CC Sage Capital Equity Plus Fund (APIR: CHN8862AU)

June 2020

Fund Performance

Returns[1]	Month	Quarter	FYTD	6 Months	1 Year	3 Years p.a.	Since Inception (20-Aug-2019)
Fund Net Return	2.84%	17.60%	-	-5.35%	-	-	-0.36%
Benchmark Return	2.61%	16.48%	-	-10.42%	-	-	-7.02%
Active Return (After fees)	**0.23%**	**1.12%**	**-**	**5.08%**	**-**	**-**	**6.66%**

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

Portfolio Managers	Sean Fenton, Kelli Meagher, James Delaney, Peter Moore
Structure	Australian unit trust
Investment Style	An equitised/active extension long/short strategy
Net Asset Value	\$11.3 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	\$0.9915
Long Exposure	110%
Short Exposure	-12%
Gross Exposure	122%
Net Exposure	98%

Platform Availabilty

HUB 24 Super & IDPS
Netwealth
Praemium 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	3.14%	4.15%	-1.01%
Consumer Discretionary	4.36%	6.94%	-2.58%
Consumer Staples	5.93%	6.47%	-0.54%
Energy	4.64%	4.05%	0.59%
Financials	27.50%	27.27%	0.24%
Health Care	12.83%	12.23%	0.59%
Industrials	9.50%	7.43%	2.07%
Information Technology	5.11%	3.48%	1.62%
Materials	19.78%	19.50%	0.29%
Real Estate	4.63%	6.60%	-1.96%
Utilities	0.96%	1.89%	-0.93%
Cash	1.62%	0.00%	1.62%

Fund Disclosures

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

Further Information

Phone: 1800 940 599
Email: distribution@channelcapital.com.au
Web: www.channelcapital.com.au

[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 and operating costs. 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.

SAGE CAPITAL

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Performance Review

The CC Sage Capital Equity Plus Fund delivered a return of 2.84% in June which resulted in an outperformance of 0.23% over the S&P/ASX 200 Accumulation return of 2.61%. The equity market went through some violent rotations in June but continued to rise strongly. This capped a very strong quarter where the market regained much of its COVID-19 related losses, but did it remain in negative territory for the year.

Key stock contributors for the month were overweight positions in Healthcare names ResMed (RMD) (+16%) and Fisher & Paykel (FPH) (+18%). The latter reported an impressive set of full year results and cited strong ongoing demand for high flow oxygen therapy. Other notable positive contributions came from the short side of the portfolio including Whitehaven Coal (WHC) (-21%), which continued to underperform with weak energy demand and falling thermal coal prices. Flight Centre (FLT) (-33%) fell as reopening optimism waned and the challenges facing the travel sector mounted while CSR (CSR) (-10%) fell as new dwelling approvals came in lower than the market expected.

Key detractors for the month were short positions in Adbri (ABC) (+20%), which subsequent to month end lost a major contract and fell substantially, Seek (SEK) (+9%) and a small overweight in Nufarm (NUF) (-25%) after reporting weaker margins in its European business

Market Review

In June the S&P/ASX 200 Accumulation Index was up 2.61%, but there was a lot of volatility within the market. The beginning of the month saw a very aggressive rotation to value stocks with Banks and REITs rallying strongly on the back of a steepening yield curve and a faster economic recovery. There were also large moves up in Building Materials stocks on the back of stimulus expectations from the government while growth and defensive stocks were used as funding sources. This rotation barely lasted a week before previous trends were re-established. Further outbreaks of COVID-19, particularly in the US, saw a more defensive tone with bond yields falling and Information Technology stocks rising strongly, driven by the Nasdaq and abundant liquidity.

Information Technology (+6.0%) was the best performing sector as the market paid up for growth, but Afterpay (APT) continued to be a key driver as it surged to record highs. Financials ex REITs (+5.7%) was a strong performer as the banks managed to hold onto the bulk of their early gains, while Consumer Discretionary (+5.4%), Consumer Staples (+5.1%) and Healthcare (+3.5%) were all higher as the market was generally happy to pay up for companies exhibiting growth. Energy (-2.0%) was the worst performing sector as the recovery in the oil price started to stall, followed by REITs (-1.4%) which were pressured by increasing vacancies and declining rents across office and retail property. Industrials (-1.3%) lagged as the market fretted over economic growth and a second wave of COVID-19 while Utilities (-0.4%) and Telecommunications (+0.1%) were largely unchanged.

Market Outlook

As we move through the COVID-19 pandemic, the Sage Capital investment team is starting to see some more clarity around the future. What is becoming clear is that there is little political appetite around the world to sustain economic lockdowns, the damage is simply too large. Instead many countries are moving to reopen and implicitly to tolerate a certain level of death. This is most evident in the US where moves to reopen the economy have come well before the virus spread was controlled, resulting in an acceleration of infections. This is also apparent across the rest of the Americas, India, the Middle East, South-East Asia and much of Europe. The upside from this is a strong rebound in business activity indicators supporting a sharper growth recovery. However, it does present some medium-term downside risk as the virus becomes entrenched and poses the potential for greater structural disruption to economies in the medium term.

The pandemic has also created many winners and losers across the economy, some of which are merely cyclical, but there are likely to be some longer-term structural impacts. One of the likely enduring changes is the working from home phenomenon. Forced lockdowns have combined with some excellent videoconferencing and productivity software to boost the attractiveness of working from home for many, including ourselves. This is reflected in elevated vacancy levels in CBD offices which is likely to pressure releasing spreads and underlying values. It also raises questions around infrastructure planning and the appropriate type of road and public transport connectivity for cities. Sage Capital remains cautious on office property given these headwinds. Another significant shift has been the accelerated shift to online trading and away from bricks and mortar. This trend has been in place for some time but has accelerated with many physical stores being closed during lockdown. It is quite likely that as more people experience the convenience of shopping from home that online penetration continues to rise from these elevated levels. This continues to be a highly disruptive thematic for retailers without an online presence and shopping centres.

Other sectors facing serious short-term cyclical disruption include education, tourism and housing construction. This stems from the fact that while Australia has effectively eradicated COVID-19, it is still spreading at an accelerating pace in most of the world. This means that our international borders are likely to remain closed which will severely impact our migrant intake. The recent outbreak in Victoria highlights the risk of reintroducing the virus from returned travellers or migrants and the difficulty in controlling a large scale quarantine program. Without a reopening of borders there will be significant impacts on these sectors, a risk that doesn't appear to be adequately discounted in many stock prices. There is also broad uncertainty around the full impact on the broad economy. Much of the pain of lockdowns has been experienced in the unlisted sector across restaurants, pubs, clubs, small retailers and the array of small businesses that service them. The banking sector does have exposure here, but with extended forbearance on non-performing loans and the significant government fiscal support, it is very unclear where bad debts will finish. With a flat yield curve and ongoing margin pressure Sage Capital prefers to keep the bulk of its financials exposure away from the banks.

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. Sage Capital views this as being structurally supportive of gold prices and gold stocks remain a great diversifier of risk across the portfolio. Low bond yields and flat curves are driving multiple expansion and strong momentum across the growth space. This is becoming very stretched and the market remains to sharp style rotations on small shifts in sentiment. Sage Capital continues to maintain tight sectoral positioning to minimise exposure to these sudden style shifts while capitalising on its investment insights within sectors.