

Fund Performance

Returns ¹	Month	Quarter	FYTD	6 Months	1 Year	3 Years p.a.	Since Inception (20-Aug-2019)
Fund Net Return	1.84%	8.56%	-	9.51%	-	-	9.50%
Benchmark Return	0.01%	0.11%	-	0.30%	-	-	0.48%
Active Return (After fees)	1.83%	8.45%	-	9.21%	-	-	9.02%

Fund Benefits

About the Fund

- CC Sage Capital Absolute Return Fund (the Fund) is a market neutral or absolute return strategy, giving investors exposure to Sage Capital's stock selection skills while eliminating exposure to the underlying equity market.
- The Fund provides a source of uncorrelated returns to equity markets - where short positions and long positions offset each other.

Fund Facts

Portfolio Managers	Sean Fenton, Kelli Meagher, James Delaney, Peter Moore
Structure	Australian unit trust
Investment Style	A market neutral long/short strategy
Net Asset Value	\$11.7 million ²
Inception Date	20 Aug 2019
Benchmark	RBA Cash Rate
Management Fee	1.29% p.a. ³
Administration Fee	0.10% p.a. ³
Performance Fee	20.5% p.a. ⁴
Distributions	Semi-annually at 31 December and 30 June
Minimum Suggested Investment Period	At least 5 years
Exit Price	\$1.0917
Long Exposure	67%
Short Exposure	-65%
Gross Exposure	131%
Net Exposure	2%

Platform Availability

HUB 24 IDPS

Top 5 Holdings

Stock Name	Sector
Service Stream Limited	Industrials
Evolution Mining Limited	Materials
Smartgroup Corporation Ltd	Industrials
Charter Hall Group	Real Estate
National Australia Bank Limited	Financials

Sector Allocation Weight

Sector Name	Fund
Communication Services	1.06%
Consumer Discretionary	4.03%
Consumer Staples	-2.44%
Energy	1.00%
Financials	0.33%
Health Care	-5.60%
Industrials	2.75%
Information Technology	1.41%
Materials	2.04%
Real Estate	-2.71%

Fund Disclosures

Key service provider changes	Nil
Key individual changes	Nil
Risk profile or investment strategy material changes	Nil

Further Information

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¹ Performance is for the CC Sage Capital Absolute Return Fund ('the Fund') - Class A, and is based on month end unit prices in Australian Dollars. Net return is calculated after Fund management fees, operating costs and taxation. Individual Investor level taxes are not taken into account when calculating net returns. This is historical performance data. It should be noted the value of an investment can rise and fall and past performance is not indicative of future performance. ² Net Asset Value refers to the CC Sage Capital Absolute Return Fund ARSN 634 149 287 and is calculated as Fund assets less Fund liabilities. ³ All figures disclosed include the net effect of GST and RITC. ⁴ Performance Fee of 20.5% based on outperformance over the Fund Benchmark, net of the Management Fee and includes the net effect of GST and RITC.

Performance Review

The CC Sage Capital Absolute Return Fund (the Fund) delivered a return of 1.84% in April which resulted in an outperformance of 1.82% over the RBA Cash Rate of 0.01%. The equity market staged a strong rebound in April post the 20.7% plummet in March and featured numerous updates from companies regarding impacts of the coronavirus pandemic, many updates of which were key drivers of big share price moves.

Key contributors to performance were overweight positions in Evolution Mining (EVN) up 34% driven by a solid quarterly report and a strong gold and copper price, Seven Group (SVW) up 36% as management noted that the coronavirus pandemic had limited impact on its mining/construction business, Star Entertainment Group (SGR) up 41% and Corporate Travel Management (CTD) up 46% as the market gained comfort around its balance sheet strength and its ability to reduce costs and Senex Energy (SXY) up 34% as energy stocks rallied and they highlighted their strong contracted gas prices.

Key detractors for the month included underweight positions in Afterpay (APT), Adelaide Brighton (ABC), Santos (STO) and Worley all of which rallied hard after being sold down heavily in March.

Because the market bounced so hard in the month, most of the positive attribution came from long positions and negative attribution from short positions. There will always be winners and losers as Sage balances risk across the portfolio by having equal long and short positions to maintain close to a neutral exposure to the market. What drove the strong performance was a high success rate across relative stock selection in a risk-controlled manner.

