TRIBECA AUSTRALIAN SMALLER COMPANIES – CLASS A: QUARTERLY REPORT

Tribeca Investment Partners

30 June 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]	2.34	6.92	0.11	10.01	8.93	9.29	7.97
Benchmark[3]	0.92	3.75	1.92	10.66	9.26	7.58	5.01
Value added	1.42	3.17	(1.81)	(0.65)	(0.33)	1.71	2.96

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.	3.1
Steadfast Group Limited	4.6
EML Payments Ltd.	3.3
Cleanaway Waste Management Ltd.	2.7
Senex Energy Limited	2.8

1 S&P/ASX Small Ordinaries Accumulation Index

2 May not total due to rounding

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	3.2	5.1
Consumer Discretionary	11.1	15.1
Consumer Staples	6.3	6.6
Energy	10.4	3.4
Financials (ex-Property Trusts)	9.5	11.6
Healthcare	2.5	7.9
Industrials	12.5	8.6
Information Technology	10.8	9.6
Materials	24.1	20.5
Property Trusts	4.6	11.1
Utilities	--	0.4
Cash	5.0	--
TOTAL[2]	100.0	100.0

Manager commentary

Global stockmarkets continued their positive trend from the start of the year, albeit not without some volatility, delivering healthy returns despite more apparent macro-economic and geo-political headwinds. The economic data generally surprised to the downside while the US-China trade war flared as President Trump outlined further increases in tariffs after failing to reach a trade agreement. The two countries agreed to re-start talks at the G20 in late June however the damage to confidence had largely been done. Central banks rode to the rescue, indicating a willingness to support growth and targeted inflation through ever-lower rates. Bond yields, which peaked in November 2018, crashed to all time lows in many jurisdictions (including Australia) as investors sought safe haven assets. Domestically, the Coalition Government was returned in an unexpected victory, the result driving strong relative share market performance, led by the banks. This brought about an initial bounce to the housing market though little other flow-on benefits are yet perceptible. Meanwhile, RBA cut rates for the first time in 3 years in June to a record low, arguing support for employment growth and inflation.

Within the Australian market, the broad S&P/ASX 200 Accumulation Index produced a strong June quarter (+8.0%), outperforming most global market indices on the way to its best 1HCY performance since inception (1993). The gains were underpinned by index heavyweight Banks (+11.1%) and materials (+7.3%) while healthcare and telco also performed well. At the small cap end, there was notable underperformance within materials despite the strong gold prices (+8.9%) and associated gold equities (+20%). Small energy and staples also provided a significant lag for which stronger IT and industrial sectors could not overcome. Our portfolios relative outperformance for the quarter was essentially down to stock specifics rather than any overriding thematic.

The strong performance by EML Payments (EML +68.7%) in the quarter was driven by several factors. Management used surplus cash to acquire Flex-e-card on terms that were quite accretive and further ensconced their market leading position in European gift cards. Secondly, the announcement of partnership agreements in the recently legalised US gaming market offers the potential for significant future growth. Third, a re-rating to a multiple more in line with offshore payment peers was well overdue. Austal (ASB +51.6%) hosted an investor tour of their offshore operations, outlining recent investments that should provide an uplift to margins in their commercial ferry business. The new facilities also open up the potential for future military and coast guard sales into the Asian region. Audinate (AD8 +33.2%) raised capital to fund further growth and this seemed to particularly excite the market. It is likely that AD8 also benefited from buying from investors looking for new stories within the arguably expensive, high growth cohort. In a similar vein, PWR Holdings (PWH +17.7%) released no news of note but is now of a size and with an established track record for organic growth that the stock is attracting a broader array of potential investors. Northern Star (NST +30.2%) had the tailwind of stronger gold prices while investors were also focused on a scheduled reserve update for their recently acquired Pogo mine in Alaska.

Detractors from performance included Aurelia Metals (AMI -44.4%), which fell after the board removed its Managing Director in circumstances that continue to leave the market nervous as to underlying operating performance. Saracen Mining (SAR +26.9 not owned) managed to avoid any negative updates however, leaving it relatively attractive to investors chasing gold exposure during the quarter. Gold stocks overall performed well for the quarter so our stock selection in this sector did not work as well as we would have liked. For the moment, we see the specific issues here as manageable and as such we would expect to re-capture relative return in this sector over time. NIB Holdings (NIB +46.4% not held) staged a huge relief rally, trading through to all-time share price highs after a Coalition election victory meant it's unlikely there would be price inflation caps placed on private health insurance premiums. The small cap energy space was sold off with the broader global thematic of slowing growth and this led to poor returns from our holding in Sundance Energy (SEA -34.5%). Lastly, Polynovo (PNV +105.3% not held) received a large amount of interest due to its unique dermal regeneration solution which has the potential to transform outcomes in the treatment of burns and other wounds. While certainly an interesting concept, unfortunately the stock is some years from delivering any sustainable cashflows.

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.

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

Important Information