Tribeca Investment Partners

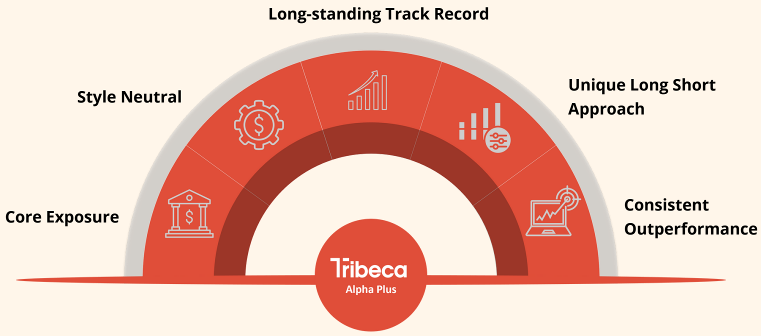
Fund Update

Tribeca Alpha Plus Class A Units

JANUARY 2023

Fund Overview

The Tribeca Alpha Plus Fund targets outperformance over the S&P/ASX 200 Accumulation Index over the long term by investing in listed Australian equities (long and short). The fund leverages off the strengths of both quantitative and fundamental styles of investing. Quantitative investing brings breadth and objectivity to the process by exploiting behavioural biases in the market. Fundamental investing gives depth of insight and conviction by identifying high quality businesses with strong fundamentals.



Core Exposure
Offers investors core exposure to the ASX

A diversified portfolio, generally consisting of 60-70 long positions and 30-40 short positions

Style Neutral
Style agnostic and broad-based industry exposure

Long-standing Track Record
One of the longest running equity long short funds in Australia (inception 2006).

Unique Long Short Approach
Utilises a long short approach that is rarely seen in Australian equities. Active management allows enhanced return potential and better risk control.

Target allocation of 150% long, 50% short

Consistent Outperformance
The fund has consistently outperformed its benchmark since its inception in 2006.

Fund Characteristics

TOP 10 ACTIVE WEIGHTS

	Active Position %
Treasury Wine Estates Limited	2.8
Ramsay Health Care Limited	2.8
Goodman Group	2.7
Commonwealth Bank of Australia	-2.6
a2 Milk Company Ltd.	2.6
Technology One Limited	2.3
Brambles Ltd	2.1
IDP Education Ltd	2.1
Wesfarmers Limited	-2.0
Tabcorp Holdings Limited	1.9

TOP 10 HOLDINGS

	Fund %	Index %[1]
BHP Group Ltd	11.9	11.3
CSL Limited	6.5	6.5
Commonwealth Bank of Australia	5.8	8.4
National Australia Bank Limited	5.3	4.5
Goodman Group	4.2	1.5
Westpac Banking Corporation	4.0	3.7
Woodside Energy Group Ltd	3.8	3.1
ANZ Group Holdings Ltd	3.4	3.4
Macquarie Group Ltd	3.4	3.1
Ramsay Health Care Ltd	3.3	0.6

