Global High Conviction Unit Class
TAMIM Fund

At 31 March 2023

The Tamim Global High Conviction unit class was up 3.30% for the month of March 2023, this was in comparison to the index return of 3.80%. Pleasingly the strategy has generated a retun of 6.70% over the past year in what has been a difficult environment. Since the inception of the strategy it has returned 13.07% p.a. net of fees to investors.

Global equity markets rose during a volatile first quarter of 2023. The flow of funds towards riskier segments of the market indicated a cooling of recession fears despite tightening monetary conditions. The S&P Global BMI rose c.2% in March and rose almost 8% in US$ terms in the quarter. The A$ weakened a little. We remain unhedged. Growth outperformed Value by a large amount. As is typical in periods of severe credit contractions, the banking sector was the conduit for and victim of the sell off.

Silicon Valley Bank and Credit Suisse captured the headlines as the former was declared bankrupt with the FDIC taking charge, and the latter was forcibly purchased by UBS as a going concern, as the Swiss authorities decided to cauterise the steady decline in share price and outflow of deposits at CS.

Communication from the US Treasury regarding deposit insurance for the banking system was confused and confusing. The Swiss did a better job although the forced liquidation at zero value of the c. $17bn in CS AT1 bonds caused a complaint or two until the small print was studied. The UK and Euro area authorities consequently made a strong statement regarding the seniority of bonds to equities under their legal structure. The Swiss may have done Euro area bank investors a favour by forcing a clear statement regarding support in the case of deposit flight/write-downs. Based on the CDS for Deutsche Bank as we write this, the resolve of the ECB may well be tested.

We wrote a memo on behalf of the US Fed last month https://www.tamim.com.au/markets/a-fictitious-memo-on-svb-from-the-fed-wishful-thinking and note that the 'Bagehot playbook' has been sort of, implemented here by the Swiss.

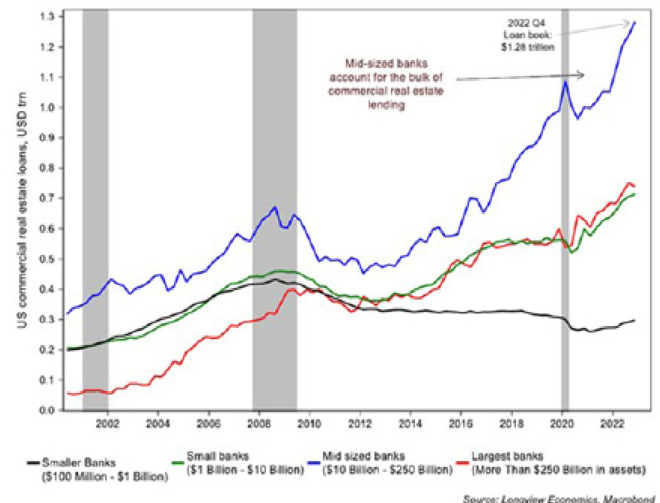
UBS looks to have been forced into a purchase of Credit-Suisse, but cost cutting is likely and there is a global franchise in fund management to be created between them.

The US Fed and Treasury have yet to provide a clear statement regarding the extent of support over and above the FDIC deposit guarantee of $250,000, although the remnants of SVB have already been purchased by First Citizens BancShares (FCNBC). At a discount to prior asset value this seems a standard high yield/junk write-down. Both they and the FDIC will share in any losses and gains on SVB commercial loans from the written down value. This seems elegant and fair but the ascent of the FCNBC share price tells us that some investors think they got a bargain.

FCNBC now have over $200bn in assets. Three years ago, they had $40bn in assets. Let's see if they have the systems and people to cope.

The issue now for US bank investors is whether banks below $250bn (the systemically important number) in assets are going to be encouraged to merge or whether the largest banks are going to be "persuaded" to prop up the system with bids for any subsequent failures or encouraged to break apart into risky and less risky activities as per our UBS comment above. We think the former more likely.

Incipient problems are now clear in commercial real estate where the US office vacancy rate is approaching 20% and the price of the mortgage-backed securities as represented by the CMBX contract are trading 30% below par. The 30% number represents the typical loss in a high yield instrument. Reality is setting in.



Elsewhere the Chinese and Saudis reminded everyone of the inefficiency and excessive cost of renewable energy in the West by striking a deal whereby Aramco ships oil to China and invests in two Chinese oil refining businesses. Perhaps some of the oil will be purchased in Rmb which would raise an interesting question about the $US?

Other positive developments in China were the apparent thawing between Jack Ma and the CCP such that Alibaba will be allowed to split to create value. The shares rose over 13% in March.

