SAGE CAPITAL

# CC Sage Capital Equity Plus Fund (APIR: CHN8862AU)

May 2020

## Fund Performance

| Returns[1] | Month | Quarter | FYTD | 6 Months | 1 Year | 3 Years p.a. | Since Inception (20-Aug-2019) |
|---|---|---|---|---|---|---|---|
| Fund Net Return | 4.58% | -5.00% | - | -9.48% | - | - | -3.11% |
| Benchmark Return | 4.36% | -9.92% | - | -14.59% | - | - | -9.38% |
| **Active Return (After fees)** | **0.22%** | **4.93%** | **-** | **5.11%** | **-** | **-** | **6.27%** |

## Fund Benefits

**About the Fund**

- The CC Sage Capital Equity Plus Fund (the Fund) is an active extension long/short strategy.
- It takes both long and short positions where the proceeds from the short positions are reinvested in long positions to retain exposure to the equity market.
- It provides exposure to a diversified portfolio of stocks aiming to provide an improved risk/return trade-off and more consistent returns over time.

## Fund Facts

| | |
|---|---|
| **Structure** | Australian unit trust |
| **Investment Style** | An equitised/active extension long/short strategy |
| **Net Asset Value** | $11.0 million [2] |
| **Inception Date** | 20 Aug 2019 |
| **Benchmark** | S&P/ASX 200 Accumulation Index |
| **Management Fee** | 0.79% 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** | $0.9641 |
| **Long Exposure** | 117% |
| **Short Exposure** | -17% |
| **Gross Exposure** | 134% |
| **Net Exposure** | 100% |

## Platform Availabilty

HUB 24 IDPS

## Top 5 Holdings

| Stock Name | Sector |
|---|---|
| CSL Limited | Health Care |
| BHP Group Limited | Materials |
| Commonwealth Bank of Aust | Financials |
| National Australia Bank Limited | Financials |
| Woolworths Group Limited | Consumer Staples |

## Sector Allocation Weight [6]

| Sector Name | Fund | Benchmark | Active |
|---|---|---|---|
| Communication Services | 3.04% | 4.27% | -1.23% |
| Consumer Discretionary | 4.46% | 6.67% | -2.21% |
| Consumer Staples | 7.14% | 6.45% | 0.69% |
| Energy | 3.43% | 4.26% | -0.82% |
| Financials | 29.31% | 26.69% | 2.61% |
| Health Care | 12.00% | 12.15% | -0.15% |
| Industrials | 10.85% | 7.73% | 3.13% |
| Information Technology | 3.85% | 3.16% | 0.69% |
| Materials | 18.95% | 19.75% | -0.81% |
| Real Estate | 5.32% | 6.87% | -1.54% |
| Utilities | 1.32% | 2.00% | -0.69% |
| Cash | 0.33% | 0.00% | 0.33% |

## 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 Equity Plus 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 Equity Plus Fund ARSN 634 148 913 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. [6] Relative Sector Breakdown shows portfolio weights relative to the S&P/ASX 200 Accumulation Index.

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## Performance Review

CC Sage Equity Plus Fund delivered a return of +4.58% in May which resulted in an outperformance of +0.22% over the S&P/ASX 200 Accumulation return of 4.36%. The equity market continued to recover through May and this broadened out with some value rotation and included a much broader part of the market. We saw some optimism return as investors  focused on the prospect of the global economy opening up. Along with good liquidity support from central banks there was a broad increase in risk appetite.

Key contributors to performance included overweight positions in Charter Hall Group (CHC) which reaffirmed its earnings and distribution guidance and NRW Holdings (NWH) which also reaffirmed earnings and reinstated it dividend. Saracen Mineral Holdings (SAR) and Evolution Mining (EVN) also performed well on the back of a stronger gold price. Smartgroup Corporation (SIQ) also had a strong bounce as many companies recovered from oversold positions.

Key detractors for the month included underweight positions in Seek (SEK) which rose with a general recovery in growth stocks. Afterpay (APT) and Zip Co (Z1P) rose after Tencent took a 5% stake in APT and put a rocket under the buy now pay later sector. Fortescue Metals Group (FMG) was also a detractor as the iron price rose strongly on the back of further COVID-19 related supply disruptions in Brazil.

## Market Review

For the month of May, the S&P/ASX 200 Accumulation Index was up 4.36% and bounced 25% off its lows in March. Early in the month there was a continuation of strong momentum in growth stocks, led by technology companies. Information Technology (+14.5%) was the best performing sector as the market paid up for growth, but Afterpay was a particular driver as it surged when Tencent bought a 5% stake on market. The market also began rotating towards value stocks that had been left behind initially during the rally. Materials (+8.1%) was very strong as resources moved higher driven by strength in iron ore, oil and gold prices. Building materials also moved sharply higher as investors began to factor in stimulus from the government for new housing. Communication Services (+7.6%), Real Estate (+6.8%) and Consumer Discretionary (+6.5%) were also strong as risk appetite improved. Financials (+5.2%) rose, driven by a strong rally in the banks at the end of the month. Weaker performers were Healthcare (-5.3%), Consumer Staples (-0.4%) and Utilities (+3.0%) which were used as a funding source for the value rotation as well as being hampered by a surging AUD.

## Market Outlook

Uncertainty continues to reign across markets with a significant dislocation between the real economy and the price of risk assets. Central banks are doing a great job of propping up risk appetite by injecting liquidity, but they are really treating the symptom rather than solving the problem. There is growing optimism that there will be a quick economic recovery from the exogenous shock of COVID-19, but the near-term economic data remains dire.

Australia has almost effectively eradicated COVID-19, but some significant structural headwinds still face the economy. The primary headwind is the restriction on people moving internationally which will impact our migrant intake. If this issue cannot be resolved,  there will be significant impacts on the education sector, tourism and ultimately the demand for housing and housing construction. There is uncertainty as to whether this will all flow though to employment, investment and consumption and ultimately impact the solvency of companies and households. It's not clear that liquidity is going to solve all these problems, so Sage Capital continues to remain broadly style neutral and remains cautious  in seeking cyclical economic recovery positions at this stage.

While liquidity remains abundant and risk appetite is improving, Sage Capital thinks it is likely to see companies valued on a mid-cycle earnings basis. To that end, the portfolio management team continues  to drive a rotation towards cyclicals and value stocks across the portfolio. They have taken profits across a lot of the better performing growth stocks in the technology and healthcare sectors as well as taking some profit across gold stocks. This has been used to reduce some of the short exposures in banks and building materials and rotate a little more towards some of the laggards that are showing strong relative value.

While Sage Capital has taken some profits in the gold sector, they remain bullish on the long-term outlook. Central banks are likely to keep policy very accommodative and there is likely to be more debt monetisation as governments grapple with higher fiscal deficits in the recovery stage. Gold stocks remain a great diversifier of risk across the portfolio. They are cautious not to tilt too far to cyclical value in a time of such great economic uncertainty, and maintain some core high quality holdings across consumer staples, such as supermarkets, healthcare and technology.