TRIBECA AUSTRALIAN SMALLER COMPANIES – CLASS A: QUARTERLY REPORT

Tribeca Investment Partners

30 September 2020

Performance

	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]	(2.25)	7.73	0.96	8.74	10.34	7.47	6.79	7.45
Benchmark[3]	(2.82)	5.67	(3.33)	6.53	9.97	6.25	3.53	4.35
Value added	0.57	2.06	4.29	2.21	0.37	1.22	3.26	3.10

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 Index

Past performance is not a guide to future performance

Fund facts

Top 5 Active Weights	Portfolio%
Uniti Group Ltd.	3.6
PWR Holdings Ltd.	3.0
Nickel Mines Ltd.	3.2
Northern Star Resources Ltd	2.3
Senex Energy Limited	2.5

1 S&P/ASX Small Ordinaries Accumulation Index

2 May not total due to rounding

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	7.0	5.2
Consumer Discretionary	19.2	17.6
Consumer Staples	4.3	6.3
Energy	5.2	2.4
Financials (ex-Property Trusts)	10.8	11.5
Healthcare	6.8	8.0
Industrials	4.8	8.8
Information Technology	6.8	7.2
Materials	23.9	20.8
Property Trusts	9.9	12.1
Cash	1.3	--
TOTAL[2]	100.0	100.0

Manager commentary

Strong quarterly gains across global markets were threatened during September, a historically poor month for markets. Concerns arose that the global economic recovery could stall without more stimulus and this was amplified by the upcoming US Election and the risk that a contested outcome delays this stimulus. In the end, early gains were enough to deliver a strong quarter for most global markets, resulting in gains in the range of 4-8%. That could not be said for the S&P/ASX200 Accumulation Index, closing up only 0.4 %, with the Banks having a tough time and ending down 6.8%. Small caps proved better leveraged to the current recovery, adding 5.7%, as index-heavyweight consumer discretionary rode local stimulus measures and small resources outperformed larger peers.

The quarter saw a 'V-shaped' rebound in global economic data, with numerous positive updates resulting in global economic surprise indices (versus expectations) leaping to records highs. Meanwhile, the ultra-accommodative stance of US monetary policy has continued to see the USD weaken since the market lows, with the rally quietly manifesting in the form of higher inflation expectations. In China, following a Q2 GDP result that beat expectations, it is now the only economy to forecast a return to the pre-COVID real GDP growth path in 2H20. September PMIs and August trade reports both pointed to a broadening of the recovery. This should underpin strong demand across the materials complex in our view.

During September, rising numbers of COVID cases in Europe and the risk of another US wave as winter approaches saw some risk-aversion and investors sought safety in the USD and sold high yielding credit. The picture in Australia, on the other hand, was promising, with COVID cases numbers falling, restrictions easing, fiscal support persisting, and a material savings rate buffer in place to buttress the consumer. Ultimately, this should continue to favour the smaller, more domestically exposed end of the market. The Tribeca portfolio outperformed the market for the quarter, with the performance largely driven by idiosyncratic situations across several stock names. We anticipate markets to remain volatile ahead of the US election and any additional fiscal stimulus announcements both locally and internationally and, as such, the portfolio remains reasonably balanced.

Outperforming for the portfolio, Temple & Webster (TPW +95.4%) received an additional boost following its inclusion in the Small Ordinaries Index. A clear COVID beneficiary, online retailing has been afforded a multi-year leap forward regarding consumer shopping habits, while the runway in furniture (TPW's vertical) remains long given it's one of the more underpenetrated online categories. We hold the TPW model in high regard, led by an ambitious management team looking to materially grow the business. However, its valuation at these levels is more challenging and as a result we have decreased our weighting. Senex Energy (SXY +42.2%) materially boosted 2P reserves at their Surat Basin gas asset, thanks to better-than-expected drilling results and strong reservoir performance. SXY has also moved from cash-out mode to cash-in mode, which will see very attractive free cashflow generated in coming periods and optionality of further expansion and/or shareholder returns. Oz Minerals (OZL +27.8%), which continued its run post the release of their positive Carrapateena mine scoping study in June, added a strong quarterly production result and FY21 guidance in July. We like OZL's copper production growth profile and methodical execution, while stronger copper prices (copper +9.5%) are providing an additional tailwind. Super Retail Group (SUL +30.7%) provided a strong trading update in July and additional data in August showed continued strong trading across most divisions. SUL is well placed to benefit from more enduring COVID themes of domestic holidaying and personal health. With the earnings multiple coming from a very low base versus the market, we have maintained our overweight given the strength of data around recent trading. Lastly, Paykel Health (FPH -6.9% not held) weakened after graduating to the ASX100 Index, no doubt resulting in some small cap managers de-weighting their positions.

Underperforming in September was Viva Energy (VEA -12.1%), as Melbourne was placed on Stage 4 restrictions limiting vehicle movement over the next 6 weeks as well as their on-market buyback ceasing during the earnings blackout period ahead of results. VEA has 25% earnings exposure to the Victorian market, so there will likely be some earnings impact from lower volumes. However, retail and wholesale fuel margins are sitting above historical averages and should help mitigate impacts from lost volumes. Polynovo (PNV -13.0%) released a trading update which was slightly below our expectations and dimensioning the disruption from Covid has been challenging. While we are positive on PNV's burns products internationally, this is largely factored into the share price and with additional delays for their hernia product through the US FDA we struggled to see further upside and sold down our holding. Pointsbet Holdings (PBH +114.2% not held) announced a 5-year US$393m marketing commitment with US TV network NBC, as they scale up to try and win share in the US online sport gambling market. The company raised capital via a rights issue and institutional placement while also placing 4.9% of the company and 67m options to NBC to help support the significant investment required to build a US presence. The investment proposition characterised by many years without any material cashflow and continued large capital requirements, had remained somewhat binary in our view. To management's credit they have executed flawlessly to date, while the market has been relatively efficient in pricing in the upside at current prices. EML Payments (EML -14.7%) sold off on no news of note, however a second COVID wave in Europe and the US has raised the potential to push out recovery in their gift card division. The recently acquired PFS division continues to perform strongly, although management has had to work hard to mute negative impacts from a fall away in the high margin travel card business in Europe. We still anticipate a long runway of growth while the valuation remains cheap, a good combination in our view. Lastly, Pendal Group (PDL -8.5%) continued to see headwinds from net fund outflows in a number of their funds, making it a challenge to gain any traction with investors despite being its deeply discounted valuation. During the quarter we switched our PDL exposure into another fund management exposure in IOOF Holdings (IFL) following its acquisition of MLC from NAB.

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

Important Information