1. S&P/ASX 200 Accumulation Index

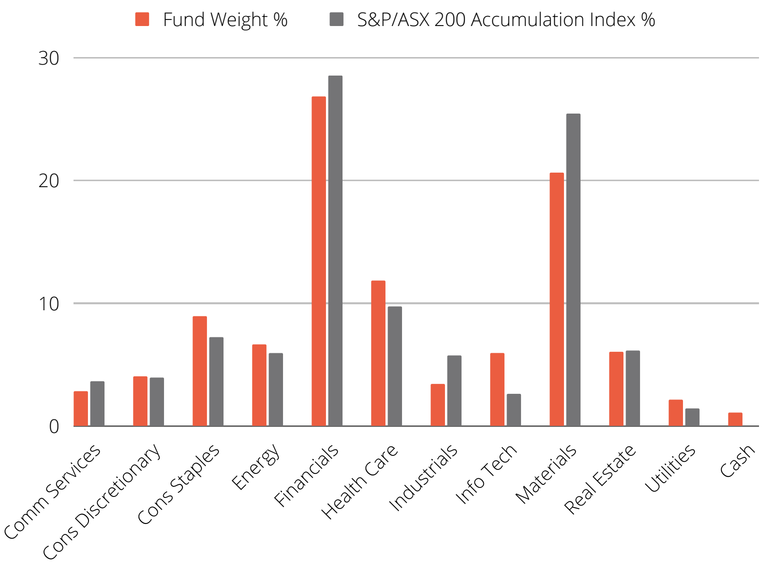
Performance as at 31 January 2023

	1 month %	3 months %	1 year %	3 years %	5 years % pa	7 years % pa	10 years % pa	Since Inception[1] % pa
Class A Units[2]	4.85	9.63	12.01	10.65	10.52	10.76	12.41	9.64
Benchmark[3]	6.23	9.59	12.21	5.96	8.51	10.25	8.79	6.82
Value Added	(1.38)	0.04	(0.20)	4.69	2.01	0.51	3.62	2.82

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

SECTOR ALLOCATION



The data presented in these tables and graphs is unaudited and may change at any time. The data is shown for informational purposes only and is not indicative of any future portfolio characteristics.

Manager Commentary

Global equity markets rallied sharply in January, reversing December's softness. The S&P/ASX 200 Accumulation Index rallied 6.2%, which was inline with the move seen in the S&P 500 (+6.2%) and slightly behind the 7.0% return from the MSCI World Index. Index moves were largely macro driven as some investors saw an increased potential for a soft landing in the US as inflation slows but employment data remains decisively strong. Successive lower inflation prints have seen the FOMC slow the tempo of rate hikes, with a 25-basis point increase in January, after 50 basis points in December and 4 consecutive 75 basis point hikes prior to that. Powell also indicated that they see only "a couple more hikes" looking forward which saw yield curves drop in both the US and Australia.

All sectors posted positive returns in January, except for Utilities (-3.0%), which lagged on concerns about government intervention and falling power prices. Consumer discretionary (+10.1%) was the best performer as positive pre-announcements from cyclical retailers like JB Hi-Fi (+15%) and Super Retail (+18%) suggests that headwinds from RBA rate hikes and falling home prices are yet to flow through. Materials (+8.9%) outperformed on China re-opening and falling USD, despite a more mixed performance from underlying commodity prices during the month. The Real Estate sector (+8.1%) also bounced strongly on a more dovish rate outlook following significant underperformance in CY22.

In February, all eyes will be on Consensus earnings revisions (12-month forward) for the ASX200 were marginally positive (+0.5%) over the month. This was driven entirely by materials (+3.6%) with all other sectors neutral or negative. At the end of the month the ASX200 was trading at 13.9x forward earnings, below the longer-term average of 14.6x.

The Fund returned 4.85% in January, underperforming its benchmark by 1.38%. Performance attribution was relatively evenly balanced between the long and short sides of the book. Overweight positions that contributed positively included: Goodman Group (GMG), which outperformed a strong REIT sector bounce as investors priced a slightly more dovish rate environment; IDP Education (IEL), which has seen an improving outlook for student placements and benefited from the accelerated Chinese re-opening; and, Pro Medicus (PME) which hit an all-time closing high after announcing a new contract win on the last day of the month.

Underweight stocks that contributed positively included: Amcor (AMC), which has seen downward revisions to EPS estimates on concerns around currency headwinds and cost growth; and, New Hope Corporation (NHC) which saw profit taking due to a 32% drop in the thermal coal price during the month.

Key detractors included overweight positions in: Tabcorp (TAH) which gave up recent out-performance on concerns around the level of promotional activity being undertaken by competitors in the gaming segment, and a2 Milk (A2M) which traded sideways following a strong run-up in its share price in recent months. The key underweight position which negatively impacted performance was Breville Group (BRG) which is a quality discretionary retail name that benefited from the perception of an economic soft landing.

