Global High Conviction Unit Class
TAMIM Fund

At 29 February 2024

The TAMIM Global High Conviction unit class was up 5.38% for the month of February 2024, this was in comparison to the index return of 5.82%. The strategy has generated a return of 24.60% over the past 12 months. Since the inception of the strategy it has returned 13.74% p.a. net of fees to investors.

Keep on Truckin'?

February was another very strong month for risk assets, with many major world equity indices hitting fresh record highs. That included the S&P 500, which surpassed the 5,000 mark for the first time, as well as the Nikkei, which surpassed its previous record from 1989. In part, that was because of continued excitement around AI. The S&P 500 (+5.3%) and the STOXX 600 (Europe) (+2.0%) both rose but Asian indices saw the largest gains, with the Nikkei up +8.0%, and the Shanghai Comp (+8.1%) had its best monthly performance since November 2022. The narrowness of equity market returns in Europe and the USA should be a source of concern not celebration. The USA effect of the “Magnificent 7” or “Significant 6” is well known but perhaps the fact that 10 European stocks account for 20%+ of the Stoxx 600 not so much?

With inflation still above target and surprising on the upside in the US, investors pushed out the timing of future rate cuts, and sovereign bonds lost further ground. Sovereign bond yields rose further, and US Treasuries (-1.4%) posted their worst monthly performance since September. Similarly in the Euro Area, investors reduced the expected cuts by December from 160bps to 91bps, and Euro sovereign bonds fell -1.2%. In Japan, expectations grew that the BoJ might end the negative interest rate policy as early as April and yields on 2yr JGBs were up +9.7bps to 0.17%, marking their highest level since 2011. In addition, US regional banks continued to struggle, as investor concerns persisted about commercial real estate. Current transaction prices in CRE indicate ‘marks’ should be at least 30% lower in Commercial segments. US regional banks lost further ground, with the KBW Regional Banking Index down another -2.8%, bringing its YTD decline to -9.5%.

Our base case scenario is that inflation remains above target but rhetoric from central banks remains “committed to seeing it fall back on average”. his is because further rate rises to quell inflation are politically impossible given that debt servicing outlays are rising above spending on critical areas such as US Defense.

The likelihood of a Trump presidency will also mean further fiscal pressure on Europe as NATO members there are “persuaded” to bring defence spending up to agreed levels. None of this looks good for sovereign bonds. US fiscal spending is as if they are at war and thus our worst case is capital controls to force the purchase of debt as you see in time of war.

For the moment however it’s a party and we’re all trying to pretend that we’re not Chuck Prince. This image best describes the mood?

Global data is still robust and hopes for a soft landing continued. Even poor data doesn’t prevent a rally and the China and HK markets rose strongly even as the Chinese growth model crumbles. We added to HK/China by investing in Swire Pacific.

AI remains the only game in town (although it isn’t – see below), and while we wonder what happened to the euphoria surrounding block chain, the Magnificent 7 were up +12.1% in total return terms, which was their best monthly performance since May 2023, and Nvidia surged by a further +28.6%, which followed their strong earnings release towards the end of the month.

Holdings in Ebara, Emcor and AMAT rose c.39%, 36% and 26% respectively and the Infrastructure strategy outperformed (actually to an alarming degree and so we’ll be reducing active risk shortly) helped by holdings in industrial infrastructure stocks such as Sterling Infrastructure (+c.45%) and nuclear power utility Constellation Energy (+c.45%).

Like we said it doesn’t have to be all about Nvidia. Next time unless anything untoward happens we’ll posit the best way to hedge the US election and any change in policies.

Portfolio Highlights:

Lam Research Corp (NASDAQ.LRCX)

Lam Research is a global supplier of semiconductor equipment. Machines are sold to foundries and device manufacturers where chips are fabricated and then integrated into products such as automobiles, computers and smartphones. Over the years, Lam Research has ridden the coattails of several technology cycles namely personal computing, the internet, smartphones and cloud adoption. The next wave of growth will be underpinned by AI. Deep learning models, such as ChatGPT, require significant computational power to train, store and deliver algorithms. Compared to an enterprise-level server, an AI server requires around eight times the memory, three times more data storage and four times more silicon. As chief financial officer Doug Bettinger puts it, “You need a lot more equipment to generate that level of output.”

As AI becomes more pervasive, there will be a corresponding increase in demand for energy-efficient and high-performing infrastructure. Data centers will be fitted with the latest GPUs and TPUs to disseminate AI applications globally. Moreover, edge applications will be upgraded to support image, text and speech generation.

While Lam Research competes with other equipment manufacturers, the industry has consolidated around a handful of key players. High barriers to entry, regarding both financial resources and intellectual property, limit new entrants and result in a rational market structure. The company sells machines for approximately double what it costs to produce and earns 30% operating profit margins. Admittedly, near-term demand for semiconductor equipment remains tepid after significant pandemic-driven growth. What gives us confidence is the longer-term opportunity. The semiconductor market is expected to grow at 7% per year and by 2030 represent a $1 trillion revenue pie.

