Tribeca Investment Partners

# Tribeca Global Natural Resources Credit Fund
# Q4 2021 Quarterly Update

| Fin Year | Jul – Sep | Oct - Dec | Jan - Mar | Apr - Jun | YTD |
|---|---|---|---|---|---|
| 2017 - 2018 | | | | 0.87% | 0.87% |
| 2018 - 2019 | 2.51% | 12.28% | -0.07% | 1.63% | 16.89% |
| 2019 - 2020 | 1.31% | 0.85% | -12.51% | -30.59% | -37.96% |
| 2020 – 2021 | -16.03% | 7.39% | 26.60% | 24.13% | 16.51% |
| 2021 – 2022 | -3.28% | 5.52% | | | 2.05% |

Performance figures are for the Founders Class shares of the Tribeca Global Natural Resources Credit Fund and are net of all fees and expenses and reflect the reinvestment of dividends and other income and based on the official monthly NAV provided by the fund administrator.

## Portfolio Manager

Haydn Smith

## Fund Information

The Tribeca Global Natural Resources Credit Fund targets opportunities in the sector using lending, streaming and royalty structures. The Fund focuses on commodity sectors including energy, metals and mining and soft commodities. Repayment of investment structures is linked to revenue rather than net profits, prioritized through senior security ahead of equity and other creditors.

| | |
|---|---|
| Inception Date: | 15 May 2018 |
| Structure: | Australian Unit Trust |
| Minimum Investment: | AUD $500,000 |
| Subscriptions: | Monthly |
| Redemptions: | Three-year hard lock. Thereafter, quarterly redemptions with 180 calendar days' notice, subject to a 25% investor level gate and a quarterly fund level gate of 15% of the NAV of the fund. |
| Management Fee: | 2% |
| Performance Fee: | 20% subject to high water mark |
| Fund Manager: | Tribeca Investment Partners Pty Ltd |
| Fund Custodian: | Mainstream Fund Services Pty Ltd |
| Administrator: | Citco Fund Services (Australia) Pty Ltd |
| Auditor: | Ernst & Young |
| Valuation Agent: | IHS Markit |
| Trustee: | Equity Trustees Limited |

## Fund Commentary

Dear Fellow Investors,

The Fund recorded a solid return of 5.5% for the December quarter, bringing the return for the calendar year to 60%. The Fund's NAV for an investor at inception is currently at ~90% of par and for an investor who invested at the Fund's high-water mark in July 2019 is ~74% of par. As noted below, there is still a lot of optionality in the portfolio, and we remain focused on delivering investors a positive return on their capital as we progress towards realizing the remainder of the portfolio positions.

The main contributor to performance over the quarter was Active Resources debentures (received as part of the Paringa Chapter 11 Bankruptcy auction) which our valuation agent (IHS Markit) marked up to par from a steep discount on the basis that the outlook for coking coal and related markets remains strong and the borrower continues to make coupon payments as scheduled. The key detractor during the quarter was Halo Collective whose share price sank to fresh lows alongside numerous other small and micro-cap cannabis stocks as the industry continues to see a flight of equity capital while the US regulatory environment remains unclear.
At a macro level credit spreads continued to compress in spite of the recent advance of long dated yields whilst from a competitive standpoint banks have shown no sign of returning to the mid-market lending opportunities where we remain focused.

### Armour Energy

Stepping through the remainder of the portfolio, our loan to a subsidiary of Armour Energy (ASX:AJQ) fell due on 31st December 2021 and following some negotiating with the company either side of Christmas the Fund consented to a structured extension that provides for a form of cash sweep of equity proceeds along with a great deal of optionality over the share price that will see the loan fully repaid no later than 30 April 2022. Some parts of the commercial agreement need to remain confidential however as part of the restructure the Fund has the potential to earn a very high return on the extension period and will also receive ~48 million ASX listed options over AJQ equity with a strike price of A$0.05 and expiry of February 2024. In spite of Armour performing poorly as an equity investment over the period of our loan, we expect that the round trip IRR on the Armour transaction at 30 April 2022 will be in the double-digits whilst the latest tranche of options issued to the Fund provides further upside to that return, particularly in light of the company's planned partial spinoff of its Northern Territory assets (McArthur Oil and Gas).

## Eaze

Despite a challenging environment in Eaze's home market of California as a result of significant competition and a heavy taxation burden, Eaze continues to maintain its sales base of US$200m p.a. whilst reducing its cost base and thus improving margins with organic growth expected to reaccelerate in 2022 as Green Dragon dispensaries are rolled out in Florida. During Q4 Eaze successfully acquired two retail locations which will see it move to 100% control of its delivery network in California and successfully launch in Michigan, with growth of over 80% from November to December.

