Global High Conviction Unit Class
TAMIM Fund

At 31 January 2024

The TAMIM Global High Conviction unit class was up 5.22% for the month of January 2024, this was in comparison to the index return of 4.46%. The strategy has generated a return of 18.60% over the past 12 months. Since the inception of the strategy it has returned 13.36% p.a. net of fees to investors.

A Debt Reckoning?

Equity markets were more subdued in January than the back end of 2023 although in A$ the global indices rose 3-4% as the A$ declined. Large beat small and Tech won again although Tesla (not owned in this portfolio) declined almost 25%. Growth beat Value. In a rotation that we have been backing for a few months now, the indebted US Real Estate sector fell almost 5% in US$ and the boring but stable Telecom sector rose by approximately the same amount. The US Markets' earnings growth is currently driven almost solely by tech stocks so the increasing concentration in these companies is logical, or worrying and illogical, depending on how you think about the principles of capitalism and a long standing 'reversion to the mean' effect in markets and economies. Trees don't grow to the sky

We see the US fiscal funding deficit now requiring over $10 trillion of paper sales/Treasury auctions this year. Not all of this spending is bad of course and we're delighted to see the power transmission grid now getting the attention it needs. Our investments in Quanta, EMCOR, Atkore and so on have proved remunerative. More to come we think. On the other hand, at some point this profligacy will cause a reckoning because debt servicing costs will begin to grow larger than defense spending and other essential programmes.

Meanwhile, rather than grow export earnings to help pay for fiscal programmes at home, and improve the geopolitical situation, the Biden Energy Department announced a likely new export permit ban on LNG exports. This can only be described as "misguided" and probably borders on irresponsible. It stymies trust in making the long-term capital investment required given the length and cost of these projects and also increases European reliance on more volatile sources of energy. Oh well. Not long to go now and we'll have a more stable set of decision-making processes in the White House (sic).

The long-term Chinese residential and US commercial property excesses are now front-page news but that doesn't mean their parlous position is discounted by equity or bond holders. US Regional US banks got smacked a week or so ago (The KBW Regional Banking index fell 6% on Jan 31st) and New York Community Bank fell 38% and as we surmised, this was possibly behind the apparent U turn in Fed Chair Powell's rhetoric in December?

The data do not indicate a weakening US economy, so the statement by Chair Powell appears strange unless something is worrying the Fed which markets do not wish to address, or do not yet see? If so, our guess would be that it's the regulatory capital buffers and balance sheets of mid and small banks which alarm policy makers. These are/were burdened both with carrying value losses on bond holdings and a deteriorating commercial real estate market.

Chinese property company Evergrande got declared insolvent which will put pressure on that financial system and perhaps demand for building materials. The liquidator may find viable buyers who can complete projects. Other residential development companies such as Country Garden remain in trouble. Estimates range up to an excess supply in China of c.50m apartments, enough for c.150 m people, or 5 years of supply. That will be precisely wrong but approximately right. If ever a country needs to embrace private enterprise again, and quickly, it's China....We sold the last remnant of Ping An which was an investment mistake by dint of hanging in too long.

Europe just avoids recession, but companies are struggling with debt loads. European companies and banks are not immune from the debt reckoning. Signa an Austrian property company finally went under, and apparently Korean and Hong Kong pension fund companies have exposure. Julius Baer will try to exit private debt as a consequence of reputational and monetary losses from its involvement with Signa. Private Credit has seen a stellar growth in allocations. The butterfly flapping its wings in China, or the USA has consequences in Europe and maybe Australia? Just saying that locking up your money is to lose flexibility and that risk is not price volatility.

So, although early, here's how 2024 looks; and it's a veritable conundrum – rates at even these levels are causing pain to shareholders and investors in industries and companies which have way too much debt and were only viable by ZIRP. So, rates can and should fall right, because we're going to see a slowdown and we've always been bailed? On the other hand, US fiscal profligacy is creating (low level) jobs and strong demand in an economy being denied supply side benefits of capital investment. To cut rates now would be premature and likely underpin inflation which is only currently falling due to base effects. This is a tough backdrop and volatility is likely to rise. Our stance is to be diversified and to take our tech exposure through true tech companies rather than digital advertising platforms. This means we have a large overweight to Japanese technology and only selective US companies such as KLA, LAM Research and Applied Materials. We also like Quality exposure (one of our main quant factors) and love dividends.

