SAGE CAPITAL

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

November 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 | 9.91% | 8.21% | 13.55% | 16.77% | 5.70% | - | 10.11% |
| Benchmark Return | 10.21% | 8.22% | 11.85% | 14.76% | -1.98% | - | 3.11% |
| **Active Return (After fees)** | **-0.30%** | **-0.01%** | **1.70%** | **2.01%** | **7.68%** | **-** | **7.01%** |

## 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.

## Top 5 Holdings

| Stock Name | Sage Group* |
|---|---|
| CSL Ltd | Growth |
| BHP Group Ltd | Resources |
| Commonwealth Bank of Aust | Yield |
| Westpac Banking Corp | Yield |
| National Australia Bank Ltd | Yield |

## Sector Allocation Weight [6]

| Sage Group* | Fund | Benchmark | Active |
|---|---|---|---|
| Defensives | 20.04% | 17.32% | 2.72% |
| Domestic Cyclicals | 5.46% | 7.83% | -2.37% |
| Global Cyclicals | 3.18% | 3.79% | -0.62% |
| Gold | 2.76% | 3.08% | -0.32% |
| Growth | 13.64% | 18.74% | -5.10% |
| REITs | 5.11% | 6.61% | -1.49% |
| Resources | 17.45% | 16.05% | 1.40% |
| Yield | 28.93% | 26.58% | 2.35% |
| Cash | 3.43% | 0.00% | 3.43% |

*Sage Capital uses a custom grouping system for long short positions.

## Fund Facts

| | |
|---|---|
| **Structure** | Australian unit trust |
| **Investment Style** | An equitised/active extension long/short strategy |
| **Net Asset Value** | $36.3 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** | $1.1258 |
| **Long Exposure** | 119% |
| **Short Exposure** | -22% |
| **Gross Exposure** | 141% |
| **Net Exposure** | 97% |

## 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

| | |
|---|---|
| AMP North | BT Panorama |
| BT Wrap | HUB 24 Super & IDPS |
| Macquarie Wrap | Mason Stevens |
| Netwealth | Praemium IDPS |
| Xplore Wealth | |

[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.

## Performance Review

The CC Sage Capital Equity Plus Fund delivered a return of 9.91% in November, resulting in underperformance of 0.30% versus the S&P/ASX 200 Accumulation Index of 10.21%. While the slight underperformance is disappointing given the Sage Capital team were anticipating some positive vaccine results, Sage's style neutral nature meant that Sage avoided some of the wild swings in performance other funds experienced across the month. There was a very binary rotation from COVID-19 winners to losers across the month and very little stock specific differentiation to exploit from our investment process.

Key stock contributors for the month were long positions in Corporate Travel (CTD +37%) as hopes for business travel picked up with vaccine news, Credit Corp (CCP +30%) due to an improved economic outlook and hence a better outcome on bad debts, QBE Insurance (QBE +21%) which rallied as yield curve steepening and Graincorp (GNC +23%) which is benefitting from very strong grain receivals from the current crop and a better weather outlook. A short position in Kogan (KGN -22%) which fell after giving a trading update which showed a deceleration in sales also aided performance. Key detractors were short positions in Oil Search (OSH +42%) and Whitehaven Coal (WHC +24%) which were up due to the oil and coal price rally, Seek (SEK +21%) which rose on an expected cyclical upswing in job ads and long positions in Ansell (ANN -7%) and Woolworths (WOW -3%) which were victims of the rotation away from "COVID-19 winners".

## Market Review

The S&P/ASX 200 Accumulation Index rose by 10.21% during November, which is the highest monthly return since the index began in 2000. The move was all about the announcement of effective COVID-19 vaccines which saw the market aggressively reprice stocks that had been hit by the economic shock. A U.S. presidential win for Joe Biden also helped set an overall positive tone for the market.

The best performing sectors were Energy (+28.5%) followed by Financials (+16.1%), Communication Services (+13.6%), REITs (+13.6%) and Industrials (+12.3%). Consumer Staples (-0.7%) was the worst performing sector followed by Utilities (+1.5%), Health Care (+2.7%) and Information Technology (+4.6%). The sector performance is reflective of a massive rotation from momentum to value with stocks most heavily impacted by COVID-19 lockdowns and demands disruptions such as travel, shopping centres, banks and energy stocks all bouncing the hardest.

## Market Outlook

The successful early trial data from Pfizer-BioNTech and Moderna on their mRNA COVID-19 vaccines represented a state change for the economy and markets. Positive data from the more conventional AstraZeneca/Oxford vaccine has served to reinforce this shift. With the U.S. election out of the way and Joe Biden as the new President a lot of medium term uncertainty has been removed from markets and there are hopes of further fiscal stimulus. This has allowed for a significant rally in risk assets as markets react to the likelihood of COVID-19 elimination and stronger economic growth, yet a likely continuance of easy monetary conditions and further fiscal support.

While markets have been surging higher, there has been a significant outperformance of cyclical value within this dynamic. As vaccinations roll out, the Sage Capital team expect this to continue, although there have been some aggressive moves in prices already. We would expect a broad recovery in cyclical stocks such as Metals and Energy within Resources over bulks and gold. Later stage cyclicals such as Media also have some room to catch up. A stronger growth environment should also lead to higher asset prices and higher bond yields, both of which the Sage Capital team think should favour banks, allowing them to write back credit provisions and reduce pressure on margins.

On the negative side, there is the potential for some of the shifts in retail spending patterns to reverse. The most prominent of these is car sales, but homeware sales may not continue at their current record pace next year, with vaccines promoting a fast return to normal and consumers having more options for their spending. On a medium term basis, the work from home shift will drive the performance of companies related to office work and transport. The extent to which this trend remains leaves us cautious on stocks exposed to these areas.

Relations with China have continued to deteriorate with further restrictions on Australian products being sold in China including some punitive tariffs introduced on wine exports. The range of trading restrictions is now quite broad with only iron ore being seemingly immune. However, even this faces medium term risks with China looking to accelerate its use of scrap in steelmaking as well as developing the Simondou project in Africa. What will be interesting is the extent to which students and tourists from China avoid Australia once international border restrictions are lifted. Overall, Sage Capital remain cautious on companies that are exposed to growth from the Chinese consumer.

The success of vaccine trials and the likely move back towards normality over 2021 favours the ongoing outperformance of cyclical recovery stocks over long duration and defensive assets. This warrants a small tilt towards such stocks while still maintaining a tight exposure to the broad Sage Groups (Sage Capital uses a custom grouping system for long short positions including Defensives, Domestic Cyclicals, Global Cyclicals, Gold, Growth, REITs, Resources and Yield). While it seems unlikely at this stage, any rebound in inflation that pushes bond yields higher would magnify this rotation.