



Asia Small Companies Unit Class

TAMIM Fund

Investor Update

January 2019

TAMIM Asset Management
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TAMIM Asia Small Companies Unit Class



January was another volatile month for equities with the net result being a mildly positive return. The Asia SMID index was strong in USD terms, up 5.15%, however the net return in AUD terms was suppressed by the strong Australian dollar late in the month. The Fund increased by 2.47% versus the index which returned 1.53% in AUD terms.

In terms of country returns the best performances were recorded by China, Hong Kong and Singapore which increased by 8.0% to 9.0% while Korea, Taiwan and Japan achieved 4.0% to 5.5% for the month (all in USD terms).

We broadened the portfolio holdings during January, buying the following companies:

RIC	Name	Target Weight	Mkt Cap (US\$Bn)	Fwd PE	Fwd DivYld
0551.HK	YUE YUEN INDUSTRIAL	1.00%	5.232	14.0	5.38%
8570.T	AEON FINANCIAL SERVICE	1.00%	4.016	10.3	3.52%
7164.T	ZENKOKU HOSHO	1.75%	2.163	10.0	2.48%
5444.T	YAMATO KOGYO CO	1.00%	1.587	8.4	2.15%
1951.T	KYOWA EXEO CORP	1.25%	2.768	6.3	2.73%
6371.T	TSUBAKIMOTO CHAIN CO	1.00%	1.261	8.3	3.57%
8282.T	K'S HOLDINGS CORP	2.00%	2.295	10.6	2.86%
1973.T	NEC NETWORKS & SYSTEMS	1.25%	1.107	15.5	3.20%
8905.T	AEON MALL CO	1.25%	3.626	12.3	2.18%
028150.KQ	GS HOME SHOPPING	1.25%	1.056	8.6	3.85%
111770.KS	YOUNGONE CORP (NEW)	1.00%	1.523	11.9	0.80%

The portfolio now holds 80 companies in total.

Our best performing companies during the month were Lonking Holdings, Sinopec and Sinopec Engineering all of which are Chinese companies listed in Hong Kong that increased by 24.8%, 17.9% and 15.4% respectively. Sinopec Engineering announced an upgrade to profits guidance for the 2018 year with an increase in the range of 120% to 130% now expected. This increase in profits includes one-off benefits from a separation of the water supply, electricity supply, gas supply and property management businesses. If those one-off transaction benefits are excluded, Sinopec

Engineering is expected to record profits growth in the range of 40% to 50% which is well ahead of previous expectations. Lonking Holdings was mentioned in a Morgan Stanley report that was positive in relation to the prospects for Chinese construction machinery makers in overseas markets. After the price rally, Lonking Holdings trades on a P/E of 9.3x and a yield of 6%. Sinopec was a beneficiary of improved sentiment regarding trade talks between the United States and China and currently trades on a P/E of 11.4x and a yield of 4.7%.

The only noticeable underperforming stock during the month was Korean mobile game software developer Com2us which fell 14% in January. Profit expectations for Com2us in the 2018 year have been reduced by 10% in the past six months causing the shares to decline by 33% which we view as an overreaction. The company now trades on a P/E of 11x and is expected to deliver profits growth in the range of 45% to 109% in the next two years. There are 25 analysts providing coverage of Com2us, 24 analysts have buy/strong buy ratings while one analyst has a hold rating. We are happy to maintain our position.

The short-term outlook for Asian markets is likely to be dominated by the outcome of trade talks between China and the United States. Any outcome that avoids the imposition of punitive tariffs is likely to be taken positively by the markets. In the long-term we take comfort from our portfolio P/E of 9.8x and yield of 3.4%, our companies have the scope to generate strong investment returns.

Stock Review

ChampionREIT 冠君產業信託

Champion REIT is a trust formed to own and invest in income producing office and retail properties in Hong Kong. The trust's focus is on Grade-A commercial properties in prime locations. The trust currently offers exposure to 2.93 million square feet of prime office and retail floor area by way of two landmark properties in Hong Kong, Three Garden Road and Langham Place, one on each side of Victoria Harbour.

Accounting, Strategy and Governance Comments

Accounting

1 - The auditors are Deloitte Touche Tohmatsu, they have issued an unqualified opinion for accounts over all periods.

2 - Full compliance with the accounting standards in Hong Kong has been maintained since listing in 2006.

3 - Property valuations are undertaken by Colliers International (Hong Kong) Limited, their approach to valuations is consistent with international best practice.

Strategy

1 - The trust has a simple strategy of looking to maximise the value of their investment properties and adjusting the properties held within the portfolio. In 2017 Champion REIT indicated a willingness to sell the Langham Place Office property in order to reduce overall exposure to office property within the portfolio. This is a sensible strategy which also provides the possibility of a significant special dividend for shareholders on completion. Champion REIT have shown themselves to be willing to wait for their desired property valuation rather

than rushing to sell the property, we agree with this approach.

2 - The CEO, Ms. Ada Wong Ka Ki, joined Champion REIT in 2014 as Deputy CEO and was promoted to her current role in 2016, she is young at 37 years old and has an excellent reputation having previously worked at Citigroup and J.P. Morgan's investment banking divisions, see Bloomberg article in November 2018. Ms. Wong brings a wealth of financial structuring experience to the business and will continue the strategy of adjusting the funding strategy of the Trust.

