Grant Samuel Tribeca Australian Smaller Companies Fund

GRANT SAMUEL FUNDS MANAGEMENT

Tribeca Investment Partners

MONTHLY FUND UPDATE

31 July 2017

Performance

At 31 July 2017

	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception[1] % pa
Class A Units[2]	(0.06)	0.50	(7.07)	4.81	7.38	6.11
Benchmark[3]	0.34	0.24	(1.09)	5.55	5.77	2.94
Value added	(0.40)	0.26	(5.98)	(0.74)	1.61	3.17

1. Inception date: 5 August 2010
2. Returns are based on end of month redemption prices and calculated after the deduction of ongoing fees and expenses but before tax and assume distributions are reinvested.
3. S&P/ASX Small Ordinaries Accumulation Index

Past performance is provided for illustrative purposes only and is not a guide to future performance.

Fund facts

Top 5 holdings	Portfolio%	Index%[1]
Worleyparsons Limited	3.9	1.4
Cleanaway Waste Management Ltd.	3.8	1.4
Steadfast Group Limited	3.6	1.3
Whitehaven Coal Limited	3.4	1.3
Eclipx Group Ltd.	3.1	0.6

Portfolio characteristics	Portfolio%	Index%[1]
Consumer Discretionary	20.8	21.5
Consumer Staples	8.4	8.8
Energy	8.9	5.9
Financials (ex-Property Trusts)	11.8	8.8
Healthcare	3.6	7.2
Industrials	13.2	9.9
Information Technology	--	6.4
Materials	21.9	16.3
Property Trusts	7.5	12.7
Telecommunications	1.3	1.9
Utilities	--	0.6
Cash	2.6	--
TOTAL[2]	100.0	100.0

[1] S&P/ASX Small Ordinaries Accumulation Index

[2] May not total due to rounding

Commentary

Global equity markets posted strong gains in July, led by emerging markets while the VIX index of volatility fell to the lowest level since 1993. The local market was weighed down by the strength of the currency, with the broad S&P/ASX 200 Accumulation Index closing flat despite outperformance from the large bank and material sectors. The S&P/ASX Small Ordinaries Accumulation eked out a small gain (+0.3%), outperforming largely as a result of less exposure to offshore earnings.

Another US reporting season kicked off in July, with initial results very healthy and characterised by strong 'beats' in both earnings and revenues. Global economic data continued to be supportive of a coordinated upswing as US economic growth rebounded from a soft Q1, while the Eurozone continued to positively surprise and China weakened less than expected on the back of recent tightening in financial conditions. Inflation data again underwhelmed and together with perceived dovish comments from the US Fed, added to doubts about the path of future rate hikes in the US and subsequently weakened the USD. Adding to the AUD strength were comments from the RBA governor around neutral cash rates, interpreted by the market as adopting a more hawkish stance. With regard to portfolio positioning in July, we have not changed our view that the recent softness in inflation should unwind into year end and support further weakness in bonds. On this basis, we retain a slight cyclical tilt to the portfolio and continue to remain disciplined regarding stock valuations that have seen material re-ratings.

Brent crude rebounded on the back of large inventory draws in the US and a tailing off in the US oil rig count, the price rallying 7.60% to US$52.66 a barrel. Iron ore continued to be extremely volatile, recording its 6th double digit swing month in a row. Prices jumped 15.0% to US$73.00 per tonne, as better than feared conditions in China triggered short covering. The A$ continued to ride the commodity tailwind, bouncing 4.1% to US80.03cents. Gold was almost pedestrian in comparison, adding 2.7% to US$1275.3 an ounce and copper rallied 7.4% to US$6347.50 per tonne (US$2.88lb).

Outperforming for the portfolio was Programmed Maintenance (PRG) after the company agreed to a takeover from Japanese conglomerate Persol. This was a very pleasing result particularly given the challenging environment the company has faced across its operations while management has repositioned the business to stabilise earnings and target growth. We plan to accept the takeover offer and there may also be the opportunity to release excess franking credits to shareholders via special dividends. Western Areas (WSA) reported strong quarterly production and net cash balance, together with nickel prices bouncing off multi-year lows as Chinese steel mills restocked. RCR Tomlinson (RCR) continued to announce contract awards in the solar power sector, boosting their FY18 order book. We expect the mining capex cycle to gradually improve after significant underinvestment in recent years, with RCR well placed to participate. Collins Foods (CKF) released its full year results which were slightly better than expectations, together with an equity raising to complete the acquisition of further Australian KFC outlets from parent Yum Brands. CKF is a recently acquired holding for the portfolio which we feel has attractive growth prospects in Australia and Europe and is attractively priced versus the market and international peers. Mineral Resources (MIN) benefitted from the recent rally in iron ore prices, while also demonstrating a strong performance in the mining services division in their recent earnings update. We used the recent weakness in iron prices to accumulate our MIN holding, where we hold management in high regard given their long-term track record of value creation and the attractive current valuation.

Detracting from performance during the month was Aveo Group (AOG), where the fallout from an unfavourable journalist investigation in print and TV media in relation to some of their retirement village offerings continued. Follow up press articles have ensued with little new revelations (in our view), while various bodies have indicated they would conduct reviews into the retirement sector. The retirement sector is subject to governmental legislation however receives little to no direct funding and is largely run by private and charitable organisations. We anticipate AOG is in compliance with all relevant regulations however any brand impact from the recent press coverage will take time to become evident. The company now trades at a significant discount to NTA. Oceana Gold (OGC) revised guidance for its US Haile gold mine ramp-up during the previous month, noting additional time and capex were required to get to nameplate capacity. While this was offset through better results at other operations and overall guidance for FY17 was maintained, the stock remained under pressure. Management credibility, previously seen as a strength, has been dented and will take time to recover (and we believe it will). Nufarm Ltd (NUF) underperformed on weather concerns through some of it major markets together with feedback that the volatile Argentinian market has been particularly difficult. We believe the concerns are overdone and we believe the business has been more resilient than anticipated, the fact we had recently taken some profit has afforded us room to buy at the relatively attractive prices currently on offer. A2 Milk (A2M – not held) provided a trading update that was marginally ahead of market forecasts during the previous month and momentum continued in July. Our strategic view of valuation is challenged by what we see as some underappreciated risks that, in our view, are not adequately reflected in the share price. However, the company has done a good job marketing and stimulating its channels to market which has driven very strong growth which has the potential to continue near term. At a significant weight in the Small Ords now (~2%), we are reviewing our current lack of exposure. Metcash (MTS – not held) reported full year results broadly in line with expectations while the board reinstated the dividend given the strengthening balance sheet. We still see the grocery business as highly challenged from price deflation driven by the intense competition within the sector. While management has done a good job thus far, we feel it gets incrementally more challenging going forward.

For more information about the Grant Samuel Tribeca Smaller Companies Fund, please visit www.gsfm.com.au.