



Asia Small Companies Unit Class

TAMIM Fund

Investor Update

November 2018

TAMIM Asset Management
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TAMIM Asia Small Companies

Unit Class



Following the broad-based decline recorded in October, November was on the face of it a much calmer month with the headline index returns of 4.2% in USD terms and 1.2% in AUD terms. The 3.2% rally recorded in Korea was somewhat disappointing given the 19.7% decline recorded in October, it was a similar story in Taiwan with a gain of just 1.2% for the month versus the 14.1% decline in the prior month. Hong Kong proved the best of our investment markets with an increase of 6.9% versus the 10% decline of the previous month.

At the stock level we continued to observe very high volatility. Eleven of our portfolio companies recorded double-digit percentage increases, the best being China Water Affairs Group (CWA) and Tokyo Seimitsu which both increased 24.5% during November. Both companies announced interim results well ahead of market expectations, with CWA providing additional positive news when lifting the proposed dividend by 50%. CWA also flagged the intention to continue to dispose of non-core property assets which was well received by the market.

Five of our companies registered double-digit percentage declines during the month, Toyoda Gosei Company declined 10.3% following interim results that reported operational problems with their business in Europe. The company has indicated that these issues are now resolved, so we are prepared to forgive the problems in Europe and take a long-term view. Kanamoto Company fell 11.4% after announcing a placement of new shares equivalent to 6.25% of the existing share capital. We are always disappointed when a company chooses to dilute existing shareholders with a placement of new shares, in this instance we believe the market has overreacted, we like the market positioning of this company in construction equipment and are prepared to maintain our investment position. The market consensus share price targets for Toyoda Gosei Company and

Kanamoto Company indicate returns of 45% and 32% respectively above the current trading levels. Aside from investing net cash inflows, there were no changes to portfolio holdings during the month.

Overall, the portfolio recorded an underperformance versus the index, twenty-eight of our companies outperformed the index, the remaining forty-one companies underperformed during November. The reporting of interim results across Japan, Korea, Taiwan and Hong Kong has completed with the broad thrust of results being positive, the number of companies held in our portfolio that have met or exceeded market expectations outnumbered the companies that fell below expectations in a ratio of more than 2:1. Short-term performance of the portfolio is being driven more by fears of a trade war between the United States and China than any news directly related to the companies. While this sentiment driven volatility is likely to continue for some time; we take comfort from healthy investment characteristics, the portfolio now trades on a prospective price to earnings multiple of 9.8x, a dividend yield of 3.5% and return on equity of 12.9%.

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. It was pleasing to see the United States and China engaging in a positive manner at the G20 meeting in Argentina. We hope that the truce of 90 days they agreed with respect to further implementation of increased tariffs can be the first step towards a sensible outcome for bilateral trade in the New Year.

Stock Review



中國水務集團有限公司
China Water Affairs Group Limited

China Water Affairs Group Limited (CWA), through its subsidiaries, supplies city water and sewage treatment. CWA supplies raw water and tap water, treats sewage, constructs water supply pipe networks, and installs water meters. CWA has 7,662 employees with staff turnover reported as 1.62% in the 2018 ESG Report. In March 2018 CWA had a total daily supply capacity of 12.15 million cubic metres operating 101 water plants and 22 sewage treatment plants.

Accounting, Strategy and Governance Comments

Accounting

- 1 - PricewaterhouseCooper (PwC) audit the accounts, use of a big name accounting firm is a positive.
- 2- Unqualified accounts over all time periods, no issues raised by PwC.
- 3 - Full compliance with the Hong Kong accounting standards.

Strategy

1 - Water supply in China is fragmented, the central government is encouraging local governments to deleverage their balance sheets with private-public partnerships, this provides a major source of demand growth for CWA. Only 35% of the population has access to tap water. Strong underlying demand is expected to be maintained while more of the population is provided direct access to tap water. CWA has a focus on Tier 3/4 cities across the interior of China where demand growth for tap water is expected to be particularly strong.

2 - FY18 results beat expectations with net profits of HK\$1,140 million, an increase of 33.6% over the previous year and 10% ahead of market forecasts. Revenue growth was 32.8% during that same period, with city water supply showing 25.1% growth and sewage treatment increasing by 47.2%. Compound annual growth over five years is 29.6%. These numbers are indicative of an expansion strategy that is working. We were pleased to see a continuing trend of disposal of non-core assets especially in the arena of property development which is an unnecessary distraction for the management of the business.