KLA Corporation (NASDAQ.KLAC)

KLA is the global leader in testing equipment for the electronics industry and chipmakers. The comprehensive portfolio of inspection, metrology and software solutions assists manufacturers to identify and address defects or variations in chip performance. The end result is improved chip yields and lower costs therefore maximising earnings for chipmakers.

KLA has over 50% market share of the process control market and is number one in seven out of the nine submarkets it serves. The company’s dominant position enables high returns on capital and robust profit margins in excess of 30%. KLA has a long history of shareholder returns, with the dividend increasing 15% per year since 2006. Moreover, KLA has repurchased over US$8 billion of stock in the past five years.

The importance of testing should not be underestimated, especially as AI use cases proliferate. A single advanced logic chip used to support AI workloads takes more than a month to build and over 1,000 separate steps. If every step had a 99.5% yield, less than 1% of chips would pass testing. Production occurs at the nanometer (0.000001mm) scale and should just one of the six trillion transistors fail, this could render a wafer useless.

Beyond AI, testing equipment, and more broadly semiconductors, are becoming a strategic asset for nations. The US, via the CHIPS Act, is rapidly onshoring production and domestic capabilities as a matter of national security. China, KLA’s largest customer representing 41% of revenues, spends as much on oil as it does chips. The arms race for semiconductors is a fine balance for KLA, one that it has so far navigated judiciously. Export controls by the US on advanced semiconductor equipment have been largely digested. And the recent cyclical low in equipment demand has been used to position the business for the next cycle spurred by AI.

Canon Inc (TSE.7751)

Canon is a hardware technology company. The business is best known for its professional cameras but also sells commercial printers, medical imaging machines and semiconductor lithography equipment. Lithography equipment has historically been the exclusive domain of competitor ASML, however, these machines are costly (US$150 million each) and subject to long delivery lead times. Canon hopes to gain a foothold in less complex lithography applications via its recently launched nanoimprint equipment. The technology uses 90% less power and sells for a fraction of ASML's extreme ultraviolet machines. While today representing a small percentage of Canon's overall revenue and earnings, there is a sizable opportunity for the business to capture should nanoimprint gain traction.

Despite the Nikkei 225 hitting an all-time high, we remain bullish on the Japanese market going forward. Corporate governance has shifted markedly in recent years in favour of shareholders. Companies are reducing crossholdings and returning excess cash to shareholders. In the case of Canon, the business has nearly doubled its dividend since 2020. Moreover, Canon announced a share buyback and plans to increase returns on capital to above 10% or higher in 2025. Management guided for a 16% increase in profit off a sales increase of just 4%, owing to a reduced fixed cost base and a normalisation of input costs. Based on those numbers, the business trades on an earnings multiple of 20 and a 3.3% dividend yield.

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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

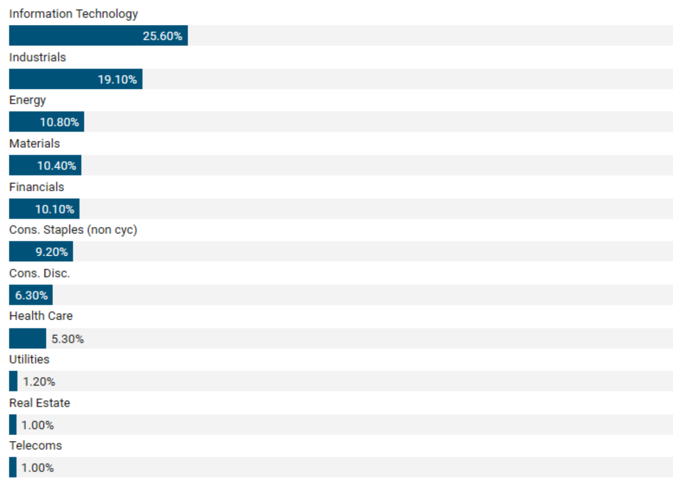
	Buy Price	Mid Price	Redemption Price
AU$	$1.4298	$1.4263	$1.4227

Selection of 5 Holdings

Stock	Country
Johnson & Johnson	USA
Emcor	USA
KLA Corporation	USA
Fujifilm Holdings Corporation	Japan
Sony Corporation	Japan

Portfolio Profile

Equities	99.70%
Cash	0.30%



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	5.38%	24.60%	13.06%	11.34%	13.74%	408.34%
MSCI World	5.82%	29.41%	15.10%	13.65%	14.18%	433.41%
Cash	0.36%	4.08%	1.99%	1.43%	2.03%	28.90%

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.