The challenge is now to position portfolios to avoid the elevated chance of 'blow-ups', regulatory change and duration risk where the intentions of central banks as regards interest rate policy are now more opaque. Asset write-downs are likely to hurt consumption and thus economic momentum and earnings. Favour companies that meet needs over wants for the moment. This is essentially because there is no trade-off between sound money and a sound banking system. The San Francisco Fed published a report recently in which they showed how monetary incontinence leads to banking crashes. In other words, a period of higher interest rates is required to SAVE the banking system from further troubles. Not all will make it.

Global Equities

The global equity portfolios are very underweight banks and financial stocks. We do see significant weakness in certain banks as an opportunity and are looking at regional US banks and larger Europeans closely. Our focus will be on liquidity and quality of the deposit base rather than capital structure or tier ratios. The banking shares that fell the most were the ones with the mismatch in duration and liquidity between assets and liabilities. The capital ratios seemed fine and had passed stress tests so using those as a guide wasn't helpful.

We own Regions Financial, UBS (a purchase on the panic surrounding CS) and find Fifth Third and Truist the most interesting not the least because of their geographical strength in the robust SE USA.

The global strategies added a little to Regions Financial in late March and purchased more Applied Materials and Teradyne, two attractive semi-conductor stocks.

In a very volatile month, the Japanese technology companies Shin-Etsu Chemical and Hoya rose strongly as did Intel which was buoyed by promises of money from the Chips Act in the USA. We view the Japanese technology sector as very attractive – cheap with a strong likelihood of increased orders as companies look to strengthen semi-conductor supply chains.

Alphabet (NASDAQ: GOOG)

Large technology names have dominated the investment headlines in recent years, and with good reason. Facebook, Apple, Amazon, Netflix and Google are widely regarded as some of the best businesses in the post-industrial era, with enormous network effects and economies of scale, impressive revenue growth, and fortress balance sheets. While it's tempting to look for complex, out-of-the-way situations to generate outsized investment returns, sometimes keeping it simple is the right approach and the best investment ideas are in fact right in front of you – as the saying goes, in investing you don't get paid for complexity.

Alphabet (NASDAQ: GOOG), named as a pun about investment returns above a benchmark ('alpha-bet') was founded in 2015, and is best known as the holding company that houses the Google search engine. As you likely know, Google dominates the online search market. As at March 2023, it captured approximately 85% market share, compared to 9% and 3% for Bing and Yahoo! respectively (according to Statista). Online search is also a hugely profitable business. It is getting more mature though, and Google's extremely high market share does mean that the company's growth rate is likely to slow in coming years. This is where Alphabet's other businesses come in. YouTube is riding the wave of people consuming an ever-greater amount of video content, both professional- and creator-produced. Google Cloud offers infrastructure, platform and other services to businesses, along with cloud-based collaboration tools such as Gmail and Google Docs. It's the third-largest cloud services provider behind Microsoft Azure and Amazon Web Services, but it's growing at a rapid pace. Let's not forget the Company's device business, which includes the likes of the Pixel, Fitbit (acquired in 2021) and the associated Play application store. Finally, there is 'Other Bets' – Alphabet's venture capital and private equity operations, home to emerging companies at various stages of development including Waymo, X and GV. While currently unprofitable, Other Bets is targeting big innovative areas of the economy including health, autonomous driving, and technology.

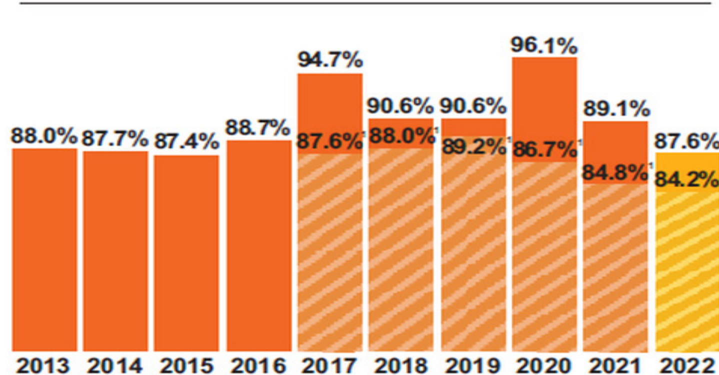
On 2 February, Alphabet reported its financial results for both the full-year and fourth quarter of 2022. Revenue for the full year came in at US$282 billion, a 10% increase over the prior year 2021 [or 14% excluding the effects of foreign currency, as the increase in the U.S. Dollar (USD) decreased the value of international revenue translated back to its USD financials]. The currency effect was even greater in Q4, where revenue increased only 1% to US$76 billion but 7% on a constant currency basis. Inside this 1% number, Google Advertising (the biggest division that includes both Search and YouTube) declined 3.6%, an unusual but unsurprising result after a couple of blockbuster years during the pandemic. Google Cloud revenue increased 32% to $7.3 billion for the quarter, a growth rate that shows great momentum in the business and outpaced both its major competitors. Other Bets revenue also grew from US$181 million to US$226 million, although this still remains a drop in the ocean compared to US$76 billion in quarterly sales.