3 - In the past year CWA has entered agreements for the Xinyu urban-rural integrated water supply project, acquired the Huicheng district water supply business and established the Ji'an county water supply company. Organic growth from existing businesses should exceed 15% per annum.

4 - The Environmental Services Division (ESD) which includes waste water related and hazardous waste treatment businesses is being structured for a potential separate market listing. The ESD has strong relationships with petrochemical companies including Shell and China Oilfield Services. We have mixed feelings about an IPO for this division of the business, since it has excellent growth characteristics, our final view will depend on the selling price for that business.

5 - CWA is reducing exposure to property development, we would like to see them exit this business entirely except where there is a business merit in relation to the ESD business.

6 - The balance sheet is geared in a manner that is consistent with the structure of the business.



Governance

1 - Full compliance with the Hong Kong governance standards. A full ESG Report was published in October 2018 showing all of the required disclosures with respect to environmental, social and operating practices. All emissions are within the compliance standards for the location of operations. CWA has water supply unit power consumption that is 20% better than the industry average. CWA has a water leakage ratio of 14.4% versus the industry average of 22.2%.

2 - Eight independent non-executive directors on the Board.

3 - The company has adopted the Model Code for securities transactions by Directors.

Conclusion

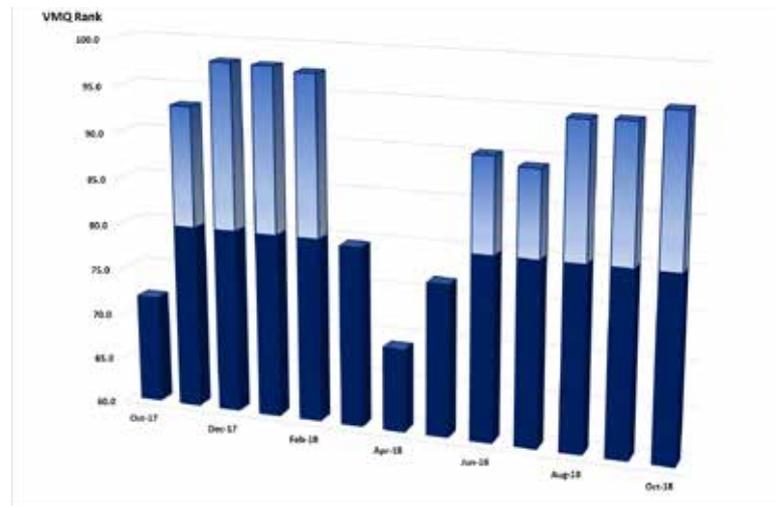
CWA has a good business model and is well placed to deliver strong returns to their investors in the medium to long term. We will continue to monitor the behaviour of management with respect to non-core businesses, in particular property development and the potential divestment of the ESD business. We are satisfied that CWA meets our standards for accounting, strategy and governance.

