CC Sage Capital Absolute Return Fund (APIR: CHN5843AU)

September 2020

Fund Performance

Returns[1]	Month	Quarter	FYTD	6 Months	1 Year	3 Years p.a.	Since Inception p.a. (20-Aug-2019)
Fund Net Return	-0.08%	3.24%	3.24%	5.48%	14.24%	-	11.96%
Benchmark Return	0.01%	0.03%	0.03%	0.07%	0.42%	-	0.48%
Active Return (After fees)	**-0.09%**	**3.21%**	**3.21%**	**5.41%**	**13.82%**	**-**	**11.48%**

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.

Top 5 Holdings

Stock Name	Sector
James Hardie Industries PLC	Materials
Credit Corp Group Limited	Financials
Appen Limited	Information Technology
ResMed Inc	Health Care
NRW Holdings Ltd	Industrials

Sector Allocation Weight

Sector Name	Fund
Communication Services	-4.02%
Consumer Discretionary	0.03%
Consumer Staples	1.66%
Energy	-2.06%
Financials	-1.16%
Health Care	4.24%
Industrials	-1.00%
Information Technology	-0.28%
Materials	6.04%
Real Estate	0.30%
Utilities	-2.73%

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	$21.2 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	$1.1307
Long Exposure	78%
Short Exposure	-77%
Gross Exposure	155%
Net Exposure	1%

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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Platform Availabilty

BT Wrap	Colonial First Wrap
HUB 24 IDPS	Mason Stevens
Netwealth	Praemium IDPS

[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 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 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.

SAGE CAPITAL

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Performance Review

The CC Sage Capital Absolute Return Fund delivered a return of -0.08% in September, which resulted in underperformance of 0.09% relative to the RBA Cash Rate of 0.01%. The equity market drifted lower during the month, falling 3.6%, as the recovery stalled out. Good news on vaccine hopes was hit by a temporary halt in the Astra Zeneca trial while a second wave of COVID-19 accelerated through the Northern Hemisphere. Market volatility was generally lower though with a lot of stocks just range trading through the month.

Key stock contributors for the month were long positions in James Hardie Industries (JHX) (+7%) which has been driven by strong housing demand in the US and increased share of fibre cement in the siding market and Service Stream (SSM) (+7%) which received a boost from government plans to extend the NBN footprint with fibre to the home. Short positions in A2 Milk (A2M) (-17%) also contributed to performance, after they downgraded earnings on weakness in the corporate daigou channel, as well as Oil Search (OSH) (-19%) which tumbled on lower oil prices and Commonwealth Bank (CBA) (-7%) which gave up some of its premium to the rest of the banking sector. Key detractors for the month were long positions in QBE Group (QBE) (-19%) which was hit by the dismissal of its CEO for poor behaviour and Credit Corp (CCP) (-10%) which was hit by weaker risk appetite and widening credit spreads and a short position in Adbri (ABC) (+12%) which rose on expectations of government infrastructure stimulus.

Market Review

In September, the S&P/ASX 200 Accumulation Index fell by 3.6%, with uncertainty around COVID-19 vaccines and a second wave of the disease across the Northern Hemisphere. There was also some disappointment as the US Federal Reserve failed to inject fresh stimulus at its regular FOMC meeting while the market also set a cautious tone as we head into the US presidential election. Health Care (+0.9%) was the best performing sector and the only one to finish in positive territory, followed by Industrials (-0.1%), REITs (-1.8%), Consumer Discretionary (-2.6%) and Communication Services (-2.8%). Energy (-11.1%) was the worst performing sector, followed by Information Technology (-6.8%) and Consumer Staples (-6.6%).

Market Outlook

In comparison to recent months, September could almost be described as boring. There was a general risk-off tone across the market as more defensive areas outperformed, with the exception of US housing related exposures that powered ahead, driven by low mortgage rates and a structural underbuild.

The market is becoming more comfortable with an eventual recovery from COVID-19 impacts. This is being aided by the improved prospects of a successful vaccine, but also the likely development of a more pragmatic attitude to dealing with virus. There are now around 200 vaccines in development and a dozen of those are in late stage clinical trials. The Sage Capital investment team see a markedly increased chance of having a successful vaccine candidate by early 2021 which should allow for a reduction in social distancing measures and an economic recovery.

One of the most interesting aspects of the economic disruption has been the shift in spending patterns by households and an important driver for relative stock performance in the next year will be the extent to which this reverses. Households have responded to coronavirus lockdowns by spending less money on travel, eating out and socialising and shifting this into new areas including home office, homewares and electronics. This has been a boon for retailers and particularly those with a meaningful online presence. Conversely, those companies with exposure to travel or transportation have been hit hard. Sage Capital see increasing opportunities to buy those companies in the travel and entertainment sectors where earnings have been significantly impacted on the view that the worst is behind us and there will be an eventual return to normalcy.

While a return to towards the “old normal” and a shift back in spending patterns is likely, there is also the real possibility of more permanent changes in behaviour, with the increased acceptance of working from home probably the most significant. This has the potential to drive significant long-term shifts in demand for CBD office space, transportation and the viability of related services businesses. This leaves us cautious on companies exposed to CBD activity.

Another significant consideration is the impact of government stimulus and monetary support measures. The recent Australian budget has provided for an acceleration in tax cuts, incentives for businesses to hire and invest as well as an acceleration in infrastructure spending and housing incentives. Balancing this stimulus will be the unwind of existing JobKeeper measures and the end of loan forbearance by the banks. This should be generally supportive of economic recovery, but the market has already baked in too much benefit from infrastructure spending and housing. The existing high level of infrastructure spending and recent overbuild of high-density apartments sees little space for upside surprise. The overall demand path will be highly dependent on a return of international migration, which will come but may take several years to return to normal. Sage Capital see better opportunities in broader exposure to domestic recovery outside of housing and infrastructure.

Another potential impact of positive vaccine news and economic recovery is a move up in bond yields and a rotation away from high priced technology shares. Sage Capital has previously discussed the exponential impact that falling real interest rates have on the valuations of companies with high growth rates. Conversely, it doesn’t take much in the way of positive growth news and higher bond yields to drive a significant value correction across the market. Amongst the growth stocks, Sage Capital see more opportunities in those that have had some earnings impacts from lockdowns and social distancing such as healthcare, as opposed to those that have had significant valuation expansions.