TRIBECA AUSTRALIAN SMALLER COMPANIES – CLASS A: QUARTERLY REPORT

Tribeca Investment Partners

31 March 2019

Performance

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa	Since inception[1] % pa
Class A Units[2]	(0.32)	12.45	3.87	8.96	7.12	5.83	7.38
Benchmark[3]	(0.12)	12.59	5.78	11.40	7.97	4.51	4.71
Value added	(0.20)	(0.14)	(1.91)	(2.44)	(0.85)	1.32	2.67

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 Indexx

Past performance is not a guide to future performance

Fund facts

Top 5 Active Weights	Portfolio%
PWR Holdings Ltd.	3.8
Cleanaway Waste Management Ltd.	3.0
Steadfast Group Limited	4.3
Senex Energy Limited	2.9
Independence Group NL	3.8

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	4.7	5.2
Consumer Discretionary	13.8	16.0
Consumer Staples	4.4	6.7
Energy	9.1	5.4
Financials (ex-Property Trusts)	8.0	9.6
Healthcare	2.6	7.2
Industrials	14.0	7.3
Information Technology	13.8	12.7
Materials	24.5	19.0
Property Trusts	3.2	10.6
Utilities	--	0.4
Cash	1.9	--
TOTAL[2]	100.0	100.0

1 S&P/ASX Small Ordinaries Accumulation Index

2 May not total due to rounding

Manager commentary

Global equities staged a stunning come back from their late December 2018 low, with gains in stocks driven by a dovish shift from the US Fed while ongoing US/China trade negotiations extending beyond the March 1 deadline buoyed hopes of a deal. Chinese equities were one of the top performing markets globally as the government launched additional stimulus measures to support growth while locally the S&P/ASX 200 Accumulation Index almost recovered their Q4 2018 losses, rallying 10.1% lead by tech and resources. The S&P/ASX Small Ordinaries Accumulation Index outperformed (+12.6%) as banks weighed on large caps and small cap tech and energy outperformed their larger peers.

The partial US government shutdown that began in December ended as US politicians came to a tentative agreement around the immediate future government funding and partial financing of Trump's border wall and markets celebrated this glimmer of bipartisanship. Impacts of the shutdown and cycling US tax cuts resulted in slowing US economic data, while the Federal Reserve shifted their "dot plot" forecast down and resulted in the US yield curve inverting. In China, economic data appeared to be bottoming in the quarter, responding to recent stimulus measures, after some very soft readings in January and February. Europe will be counting on improving export demand after German manufacturing indices fell well into contractionary territory, however this was not reflected in non-manufacturing data and it would appear domestic demand remains solid. On the home front, falling house prices continued to dominate headlines. Consumption remains very patchy and sentiment continues to be weak, with private demand growth flat. However, government spending is stepping into the breach and with terms of trade stronger than expected, this has left the opportunity for additional fiscal stimulus to be promised by the major parties as part of their pitch in the upcoming Federal Election in May.

Turning to stock performance, across the technology space, reporting season saw some very large share price moves. A significant detractor was Altium (ALU -48.9% - not held), which delivered a large beat versus market expectations. We had been anticipating a higher tax rate weighing on guidance. However, the result and subsequent long-term aspirational targets indicate management believes strong growth can continue and these targets were priced in immediately. Pleasingly, Audinate (AD8 +73.9%) somewhat offset ALU after they surpassed market expectations across the board and the business is now profitable on all P&L metrics. We continue to like the story as AD8 should increasingly dominate their audio market with visual an additional source of upside. Meanwhile our position in Appen (APX +73.7%) continued to benefit from the large amounts of investment into Artificial Intelligence, while management moved to "future proof" the business via the acquisition of the market-leading machine learning software platform in US-based Figure Eight. In industrials, our long-term holding in Cleanaway (CWY +20.2%) had a strong 1H result that was ahead of market expectations, delivering strong organic growth and benefits from the integration of the Toxfree acquisition which started to flow. Oil prices rebounded (Brent crude +24.8%), as details of disciplined OPEC adherence to output cuts emerged and US onshore oil names pared back capex forecasts during quarterly reporting, softening expectations of a supply glut. WorleyParsons (WOR +24.0%), Senex Energy (SXY +34.6%) both saw material share price rebounds. Confidence around offshore energy capex commitments may have been dented by recent moves, however we fully expect projects to move ahead given the material underspend in recent years. Meanwhile, conditions in the east coast gas market remain tight with pricing favourable for those that are able to supply gas to market in a timely manner, with SXY's first gas forecast by year end.

Negatively contributing during the quarter was Eclipx (ECX -67.6%), which announced in March its NPATA for the first 5 months of FY19 was down 42.4% on the pcp and removed its FY19 NPATA guidance. Grays and R2D, the key drivers of underperformance, are currently progressing through a sales process, with management confirming potential interest from several parties. The severity of the earnings decline came only one month after its previous negative earnings revision and raised serious concerns not only over management's credibility, but also their visibility within the businesses they operate. Management were unwilling (or unable) to provide further information to allay various concerns we held, not least around the balance sheet, and we question the ability to realise much value from asset sales of such poorly performing businesses. We were in the process of divesting our holding before the most recent update and we exited the remainder of the holding post. Gold prices (+1.1%) consolidated their recent run as overall risk to the market was seen to decline and gold equities experienced profit taking. Two of our holdings underperformed during the quarter, Oceana Gold (OGC -8.4%) and Northern Star (NST -3.1%). Lastly, Nufarm (NUF -21.0%) reported a challenging 1H19 with drought conditions resulting in elevated inventory levels and subsequently debt while also experiencing supply issues in its European business as a result of a shortage of technical product out of China.

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 deteriorating as credit tightness bites on clearance rates, prices and new dwelling construction. Recent reads on housing starts, retail sales and new job ads point to potential further weakness ahead. On the positive side the terms of trade have 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.

With regards to positioning, we have largely maintained existing positioning while adding to some of our more beaten-up names particularly in energy and industrials that were looking very attractive. We are cognisant that the investment landscape has again shifted post US Fed statements, as lower yields suppress discount rates and support longer duration names in yield and growth. We added some of our preferred growth names during the quarter as discounts emerged to our valuations. Inflationary expectations have taken a back seat for now; however, we anticipate typical late cycle conditions will still emerge and continue to remain relatively value-orientated with inflation protections.

See gsfm.com.au for more information about the Tribeca Australian Smaller Companies Fund.

Important Information

Investment Manager: Tribeca Investment Partners Pty Ltd ABN 64 080 430 100 AFSL 239070, Responsible Entity: Equity Trustees Limited ('EQT') ABN 46 004 031 298 AFSL 240975, Distribution partner: GSFM Pty Limited ('GSFM') ABN 14 125 715 004 AFSL 317587. This report is provided for information purposes only and is not intended to take the place of professional advice. Neither Tribeca, EQT nor GSFM give any warranty as to the accuracy, reliability or completeness of the information in this report nor do they undertake to correct any information subsequently found to be inaccurate. Opinions expressed may change without notice.

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