Fundie secures 6pc return in the midst of March madness

Investing

Robert Guy

Sage Capital's Sean Fenton says the "genie is out of the bottle" when it comes to central banks and debt monetisation. PHOTO: JAMES BRICKWOOD

Sage Capital has operated its absolute return fund only since August but it has left money managers with longer track records eating its dust with an impressive 6.2 per cent return in March.

Chief investment officer Sean Fenton steered the market neutral long-short fund through the turmoil of March's 21 per cent sell-off by recalling the lessons of the SARS outbreak and quickly slashing exposure to travel and tourism stocks as the threat of COVID-19 loomed large.

''The first thing we did was start to cut some of that exposure and put some shorts on to hedge that out,'' he said, adding that at the start of January they were overweight Corporate Travel, Qantas and casinos.

As signs of broad-based transmission emerged in February, when the virus started hitting Italy and Iran, the Sage Capital team rotated into overweight positions in supermarkets, healthcare and telecommunications, while cutting exposure to consumer discretionary and travel stocks.

Acknowledging the panic-selling and market dysfunction that struck in March ''provided some great opportunities to make some money'', Mr Fenton said the twin-pronged hit of central bank monetary intervention and massive government stimulus ''took away some of the downside'' that could have led to a deeper and more prolonged downturn.

''That provided an opportunity for us to lock in some profits on our shorts and look for companies that had been a little bit beaten up.''

Sage Capital went from being short to long Challenger, closed its shorts on Afterpay, went from short to long on Flight Centre, and moved back into some of the casino stocks.

Mr Fenton, who was previously at Tribeca Investment Partners, said the response to the coronavirus crisis was ''a giant economic experiment'' in which there is going to be a tug of war between the impacts of the shutdown and cascading second-order impacts through the economy, countered by efforts by authorities to offset that.

''It's going to be difficult to seamlessly rebound from this shock. There is going to be a lot of pent-up demand, we are going to see a V-shaped recovery when the lockdown ends and people get back to work and start spending again.

''But not all of it will come straight back, travel and tourism will be quite slow to rebound.''

He warned the risk of a W-shaped recovery was ''very real'' if the crisis prompted households to become more conservative and build savings, which could weigh on demand. This could possibly see some businesses reopening and then fail.

Mr Fenton, who also oversees the Equity Plus fund that fell 16.6 per cent in March, warned the ''genie is out of the bottle'' when its comes to central banks monetising growing government debt.

''You're obviously seeing it here in Australia, with the RBA embarking on yield curve control.

''The Reserve Bank is ensuring the government can continue to finance the deficit spending and do it at a very attractive interest rate by expanding their expanding their balance sheet.''

''We are in debt monetisation and that in itself adds to the uncertainty of the outlook and the future paths we can take.''

That wariness explains the fund manager's interest in gold. ''Money printing is back,'' Mr Fenton said.

''In this environment of extreme government intervention, everyone is devaluing their currencies, we often think of gold as a currency and in this environment it's an area we quite like.''

Saracen Resources and Evolution Mining were viewed as having low costs and solid production growth.

Sage Capital is underweight banks given pressures on them to provide forbearance as jobs are lost and the economy slows.

The fund is also short bulk commodity producers like BHP and Fortescue, and long mining services companies like Seven Group and NRW.

''If iron ore rolls over they'll all fall, but the commodity producers are far more leveraged in that position. If things are pretty good there is going to be a recovery trade through the mining services.''