Expenses have been a hot topic over the past 12 months, and Alphabet's total operating expenses expanded 8.2% to US$57.8 billion, due to higher cost of revenues and higher research and development (R&D) expenses in the quarter. R&D increased due to the Company's artificial intelligence (AI) efforts, which are a 'strategic priority' for Alphabet and have been consistently called out by Alphabet CEO Sundar Pichai over the last several years (and even more recently with the launch of Bard to combat the highly-publicised ChatGPT developed by OpenAI). This meant that operating profit decreased to US$18.1 billion, from US$21.8 billion and

With a weakening macroeconomy and revenue growth slowing after a strong period during the pandemic, Alphabet (like many other large tech companies) is looking to reduce expenses and announced 12,000 layoffs. This has been welcomed by most investors given the increase in expenses in recent years and should provide an opportunity to significantly increase profitability going forward, as the company continues to deliver new advertising solutions, YouTube and Cloud achieve standalone profitability, and Other Bets either achieve scale or are sold/closed down.

Chubb (NYSE: CB)

While insurance isn't known for being stimulating or sexy, there are a number of quality insurers in the U.S. that have delivered heart-throbbing returns over the years. One such company is insurance stalwart Chubb (NYSE: CB). Operating in 54 countries and territories and employing 34,000 people worldwide, Chubb is the world's largest publicly-traded property and casualty (P&C) insurer. It provides a range of insurance products, including commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance, and life insurance. Approximately 62% of the Company's business comes from the U.S., with 14% from Europe, Middle East and Africa (EMEA), 12% in Asia (including Australia), 6% Latin America, and the remaining 6% from Bermuda and Canada. For customers, It is known as a reliable and well-funded company with exceptional credit ratings from each of the credit rating agencies (AA from S&P, Aa3 Moody's and A++ from insurance rating agency AM Best), and for providing prompt and fair payment of claims. For investors, Chubb is known as being a consistently profitable business with disciplined insurance underwriting, generating an average combined ratio of 90.8% over the past 5 years, and less than 100% in each of the past 10 years (The combined ratio is a commonly reported insurance metric which represents the profit on insurance underwriting relative to 100%. A combined ratio under 100% represents a profit, and over 100% indicates a loss).



Chubb reported its fourth quarter and full year 2022 financial results on February 1. Net premiums written increased 10.3% to $41.8 billion for 2022, or 13.0% excluding the impact of the strong U.S. Dollar, which reached a 20-year high in September (net premiums written are the total insurance policies written during the period, after deducting those that are 'ceded' to a reinsurer, meaning the risk is transferred). Q4 results were even stronger, with net written premiums up 11.9% to $10.2 billion, or 16.0% excluding currency effects. This was boosted by the acquisition of the Cigna Asian business during Q3, which led to a 92.0% increase (100.8% in constant dollars) in life insurance premiums in Q4.

Profitability was again a highlight for Chubb, with the combined ratio coming in at 87.6% for 2022 versus 89.1% in 2021, and 88.0% for Q4. Chubb, like most insurers, also provides certain adjusted (or 'but for') numbers that exclude the effects of various 'one-off' events such as natural catastrophes, but which are arguably part of the cost of doing business as an insurance company. One of the few beneficiaries of higher interest rates, net investment income was a record in both Q4 (rising 23.6% to $1.12 billion) and the 2022 full year (up 8.2% to $4.02 billion). One of the few minor blemishes was a $107 million underwriting loss in the North American Agriculture division. This is unlikely to be the cause of the share price fall on the day, though, which is more likely the result of commentary on the earnings call regarding a moderating in insurance pricing. Insurance has been in a hard market for several years (meaning that prices have been rising), and this a key focus for investors. Given higher inflation and increased catastrophe losses though, most insurers seem intent on higher prices at least in the short term, which should bode well for insurance companies such as Chubb.

Global High Conviction Unit Class
TAMIM Fund

At 31 March 2023

Overview

The TAMIM Global High Conviction strategy is a portfolio of global equities from major developed global exchanges. The portfolio holds approximately 60 of the best ideas from around the globe. The portfolio uses a systematic and consistent approach to stock selection and portfolio construction to deliver strong risk adjusted returns to our clients while focusing on attempting to preserve their wealth.

