Clime Australian Income Fund

Monthly Investment Report

November 2019

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Market Commentary - November 2019

The ASX200 delivered a strong return in November, with a total return of +3.3%. The trend of negative forecast earnings revisions continued into the month yet equity valuations remain elevated. The 12-month forward P/E for the Australian market sits at 17.4x, though the context of historically low global bond yields also remains.

While financial markets are strong, economic fundamentals remain relatively soft. Since the start of 2019, Australian consumers have benefited from three interest rate cuts, tax cuts, strong commodity prices and a bottoming in the housing market. Nevertheless, wages growth has been absent, consumer confidence weak, and retail spending soft. Drought, fires and “eco-anxiety” have certainly not helped, and further revelations about banks behaving badly have soured the mood of bank shareholders.

Financial markets experienced an upbeat month, signalling rising optimism – this is somewhat surprising, coming only a few weeks after the IMF described the global economy as “precarious”. Indeed, 2019 looks likely to post the weakest global economic performance for a decade. This reflects rising US-China trade tensions, their dampening impact on exports and industrial production, and a global manufacturing recession; and yet investors appear to see green shoots of recovery next year.

The IMF and other forecasters expect 2020 to be better than 2019, but market moves in recent weeks raise the question whether the outlook is much improved. Investors’ enthusiasm may be overblown. So far the evidence is mixed; some data suggest the slide in the global economy is coming to an end, but the pace of recovery is expected to be weak.

Financial markets are forward-looking, generally catching on to trends before they become obvious in the economic data. Markets have been pointing towards a broad recovery, and many are close to all-time highs. There are two broad explanations for this: firstly, there are few alternative investments available, with rates so low, and secondly, investors probably expect that prospects for corporate profitability have improved over the last few months.

Government bond yields, usually a good indicator of economic momentum, have risen across advanced economies. Global trade is showing signs of stabilisation. Much of the fear regarding the global economy in October stemmed from the fear that global trade wars would intensify. Yet during November, the news was mostly positive. A disruptive no-deal Brexit looks less likely after PM Boris Johnson withdrew objections to a customs border in the Irish Sea. And while tensions between the US and China ebb and flow on a daily basis, we expect ultimately it will be in both sides’ interests to agree a deal.

More positive trends have become visible in trade data, with volumes growing in recent months. In November, investment bank JP Morgan noted that its index of global purchasing managers’ orders improved by the largest amount in four years – albeit from a low base.

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In the shorter term, a focus on rational asset allocation and on yield is essential. Compounding of returns will reward patience, but will require active management across and inside asset classes to ensure that capital is neither lost nor devalued. As always, a watchful eye must be diligently maintained, but we perceive that the risk of a major market retraction is fairly low because interest rates are low and unlikely to rise. The offset is that returns will be lower than the historical norm.

Head of Investments - Adrian Ezquerro

With expertise in equity analysis and investment management, Adrian is focused on the delivery of strong risk-adjusted returns for clients. Adrian joined Clime Investment Management in 2007 and is responsible for the management and overall performance of Clime's investment strategies, representing gross funds under management in excess of $900 million.

Adrian's role includes the identification and evaluation of investment opportunities across a broad range of asset classes, sectors and market cap segments. His prior investment management roles at Clime have included Analyst, Senior Analyst and Portfolio Manager – Smaller Companies. Adrian was the Founding Portfolio Manager of the Clime Smaller Companies Fund, having seeded the fund and overseen its growth and significant success since inception. He also researched, developed and implemented Clime's proprietary Quality Score, a quantitative filter used to score and rank equities.

Clime Australian Income Fund

Fund Performance - November 2019

Portfolio Return Wholesale (Month)	Fund Size Wholesale	Recent Distribution (Wholesale)	Income Wholesale (Annual)	Wholesale Unit Price (Exit) (As at 30 Nov 2019)
0.6%	**$29.4m**	**0.5160 (cents per unit)**	**4.3%**	**$1.1415**

During November, equity investors appeared to be in optimistic mood even though the anticipated "phase one" of the US-China trade deal was delayed. Despite the postponement, both sides have provided indications that the deal will conclude and this was sufficient for equity markets to finish the month up sharply.

While equity markets turned "risk on", bond markets initially sold off but rallied back as debt investors turned cautious once the trade deal was not signed by mid-November. Australian 10y bonds touched an intra-month high of 1.31% in mid-November, but by month end had rallied to finish at 1.04% (yield declined, bond price rose). US 10y Treasuries almost touched 2.0% at the intra month high but eased back to 1.78% by month end.