A final word on risk control

Even though we effectively got 2023 entirely wrong – we expected the market to either fall (hence our defensive positioning) or to broaden out in a recovery for all stocks with good balance sheets, defendable margins and inexpensive valuations – and the opposite happened. However, our longer-term performance is sound due to risk control. What has saved our global equity portfolios in the last couple of years is sound risk control which means respect for the external benchmark as a relevant hurdle and the ability to quantify and manage active risk away from that benchmark; viz - No overly concentrated 'bet' against sectors regions or stocks that may jeopardise the whole portfolio. Be the tortoise against the hare!

Portfolio Highlights:

Microsoft Corporation (NASDAQ.MSFT)

Founded by **Bill Gates** and **Paul Allen** in 1975, Microsoft is the world's largest vendor of enterprise software.

The duo believed advancements in microprocessors and software *(hence Micro-soft)* would transform the world, and subsequently began writing code for the first personal computers. This ultimately became the operating system we know today as Windows.

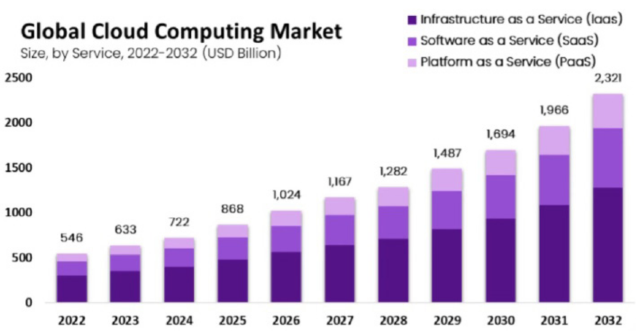
Concurrently, Microsoft developed a suite of productivity tools, including **Word, Excel** and **PowerPoint**, that became ubiquitous in schools, workplaces and homes across the world. The proliferation of the internet then meant customers demanded access to the software online. This transition culminated in the creation of **Azure**, a platform for enterprises to manage workloads, networks and data in the cloud. Over the journey, Microsoft also built and acquired businesses including **Xbox**, **LinkedIn** and **Minecraft.**

Bundle and Conquer
The Productivity and Business Processes division is Microsoft's most profitable segment with a 50% profit margin. The primary driver of earnings is the Office 365 product suite which is licensed to corporates and consumers.

Because the software is already built, revenue from each new license drops to the bottom line. Moreover, margins are protected from new competition by high switching costs. It's an onerous exercise to retain employees and port existing data to a new software suite.

Even after overcoming those two hurdles, there's little commercial incentive. Big corporations can go to Microsoft for all their employee productivity tools for one fee. The alternative is sourcing several tools from multiple vendors for a much higher total cost. When a challenger product gains momentum, Microsoft can quickly create a clone with similar features and add it to the bundle for no extra fee. This is why it's difficult for standalone enterprise software companies to challenge Microsoft's incumbent market share and reach profitability. While market growth is slowing, the division remains a valuable cash cow. Price rises and increased uptake of more products will support earnings growth.

Infrastructure as a Service
Historically, an organisation would manage the hardware for networks and servers internally. However, the sheer increase of data and computing required to operate networks has become burdensome from a financial and human resources perspective.



Source: Appinventiv

Over several years, Microsoft built its own network of data centres and cloud capabilities to be sold to organisations – many of them already existing customers. Lower upfront costs for customers, around-the-clock service and enhanced security made the switch a simple choice for enterprises. The Intelligent Cloud segment is the fastest-growing division at Microsoft with revenues tripling since 2018. Nevertheless, this transition is only partially complete with 50% of data infrastructure remaining on-premise. New competitors are unlikely, owing to the significant amount of capital required to build a network capable of competing with Microsoft. In 2024, Microsoft's capital investment will be around US$45 billion. This is equivalent to what the company sent from 2002 to 2016.

AI Leadership
Artificial intelligence is a term used loosely in the finance arena. However, Microsoft is one of the few companies making strides in this nascent market. This is led by the investment in **ChatGPT**, which is powered by Azure servers. Unlike search engines where the business model is to sell ads, language models sell an answer – a far more compelling proposition for users.

