SAGE CAPITAL

CC Sage Capital Absolute Return Fund (APIR: CHN5843AU)

July 2022

Class A

Fund Performance

Returns[1]	1 month	3 months	6 months	CYTD	1 year	2 years p.a.	Since inception p.a. (20-Aug-2019)
Fund Net Return	-4.15%	-0.50%	2.42%	4.48%	13.57%	9.26%	10.83%
Benchmark Return[2]	0.10%	0.18%	0.19%	0.19%	0.21%	0.13%	0.26%
Active Return (After fees)	**-4.25%**	**-0.68%**	**2.23%**	**4.29%**	**13.36%**	**9.13%**	**10.57%**

About Sage Capital

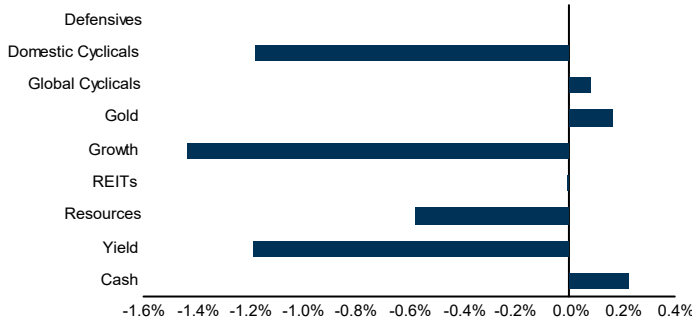
As an Australian equities long short manager, Sage Capital views the market through eight unique Sage Groups enabling the team to focus on individual stock drivers and hedge systematic market risks. This style and cycle neutral investment process is designed to deliver consistent returns regardless of the market environment.

The Sage Capital investment team owns 100% of the firm and invests alongside its clients.

About the Fund

The CC Sage Capital Absolute Return Fund aims to provide an uncorrelated source of returns whilst eliminating equity market exposure, where long and short positions offset each other.

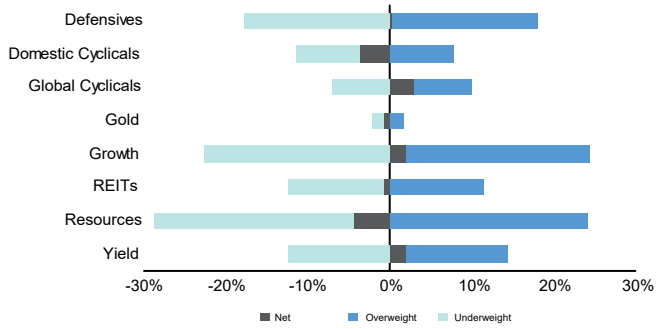
Contributors to Fund Performance*



Fund Facts

Investment Style	An Australian equity market neutral long short strategy
Net Asset Value	$353.4 million [3]
Inception Date	20 Aug 2019
Benchmark	RBA Cash Rate
Management Fee	1.29% p.a.[4]
Administration Fee	0.10% p.a.[4]
Performance Fee	20.5% p.a.[5]
High Water Mark	Yes
Distributions	Semi-annually at 31 December and 30 June

Allocation Weights*



Portfolio Metrics

As at end of month	
Long exposure	112%
Short exposure	-115%
Gross exposure	227%
Net exposure	-2%
Number of long positions	51
Number of short positions	72
Since Inception	
Sharpe Ratio [6]	1.8
Volatility [6]	6%
Maximum monthly drawdown	-4.1%

Platform Availabilty

AMP MyNorth	ANZ Grow Wrap	Ausmaq
BT Panorama	Colonial First Wrap	HUB24
IOOF	Macquarie Wrap	Mason Stevens
MLC Wrap/Navigator	Netwealth	Powerwrap
Praemium	Xplore Wealth	

Contact Details

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

[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 management fees and operating costs. Individual investor level taxes are not taken into account when calculating net returns. This is historical performance data. The value of an investment can rise and fall and past performance is not indicative of future performance. [2] Benchmark refers to the RBA Cash Rate Total Return Index. [3] Net Asset Value is calculated as Fund assets less Fund liabilities. [4] All figures disclosed include the net effect of GST and RITC. [5] Performance Fee of 20.5% (including the net effect of GST and RITC) based on outperformance of the Fund Benchmark, net of the Management Fee. [6] Refer to Definition of Terms at the end of the report.

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Performance Review

The CC Sage Capital Absolute Return Fund returned -4.15% in July versus the RBA Cash Rate of 0.10%.