The Fund posted a return of +0.6%, below the S&P ASX200 Accumulation Index which rose a strong +3.3%. The Fund's performance was affected by the weakness of income / defensive stocks when bonds sold off. While debt investors remain more cautious with the delay of a trade deal, equity investors appear convinced that it is a fait accompli and that growth is back. Thus, while debt investors continue to seek the safety of high-quality debt securities, equity investors have been reducing their exposure to income sensitive stocks (such as financials and property) to buy growth.

This trend was exacerbated by Westpac's (WBC) breaching of anti-money laundering laws. While we are underweight financial equities (relative to the market index), the Fund was not immune to the sharp selloff of the financial sector.

During the month, the Fund participated in the following offerings: Origin Energy Limited IG senior debt, NAB IG FRN subordinated FRN and HY Woolworth Holdings Limited (David Jones Finance) senior secured debt. These debt securities will incrementally enhance the Fund's yield and will assure a steady cash flow for the quarterly distribution.

CBA PERLS XII listed in November and it has traded above par since, suggesting that fixed income securities (such as bank capital notes) are still in demand as interest rates fall. The Fund also participated in the placement of APN Industria REIT (ADI) and Gryphon Capital (GCI) entitlement offers. These should provide steady income generation.

Consistent with the objective of providing relative capital stability while generating regular quarterly income, the Fund's 1-year portfolio volatility decreased to 2.8% (from 2.9%), while the headline S&P/ASX200 (equity) Index volatility measured at 10.8% over the same period.

Performance (Wholesale)

	1 month	3 months	6 months	1 year	2 years	3 years	Inception*
Fund Return	0.6%	1.1%	3.2%	9.2%	5.0%	6.8%	6.9%
Income	-	0.5%	2.8%	4.3%	4.1%	4.1%	3.7%
Capital Growth	0.6%	0.6%	0.4%	4.7%	0.9%	2.6%	3.1%
Volatility	-	-	-	2.8%	2.8%	2.7%	3.2%