Key Facts

Investment Structure:	Unlisted Unit Trust
Minimum investment:	A$100,000
Management fee:	1.00% p.a.
Admin & expense recovery fee:	Up to 0.35%
Performance fee:	20% of performance in excess of hurdle
Hurdle:	MSCI World Net Total Return Index
Exit fee:	Nil
Single security limit:	+/- 5% relative to Benchmark
Country/Sector limit:	+/- 10% relative to Benchmark
Target number of holdings:	50-80
Portfolio turnover:	Typically < 25% p.a.
Investable universe:	MSCI World Net Total Return Index
Cash level (typical):	0-100% (0-10%)
APIR code:	CTS5590AU

NAV

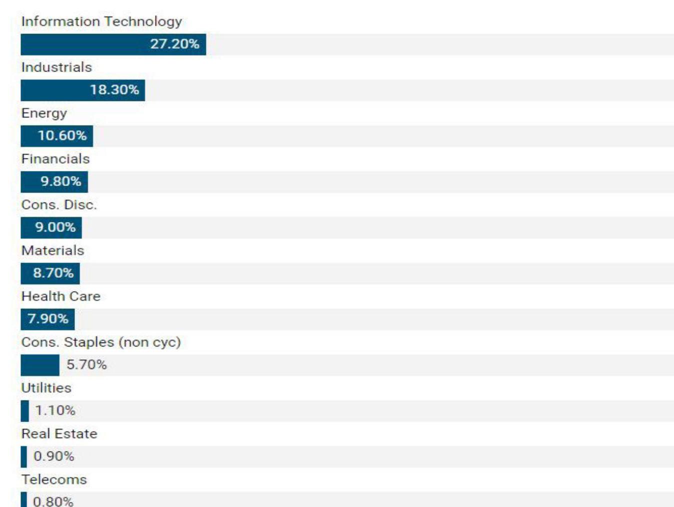
	Buy Price	Mid Price	Redemption Price
AU$	$1.1947	$1.1917	$1.1887

Selection of 5 Holdings

Stock	Country
Johnson & Johnson	USA
Home Depot Inc	USA
KLA Corporation	USA
Fujifilm Holdings Corporation	Japan
Sony Corporation	Japan

Portfolio Profile

Equities	98.50%
Cash	1.50%



Portfolio Performance

Inception: 15/07/2011	1 month	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (p.a.)	Since inception (total)
Global High Conviction	3.30%	6.70%	10.99%	8.28%	13.07%	321.45%
MSCI World	3.80%	4.25%	12.96%	10.98%	13.22%	327.84%
Cash	0.30%	2.11%	0.79%	0.96%	1.87%	24.21%

Strategy inception: 15/07/2011 | TAMIM Fund: Global High Conviction unit class inception: 31 December 2019

Returns prior to 31 December 2019 reflect the Individually Managed Account (IMA) underlying portfolio returns. IMA returns reflect a higher fee structure. Individually Managed Account (IMA) returns will, by their nature, vary from the underlying portfolio and TAMIM Fund portfolio. Should you wish to see your individual return, please log in to your account online. Returns are quoted net of fees and assume dividends/distributions are reinvested. Past performance is no guarantee of future performance. The information provided should not be considered financial or investment advice and is general information intended only for wholesale clients (as defined in the Corporations Act). The information presented does not take into account the investment objectives, financial situation and advisory needs of any particular person nor does the information provided constitute investment advice. Under no circumstances should investments be based solely on the information herein. You should seek personal financial advice before making any financial or investment decisions. The value of an investment may rise or fall with the changes in the market. Past performance is no guarantee of future returns. Investment returns are not guaranteed as all investments carry risk. This statement relates to any claims made regarding past performance of any Tamim (or associated companies) products. Tamim does not guarantee the accuracy of any information in this document, including information provided by third parties. Information can change without notice and Tamim will endeavour to update this document as soon as practicable after changes. Tamim Funds Management Pty Limited and CTSP Funds Management Pty Ltd trading as Tamim Asset Management and its related entities do not accept responsibility for any inaccuracy or any actions taken in reliance upon this advice. All information provided in this document is correct at the time of writing and is subject to change due to changes in legislation. Please contact Tamim if you wish to confirm the currency of any information in the document. The MSCI Word refers to the MSCI World Index in AUD. Returns shown for longer than 1 year (other than Inception) are annualised. All returns shown are AUD denominated.