Asia Small Companies Unit Class

TAMIM Fund

Investor Update

October 2018

TAMIM Asset Management
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TAMIM Asia Small Companies
Unit Class

It is unusual to experience a double-digit percentage decline in share market indices during a single month; such a decline doesn't compromise the ability to achieve the long-term returns we expect to achieve. It is natural to be disappointed by such a month, however, performance cannot be judged over a period of 31 days. The compound return of Asia small companies over ten years to the end of October 2018 was 9.45% per annum in USD terms. That return achieved over a decade has included several bouts of extreme market volatility, much higher than the volatility experienced in October 2018, none of which have compromised the ability of smaller companies in the region to deliver strong overall returns.

The sharp downward move in global markets in October started with declines recorded in the United States which became amplified in Asian markets, Korea fell 19.7% in USD terms closely followed by Taiwan down 14.1%, Hong Kong/China markets fell in excess of 10%, Japan 9.7% and Singapore 7.1%. With such widespread declines in markets our portfolio fell accordingly, with 67 of our 70 holdings declining in value and just 3 companies recorded unchanged or increased values for the month.

Our worst performing company, Korean clothing manufacturer F&F fell 38% on no news whatsoever, the shares had run up sharply in the previous four months and that sharp decline saw the shares reverting to their May 2018 levels. The F&F business has grown rapidly by becoming a major supplier to Tesco PLC, that relationship which began in the year 2000 in the UK has developed to 600 stores across Central Europe and 150 outlets in Asia. The business trades on a P/E of 11x, return on equity of 28% with sales growth of 28%, this is a strong company and we continue to hold the shares.

Fears associated with an increase of trade tensions between the United States and China especially and North Asia more generally was a catalyst for the sell off. It was noticeable that positive sentiment following the phone call between President Trump and President Xi Jinping regarding a possible trade deal between the United States and China resulted in sharply increased prices in the first two trading days of November. In two trading days the index rebounded 2.8% in USD terms and eight of our portfolio companies recording increases in excess of 10%.

These market sentiment driven price movements don't reflect our observations regarding the underlying companies. In the past month we have downgraded one of our Hong Kong listed Chinese companies Yuzhou Properties due to a corporate governance related matter, not acting in the interests of minority shareholders and we have sold our position.

There is a general trend towards strong profit numbers being reported, in the past month we have seen interim reports for Kerry Logistics with earnings per share(eps) up 21.7%, Shenzhen International Holdings eps up 30.4%, Sinopharm Group eps up 15.4% and Lonking Holdings eps up 33.3%.

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. Long-term returns will be generated by the ability of our companies to deliver growing profits and dividends not short-term reversals in market sentiment. We expect to look back at October 2018 as a period of market "noise" and not the key component of our investment returns achieved from the region.

LESSO 联塑
CHINA LESSO GROUP HOLDINGS LIMITED
中國聯塑集團控股有限公司

China Lesso Group Holdings Limited (China Lesso), an investment holding company, manufactures and sells building materials and interior decoration products in the People's Republic of China and internationally. The company primarily offers plastic pipes and pipe fittings, sanitary ware products, integrated kitchens, systems of doors and windows, decorative plates, fire-fighting equipment, sanitary materials, etc. for use in the fields of interior decoration, water supply, drainage, power supply and telecommunications, gas transmission, agriculture, floor heating, and fire services. It offers its products primarily to independent distributors, civil contractors, property developers, utility companies, and municipalities. The company was formerly known as China Liansu Group Holdings Limited and changed its name to China Lesso Group Holdings Limited in May 2013. China Lesso Group Holdings Limited is headquartered in Foshan, the People's Republic of China.

Accounting, Strategy and Governance Comments

Accounting

1 - Ernst & Young (EY) audit the accounts, use of a big name accounting firm is a positive.

2 - Unqualified accounts over all time periods, no issues raised by EY.

3 - Full compliance with the Hong Kong accounting standards.

Strategy

1 - China Lesso has 22 production facilities across 16 provinces in China. The gives the company a competitive advantage in the urbanization of Central China. In the interim results to 30 June 2018 revenue growth generated in the Central China region was 40.5%, the fastest growth rate recorded for any of the regions. Sales from the Central China region now account for 12% of total sales, this percentage is expected to continue an upward trend. The "core" market of Southern China is showing revenue growth of 9.5% and accounts for 55% of total sales.

2 - Sales are largely generated through 2,172 exclusive distributors which provides a secure distribution platform. The interim result showed revenue growth of 16.4% and earnings per share growth of 9.7%. The company won multiple brand awards in 2018 which underpins demand from additional exclusive distributors to join the China Lesso network.

3 - Government measures to reduce water pollution is providing a demand stimulus for replacement pipelines. Total investment of RMB 4.6 trillion (USD 665 billion) is planned for pollution control in the next five years. Demand for pipes is split across new water supply (23%), new urban rainwater pipelines (28%), centralized heating network (10%), new gas pipelines (33%) drainage and replacement of old pipelines (6%).

4 - Plastic pipes account for 90% of sales, given to level of ongoing demand for plastic pipes there is no need to aggressively pursue diversification opportunities. The company has a limited international programme and expansion into aluminium products. Production of plastic pipes

and fittings will rise to 2.53 million tonnes in 2018 from 2.4 million tonnes in 2017 with capacity utilization of 83%. The company has been building a portfolio of international investment properties in the United States, Canada, Australia and Thailand.

