Asia Small Companies Unit Class
TAMIM Fund

At 30 September 2019

September 2019 Comments

September was a pleasing month for Asia with the index rising by 2.9% in AUD terms, combined with much lower volatility than we experienced in the prior quarter. The region achieved a positive outcome despite continuing unrest in Hong Kong and the trade disputes between Japan-South Korea and the United States-China, neither of which have made noticeable progress towards a resolution. The fund increased by 2.2% for the month of September and has increased by 10.0% in the year to date versus the benchmark index return of 9.8%.

Our best market in September was Japan which recorded an increase of 4.2% for the month bringing the year to date return to 9.5%. South Korea increased by 3.4%, Taiwan by 2.4%, Singapore rose 1.3% and China climbed 1.0%. Hong Kong was the only market in our portfolio in negative territory for September with a marginal decline of 0.1%. We are delighted to see Japan performing well, especially with the potentially negative backdrop of the increase in consumption tax from 8% to 10% on 1st October 2019. Prime Minister Abe could have shied away from the tax increase but instead demonstrated considerable courage in pushing through an unpopular decision.

We continued our policy of rebalancing the Japanese portion of the portfolio with the purchase of four new companies; Tokuyama Corporation, Kumagai Gumi, Kyushu Railway and Sankyu Inc. All four companies have strong scores in our analysis of value, momentum and growth while meeting our high standards for accounting, strategy and governance. Sankyu Inc and Kumagai Gumi both have construction related businesses which are expected to perform well in an environment of increased infrastructure spending. Kyushu Railway has considerable property and commercial interests related to their core railway business, in particular in the field of general and food retailing. We took some profits in Chinese plastic pipe manufacturing business China Lesso which has increased by more than 90% in the current year, we retain a significant holding in that company. Xinyi Glass increased by 10.6% during September helped by market confidence derived from the significant purchases of company shares by the CEO which we reported last month.

While there is no sign of an end to the protest activity in Hong Kong which has seen the market fall by 9.4% in the past three months, we are encouraged by the stability displayed in recent weeks and valuation levels which have discounted a lot of bad news. The market in China will remain closed in the early part of October as the country celebrates the 70th Anniversary of Communist Party rule in the People's Republic of China. There is every chance that trade talks between the United States and China scheduled for mid-October will finally achieve a breakthrough especially with Donald Trump engaged in fighting impeachment.

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. We take comfort from the portfolio P/E of 9.8x, our companies have the scope to generate strong investment returns based on aggregate profits growth that according to market consensus estimates continues to exceed 10% in the current year.

July - September 2019 Quarter Comments

The index was able to achieve a positive return during the quarter despite losses recorded in Hong Kong, Singapore, China and South Korea. The positive return was generated by strength in Japan and Taiwan plus the impact of a weak Australian dollar. Our fund delivered a strong performance of 4.1% for the quarter versus the benchmark return of 3.2%.

High day-to-day volatility was a feature of markets during the quarter, with large swings in sentiment generated by the perceived likelihood of resolving the trade dispute between the United States and China. Another area of trade friction emerged between Japan and South Korea, with South Korea seen as being most at risk from restricted access to technology exports from Japan. The South Korean market fell by 12.3% during the quarter and 27.0% in the past year, by far the worst country performance in the region. Hong Kong fell 9.4% as a result of ongoing civil protests which expanded from an initial objection to the proposed extradition treaty with Taiwan which had implications with Mainland China into broader demands for greater democracy.

The key to our strong performance during the quarter was stock selection and one stock in particular, the semiconductor equipment testing company Advantest, which increase by 61% to become the biggest company in the portfolio. In July Advantest released first quarter profits 50% above the consensus estimates of 12 industry analysts covering the company. We took some profits in Advantest during August and the company remains our largest holding.

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. We take comfort from the single figure P/E and strong quality characteristics of the portfolio.

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Stock Review

KERRY LOGISTICS

Kerry Logistics Network Limited (KLN.SEHK) 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 53 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.

Accounting, Strategy and Governance Comments

Accounting

1 - KLN is audited by PwC covering a network of operations in 53 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 interim results were compliant with Hong Kong Accounting Standard 34.

3 - In 2019 KLN changed accounting policy with respect to treatment of leases in compliance with HKFRS16, which applies a single discount rate to leases with similar characteristics.

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. Intra-Asian trade recorded growth of 22% in the past year, a much faster rate than Asian trade with other continents.

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.

3 - 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. The company is also looking to list Kerry Express Thailand on the Bangkok exchange raising $300 million with that IPO.

4 - KLN is a beneficiary of China's Belt and Road Initiative, in particular road and rail assets across the interior of Asia into Europe is a strength for the Company, infrastructure in that region is receiving a significant boost from investment funded by China that will help drive higher volumes of freight

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 eight people comprises four executive and four non-executive directors of which three 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.

Value, Momentum and Quality Comments

KLN sits in the top decile of our VMQ ratings universe. The P/E ratio of 5.6x in the current year is distorted by the sale of warehouse assets in Hong Kong, the prospective P/E in 2020 is 10.2x which offers good value especially in the context of KLN's growth prospects. 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. We view the risk level of the balance sheet as acceptable.

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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
TAMIM Asia Small Comp.	2.15%	4.11%	3.24%	10.04%	-3.22%	-3.22%
MSCI AC Asia SMID	2.86%	3.17%	2.62%	9.85%	-0.10%	0.10%

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.

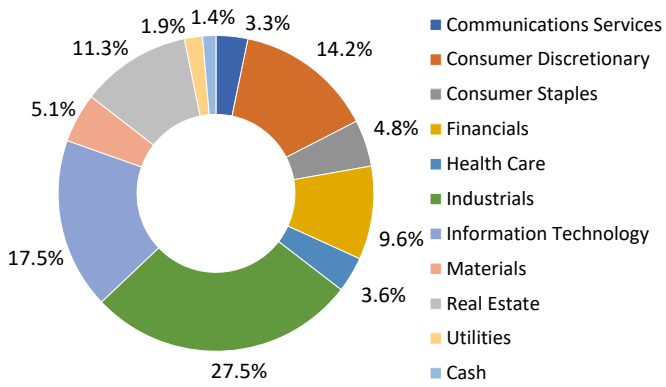
NAV

	Buy Price	Mid Price	Redemption Price
AU$	$7.7660	$7.7427	$7.7195

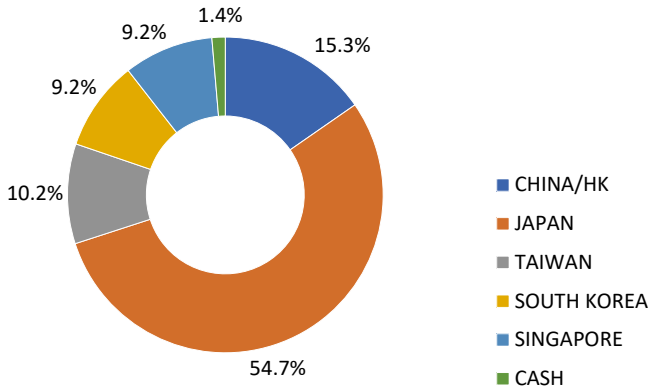
Portfolio Profile

Equity	98.6%
Cash	1.4%

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