Tribeca Investment Partners

Tribeca Alpha Plus Fund
August 2020 Monthly Update

Portfolio Manager

Jun Bei Liu

	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years	ITD
Tribeca Alpha Plus Fund	4.68%	10.95%	3.37%	9.76%	10.27%	10.61%	10.12%
Benchmark	2.83%	6.04%	-5.08%	6.10%	7.47%	7.81%	5.75%
Value Added	1.85%	4.91%	8.45%	3.66%	2.80%	2.80%	4.37%

1. Gross performance before fees. Past performance is not a good indicator of future performance
2. 3, 5, 10 Year and Inception to Date returns are annualised.
3. Fund benchmark is the S&P/ASX 200 Accumulation Index

Performance Attribution Summary

Major Contributors	Contribution of Added Value	Active Position
Zip Co	0.47%	OW
SpeedCast International	0.34%	UW
Megaport	0.29%	OW
Charter Hall Group	0.23%	OW
Super Retail Group	0.20%	OW

Major Detractors	Contribution of Added Value	Active Position
Corporate Travel	-0.49%	UW
Wisetech Global	-0.29%	UW
a2 Milk Company	-0.26%	OW
G8 Education	-0.16%	UW
Monadelphous Group	-0.14%	UW

Major Portfolio Positions

Overweights
Fortescue Metals Group
Spark New Zealand
Ansell
Charter Hall Group
Ramsay Health Care

Underweights
Wesfarmers
Goodman Group
Coles Group
ASX
Woodside Petroleum

Long	**115.73%**	**Short**	**-16.92%**

Summary of Trading Activity

Main Purchases for the Month

Stock	Reason
CSL	Reduced underweight ahead of result following meaningful underperformance.
Netwealth Group	Increased overweight ahead of result expecting strong beat to earnings expectations.
Fortescue Metals Group	Took advantage of price weakness after the shares went ex-dividend.
Fisher & Paykel Healthcare	Increased exposure ahead of result expecting strong commentary in relation to current trading conditions.

Main Sales for the Month

Stock	Reason
Harvey Norman Holdings	Took profit following strong share price performance.
Resmed Inc	Reduced overweight following strong share price performance and signs of weakness emerging in the sleep business due to Covid disruption.
TPG	Took profit post-merger with Vodafone. Telecommunication sector continued to experience heightened competitive pressure.
Dominos Pizza	Took profit following result.

Sonic Health	Increased overweight post accretive deal with US government to provide Covid testing capacity.	Downer EDI	Reduced exposure as operating conditions remain challenging.

Performance Commentary

There was fear that the August reporting period would be a time of reckoning for the market, given the rapid recovery off March lows. However, despite the first proper insight into 'COVID-impacted' earnings, the market responded positively in aggregate. The ASX 200 closed the month with a gain of +2.8%. We are pleased to report that the Tribeca Alpha Plus Fund returned +4.7% in August, an outperformance of +1.8% over the market.

The market's strength during the reporting period reflected a combination of conservative forecasting (primarily on the cost side) and a willingness of investors to look through near-term softness. Perhaps more important than the reported earnings, many of which were pre-guided, was the outlook and trading commentary. While most companies were reticent about their outlook, and few companies provided quantitative guidance, commentary on trading trends to date was welcomed by investors keen to gauge the pace and trajectory of recovery.

From a sector perspective, Tech (+15.5%) and Consumer Discretionary (+12.9%) led the charge in August, as the likes of Megaport, Afterpay and Nearmap rose strongly on impressive results on the Tech front, while Super Retail and Harvey Norman's results highlighted the strength and sustainability of the behavioural shifts from which they are benefitting. REITs (+7.7%) and Industrials (+4.6%) also performed well. The laggard sectors in August were Communications (-4.9%), dragged down by Telstra after a disappointing result, and Utilities (-4.8%).

In terms of attribution for the Fund, positive contributions came from a range of sectors. Long positions in Zip Co, Megaport, Stockland and Sydney Airport contributed positively, as did a short position in Whitehaven Coal, which was partly justified on an ESG basis. We were pleased to see contribution from conviction positions across a range of sectors, rather than one or two thematics. It is always precarious to chase the 'flavour of the month'.

Detractors were primarily short positions in stocks that rallied after their results exceeded expectations. Short positions in Corporate Travel and Wisetech were notable. Long positions in A2 Milk and TPG also detracted, as these stocks underperformed the market. We maintain our view of holding conviction positions based on fundamentals, not swayed by near-term sentiment swings, which it is folly to try to pick.

