TRIBECA ALPHA PLUS – CLASS A: QUARTERLY REPORT

Tribeca Investment Partners

31 December 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]	(1.53)	1.39	28.04	8.56	11.04	12.77	8.57	9.06
Benchmark[3]	(2.17)	0.68	23.40	10.26	8.97	10.02	7.86	6.66
Value added	0.64	0.71	4.64	(1.70)	2.07	2.75	0.71	2.40

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%
Transurban Group Ltd.	--
CSL Limited	8.9
Atlas Arteria	2.2
Woodside Petroleum Ltd	--
Origin Energy Limited	2.6
Aristocrat Leisure Limited	3.0
Northern Star Resources Ltd	2.2
ASX Limited	-0.8
Wesfarmers Limited	1.0
Tyro Payments Ltd.	1.7

1 S&P/ASX 200 Accumulation Index

2 May not total due to rounding

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	2.2	3.3
Consumer Discretionary	7.2	4.3
Consumer Staples	8.2	8.3
Energy	6.3	5.4
Financial-x-Property Trusts	27.6	29.8
Health Care	10.0	10.5
Industrials	8.3	8.4
Information Technology	2.6	2.5
Materials	21.8	18.1
Property Trusts	5.7	7.4
Utilities	-0.7	1.8
Cash	0.7	--
TOTAL[2]	100.0	100.0

Commentary

The Australian market marginally lost ground in the December quarter to 6684.1 points on escalating geopolitical risks despite increased central bank stimulus. The Fund delivered 1.39% against its benchmark, the S&P/ASX 200 Accumulation Index which returned 0.68%, resulting in an outperformance of 0.71%.

Globally, equity markets rallied on the back of improved optimism for a trade deal with both the US and China moving towards a partial agreement. Central banks around the world continued to be supportive of sustained lower interest rated however, the latest Federal Reserve commentary turned a touch hawkish on the premise of a favourable trade outcome.

On a sector level, Health Care was the largest outperformer, delivering 13.66%, followed by Energy, Materials, Industrials, and Consumer Discretionary. The biggest underperformer for the month was Banks, which sold off on weakening profit margins and Austrac investigations.

At a stock level, positive attribution came from overweight positions in Virgin Money UK (VUK) - which reported a better result with improving outlook, CSL (CSL) – which saw consensus upgrades on a stronger industry volume dynamic, Tyro Payments (TYR) – which was a new addition to the Fund following a successful IPO, and IDP Education (IDP) – which delivered strong outlook at its AGM.

Underweight positions that led to positive portfolio attribution included Westpac Banking Corporation (WBC) – which raised equity to improve its capital position before AUSTRAC investigation and subsequent CEO resignation, Costa Group Holdings (CGC) – which further downgraded earnings on weaker trading and weather conditions, and Jumbo Interactive (JIN).

Underperformance came from an underweight position in oOh media (OML) – which upgraded previously downgraded earnings outlook on a stronger 4Q trading condition, and Bluescope Steel (BSL) – which surprise the market with reaffirmation of the full year guidance.

Overweight positions that led to underperformance came from Afterpay (APT) – was sold off as part of investors rotation into cheaper cyclical sectors, Aurizon Holdings (AZJ) – underperformed as investors moved to less defensive positioning and Austal (ASB).

Outlook

The past 12 months have been a tumultuous year for equity investors who have had to adapt to a less certain world. From Brexit, to US-China trade wars, a global slowdown and other turmoil around the world, it was a year where key equity indices were pushed to record levels. Against this was the backdrop of synchronised easing from global central banks which supported asset prices despite a dampening in global growth.

Looking ahead into 2020, we are anticipating stronger growth in the latter part of the year on the back of easing geopolitical concerns and continued support from easy monetary policy.

In the US, economic indicators have been broadly firm with full employment, broad-based participation and improving wages. An easing of interest rates has resulted in the housing market picking up momentum as the year progressed. The escalation - or threat of escalation - of a US trade war with China has impacted the manufacturing sector and dented corporate confidence, and capex read-through was weaker before the end of the year. However, a possible phase 1 trade deal in mid-January should pave the way for improved corporate confidence and drive higher growth in trade impacted sectors. The Federal Reserve is expected to maintain its easing bias with one further cut, but will monitor wage and inflation data before any further moves.

Turning to China, 2019 proved to be a challenging year with an escalation in the trade war with the US, ongoing crises in Hong Kong, and a flare up of swine flu, among other events. The trade war alone has caused sharp deterioration in manufacturing, and businesses are making contingency plans on alternative operating locations.

The Chinese government stepped up its stimulus moves towards consumer, SME as well as encouraging infrastructure projects, and the Chinese economy has weathered the storm reasonably well with the economy growing at around 6 per cent for the year.

Phase 1 of the trade deal should provide much needed short term relief to the Chinese economy. However we expect the challenges in 2020 will continue to evolve as phase 2 negotiations with the US progress, with the technology sectors in particular expected to see growing separation. We should see an early rebound in economic data points, lead by consumption, and we do expect the Chinese government to step up its rhetoric on deleveraging towards the latter part of the year.

Against this backdrop, the Australian market is at an interesting cross roads. Short term political stability combined with consecutive rate cuts have helped stablise the falling housing market with most housing related indicators pointing higher. The RBA has so far cut interest rates thrice but this, coupled with the government tax rebate, seems to have done little to improve consumer confidence as well as business spending.

The recent Royal Commission findings, as well as falling interest rates, will continue to crimp the big four banks' profits and willingness to grow credit meaningfully, which in turn does prevent us from adopting a meaningfully positive view. We are looking for fiscal stimulus from the government, supported by strong terms of trade in the next 12 months, although this is likely to be back-end loaded with the government wanting to deliver a surplus before stimulus.

Fund Positioning

An improving global growth outlook should drive a strong cyclical recovery in earnings, particularly in markets such as the UK and Asia. We continue to overweight global cyclicals and resources, but have more recently selectively moved back into domestic cyclicals while we await further data on real improvement in underlying demand. Quality sectors such as healthcare remain to be our key overweight underpinned by its strong structural cash flow growth.

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

Important Information