Tribeca Australian Smaller Companies Fund Class A

GRANT SAMUEL FUNDS MANAGEMENT

Tribeca Investment Partners

MONTHLY FUND UPDATE

31 December 2018

Performance

At 31 December 2018

	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	7 years % pa	Since inception[1] % pa
Class A Units[2]	(6.68)	(17.43)	(9.40)	4.73	5.44	6.90	6.11
Benchmark[3]	(4.18)	(13.70)	(8.67)	7.45	5.62	4.82	3.38
Value added	(2.50)	(3.73)	(0.73)	(2.72)	(0.18)	2.08	2.73

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]
Steadfast Group Limited	4.1	1.3
OceanaGold Corp	3.3	0.2
PWR Holdings Ltd.	3.3	--
Independence Group NL	3.2	1.1
Austal Limited	3.2	0.4

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	6.3	5.3
Consumer Discretionary	12.3	15.4
Consumer Staples	6.6	7.7
Energy	7.8	6.3
Financials (ex-Property Trusts)	8.6	8.9
Healthcare	4.2	7.7
Industrials	13.3	7.0
Information Technology	8.8	10.6
Materials	27.0	19.5
Property Trusts	--	11.3
Utilities	--	0.5
Cash	5.1	--
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 remained under pressure as one part of the US yield curve inverted at the beginning of the month, raising further concerns about the outlook for the US economy. Reports that a senior Chinese telecommunications executive had been arrested in Canada on fraud allegations with possible extradition to the US seemingly unwound the positive sentiment following the G20 meeting where Trump and Xi agreed to a 90-day tariff ceasefire. Locally, the S&P/ASX 200 Accumulation Index was one of the best performing markets for the month, falling just 0.1% as strength in the resource space largely offset weakness in industrials. In small caps, the S&P/ASX Small Cap Accumulation Index fell 4.2% with broad based underperformance across most sectors, particularly resources (despite its heavy gold weighting), health and energy. Further, we suspect some large capital flows were moving through small caps in the month, at a time of high volatility and low liquidity. While these impacts tend to adjust in time, it potentially contributed to small cap market underperformance.

The negative feedback loop continued in December as market chatter over a potential shift in the US Federal Reserve's guidance at the beginning of the month spooked equities, these concerns came to fruition as they hiked rates 0.25% but reduced their rate expectations for 2019 to two additional hikes from three. Partials within the months, US economic data were mixed but remained solidly expansionary, however recessionary expectations in the market increased considerably, and the US 10-year bond yield collapsed further (-31bps), hitting 12-month lows. The Chinese slowdown continued into November, as tariff imposition and the related pull forward of trade activity continued to impact the economy. Late in the month both countries agreed to mid-level trade discussions in early January to put building blocks in place for a deal. Brexit was delayed as it became apparent the current proposal wouldn't gain UK parliamentary approval while 'gilets jaunes' protests in France contributed to a weaker demand environment, with output falling in both manufacturing and services.

For our funds, it was again a difficult month that resulted in a meaningful drawdown in alpha like November. Consecutive months like we have had are rare but not completely unprecedented throughout the 20-year history of the Fund. Extreme periods of market volatility such as has been experienced recently have resulted in material fluctuations in the Fund's relative returns. There was negative stock specific news that impacted some of our holdings like Bega's (BGA) downgrade and Lynas' (LYC) licence adjustments but also positive such as Sigma Pharma (SIG) takeover proposal however this was largely typical on a month by month basis.

The benchmark return was characterised by a rotation to safe havens such as gold (+11.4%) of which we were a beneficiary and REITs (+0.4%) which hurt us. Oil (-8.5%) sold off again as long commercial oil positioning continued to liquidate aggressively, despite OPEC+ decision to cut production and also output cuts in Canada in order to reduce stockpiles. Domestically, the oil move was buffered by a weaker AUD/USD (-3.6%) and while large cap energy producers were relatively flat for the month, our overweights in energy were down materially - Senex (-28.6%), Sundance (-29.4%) and WorleyParsons (-13.5%) despite positive incremental news flow during the month. Lithium stocks unwound the prior months good work, as the Lithium ETF fell 14.5%. However, lithium commodity prices remained stable and incremental news flow regarding future demand suggests it may still be underestimated. The net result for the Fund wasn't too painful, as other small cap lithium stocks we don't hold generally underperformed our holding in Galaxy (GXY). On the positive side, the net result of our gold holdings was pleasing particularly Oceana Gold (OGC), which we have ridden through some underperformance and we feel the quality and value is finally starting to be appreciated.

While cognisant of the potential impact of central bank liquidity withdrawal on markets, we're confident in our stock holdings and their relative valuations while remaining cognisant to tread carefully in areas that appeared inflated by easy liquidity or are vulnerable to higher discount rates. The oil price unwind has been particularly painful and our stock specific performance in Energy has been significantly worse, despite those names largely delivering to or ahead of plan. On the macro-side for oil, supply adjustments have been made and we are confident demand will be near enough to rebalance the market and see prices re-inflate. Meanwhile, inflationary expectations are now likely to be moderated, at least in the near-term, given the movement in oil and the USD. This has the potential to elongate the current cycle however this is not something we are basing our stock decision-making upon.

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