

# TRIBECA AUSTRALIAN SMALLER COMPANIES – CLASS A: MONTHLY REPORT

February 2021

## Fund overview

This is an actively managed, long-only strategy with flexibility to enhance alpha through its ability to invest up to 20% of the Fund in mid-cap stocks outside the ASX-50 Index.

By investing in companies outside of the top 50 and limiting exposure to top 100 ASX-listed companies, the Fund seeks to benefit from the concept of information arbitrage.

Tribeca's investment approach aims to identify the market leaders of the future and will have a bias toward companies with relatively high quality and sustainable earnings streams.

Tribeca's investment strategy has been forged over more than a decade and aims to identify the market leading companies of the future.

Figure 1: Investment Process



Source: Tribeca Investment Partners

## Performance

As at 28 February 2021

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception <sup>1</sup> % pa
Class A Units <sup>2</sup>	4.94	8.80	30.76	11.48	13.42	9.93	7.71	9.21
Benchmark <sup>3</sup>	1.55	4.08	17.18	7.21	11.70	8.13	4.00	5.58
Value added	3.39	4.72	13.58	4.27	1.72	1.80	3.71	3.63

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%
IGO Limited	3.1
EML Payments Ltd.	3.7
Fletcher Building Limited	2.7
Nickel Mines Ltd.	3.5
Uniti Group Ltd.	3.1

1 S&P/ASX Small Ordinaries Accumulation Index

2 May not total due to rounding

Portfolio characteristics	Portfolio%	Index% <sup>1</sup>
Communication Services	5.2	5.4
Consumer Discretionary	18.0	17.7
Consumer Staples	5.3	6.4
Energy	3.7	2.3
Financials (ex-Property Trusts)	13.0	14.9
Healthcare	7.6	7.5
Industrials	5.8	6.7
Information Technology	9.1	6.6
Materials	22.5	21.1
Property Trusts	7.7	11.4
Cash	2.0	--
<b>TOTAL<sup>2</sup></b>	<b>100.0</b>	<b>100.0</b>

## Manager commentary

A sudden surge in bond yields in the final week of February sent tremors through global markets. Parallels were quickly drawn with the 1994 'bond market massacre' and the 2013 'taper tantrum'. However, the broader Australian equity market still managed to post a gain of 1.5%, while small caps were largely in-line (+1.6%). In the US and EU, the Q4 earnings season approached its close, with year-on-year EPS growth turning positive after three consecutive quarters of negative growth and most companies have beaten consensus estimates. In Australia, the ratio of beats to misses and positive earnings revisions hit a record high during reporting season. We saw another sharp outperformance for of value in the Australian market, marking five consecutive months of value outperforming growth. Within small caps, financials led gains alongside telco and staples while industrials, health and discretionary lagged. The Tribeca portfolio had a strong month in terms of alpha generation, largely on the back of a strongly positive skew of winners versus losers during reporting season.

Contributors to outperformance included EML Payments (EML +29.6%), which saw a recovery rally after posting 1H results in-line with market expectations. We anticipated the market would revisit the EML story as a vaccine recovery play, given the hit to profits the company took during COVID from lower shopping mall traffic and the loss of higher margin travel cards in Europe. EML is forecasting strong growth driven by a mix of existing customer growth, new contract wins and potential acquisitions while trading at a reasonable valuation, particularly versus its tech/payment peer group. Seven West Media (SWM +51.4%) demonstrated a strong earnings recovery and good balance sheet management despite a heavily COVID impacted September quarter. Better-than-expected cost out drove the surprise, while commentary on 2H market visibility was very positive as companies recommence investment in marketing. Uniti Wireless (UWL +17.5%), delivered strong earnings growth ahead of expectations, the outperformance was driven by the strong integration of the OptiComm acquisition and improving housing market conditions driving demand for broadband services. We believe there to be further complementary acquisitions forthcoming which should be accretive and continue to build out UWL's service offering.

PWR Holding's (PWH +23.3%) 1H21 result materially beat guidance that was only delivered back in December 2020, with strong orders received from their F1 customers into month end. The new emerging technology division, which utilises R&D from the F1 side of the business to provide advanced cooling solutions in adjacent areas like aerospace and military is still nascent but

growing very rapidly. Early engagement with new clients has been positive and we think this new division could be a material contributor to group profit in the near future. Lastly, Lynas Rare Earths (LYC +25.1%) continued its phenomenal run with production and pricing which was received better than expectations. We took the opportunity to take material profits with the share price factoring in a lot of near-term news already.

Underperforming for the portfolio was Northern Star Resources (NST -20.5%), as demand for gold equities continued to be weak. The company's result and outlook were strong, however gold prices continued to fall (gold -6.6%) as real bond yields rallied and thus reversing one of the recent drivers of gold for investors. We have held an underweight position in gold for the past 6 months, however the space is beginning to look attractive from a valuation viewpoint and we are reviewing our exposures. Zip Co (Z1P +43.1% NOT HELD) delivered another eye-watering performance to post a gain of 92% over the past 2 months. In contrast to last month, market leaders such as Afterpay and Nasdaq listed Affirm fell back while Z1P and up-and-comer Sezzle Group (SZL) closed some of their valuation discount to the majors. We anticipate higher bond yields will take some of the steam out of valuations in the space and we will re-evaluate underweights should such an opportunity arise. NRW Holdings (NWH -29.7%), negatively surprised the market with material claims variations on contracts that were yet to be agreed for payment by clients, resulting in profits well below expectations. The additional costs, which were expected to be partly recovered by management, were attributed to COVID disruptions and tightness in the WA construction market. This surprised us and the market and with conditions unlikely to ease in the near future we exited our position. Vocus Group (VOC +22.3% NOT HELD), was the recipient of further corporate interest, this time a conditional, non-binding bid from a consortium including Macquarie Infrastructure and Aware Super. The bid has a positive read-thru for our UWL holding and we ultimately feel it will also end up in infrastructure investors' hands. Lastly, Data3 Ltd (DTL -10.8%) reported strong revenue growth however lower margins translated into less profit growth, though still in-line with guidance. We read the result somewhat differently to the market, with material business wins in the 1H likely to translate into strong profit growth in H2, and we added to our position on the weakness.

See [gsfm.com.au](http://gsfm.com.au) for more information about the Tribeca Australian Smaller Companies Fund.

### Important Information

Investment Manager: Tribeca Investment Partners Pty Ltd ABN 64 080 430 100 AFSL 239070, Responsible Entity: Equity Trustees Limited ('EQT') ABN 46 004 031 298 AFSL 240975, Distribution partner: GSFM Pty Limited ('GSFM') ABN 14 125 715 004 AFSL 317587. This report is provided for information purposes only and is not intended to take the place of professional advice. Neither Tribeca, EQT nor GSFM give any warranty as to the accuracy, reliability or completeness of the information in this report nor do they undertake to correct any information subsequently found to be inaccurate. Opinions expressed may change without notice.

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