TRIBECA ALPHA PLUS – CLASS A: MONTHLY REPORT

Tribeca Investment Partners

February 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 28 February 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]	2.09	7.07	17.56	8.79	11.32	11.95	9.79	9.36
Benchmark[3]	1.45	3.00	6.48	7.39	10.74	7.37	7.76	6.34
Value added	0.64	4.07	11.08	1.40	0.58	4.58	2.03	3.02

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%
Goodman Group	-0.6
Ramsay Health Care Limited	2.7
Treasury Wine Estates Limited	2.4
Wesfarmers Limited	1.1
Woolworths Group Ltd	4.3
Westpac Banking Corporation	6.2
Macquarie Group Limited	4.2
Scentre Group	2.4
Star Entertainment Group Limited	1.7
Santos Limited	2.2

1 S&P/ASX 200 Accumulation Index

2 May not total due to rounding

Portfolio characteristics	Portfolio%	Index%[1]
Communication Services	6.6	3.7
Consumer Discretionary	7.1	4.8
Consumer Staples	7.6	8.6
Energy	3.4	3.8
Financial-x-Property Trusts	29.4	29.4
Health Care	11.3	10.1
Industrials	5.8	6.8
Information Technology	2.7	4.0
Materials	20.5	21.2
Property Trusts	4.8	6.4
Telecommunication Services	1.4	--
Utilities	-1.1	1.3
Cash	0.7	--
TOTAL[2]	**100.0**	**100.0**

Manager commentary

February was a volatile month for the Australian equity market with an exceptionally strong reporting season somewhat overshadowed by global macroeconomic events. After recovering from a shaky end to January, the market was hit by substantial profit taking in high valuation sectors as bond yields spiked sharply off the back of growing conviction in an economic recovery and a normalization of inflation expectations. While higher bond yields are simply reflecting the transition of the economy from recovery to expansion, the speed of the latest move spooked equity investors and pulled forward expectations of central bank policy tightening.

The ASX 200 underperformed global equities despite exceptionally strong performances by market heavy weights - financials and miners. For the most part, the results from resources stocks were well above expectations, supported by rising commodity prices, large dividend increases and the prospect of further earnings upgrades as the commodity cycle grows stronger. Similarly, banks posted much better-than-expected results with a strong shift in sentiment driven by rising house prices and a steepening yield curve supporting price performance. It was unfortunate that profit taking due to rising bond yields in sectors such as gold, technology and utilities as well as some large corrections in stocks which disappointed over the reporting season -APX (-25.3%), ORI (-17.7%), A2M (-16.0%), AGL (-14.7%) and COL (-14.0%) - took the gloss off what was considered one of the better reporting seasons for more than a decade. The Tribeca Alpha Plus fund delivered another strong month with a 2.09% return compared with 1.45% for the S&P/ASX200 Accumulation Index, an outperformance of 0.64%.

While erratic price action is not unusual around reporting season, this reporting season was particularly volatile as high market expectations and rising bond yields contended with generally robust operating conditions and macro indicators. We capitalised on these big movements with returns derived quite evenly across both our long and short book. Positive attribution came from positions in: Universal Store Holdings (UNI) – which posted a stellar result and positive outlook; Bank of Queensland (BOQ) – which completed its strategically transformative acquisition of ME Bank, making BOQ the sixth biggest bank in the country (by gross loans); Oz Minerals (OZL) – benefiting from the strong rally in the copper price driven by a very constructive macro outlook for base metals. Underweight positions which supported performance included: AGL Energy (AGL) – which continued to struggle with a tough wholesale electricity market and operational issues; and Coles (COL) – reporting a disappointing slowdown in sales for the period and market share loss.

The biggest detractor for the month was an overweight position in Nuix (NXL), which reported an unexpected decline in YoY revenues after a very strong share price appreciation post-IPO. In fact, most of our top detractors this month were high-growth technology stocks most susceptible to the prospect of a precipitous rise in discount rates, including Redbubble (RBL) and Afterpay (APT). Conversely, an underweight position in Virgin UK (VUK) negatively contributed to performance, as a combination of a positive trading update and rotation to ‘value financials’ benefited that stock. Despite these examples, we were pleased to yet again deliver positive alpha in a period of such sudden factor rotation, highlighting the importance of keeping a balanced and diversified portfolio not unduly reliant on, or vulnerable to, a particular style or factor.

Outlook

The February reporting season has seen over 50% of stocks surprise on the upside (traditionally this is between 35-40%) with margin expansion rather than revenue surprises being the key driver. Better-than-expected data on the domestic economic recovery is likely to see further upgrades by corporate Australia in the months to come with strong cost control during the COVID lock down period likely to provide a powerful springboard as revenue begins to pick up. The market is willing to bet on stocks which will benefit from a reopening of the economy with many COVID losers rising strongly despite earnings misses.

Value has now outperformed growth by 31% since September last year and it is likely that this trend will continue for some time as the economy normalizes and bond yields put further pressure on stocks trading on elevated valuations such as technology and healthcare. Looking ahead, while volatility has picked up dramatically, bond yields are rising for the ‘right’ reasons and a broad reflationary backdrop is usually supportive of equities even if the transition to economic expansion is turbulent. We think the RBA remains committed in its support of the economic recovery and with strong asset markets (housing and equities), elevated commodity prices, high levels of excess savings and pent-up consumer demand, it is likely that a strong economy will translate into a strong outlook for many domestic stocks and sectors within the equity market.

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 growth backdrop – led by China but including the US – will also provide a strong tailwind for specific areas of the market (e.g. commodities) as well as domestic and internationally exposed cyclicals.

While risks will remain ever present and stretched valuations for some areas of the market are an ongoing risk – 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 strong forward guidance by the RBA point towards an extended period for record low interest rates.

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 remains strong structural reasons as to why investors will not abandon this thematic in totality. We 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.