Clime Australian Income Fund

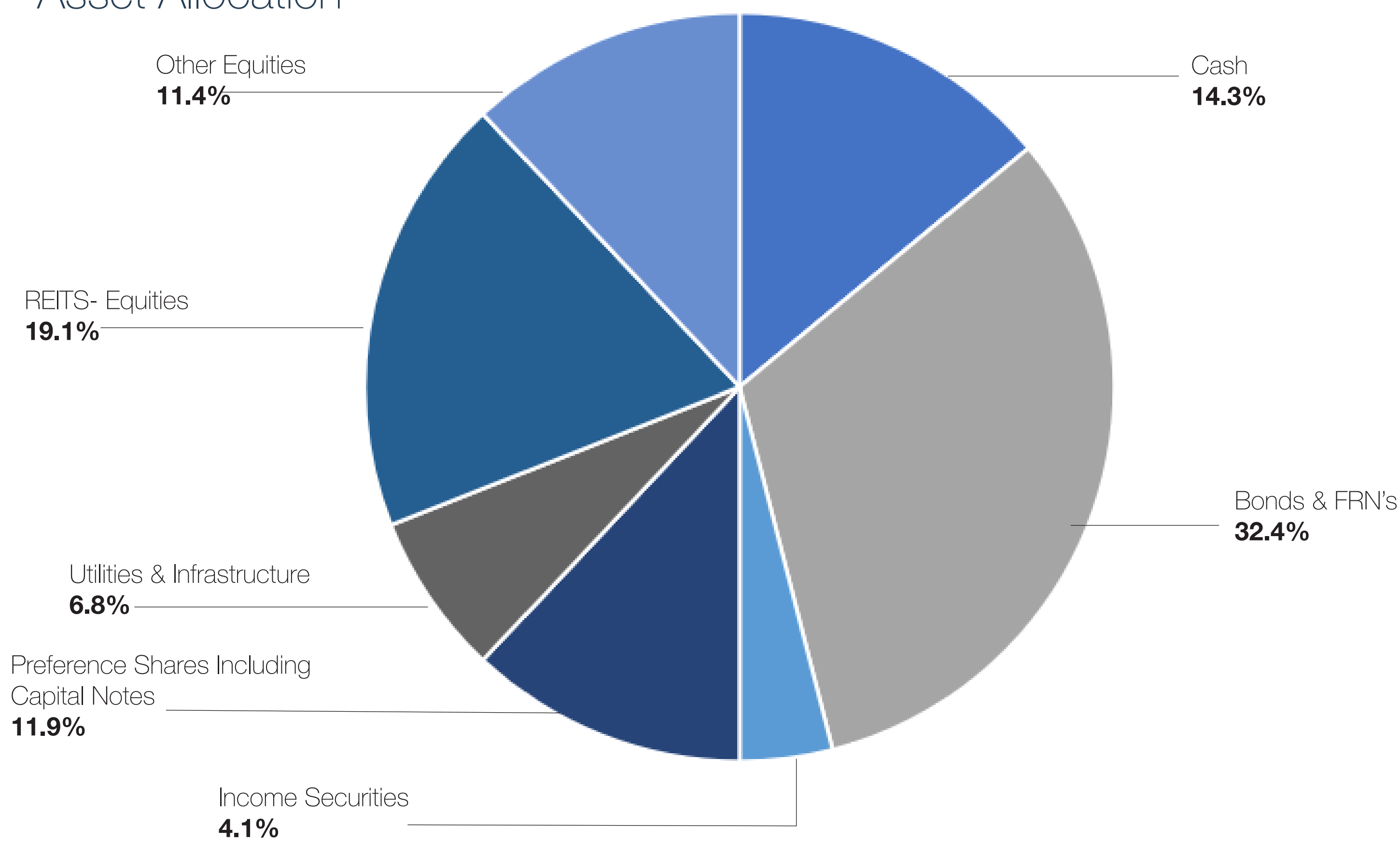
Prominent Holdings

Security	Weighting
Multiplex Sites	2.3%
CBA Capital Notes (CBAPD)	2.2%
GPT Group Limited	2.1%
Macquarie Bank Income Securities	2.1%
UBS 5y AT1	2.1%

Distributions

Period Ended	Wholesale Units (cents per unit)
30 September 2019	0.5160
30 June 2019	2.5854 + 0.2533 franking credits
31 March 2019	0.8096
31 December 2018	0.8859

Asset Allocation



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Clime Australian Income Fund

Investment Objective

The Clime Australian Income Fund (CAIF) seeks attractive returns over the long term through investing in a portfolio of Australian listed and unlisted securities that display low volatility traits.

The Fund seeks to deliver a level of annual income of 3% above the RBA Cash rate after all fees and usual expenses and is suitable for those attempting to preserve capital whilst enjoying an income stream above term deposits.

The Clime Australian Income Fund is appropriate for investors who:

Seek to diversify their portfolios across asset classes other than higher growth, higher risk equities and
Are happy with a steady accumulation of wealth over the longer term at reduced volatility to the equity market.

Investment Methodology
Through rigorous fundamental analysis Clime seeks: a range of equities, preferred shares, debt securities, income notes, A-REITs and cash.

All holdings are subjected to our rigorous and disciplined qualitative and quantitative selection process. The portfolio has a natural bias towards the S&P ASX 100 stocks and their associated debt securities, and generally defensive sectors including property management, infrastructure, healthcare, telecommunications and financials.

Portfolio returns are likely to be added to by franking credits. Clime seeks to identify high quality securities issued by businesses which contain many if not all of the following characteristics:
- A strong balance sheet enabling the business to service debt comfortably,
- A high cash return on equity,
- Relatively low capital requirements allowing a business to generate cash while growing,
- High market share in their principal product and/or service lines, and
- Short customer repurchase cycles and long product cycles.

Quantitative Filtering and Sector specific screening will identify appropriate
- REITs (LPT)
- Utilities and Infrastructure
- Consumer staples and other defensive sectors such as healthcare and energy retailer
- Banks' preference shares
- Bank income securities (and debt)

Portfolio Manager - Dr Vincent Chin

Vincent joined Clime in February 2009. He has a wide range of investment experience spanning fixed income to equity. He has more than 10 years of portfolio construction and managing risk across multi-asset classes. Before joining Clime, he gained his investment experience in the late 1990s to 2000s at Ausbil Dexia and Maxim Asset Management (now wholly subsidiary of Charter Hall) where he has developed multi-factors quantitative models for stock selections and attribution performance analysis. Vincent is passionate about ethical investment across any assets including alternate investments. Prior to this, Vincent worked in semiconductor device and material research in academia and industry for more than 15 years. His research spanned III-V and IV groups semiconductor materials and its application. He specialised in transport properties (numerical modelling and characterisation) in these semiconductors for devices and solar cells applications. He has published about 50 international refereed scientific publications and co-edited a proceeding in opto-electronics.

Vincent has a PhD Physics, MSc Physic, BSc (Hons) Chemical Engineering, and Grad. Dip. Finance