TRIBECA ALPHA PLUS – CLASS A: QUARTERLY REPORT

Tribeca Investment Partners

31 March 2019

Performance

Source: Tribeca Investment Partners

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception[1] % pa
Class A Units[2]	(0.63)	11.78	0.86	7.76	10.46	10.86	11.27	8.45
Benchmark[3]	0.73	10.89	12.06	11.46	7.40	9.97	10.35	6.17
Value added	(1.36)	0.89	(11.20)	(3.70)	3.06	0.89	0.92	2.28

1. Inception Date: 18 September 2006
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 200 Accumulation Index

Past performance is not a guide to future performance

Fund facts

Top 10 Active Weights	Portfolio%
Aristocrat Leisure Limited	5.7
Star Entertainment Group Limited	4.7
Bluescope Steel Limited	4.3
Worleyparsons Limited	4.0
Origin Energy Limited	4.4
Wesfarmers Limited	-0.7
Seven Group Holdings Limited	3.0
CSL Limited	8.2
Mirvac Group	-2.0
BHP Group Ltd	4.4

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	-0.2	3.4
Consumer Discretionary	11.9	4.2
Consumer Staples	1.6	7.8
Energy	10.4	5.6
Financial-x-Property Trusts	29.2	31.5
Health Care	11.9	8.5
Industrials	9.8	8.1
Information Technology	4.7	2.4
Materials	17.0	18.9
Property Trusts	2.3	7.7
Utilities	-1.1	2.0
Cash	2.4	--
TOTAL[2]	100.0	100.0

1 S&P/ASX 200 Accumulation Index

2 May not total due to rounding

Commentary

Global equity markets rallied sharply during the March quarter fuelled by stronger than expected reporting season and dovish central banks. The S&P/ASX 200 Accumulation Index printed an uplift of 10.89% while the Fund was up 11.78% (after fees), leaving an outperformance of 0.89%.

A better reporting season in the US has restored much needed confidence back to the market with NASDAQ leading the pack. US Federal Reserve, RBA as well as the European Central Bank turned more dovish as economic prints continue to slow. Market oscillated while digesting the momentary inversion of the yield curve in the US before rallied back underpinned by growth names. Information Technology was the top performer with 20.72% return, followed by Materials, Communication Services, Energy, Properties and Utilities. Underperformers include Financial ex Property Trusts and Healthcare.

Performance of the Fund was largely driven by strong performance of the high conviction names during the interim reporting season. Our overweight in Energy and underweight in Banks also boosted the return.

At a stock level, positive attribution came from overweight positions in Afterpay Touch Group (APT) (reported strong result with rapid takeup in the US market), Seven Group Holdings (SVW) (strong underlying result with solid prospect for the next 6 months), Bluescope Steel (BSL) (strong result and steel spreads continue to support near term earnings outlook) and Worleyparsons (WOR) (recovery in oil prices underpinned confidence in earnings outlook), underweight positions in Bendigo and Adelaide Bank (BEN) (continued weakness to be observed across its NIM with deteriorating outlook) and Bank of Queensland (BOQ) (prospect of slowing economy and rate cuts drove earnings downgrade). Negative attribution came from overweight positions in Syrah Resources (SYR) (reported production weakness combined with less than expected realised price for graphite), Star Entertainment Group (SGR) (potential for another licence to be issued at Gold Coast impacts earnings outlook), Costa Group (CGC) (lacklustre results failed to drive investor's interest) and underweight position in Fortescue Metals Group (FMG) (sharp rally in iron ore prices due to supply disruption drove FMG prices higher).

Outlook

Equity markets have surged back towards highs as a combination of a dovish pivot by the US Federal Reserve and positive progress on a trade deal between the US and China has bolstered risk appetite. However, the rebound in markets has been unequal with the rally concentrated in Technology, REITs, Utilities and Resources while there has been more moderate participation from cyclicals. This indicates that the market is reacting more to the improvement in the liquidity environment and lower bond yields than improved expectations for growth.

This market rally has some similarities to the one that was prompted by QE2 in the US and then "whatever it takes" from the ECB in 2012. Following that rally, growth expectations improved and there was a multi-year rally in equities with broader participation as earnings expanded.

Cyclical indicators in Europe are stabilizing after a boom-bust cycle through last year. This weakness was partly an inventory cycle although weaker Chinese growth has also weighed. There has also been a one-off shock from the impact of new vehicle emission standards on vehicle sales and production. While policy remains supportive and employment growth has been solid the ECB may need to reinstitute a longer term liquidity facility to support lending and spreads in the periphery as support from QE has been removed.

Chinese growth slowed through last year, but policy has now been eased in response. Weaker auto sales with shifts in subsidies and incentives has weighed on retail spending, but this is now turning. The easing in credit to private enterprise and increase in infrastructure spending is likely to provide some support to commodity prices. The proposed privatisation of its gas pipeline network should improve access and underpin the long term demand growth for LNG.

Domestically, the housing market is getting worse and credit tightness bites on clearance rates, prices and new dwelling construction. Recent reads on GDP growth, housing starts, retail sales and new job ads all point to further weakness ahead. On the positive side the terms of trade has received a significant boost from higher iron prices and this will help to foster an ongoing recovery in the resources sector. There is also a reasonable tail of infrastructure work which will provide some offset to weaker household consumption. The exchange rate also provides a relief valve to the economy if growth takes a hit, especially if the RBA moves to cut rates further.

The March quarter saw us taking profit across numerous sectors during a very successful reporting season. We are comfortable with the US growth profile and maintain overweight positions to US cyclicals and the cyclical recovery in Europe. We are positioned towards metals and new energy materials although we have closed our underweight in iron ore as the Vale mine collapse squeezed prices higher. We are also more confident on domestic mining services with the support from higher commodity prices. Domestically, we are positioned more defensively in gaming and select industrials. We have increased the underweight to building materials, property developers and retail as the housing cycle rolls over.

See **gsfm.com.au** for more information about the Tribeca Alpha Plus Fund.