Market Review

The markets carried their momentum from the end of March, rallying strongly in April. The S&P/ASX 200 Accumulation Index was up 8.78% and has bounced 21.51% off its lows in March. The market optimism was triggered by signs that new COVID-19 infections were peaking in several countries including Australia, as well as strong fiscal and monetary responses. This led many to believe that the shock from coronavirus pandemic would follow the trajectory of normal natural disasters with a sharp contraction followed by a swift recovery. Investors reduced equity risk premiums and began pricing stocks on a post COVID-19 basis. Considering this sentiment, it was no surprise that sectors hit hardest in March bounced strongly in April. First among these was Energy (+24.8%) which rallied on better than expected supply cuts and a view that global demand will rebound in second half of the year. Consumer Discretionary (+15.94%) and REITs (+13.73%) performed strongly as investors looked towards the end of the domestic lockdown. Sectors that held up well during March were generally among the laggards such as Consumer Staples (+2.39%), Utilities (+2.74%) and Healthcare (+2.83%). Financials (+2.83%) bucked the recovery trend as bank capital raises and impairments continued to weigh on the sector.

Market Outlook

The market has been infected by optimism recently as it surged back from its mid-March lows. This reflects the financial and economic stability provided by massive central bank liquidity support and significant fiscal support from governments. There has also been significant progress in slowing COVID-19 infection rates across many countries which has prompted the start of some easing in lockdown restrictions. However, looking at the composition of the equity market rally provides a less bullish picture. Much of the rebound has been driven by Technology and other growth and defensive stocks returning to near highs, while there has been some rebound in oversold cyclicals. Banks on the other hand, have barely moved from their lows. The Sage Capital investment team (Sage) finds this a concerning signal as the banks represent the engine house of the economy and have the greatest leverage to poor outcomes. This indicates that the market is still very worried about the economic outlook, but cheap money is helping to lift valuations across the market.

Sage agrees with this outlook and sees many areas for negative feedback loops to develop within the economy. Foremost are the likely ongoing restrictions on the movement of people internationally. While some countries have the virus growth under control, the ongoing persistence of infections and further growth across emerging markets makes the movement of people problematic. This has huge implications for some of Australia's largest export earners, being tourism and education. While it is possible to see some limited entry of skilled migrants through a quarantining process, this will not be feasible for large scale tourism or student entry. The other impact will be through a reduction in net migration. With the departure of many students and others on temporary visas it is even possible that net migration and population growth could turn negative. This has obvious implications for aggregate demand in the economy, but also undermines the fundamentals for housing and infrastructure construction, which are big employers in the economy.

While considering impacts on Australia's external sectors it is also worth thinking about Australia's terms of trade. Iron ore prices have been boosted by significant supply disruption in Brazil with dam collapses and poor weather. While not returning to its peak, these shipments are now starting to recover. The demand side has also been resilient with Chinese blast furnaces operating near full capacity through their lockdown, although inventories at steel traders and mills have built up. The concern is the falling demand in the rest of the world and the impact this is likely to have on Chinese steel exports and hence iron ore demand. Downside here just provides another income shock to Australia.

Probably one of the most significant areas of risk is the fact that Australia went into this crisis with a record level of household debt. It is quite likely that the shock to confidence will see households attempt to deleverage. This has negative implications for consumption which flows through to business investment, lower employment and sets up a negative loop. This process is exacerbated if asset prices (being house prices) fall and

some households find themselves in a negative equity position. This is precisely what the Australian Government and the RBA are trying to avoid with zero rates, QE and the JobKeeper package. The question is whether it will be enough.

Other risks come from the global economy and the prospect of a breakdown in credit markets given the severe synchronous global economic shock. Emerging markets are particularly vulnerable here, given their currencies may be more at risk if they attempt to start monetising fiscal deficits. Any sort of emerging market currency/debt crisis has broader implications for global stability and demand for things like commodities where Australia is exposed. There are several more potential risks out there, but I don't want to appear to be too pessimistic.

On the positive side, the rubicon of government debt monetisation by central banks has been crossed. This provides governments around the developed world with unconstrained flexibility to drive economic growth through deficit spending. Sage's view is that this will likely be required. There is increasing support for microeconomic reform, but this simply won't move the dial enough relative to the drop in aggregate demand. Central banks, and particularly the US Federal Reserve, have provided huge liquidity injections and helped to support financial markets across both credit and equities. There will be long term costs, but this can certainly help drive a recovery if it arrives in time. The end of lock-down restrictions can also provide a boost to confidence and will be helped by a recovery in employment and some spending from pent-up demand. Timely fiscal support as the economy bounces from lock-down will be required to minimise any negative feedback loops, avoid a credit collapse and drive a sustainable recovery.

With so many possible economic and financial outcomes, Sage is looking to keep thematic risk tightly constrained, although with the strong bounce in markets, Sage has taken profits in several of the more cyclical and leveraged names that Sage bought for a rebound. The investment team's focus remains on companies who can grow earnings through this turbulent environment. Sage has retained exposure to Healthcare, Telecommunications and Consumer Staples, as well as select financial and technology companies. Sage is underweight major resource companies, preferring exposure within the mining services space. Sage is generally avoiding companies with excessive financial leverage or cyclical exposure and certainly the combination of both. The Fund is also holding a long gold position. Sage continues to like gold as a financial asset and a diversifier when central banks are printing money into weak economic activity.

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