TRIBECA ALPHA PLUS – CLASS A: MONTHLY REPORT

Tribeca Investment Partners

August 2019

Fund overview

A long/short equity strategy aims to provide investors with positive returns, whatever the market conditions. It seeks to profit from share price appreciation above the index in its long positions and price declines below the index in its short positions.

The Fund focuses on short selling a range of stocks with weak investment characteristics and reinvesting the proceeds in long positions in preferred stocks.

This combination of long and short positions provides Tribeca with a large degree of flexibility and enables more active decision making.

Tribeca's investment approach uniquely blends fundamental and quantitative strategies that aim to identify investment opportunities and generate returns above the benchmark.

The benefits of this approach are the significant amounts of company detail that can be unearthed and used to generate insights into its future prospects and likely investment returns.

Source: Tribeca Investment Partners

Performance

As at 31 August 2019

	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]	(0.04)	9.65	9.78	9.27	12.43	14.16	9.94	9.27
Benchmark[3]	(2.36)	4.23	9.04	11.38	7.90	11.02	8.61	6.64
Value added	2.32	5.42	0.74	(2.11)	4.53	3.14	1.33	2.63

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%
Magellan Financial Group Ltd	4.0
Commonwealth Bank of Australia	4.7
James Hardie Industries	2.6
Star Entertainment Group Limited	2.2
Macquarie Group Limited	4.2
Aurizon Holdings Ltd.	2.6
CSL Limited	8.1
Atlas Arteria	2.1
Healius Limited	1.9
Afterpay Touch Group Ltd.	2.1

1 S&P/ASX 200 Accumulation Index

2 May not total due to rounding

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	3.2	3.5
Consumer Discretionary	7.9	4.0
Consumer Staples	8.2	8.4
Energy	4.7	5.0
Financial-x-Property Trusts	25.3	31.5
Health Care	11.1	9.5
Industrials	14.4	8.4
Information Technology	0.9	2.5
Materials	15.9	17.4
Property Trusts	7.7	7.9
Utilities	-0.6	1.9
Cash	1.2	--
TOTAL[2]	100.0	100.0

Manager commentary

The Australian market posted its first negative monthly performance of the year with the index falling 3.06% to 6604.2 points. The Fund delivered a return of -0.04% against it's benchmark, the S&P/ASX 200 Index which fell -2.36%, resulting in an outperformance of 2.32%. Global equity markets tumbled amid an escalation of the China-US trade war, the possibility of a no-deal Brexit and a softer than expected earnings season. Uncertainty surrounding the resolution of the China-US trade conflict has filtered through to corporate profits and confidence. Companies downgrading earnings outnumbered upgrades by five-to-one during the August earnings season. Further commitment from the Fed on more rate cuts failed to ignite investor confidence to rotating into cyclical sectors. Domestically, however sentiment continues to swing towards domestic cyclicals as tax cuts hit consumer pockets.

Fund performance during the month was largely driven by companies' earnings. On a sector level, Health Care was the largest outperformer delivering 3.4%, followed by Property Trusts, Consumer Staples, Information Technology and Consumer Discretionary. Key laggards were Materials, Energy, Communication Services and Financial ex-Property Trusts. At a stock level, positive attribution came from underweight positions in Speedcast International (SDA) - which reported a poor earnings result with low cash conversion and a stretched balance sheet, Boral (BLD) – which delivered a worse than expected report and a weak FY20 outlook, and Corporate Travel Management (CTD) – whose CEO painted a challenging outlook with a large part of the business impacted by global geopolitical uncertainty.

Overweight positions that led to positive portfolio attribution came from James Hardie Industries (JHX) – which delivered a strong result relative to expectations with a cost out program to drive earnings growth, Nanosonics (NAN) – which reported a strong result which, combined with indication of the launch of the next generation product drove meaningful upgrades, Afterpay Touch Group (APT) – which reported a solid result off the back of its success in rapid market penetration in the US and showing strong early indications of strength in the UK market, and Beach Energy (BPT). Underperformance came from overweight positions in Magellan Financial Group (MFG) - its strong result was overshadowed by capital raising to fund new growth opportunities, Cleanaway Waste Management (CWY) – its solid result with weaker outlook drove consensus downgrades, and IDP Education (IEL). Underweight positions in Wisetech Global (WTC) – which had a strong result that lifted investor confidence in its trade related business model, and Link Administration Holdings (LNK) – which announced a 10% buy back which helped support its weaker result, also detracted from portfolio performance.

Outlook

Trade war concerns, along with Brexit and other geopolitical uncertainties have crimped corporate profits as we saw from the August reporting season with most companies missing already downgraded FY19 earnings targets and guiding to a softer FY20. Trade related sectors have all commented on the uncertainties and disruption caused by the tariff escalation and its consequent impact on investment confidence.

In our view, whilst the risk of an imminent recession in the US has been pushed out on the prospect of lower interest rates, we remain cautious on the near-term global growth outlook.

Geopolitical tensions and protracted trade negotiations have dampened global manufacturing activity and have spilled over to overall corporate investment confidence over the past year and are likely to further drive earnings downgrades into FY20. With equity markets continuing to trade at lofty levels fuelled by expected fiscal and monetary stimulus from major economies, tepid economic data as well as earnings seasons are likely to act as catalyst to drive the rebase in earnings expectations.

In the US, economic indicators have been broadly firm with full employment, broad-based participation and improving wages. However, the recent weaker GDP print was likely to have been impacted by a slow down across the US's major trading partners and the trade conflict with China. While a positive trade deal will see growth return, the likely time frame is harder to predict. Expected rate cuts will help drive consumption and economic activity further and we 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 comments since then have demonstrated the central government's priority for 2019 of re-igniting growth. Rapid loosening of monetary policy and stimulus have seen temporary improvement across the country with the restoration of credit growth. More recently however, the escalation of the trade war with the US has dampened the trajectory of the recovery and we are expecting further weakness to be observed. In response, we expect a further step-up in fiscal stimulus which will hopefully steer the economy into stronger growth in the second half, providing much needed support for global growth.

The Australian market is at an interesting crossroads at present with economic data continuing to point to weakening housing and employment trends. Indebted consumers have further tightened discretionary spending since the election and construction activity is rapidly softening. With that in mind, the co-ordinated efforts by APRA and the RBA's two pre-emptive rate cuts, could see the fall in the housing market cushioned and we could see a bottoming in activity over the next 12 months.

Portfolio 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 as investors rebase corporate earnings expectations. We should continue to see outperformance of the Australian market against global 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 we are also marginally overweight resources across the metal names. We reduced our underweight in high yielding 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