Outlook

What is now clear is that the immediate impact of COVID (for most sectors) is not as severe as initially feared, but the initial recovery enthusiasm has been muted by concerns of further lockdowns (e.g. Victoria) and the still-unknown longer-term economic & behavioural implications of the pandemic. The fact the market rallied in August despite net earnings downgrades to FY21 forecasts highlights the extent to which the market is willing to look-through near-term weakness. We continue to be on the lookout for businesses that are priced attractively on a 'normalised earnings' basis, provided the risk and time of achieving such normalised earnings is appropriately discounted in the price.

So, what have we learned during this August reporting season?

The June half had certainly been very tough for many sectors, particularly those directly affected by the pandemic-induced lockdown. Hotels, restaurants, casinos, shopping centres and, of course, travel were among some of the worst hit sectors. With lockdown still in place in Victoria, companies in these sectors were certainly cautious when guiding to earnings recovery.

For those businesses, it is all about the trajectory of the earnings recovery, as well as capital preservation. With minimal earnings expectation for FY20, many of these outperformed meaningfully. What surprised us though, was that travel names performed particularly strongly despite the more prolonged recovery outlook. Our view has always been that current market conditions offer ample opportunities to buy some premium assets which are trading at a fraction of their intrinsic value. Sydney Airport, Scentre Group and Ramsay Health Care are some of our favourites in playing the reopening theme. Investors are paying very little at this point for earnings, and we are comfortable that once the world returns to normal - and it will - these businesses will experience a V-shaped recovery regardless of the economic cycle. In fact, lower interest rates around the world will further underpin their traditional premium to the market.

Meanwhile, after a brief disruption to sales due to forced store closures, most retailers have staged a phenomenal comeback, aided by the stimulus and changing consumption patterns. It would seem that saved overseas travel dollars are now being spent on housing renovation and discretionary items. While many would call this boost to sales temporary, and look to take profits accordingly, our view is that this is too early.

We have heard from the travel sector - including Qantas - that domestic travel is not likely to resume until the end of this year, and that international travel is unlikely before mid-2021. We expect consumers to remain domestically bound at least for the next 10 months before the world is completely clear of COVID-19.

In the retail space, rather than the staple names, we prefer the discretionary peers. Like most of our recommendations to investors, a positive top-down view should not be translated into a blanket buy of the whole sector. Fundamental research is the critical factor to generate superior returns. In this vein, Super Retail, which owns Supercheap Auto, BCF, Macpac and Rebel, operates in the sweet spot of this transition year. Without international travel, people are exercising more and travelling more to local camping grounds, with many local camping grounds now booked out for the Christmas break. Super Retail pointed to continuation of strong sales growth into the first half of 2020, up 32% across the group despite the lockdowns in Melbourne and Auckland and we do believe they are the key beneficiary of the current trends. What's more attractive is that it is only trading at 14x earnings which is a substantial discount to ASX industrial earnings multiple of 22x.

If judged by share prices, it would seem the tech sector has been the biggest beneficiary of the pandemic. The sector in aggregate outperformed the ASX 200 by a staggering 91% off the March lows, and the leaders of the sector have done even better, such as Afterpay, which has delivered an astounding ninefold return since its low in March.

This reporting season has again demonstrated the resilience of the tech sector, with most companies delivering to high expectations and guiding to a continuation of growth. In the past six months, we have reached a critical turning point in technological adoption. The COVID-induced lockdown has pulled forward this inevitable structural shift, with many innovators reporting a doubling of revenue and market share. Rapid growth in this sector means it is now a significant part of the index. Afterpay, by market cap, is almost in the top-20 largest companies in Australia. Investors can no longer ignore these growing heroes, which in turn will drive more diverse investors into those already blue-chip registers.

Aside from the 'buy-now-pay-later' leaders we support, our favourite in the sector is Tyro. The company has been severely impacted by the COVID-19 lock down and the current share price represents an extremely attractive entry point to gain exposure to a multi-year structural shift to digital payments. Partnered with most large payment companies, including BNPL player Z1P, Tyro is rapidly expanding into multiple verticals, taking share from the big banks. When the world returns to normal, this business will likely have a V-shaped earnings recovery within weeks, unlike other traditional businesses.

As a last word, it's worth noting the efforts of companies such as Ramsay Healthcare, which stepped up during this once-in-a-century global crisis. Ramsay took the lead role to partner with governments around the world to assist with the COVID-19 response effort. It assisted local public hospitals and aged care facilities with beds, ventilators and staff. It also has provided contributions to local businesses impacted during the pandemic. ESG has been a popular topic of recent times, and efforts such as this should be recognised.

While the path forward is still unclear, one thing for certain is that recovery is coming. When it does, we are looking at multiple years of earnings growth for many corporates that will underpin our equity market.

Regards,

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