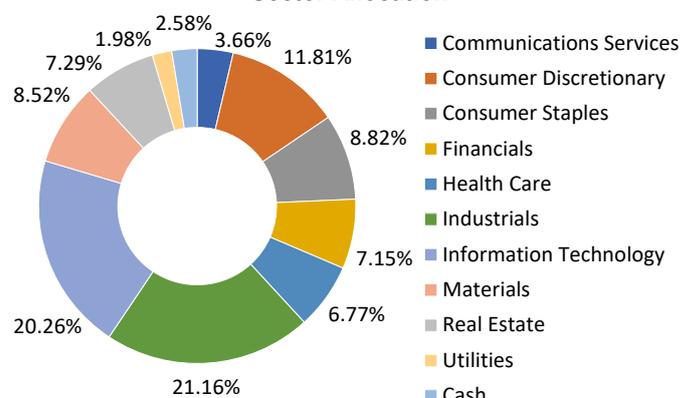
Portfolio Profile

Equity	97.42%
Cash	2.58%

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
Simple Technology Co. Ltd	6121.TWO	Taiwan
China Lesso Group Holdings Ltd.	2128.HK	China/HK
SFA Engineering Corp.	056190.KS	South Korea