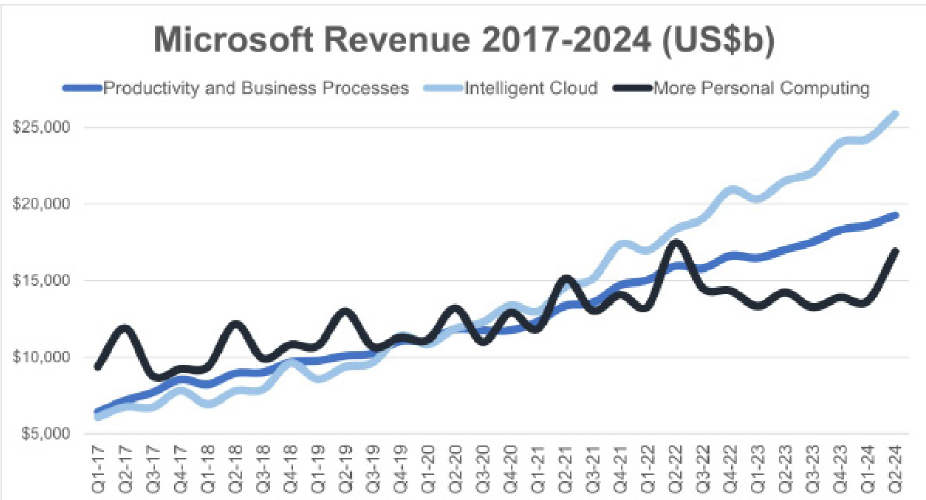
"We've moved from talking about AI to applying AI at scale". – Microsoft CEO Satya Nadella

Microsoft is also rolling out **Copilot**, an extra service on top of the Microsoft Office programs to improve productivity. An employee late to a **Teams** meeting can ask the Copilot to summarise the first 5 minutes of the conversation to avoid disrupting the call. The same tool can then summarise the main points and draft a summary email. It even has a live translation for captains when speaking in different languages. Undoubtedly, Copilot will take time to refine but Microsoft has the pedigree to succeed given it's already created a US$3 trillion business building productivity software.

The Future
This month Microsoft reported an 18% in revenue and a 33% rise in earnings for the December quarter. Both commercial and consumer Office 365 subscribers increased, while the cloud division benefitted from strong demand for data and capacity for artificial intelligence services. The Personal Computing division also grew owing to the recent acquisition of **Activision**.

The result typified Microsoft's attractiveness as an investment; the business operates in markets with large and growing runways, namely enterprise software, cloud networking and artificial intelligence. Profits are redeployed into high-return opportunities and subsequently earnings and shareholder returns compound.

The Microsoft share price has appreciated 55% in the past twelve months, and 291% since 2019. While this level of returns is unlikely to persist, the future remains bright for the world's most valuable company.



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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

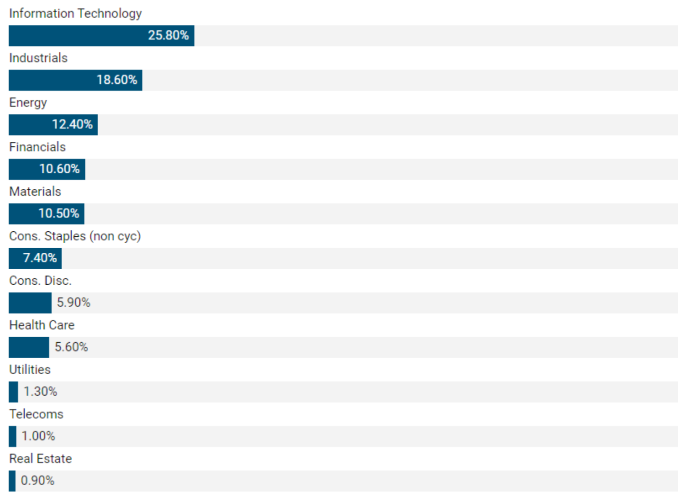
	Buy Price	Mid Price	Redemption Price
AU$	$1.3569	$1.3535	$1.3501

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	5.22%	18.60%	11.91%	11.37%	13.36%	382.40%
MSCI World	4.46%	24.71%	13.56%	13.60%	13.76%	404.05%
Cash	0.36%	4.00%	1.87%	1.38%	2.01%	28.44%

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.