Sage Groups* Gold and REITs were positive contributors and Growth and Yield were the biggest detractors to performance. The Growth Sage Group detractors were short positions in Wisetech (WTC +32%) which upgraded guidance on the back of better than expected costs, Pinnacle Investment Management Group (PNI +42%) which gave a positive update on performance fee revenue, and ZIP Co (ZIP +158%) which terminated its takeover agreement with Sezzle (SZL) and vowed to streamline and reduce cash burn.

Performance in the Yield Sage Group was impacted by a long position in QBE Insurance Group (QBE -5%) which fell as three to five year bond rates dropped during the month, and short positions in Commonwealth Bank (CBA +11%) and National Australia Bank (NAB +12%), driven higher after a weak June by lower bad debt fears. Detractors in the Domestic Cyclicals Sage Group were long positions in Ampol (ALD -2%) which fell on the back of the oil price drop and GrainCorp (GNC -8%) driven by a fall in the grain price.
Positive contributors were the Gold Sage Group, driven by a short position in Newcrest Mining (NCM -8%) which fell as inflation fears eased leading the gold price lower, and the REITs Sage Group, driven by long positions in Charter Hall (CHC +18%) and Goodman Group (GMG +16%) which were strong due to lower bond yields.

Market Review

July was a strong month for equities following a weak June with the S&P/ASX 200 Accumulation Index up 5.75%, driven by macro data indicating that the US economy is slowing, which moderated inflationary fears which in turn lead the market to revise down the extent of interest rate hikes required to tame inflation. As a result, bond yields fell with the Australian 10-year bond yield falling a hefty 60 bps to 3.06%, driving equity valuations higher. The strongest Sage Groups were REITs, where valuations are highly sensitive to changes in bond yields, Growth driven by expensive and loss making stocks which tend to perform well when bond yields fall, and Yield. Resources was the only Sage Group which fell, driven by broadly lower commodity prices on the back of expectations of lower global demand.

Portfolio Positioning and Market Outlook

Equity markets have been driven by macro factors in recent months and stock correlations are well above historic averages. The market is attempting to digest the biggest inflationary shock in decades and gauge the extent of monetary tightening required to tame it. This has led to a broad fall in stocks with cyclical earnings exposure, but the market reverted sharply in July on the perception that growth and inflation have peaked. As highlighted last month, Sage Capital thinks this is a false signal driven by a sharp inventory cycle that is causing manufacturing to soften. Momentum in the global services economy is strong, although softening, with employment robust and wages growth beginning to catch up with inflation. Central banks still have a tough job in front of them to bring inflation back to target, with strong labour markets and a structural energy shock meaning that a recession is likely required. The recent snap back in risk appetite is likely to be short lived.

In the short term, it is likely the August reporting season will turn attention back to individual company earnings which should see stocks becoming more responsive to company specific idiosyncratic news. Interest rates in Australia and the rest of the world have only just begun to rise so will have limited impact on current results, which we expect to be broadly strong. With more rate rises to come, outlook statements will be more important than ever although Sage Capital expects a broad degree of caution from companies. Given the significant valuation multiple compression experienced by many companies already (60% of companies are now trading 20% off their 12-month high) a lot of bad news has been priced in and earnings or outlook statements that are not as bad as expected could drive material share price rebounds. However, macroeconomic data will still play an important role in equity market performance from here, with the Reserve Bank of Australia closely watching wages growth, labour force and monthly retail sales data.

Sage Capital retains a cautious stance towards markets as growth is sacrificed to contain inflation with company earnings likely to come under pressure as margins retreat from peak levels. Sage Capital maintains low net exposure to the Sage Groups to limit exposure to these systematic macro risks while focusing on individual company earnings to drive stock selection. The portfolio as always, remains well diversified, liquid and positioned to weather the myriad of unknowns.

Fund Disclosures

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

*Sage Capital uses a custom grouping system for long short positions (Defensives, Domestic Cyclicals, Global Cyclicals, Gold, Growth, REITs, Resources and Yield). With a focus on the principal macro earnings drivers for each stock, Sage Groups allow for comparisons to GICS for selecting stocks within a sector. Contributors to Active Performance is Gross of Fees.

Definition of Terms:

Sharpe Ratio - Annualised average monthly excess Fund return (net of fees) divided by Fund volatility. Excess return is the Fund return minus the risk free rate, which is the RBA Cash Rate.

Volatility - Annualised standard deviation of monthly returns (net of fees) since inception.

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