TRIBECA ALPHA PLUS – CLASS A: MONTHLY REPORT

Tribeca Investment Partners

January 2021

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 January 2021

	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]	1.91	13.46	7.10	9.23	10.08	12.13	9.56	9.25
Benchmark[3]	0.31	11.89	(3.11)	7.00	10.03	7.90	7.86	6.27
Value added	1.60	1.57	10.21	2.23	0.05	4.23	1.70	2.98

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%
Wesfarmers Limited	1.2
Ramsay Health Care Limited	2.8
Treasury Wine Estates Limited	2.5
CSL Limited	4.7
AGL Energy Limited	-1.5
Domain Holdings Australia Ltd.	1.9
Star Entertainment Group Limited	1.8
Nuix Ltd.	1.6
Goodman Group	--
Spark New Zealand Limited	1.6

1 S&P/ASX 200 Accumulation Index

2 May not total due to rounding

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	7.4	3.8
Consumer Discretionary	8.5	4.7
Consumer Staples	6.5	9.3
Energy	4.1	3.8
Financial-x-Property Trusts	25.8	28.4
Health Care	10.7	10.5
Industrials	5.8	7.0
Information Technology	2.7	4.5
Materials	20.1	20.0
Property Trusts	6.0	6.6
Telecommunication Services	1.5	--
Utilities	-1.4	1.4
Cash	2.3	--
TOTAL[2]	**100.0**	**100.0**

Manager commentary

January saw a turbulent start to the year with the market posting a small gain of 0.3% but still managing to outperform US equities which fell -1.1%. Global macro developments proved to be important drivers of price performance within the equity market through the month as investors await reporting season in Australia. Key macro developments included: the Democrats emerging with a “blue sweep” in the US following the Georgia senate run-off elections; increased concerns around new strains of COVID and doubts around vaccination progress; and a late month sell-off driven by a fear that rising losses by short sellers would undermine the broader equity market rally.

As a result, volatility spiked sharply as the equity market oscillated between bouts of risk-on (favouring value stocks) and risk-off (favouring growth stocks). When the dust settled, the broad market trends that had begun to develop in 4Q20 were still largely intact – economic recovery, rising bond yields and a steeper yield curve. The Australia Value Index outperformed Growth by 2.5% which was the fourth consecutive month of outperformance, although the majority of gains were seen at the start of the month when optimism around the US spending boost was at its highest. It was a good month for large caps (ASX20 +1.6%) which showed their relative resilience verses small caps (Small Ords -0.3%).

Consumer discretionary was the strongest performing sector through January with broad gains seen in the retailers (BRG, HVN, SUL) being somewhat offset by further weakness in several travel and tourism stocks (FLT, WEB, CTD, SGR). Banks were a standout, rising 4% as a steepening yield curve (boosting net interest margins) combined with a strong housing market and reduced fears of delinquencies saw strong buying across the board. Expectations for a faster-than-expected increase in dividends also provided some downside support. Technology and Materials, two of the strongest performing sectors over the past 12 months were both weaker in January as turmoil in the US market drove profit taking in some of the strongest performing names. In addition, some weakness in the iron ore prices saw those most leveraged to the commodity take a breather. Real estate was the biggest casualty over the month as it succumbed to a rise in bond yields although there remained some hope that removal of social restrictions will begin to underpin the sector on a more consistent basis going forward.

At a stock-specific level, attribution came from ongoing strength in certain high-conviction holdings, as well as the reversion of some names which had rallied in prior periods. For example, underweight positions in Nanosonics (NAN) and Adelaide Brighton (ABC) contributed positively, as these stocks retraced prior gains which were not predicated on any fundamental information, but rather on a kind of ‘irrational exuberance’. Several overweight positions which materially contributed to outperformance include: Nuix (NXL) – which continued its strong run since IPO; Afterpay (APT) – leveraged to economic recovery and with a broader global penetration story that showed no signs of slowing; Domain (DHG) – as the outlook for housing turnover grew increasingly positive, noting Domain had lagged Classifieds peers; Incitec Pivot (IPL) – as global soft commodity and fertiliser prices surged. We note that our top performers were not limited to a particular thematic or sector, but rather attribution was broad-based across sectors and factors.

Our biggest detractor this month was an underweight position in Bingo Industries (BIN), which received an unsolicited bid from a private equity consortium. Tail-risk events like this are an inevitable feature of investing and highlight the important of risk management and diversification across a portfolio. The fact that we still materially outperformed this month is a testament to our risk management framework. Other detractors included Tyro (TYR) – which was sold off after the company announced an operational issue with some of their terminals, a risk that we thoroughly evaluated, and became comfortable with; Bluescope Steel (BSL) – which sold off sharply after recent strong share price momentum, although partly recovering with a strong update at the end of the month; and overweight positions in travel names such as Qantas (QAN) and Sydney Airport (SYD) as the prospect of open international travel was further deferred, despite impressive progress with vaccinations globally.

Outlook

We expect 2021 to be a positive year for Australian equities, supported by easy monetary conditions, ongoing fiscal support and an economy which will continue on a path towards normalcy as the lagged impacts of social restrictions unwind. In addition, a solid global backdrop – lead by China but including the US – will also provide a strong tailwind for specific areas of the market (i.e. commodities) as well as both domestic and internationally exposed cyclicals.

While risks will remain ever present – and extended valuations for some areas of the market are an ongoing threat – both the government and the Reserve Bank of Australia have laid the foundations for a solid economic recovery which will be increasingly supported by an accelerated roll-out of a COVID vaccine. We expect the government to remain pragmatic on the speed at which it removes its accommodative fiscal support and a lack of inflationary pressures and strong forward guidance by the RBA point towards an extended period for record low interest rates.

Last year’s COVID vaccine announcements drove a sharp reversal in the performance of many laggard areas of the domestic equity market such as financials, travel and tourism, consumer discretionary and industrials. It also saw a sharp re-pricing in the fixed income market with a dramatic increase in long bond yields and profit taking in many “work from home” winners. This reflected increased confidence around the economic outlook, and it is likely that these trends continue through this year as growth normalizes. This should provide ongoing support for cyclicals, value stocks, small caps and domestic stocks which are globally exposed.

While a large part of the “catch-up” phase and/or valuation normalization has already taken place (banks rose 28% over 4Q20), an improving earnings cycle and further inflows into risk assets as a result of a lack of alternatives will provide both downside support during periods of weakness as well as a tailwind for upside as we move further into the year. While a rise in bond yields may see some pressure on areas where valuations are well above historical norms, we don’t expect it to undermine equities in general, particularly we see further gains in earnings as an offset. Similarly, it’s unlikely that either wage nor inflation pressures will be high over the coming 12 months.

We have been encouraged by the strength of consumer spending and the resilience of other areas where consensus was expecting weakness such as the labour market, housing sector and corporate delinquencies through the end of 2020. We are now seeing developments in the real economy confirm the willingness of the equity market to look through these risks. While many of the longer-term headwinds to a strong and sustainable economic recovery have not completely disappeared, abundant liquidity will remain an important bridge during periods of weakness.

We think the coming year will be ultimately driven by a broadening of the “reflation” trade. This will continue to support commodity related areas (which have been in an upgrade cycle since mid 2Q20) as well as other domestically exposed areas of the market. While growth is currently out of favour, there remain strong structural reasons as to why investors will not abandon this thematic in totality. Expect equities to rise in excess of 10% supported by modest valuation expansion in cyclicals, broad earnings upgrades, continued low interest rates and strong equity inflows as investors hunt higher yields and capital returns.

Stay invested and stay active.

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

Important Information