CC Sage Capital Equity Plus Fund (APIR: CHN8862AU)

October 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	2.26%	1.20%	3.31%	11.11%	-0.02%	-	2.44%
Benchmark Return	1.93%	0.98%	1.48%	8.67%	-8.15%	-	-4.73%
Active Return (After fees)	**0.33%**	**0.22%**	**1.82%**	**2.44%**	**8.13%**	**-**	**7.17%**

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	$31.8 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	$1.0243
Long Exposure	120%
Short Exposure	-22%
Gross Exposure	142%
Net Exposure	98%

Top 5 Holdings

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

Sector Allocation Weight [6]

Sector Name	Fund	Benchmark	Active
Communication Services	1.83%	3.95%	-2.11%
Consumer Discretionary	9.17%	7.51%	1.66%
Consumer Staples	6.65%	6.50%	0.15%
Energy	2.51%	3.31%	-0.80%
Financials	27.42%	26.97%	0.45%
Health Care	15.73%	12.21%	3.53%
Industrials	4.84%	7.24%	-2.41%
Information Technology	4.54%	4.32%	0.22%
Materials	19.29%	19.43%	-0.14%
Real Estate	6.31%	6.92%	-0.61%
Utilities	0.14%	1.66%	-1.52%
Cash	1.57%	0.00%	1.57%

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

Platform Availabilty

BT Panorama	BT Wrap	Mason Stevens
HUB 24 Super & IDPS	Macquarie Wrap	
Netwealth	Praemium IDPS	

[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.

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Performance Review

The CC Sage Capital Equity Plus Fund delivered a return of 2.26% in October outperforming the S&P/ASX 200 Accumulation Index by 0.33%.

Key stock contributors for the month were long positions in Coca Cola Amatil (CCL +31%) which received a takeover offer from Coca Cola European Partners, ResMed (RMD +17%) which delivered a very strong third quarter result significantly above market expectations, driven by increased sales of ventilators and a strong recovery in demand for its core flow generator and mask products and BlueScope Steel (BSL +15%) which issued a strong earnings outlook on the back of improving steel spreads and strength in demand for both renovations and detached housing. Our short position in AGL (-8%) also aided performance, giving a downbeat outlook for wholesale electricity prices and increased gas supply costs. Key detractors for the month were long positions in Coronado Global Resources (CRN -22%) which fell on downside risk to coal prices should China continue to restrict Australian coal imports and Corporate Travel (CTD -15%) which sold off on fears of a second wave of COVID-19 in the Northern Hemisphere and a short position in Afterpay (APT +21%) which rallied after giving a strong 1Q21 trading update.

Market Review

In October, the S&P/ASX 200 Accumulation Index rose by 1.9%, outperforming major markets in the Northern Hemisphere. While Australia looks to have COVID-19 largely under control, October saw cases in Europe and the UK continue to rise rapidly resulting in full or partial mobility restrictions in France, Germany, Italy and Spain. The US also continued to see a rise in cases with President Trump himself contracting the virus. Fears of the economic impact of a second wave and US election uncertainty weighed on global markets with the S&P 500 Index down 2.8% and MSCI World ex-Australia down 3.2%.

In Australia, consumer confidence and business conditions continued to improve in October with the Federal Government delivering a budget which was well received, with larger than expected fiscal stimulus including acceleration in tax cuts, incentives for businesses to hire and invest as well as an acceleration in infrastructure spending and housing incentives. Best performing sectors were Information Technology (+9%) followed by Financials (+6.3%), Consumer Staples (+4.8%) and Consumer Discretionary (1.5%). Industrials (-3.9%) was the worst performing sector followed by Utilities (-1.5%) and Energy (-0.8%).

Market Outlook

Market direction in the short term is likely to be heavily influenced by the outcome of the US election. As voting currently stands, Joe Biden will be the next President although the blue sweep of both houses hasn’t eventuated. The Republicans will control the senate which reduces the likelihood of big fiscal spending and expected increases in corporate taxes may be traded off to achieve some stimulus. Markets like this outcome, because the lower growth outlook boosts the chances of further QE and lower bond yields boosting valuations. Bad news is good news, but the effect may be short lived.

We see a markedly increased chance of having a successful COVID-19 vaccine candidate by the end of 2020. The structure of the phase 3 trial designs of many candidates have them doing an interim analysis for efficacy when a certain number of symptomatic coronavirus cases are hit. The increasing infection rates in the US and other parts of the world means that the longer it takes to reach these thresholds, the higher the likely efficacy of the vaccine. The fact that we haven’t had any trials report interim data before the US election, as was speculated earlier, increases the likelihood that when they do report they will show strong efficacy. A promising vaccine candidate can possibly take the place of fiscal stimulus. A quicker end to social distancing will help lift employment and spending and should drive a steepening in the yield curve and a rotation to value. There are a range of stocks that will do well from this normalisation, with those linked to travel and leisure expenditure receiving the biggest lift. Conversely, the boom in online retailing and expenditure on homewares may flatten out, although the Sage Capital investment team expect to see a strong Christmas trading period for many retailers.

Another interesting dynamic shaping our market is the increasing trade tension between China and Australia. China have either halted imports or are examining tariffs on a range of goods from coal and wine to barley and lobsters. Escalation here could have implications for Australia’s post-COVID-19 recovery if it extends to Chinese students and tourists. Sage Capital sees risks around stocks exposed to Chinese exports and the daigou channel.

With many significant global influences at play regarding US election outcome impacts, trajectory of COVID-19 cases and timing of a successful vaccine, Sage Capital continue to manage risk tightly to avoid sector and style bias and minimise systematic risk in the portfolio and ensure returns are achieved through stock selection.