Value, Momentum and Quality Comments

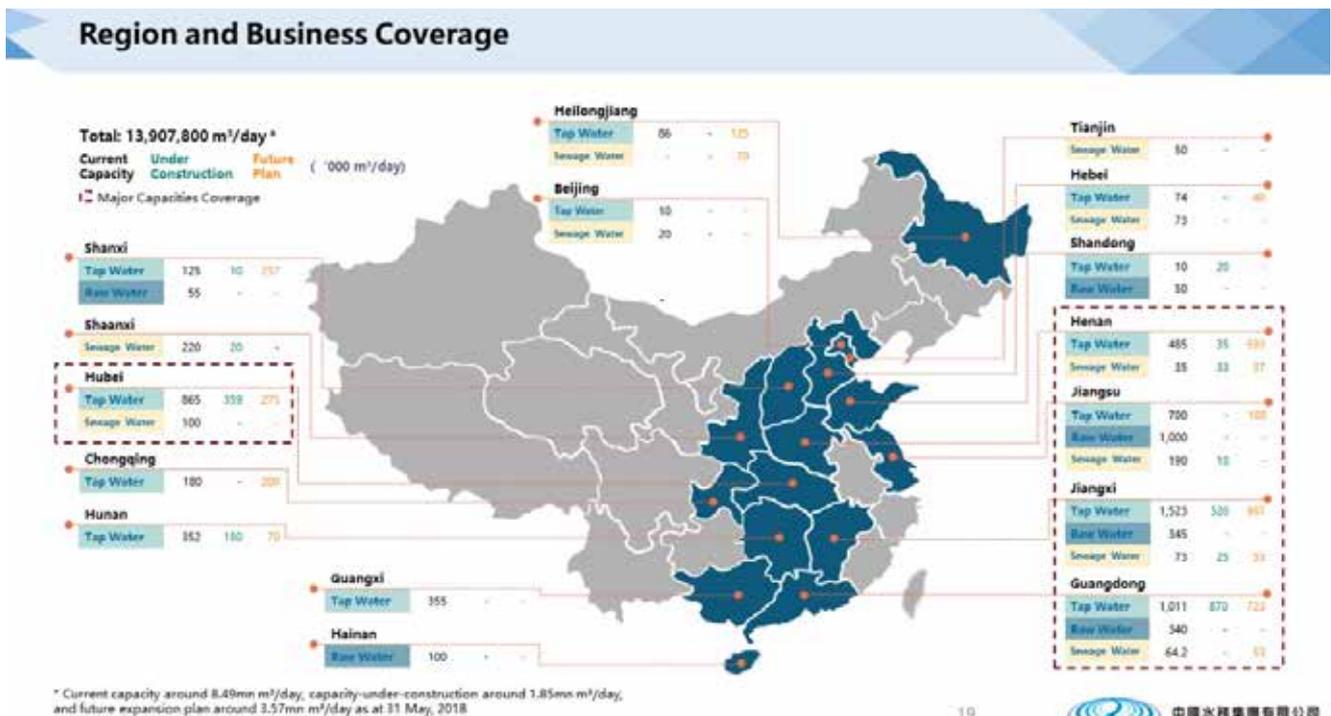
1 - Our VMQ score has been volatile while remaining in the top two quintiles during the past year. The momentum score has been top decile in our universe for the past six months.

2 - There are four analysts actively covering this stock, three have buy ratings and the median target price is 30% above current levels. Consensus earnings growth remains in mid-teens percentage growth in 2019 and 2020.

3 - Return on capital employed in excess of 11% helps to underpin strength in the score for quality.



Map showing location of water distribution for China Water Affairs Group



Source: China Water Affairs Group Annual Report 2018

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

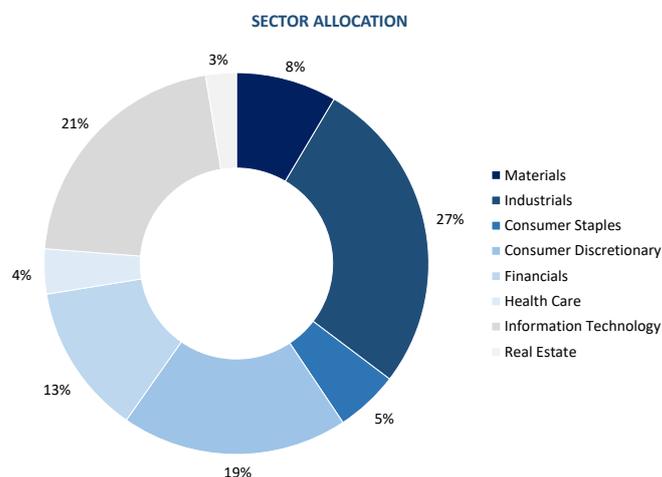
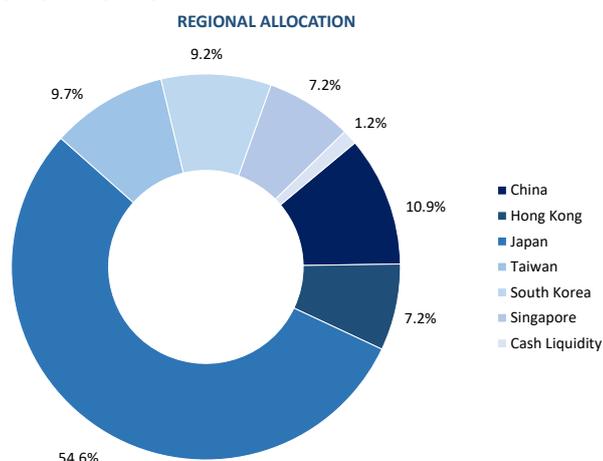
	1m	3m	6m	9m	1y	Since inception
TAMIM Asia Small Comp.	-1.44%	-	-	-	-	-9.95%
MSCI AC Asia SMID	1.16%	-	-	-	-	-7.35%

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\$	\$7.2254	\$7.2038	\$7.1822

Portfolio Profile



Contact

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