TRIBECA ALPHA PLUS – CLASS A: QUARTERLY REPORT

Tribeca Investment Partners

30 June 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]	4.81	9.02	2.25	9.33	12.00	14.41	10.98	9.01
Benchmark[3]	3.70	7.97	11.55	12.88	8.85	11.95	10.02	6.68
Value added	1.11	1.05	(9.30)	(3.55)	3.15	2.46	0.96	2.33

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%
Commonwealth Bank of Australia	5.0
CSL Limited	8.1
Macquarie Group Limited	4.7
Magellan Financial Group Ltd	2.6
Aurizon Holdings Ltd.	2.7
Aristocrat Leisure Limited	3.2
Boral Limited	-1.7
ALS Ltd.	2.3
Woodside Petroleum Ltd	--
National Australia Bank Limited	6.1

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	2.3	3.6
Consumer Discretionary	2.9	3.9
Consumer Staples	9.6	7.7
Energy	6.1	5.3
Financial-x-Property Trusts	26.9	32.0
Health Care	11.0	8.6
Industrials	11.4	8.3
Information Technology	1.5	2.3
Materials	18.2	18.9
Property Trusts	8.0	7.5
Utilities	--	1.9
Cash	1.8	--
TOTAL[2]	100.0	100.0

1 S&P/ASX 200 Accumulation Index

2 May not total due to rounding

Commentary

Global equity markets continued to rally higher despite escalating geopolitical tension and trade conflict, finishing the quarter almost at all time highs. The S&P/ASX 200 materially outperformed peers finishing the quarter up 6.46% to 6,618.77 points. The S&P/ASX 200 Accumulation Index printed an uplift of 7.97% while the Fund was up 9.02%, leaving an outperformance of 1.05%.

Trade negotiations and dovish remarks from global central banks dominated headlines during the quarter and global equity market gyrated on volatile risk sentiment before definitively moving to bullish positioning towards the end of the quarter. The outcome of G20 has removed shorter term tail risk of a full blown trade war combined with meaningful fall in G10 rates expectations helping to drive market sentiment. Communication Services was the top performing sector, returning 12.85% for the quarter, followed by Financials ex Property Trusts, Health Care, Industrials, Materials and Consumer Discretionary. Underperformers included Energy, Utilities, Information Technology and Property Trusts.

At a stock level, positive attribution came from overweight positions in Afterpay Touch Group (APT) (market responded positively to the strong trading update and equity raising to fund growth in the US), Aristocrat Leisure (ALL) (reported strong result particularly delivered promising performance from digital gaming division), Fortescue Metals Group (FMG) (continued strength in iron ore prices drove rather earnings upgrade and declaration of a special dividend), and Magellan Financial Group (MFG) (Strong performance across its key holdings expected to drive strong FUM inflow and performance fee generation), underweight positions in Challenger (CGF) (downgraded earnings meaningfully on margin pressure), Tabcorp Holdings (TAH) (weakened domestic demand drove consensus downgrade), Costa Group (CGC) (downgraded earnings at AGM on poor weather) and Domino's Pizza Enterprises (DMP) (consensus downgrade on weaker earnings outlook). Negative attribution came from overweight positions in Bravura Solutions (BVS) and a2 Milk Company (A2M) (Chinese regulatory risks clouded near term earnings upside), underweight positions in Wisetech Global (WTC) (Global tech rotation drove stock price higher), Medibank Private (MPL) (Australia election outcome boosted short term price performance on stable regulatory outlook for private health insurance), Seek (SEK) (share price rallied with the rest of domestic cyclicals post surprise election outcome) and Commonwealth Bank of Australia (CBA) (rallied on more benign outlook for the domestic economy and housing sector).

Outlook

Bearish positioning reversed in June heading into the G20, held in Japan, where President Xi Jinping and President Trump met in person for the first time since the escalation of the tariff war a few months prior. The outcome of the meeting however was somewhat disappointing without a clear resolution on the table. Interestingly the market took an optimistic view that shorter term tail-risk had been removed. A firm easing bias from both the US Federal Reserve and European Central Banks continued to drive investors sentiment pushing global key indices to all time highs.

Whilst the risk of an imminent recession in the US has been pushed out on prospect of lower interest rates, we remain cautious on the near term corporate earnings outlook and economic data flow globally. Geopolitical tensions and protracted trade negotiation have dampened the global growth outlook in the past 12 months and likely to further drive earnings downgrade into FY20. With the market now trading almost at peak levels fuelled by expected fiscal and monetary stimulus from major economies, the upcoming results season in August could bring investors' hefty expectations more in line with the tepid growth suggested by economic data prints.

In the US, economic indicators have been generally strong with full employment, broad based strong participation, and improving wages. However the recent weaker GDP print was likely to be impacted by a slow down across the US's major trading partners and the trade conflict with China. Whilst a positive trade deal will see growth return, the likely time frame is harder to predict. Expected rate cuts will help drive consumption and investment activities further and should see inflation begin to rise.

Turning to China, the experience of over-tightening of credit in early 2018 caused a sharp deterioration in growth. Orchestrated government officials' pro-growth commentary since then has demonstrated the central government's priority for 2019 of re-igniting growth. A rapid loosening of monetary policy and stimulus have now seen improvement across the country, importantly, credit growth has been restored. Trade conflict with the US has dampened the trajectory of the recovery, and a temporary truce should provide near term stability combined with a step up in fiscal stimulus that will steer its economy into stronger growth in the second half, providing much needed support for global growth.

The Australian market is at an interesting cross roads at the moment, as economic data continues to point to weakening housing and employment trends. Indebted consumers further tightened discretionary spending since election and construction activities is rapidly softening. With that in mind, the co-ordinated efforts by the APRA and the RBA's 2 pre-emptive rate cut, it is possible the fall in the housing market could be cushioned and we could see a bottoming in activities in the next 12 months. Stronger iron ore prices should also support terms of trade which in turn should come through in the form of tax cuts and fiscal stimulus.

Fund Positioning

Loose monetary policy and fiscal stimulus should provide a supportive environment for the Australian equity market for the second half of 2019, albeit with a risk of heightened volatility's around the August reporting season as investors rebase corporate earnings expectations. We should continue to see outperformance of the Australian market against peers with its defensive earnings as well as strong yield on offer.

We continue to favour quality sectors such as healthcare with its strong structural cash flow growth on offer and are marginally overweight resources across the metal names. We reduced our underweight in yield sectors with global G10 rates falling meaningfully in the past 6 months.

We have also selectively moved back into domestic cyclicals while maintaining an overall underweight as we await real improvement in underlying demand.

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

Important Information