2021 saw Eaze gain access to three new states (Colorado, Florida, and Michigan), gain 100% control of its delivery network in California, and grow private label sales by 104%. Eaze's goals for 2022 include, expanding in existing markets, entering new markets, and preparing for a public listing as soon as market conditions allow.

## Halo

Halo posted a disappointing performance for the quarter. The company downgraded its revenue guidance in the Q4 as California retail stores continued to take longer to construct, the proposed listing of Akanda, Halo's International cannabis subsidiary, missed the pre-Christmas IPO window (another disappointment given management guidance), in addition to their large outdoor cultivation JV in Northern California missing the 2021 growing season due to delays in obtaining key permits. The company has also continued to acquire other businesses in both cultivation (a premium indoor grow in Portland, Oregon) as well as downstream investments, most recently in a cannabis beverage company. While all these acquisitions will ultimately lead to more sales and likely profitability, they have resulted in a considerable amount of equity dilution at a time when the company's stock is trading at rock bottom valuations. We continue to actively engage with management to voice our concerns on dilution and focus harder on acquisitions that are accretive for shareholders.

## Capcium

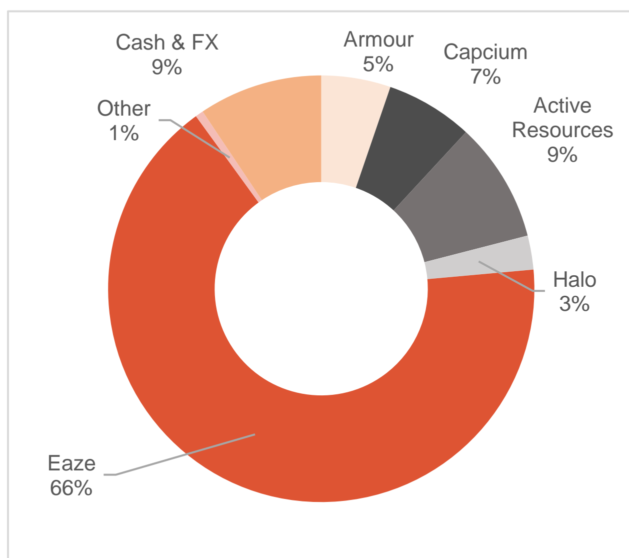
Capcium was able to complete the sale and leaseback of its Montreal production facility with a US based REIT, resulting in the retirement of the company's term and revolving debt facilities leaving only the C$14m concessionally priced debt facility with 'Investissement Quebec', a Canadian Provincial financing corporation. The company has adequate liquidity however is about to enter a period of working capital build up as it transitions to full commercial production. As has become evident across the world and across almost all industries, a supply chain crunch is wreaking havoc and unfortunately Capcium is not being spared. Having worked through the labour shortages during the pandemic, Capcium is now having to deal with shortages and increasing costs of raw materials and delays in obtaining those raw materials that are available. This is requiring them to have to hold more raw materials (and increase working capital) as well as having to defer sales in spite of a very robust order book pipeline.

On the positive side the US FDA has just confirmed that it will conduct an on-site visit of Capcium's facility in April of this year which should facilitate the company's first deliveries of prescription pharmaceuticals for US counterparties. Notwithstanding the challenges that Capcium has faced, our investment thesis remains intact and we believe that these supply chain issues will gradually recede over 2022 leaving Capicium fit to take advantage of the strong demand for their services which will, in turn, support a healthy exit valuation for our investment.

## Parringa Shell

As noted in our September update the Paringa shell is on the cusp of being recapitalised under an agreement negotiated with the Fund and other Paringa lenders. This recap has been delayed slightly due to the length of time required to obtain an audit of the historical accounts. However that work is now complete, and we expect to see a notice of shareholder meeting in coming weeks which will set the timeline for the recapitalisation. As a reminder, the Paringa lenders have agreed to release Paringa from its parent guarantee in return for approximately 19% of the post-recapitalised equity of Paringa which itself will have a market capitalisation of approximately $9.5m including $5m in cash. We remain optimistic on the prospects for Paringa, under its new name, GCX Metals, as both a Western Australian gold/copper explorer and a potential acquirer of private assets.

## Portfolio Composition




Source: Tribeca Investment Partners

Note that as capital continues to be returned to investors portfolio composition and concentration will change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