TRIBECA ALPHA PLUS – CLASS A: MONTHLY REPORT

Tribeca Investment Partners

February 2020

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 29 February 2020

	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]	(7.00)	(3.61)	11.43	7.34	7.94	11.27	8.74	8.77
Benchmark[3]	(7.69)	(5.18)	8.64	8.59	6.17	7.96	7.98	6.33
Value added	0.69	1.57	2.79	(1.25)	1.77	3.31	0.76	2.44

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%
James Hardie Industries PLC	3.0
a2 Milk Company Ltd.	2.8
CSL Limited	10.1
Atlas Arteria	2.4
JB Hi-Fi Limited	2.2
TPG Telecom Limited	2.1
Aristocrat Leisure Limited	3.0
Wesfarmers Limited	1.0
ASX Limited	-0.8
Afterpay Limited	2.0

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	3.4	3.4
Consumer Discretionary	6.4	4.1
Consumer Staples	9.4	8.5
Energy	4.5	4.6
Financial-x-Property Trusts	25.1	30.6
Health Care	12.0	11.7
Industrials	9.5	8.2
Information Technology	3.6	2.4
Materials	19.7	16.9
Property Trusts	5.7	7.7
Utilities	-0.8	1.8
Cash	1.5	--
TOTAL[2]	100.0	100.0

1 S&P/ASX 200 Accumulation Index

2 May not total due to rounding

Manager commentary

Despite a strong start to the February reporting season the Australian equity market eventually felt the pain of the spread of the Covid-19 virus, with most global indices suffering significant losses. The S&P/ASX200 Index fell 8.21% to 6,441.2 point, wiping out year-to-date gains. The last week of the month saw the Australian market post its worst weekly performance since the GFC. Despite the risk-off sentiment, the Tribeca Alpha Plus Fund continued to outperform its benchmark with the S&P/ASX 200 Accumulation Index losing 7.69%, while the Fund slipped 7.00% in February, resulting in an outperformance of 0.69%.

In the early part of February, Australian equities rallied, with stronger corporate results driving the index to a record high. Investors both at home and abroad were encouraged by the steps taken by the Chinese government to contain the Covid-19 virus, and many listed companies reported no material impact from disruption. However, a sell-off in the final week of February followed news of the virus spreading rapidly outside China, meaningfully increasing the possible economic fallout. Central banks around the world commented on a possible step-up in stimulus should the demand shock materialise.

Unsurprisingly, the best performing sectors for the month were defensive sectors. Healthcare led the pack again down only 3.76%, followed by Utilities, Real Estate, Financials and Consumer Staples. The worst performing sectors were Energy, IT, Materials, Telecommunications and Consumer Discretionary. As with most reporting seasons, our outperformance was primarily driven by high-conviction stock picks, both on the long and short side, which contributed meaningful alpha. Our sector positioning of being overweight resources did detract as risk-off sentiment increased.

At a stock-specific level, positive attribution came from the Fund's overweight position in the top performing stock in the index, IDP Education (IEL), which reported a strong result that has led to double-digit earnings upgrades. Breville Group (BRG) saw a significant price rally following its solid results. Investors were encouraged by signs its products continued to gain acceptance globally. A2 milk company (A2M) again delivered a strong result despite virus related disruptions in China. Management has seen a short-term uplift in trading due to the disruption given the non-discretionary nature of its products. Underweight positions that contributed to performance included Woodside Petroleum (WPL), which was sold off as investors steered away from the energy names. Reliance Worldwide Corp (RWC) disappointed investors with a significant downgrade and its new guidance did not include further impact from Covid-19, as well as disruption caused by Brexit. Our underweight in Blackmores (BKL) also contributed strongly with the company delivering a large downgrade with lack of clarity around its future business strategy.

Underperformance primarily came from overweight positions in EML payments (EML), which reported strong earnings but with cash flow a touch weaker; Santos (STO), which was sold off as investors rotated away from energy names; and Service Stream (SSM), which had a strong result that was overshadowed by lack of earnings upgrade that investors were expecting.

Outlook

The outbreak of the Covid-19 virus is now a wild card and a key threat to the global growth outlook. Whilst China, the first hit market, seems to have contained its spread, the virus has now proven to be a much more problematic issue for the world economy than its predecessors, such as SARS.

The pace of new infections in other major markets, particularly Europe and the US, have now caused consumer panic. Headline stories of people stocking up on food and toilet paper, coupled with a free-falling share market, simply means discretionary consumption will grind to a halt. For most OECD countries, consumption is usually close to 60% of GDP, so and as a result we expect global 1H 2020 GDP will be downgraded meaningfully. The extent of the downgrade will depend on the duration and extent of the spread of the virus. If the confidence level is not restored quickly, it is possible we will be looking at a consumption-led recession quickly. On a positive note, however, global central banks and governments have pledged significant support of stimulus for their economies in order to avoid virus-induced recession.

This reassurance, once combined with the confirmation of containment of the virus, will in our opinion see a "V" shaped recovery in equity markets globally. We are probably still a few weeks away from the end of the panic selling and a few months away from the actual bottoming in corporate and GDP downgrades.

What all this means is that we need to charter our investment portfolio with caution. We remain defensive, while selectively buying high-quality businesses with strong balance sheets. We continue to believe it is too early to be buying directly virus-exposed sectors such as travel, some of which have high operating and financial leverage, and may not survive this downturn. Resources is a sector where we are keen to pick up large, diversified names on the back of sharp price corrections as forward cash flow projections remain strong, and they will be the first to move when the recovery does arrive.

Investors need to be mindful that this is a market correction caused by a short-term disruption to economic outlook. A flood of stimulus around the world will find ways to boost asset prices on a 6-12month view, and equities will be the key beneficiary of such support. However, in the meantime, caution is warranted to steer away from sensitive sectors with earnings downside and selectively pick up quality businesses at cheaper prices. A key data point to watch is consumer confidence; if we see significant signs of deterioration, the downturn may be prolonged.

Current market conditions are ripe for active management. We have always believed in building a portfolio that will thrive in all market conditions. The current volatility represents enormous opportunities on both the long and short side, and we are looking to take advantage of the current scenario.

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