3 - Champion REIT's key objectives are to provide investors with stable and sustainable distributions and achieve long-term capital growth helped by ever rising numbers of visitors from Mainland China. The Langham Place Mall is a direct beneficiary of the flow of visitors from Mainland China, rents are structured to incorporate a component of retail revenue as well as a unit charge based on area.

4 - Three Island Road and Langham Place Retail Mall will remain core assets for Champion REIT, once Langham Place Office is sold we can expect to see an acquisition, however, the company have shown that they will be suitably cautious regarding transaction price paid. In the meantime, significant upward momentum in rental revenue will be achieved in 2019 and 2020 from reversion of expiring leases to prices that exceed the levels from 2016/2017 when original leases were signed.

Governance

1 - The trust first listed in Hong Kong in May 2006 and has maintained full compliance with the Hong Kong governance standards.

2 - Champion REIT has seven directors, six are non-executive and of those four are independent. All of the independent non-executive directors have extensive experience in the property development industry and one (Mr. Abraham Shek Lai Him) also sits on the advisory committee of the Independent Commission Against Corruption (ICAC). The ICAC is a very effective institution in Hong Kong, there



have been many high-profile actions undertaken in recent years helping to improve Hong Kong's standing in this area.

3 - The REIT manager Eagle Asset Management (CP) Limited consistently takes 50% of the management fee in units, at the latest interim report the manager received 12,194,412 units equivalent to 0.2086% of units in issue as payment for 50% of the management fee, the remaining HK\$70,605,700 was paid in cash. In total the REIT manager now holds 7.0132% of the Units on issue. These numbers are compliant with the Trust Deed and REIT code. The parent company Great Eagle Holdings Ltd holds 65.5% of the shares in Champion REIT.

Conclusion

Champion REIT is provides excellent exposure to office and retail commercial property in Hong Kong. The trust is well managed with a sensible capital structure and clear strategy for the future. There are good prospects for the significant discount to asset value to move closer to underlying NAV over time. There are no concerns from an accounting perspective and we like the fact that the manager opts to receive 50% of their fee in the form of units in the trust.

Value, Momentum and Quality Comments

1 - The VMQ score has shown significant improvement at 80-86 in the past six months and has maintained a level above our minimum required score throughout the period under review. The share price has proved very resilient in the face of weak general market conditions in the fourth quarter of 2018 and that has helped the momentum score.

2 - The Trust has a modest level of debt which has been consistently declining over time, 54% of the debt is structured on a fixed rate basis and the balance at floating rates. Increasing interest rates during 2018 increased funding costs from the equivalent of 14.3% to 15.7% of net property income. Champion REIT has a very conservative capital structure which supports the quality score.

3 - The trust trades on a significant discount of 47% to appraised NAV which is typical of the sector in Hong Kong with the one notable exception of Link REIT which trades at a premium to NAV.

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%)

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

Returns

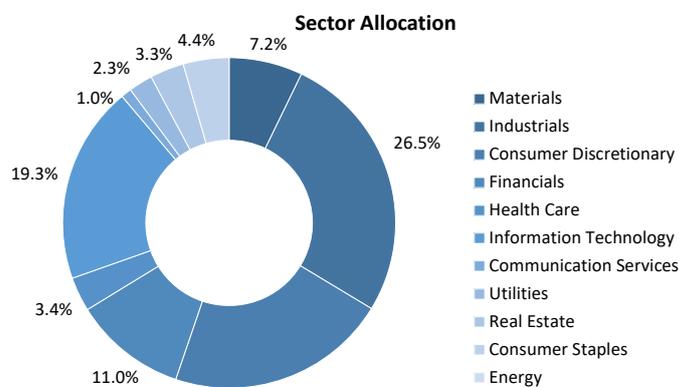
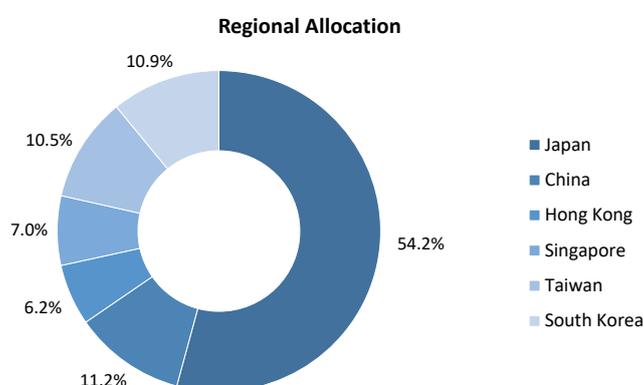
	1m	3m	6m	9m	1y	Since inception
TAMIM Asia Small Comp.	2.47%	-1.35%	-	-	-	-9.87%
MSCI AC Asia SMID	1.53%	1.23%	-	-	-	-7.48%

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.

NAV

	Buy Price	Mid Price	Redemption Price
AU\$	\$7.2320	\$7.2103	\$7.1887

Portfolio Profile



Contact

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