5 - The balance sheet is geared, 44% debt to total capital, the debt is largely denominated in USD at rates between 2.83% and 5.32%. Interest cover in excess of 10x is comfortable and the gearing is consistent with the demand profile and strategy of the business.

Governance

1 - Full compliance with the Hong Kong governance standards.

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

3 - The company has adopted the Model Code for securities transactions by Directors. The Chairman Wong Luen Hei and his wife Zuo Xiaoping together control 2,124,793,000 shares equivalent to 68.49% of the share capital. The Chairman has been active buying shares in the Hong Kong market, all transactions have been fully disclosed in the appropriate manner and timing.

Location of China Lesso Production Facilities

Source: China Lesso Interim Report 2018

Conclusion

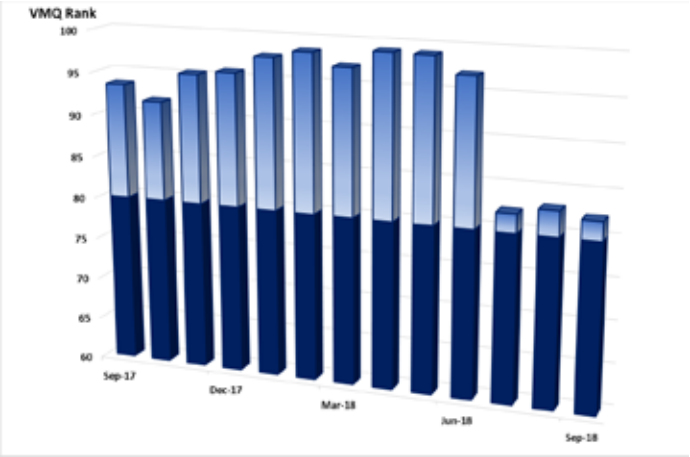
China Lesso meets our standards for accounting, strategy and governance. China Lesso has a strategy directed towards the development of China, the company has a strong home market in Southern China and is well placed to benefit from urbanization of the interior of China and major infrastructure projects funded by local government bodies and the national government.

Value, Momentum and Quality Comments

1 - Our VMQ score has fallen from top decile to top quintile. The company offers close to the best value available in the market and quality score is top quartile. Momentum has fallen away in recent months, in line with general market sentiment, no specific negative stock news, so we are happy to maintain positions.

2 - There are seven analysts actively covering this stock, all have buy ratings and the median target price is 80% above current levels. Consensus earnings growth remains in double digit percentage growth in 2019 and 2020.

3 - Return on capital employed in excess of 15% helps to underpin strength in the score for quality.



Overview

The TAMIM Fund Asia Small Companies unit class is an Australian unit trust which 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

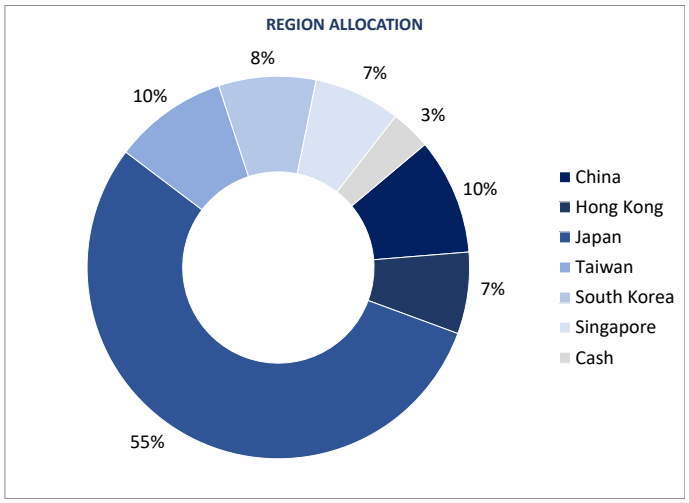
	1m	3m	6m	9m	1y	Since inception
TAMIM Asia Small Comp.	-8.65%	-	-	-	-	-8.65%
MSCI AC Asia SMID	-8.61%	-	-	-	-	-8.61%

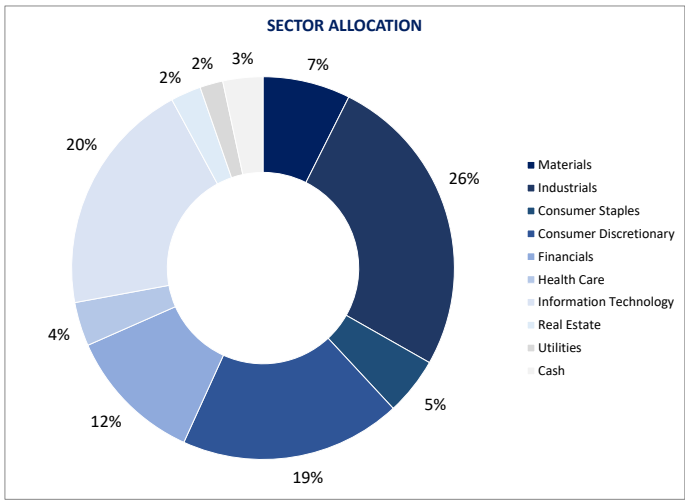
Note: Returns are quoted net of fees and assume distributions are reinvested. Past performance is no guarantee of future performance. MSCI AC Asia SMID refers to the MSCI AC Asia Small & Mid Cap Index in AUD.

NAV

	Buy Price	Mid Price	Redemption Price
AU$	$7.3311	$7.3092	$7.2873

Portfolio Profile





Contact

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