Outlook

There has been extensive discussion on imminent recession, and as we move further into the new year, the consensus forecast is for recession in the US, Europe, and UK, but that Australia may avoid this outcome. This is encouraging news for domestic investors but recession or not, Australia's economic outlook will deteriorate meaningfully from the conditions seen over the prior 12-month period. This means there is likely to be near term downside for equity markets and a continuation of the volatility that has accompanied the period during which the Reserve Bank of Australia (RBA) has been raising interest rates.

Even for an optimist, it's probably too early to look through the economic downturn that is on the cusp of unfolding. This is because the economy and corporate earnings are closely linked, meaning as economic growth weakens, so too will earnings. What makes this cycle even more challenging, is that corporates are not only going to face slowing top line demand (sales), but they are also facing a rapid escalation in costs whether it be from the explosion seen in raw material and utility costs, or from (in some cases) near double digit increases in the cost of labour.

The good news is that just as each and every economic recession is different, so too is the impact of an economic slowdown on corporate earnings. This means it is possible to find stocks where earnings rise into cyclical weakness as well as stocks which have an ability to either offset or at least mitigate sales and margin pressures. It is these stocks which are likely to offer both absolute and relative downside protection as global and domestic economic growth fears move higher. In portfolio construction, we focus on four key earnings characteristics as Australia's economy begins to soften.

First, there are stocks which are countercyclical and will see earnings rise and/or be maintained at prior growth rates into economic slowdowns. We believe Ramsay Healthcare (ASX:RHC) and CSL (ASX:CSL) fit into this category. Both businesses' earnings are expected to grow significantly over the next few years underpinned by recovery in demand post covid and structural growth drivers. In the case of Ramsay, earnings will double in the next 12 months irrespective of the economic factors.

Second, there are stocks which have the ability to pass on cost increases (inflation offsets) or where demand is less sensitive to broader activity levels (inelastic). These are stocks which we consider having pricing power - against a backdrop of inflation running over 7% - and being able to pass this cost increase straight onto the consumer (without a commensurate decline in demand), allowing a corporate to protect its profit margins. Companies such as Goodman Group (ASX:GMG) and Lottery Corporation (ASX:TLC) fit into this category. Their infrastructure, like earnings, are well insulated in the current environment with inflation escalators built into revenue growth as well as defensive nature of their products.

Third, there are stocks which have a low proportion of fixed costs vis-à-vis variable costs and so can manage their cost base on a more flexible basis when demand begins to soften. This can also apply to any corporate where management has a strong track record of cost control via stable and/or increasing margins over time. Many factors can help create this earnings backdrop, but we believe companies such as realestate.com is a standout in this category. When faced with housing listing volume falling, REA Group (ASX: REA), owner of realestate.com, has demonstrated repeatedly over the past decade their ability to perform better than the market by flexing yield and control costs.

Finally, there are those stocks which are exposed to structural growth tailwinds that are more than sufficient to offset short term cyclical headwinds. This might be via exposure to regions / countries which are growing faster (like China) or it could be to areas which are underpenetrated or where technology and innovation is driving growth. It could equally be in areas where there are one-off factors such as geopolitics driving outcomes. We think A2 Milk Company (ASX:A2M) and Treasury Wine Estates (ASX:TWE) fit into this category.

While this may not be the complete list of stocks which offer either absolution or relative downside protection, there are tried and trusted ways to help mitigate economic slowdowns and profit margin pressures. In some cases, there are opportunities to own stocks where earnings will perform countercyclically (go up when the economy is going down). Given the dramatic valuation de-rating that has been seen throughout 2022, not only do many of these stocks offer a very solid earnings outlook, but they do so at significantly cheaper prices than this time last year.

Fund Facts

APIR CODE
ETL0069AU

RESPONSIBLE ENTITY
Equity Trustees Limited

INCEPTION DATE
18 September 2006

PERFORMANCE FEE
20.5% of the Fund's return above the Fund Benchmark

DISTRIBUTIONS
Half-Yearly

MANAGEMENT FEE
0.97% P.A.

INVESTMENT MANAGER
Tribeca Investment Partners Pty Ltd

BUY / SELL SPREAD
Buy +0.30% / Sell -0.30%