Clime Australian Income Fund

Quarterly Investment Report - June 2017

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Investment Objective

The Fund's objective is to provide a level of income of 3% p.a. above the RBA cash rate and to grow capital in line with CPI. It seeks to deliver a strong risk-adjusted total return and is expected to have a level of total volatility of returns of less than half traditional equity indices.

Investment Strategy

The Clime Australian Income Fund seeks to provide an income stream above the RBA cash rate from a portfolio of Australian listed and unlisted securities, with a strong view towards capital preservation.

The portfolio will invest in select high quality individual investments which in aggregate create a best ideas portfolio for income generation. Portfolio yield is likely to be incrementally enhanced via franking credits.

Fund Profile

Investment Manager	Clime Asset Management Pty Limited
Investments	The Fund's goal is to select high quality individual investments that allow the creation of a best ideas portfolio for income generation.
Fund Size - Wholesale Inception Date	A$8.65million 1 July 2015
Income Distributions	Quarterly. Unless otherwise requested, distributions are automatically reinvested.
Management Fee	1.03% p.a.^
Contribution Fee	Nil
Minimum initial investment	$200,000
Minimum additional investmwent	$10,000
Expenses	0.21% p.a.
Withdrawal Fee	Nil
Benchmark	Achieve a return of 3% p.a. above the RBA cash rate and to grow capital in line with CPI with volatility of return less than half ASX200 Index.
Investment Horizon	Minimum 3 years

^The Australian Income Fund is currently in the incubation phase and at this time the manager is not charging the full management fee. With effect from 1 April 2017, the management fee was revised to 0.41% pa, which will be reviewed on a monthly basis.

Performance and Volatility of Return (30/06/17)

	Portfolio Return	Income	Capital Growth	Volatility**
1 month	0.32%	1.69%	-1.35%	-
3 months	1.37%	1.69%	-0.31%	-
6 months	3.80%	2.63%	1.14%	2.48%
1 year	8.99%	4.06%	4.74%	2.96%
Inception*	8.28%	3.74%	4.38%	3.81%

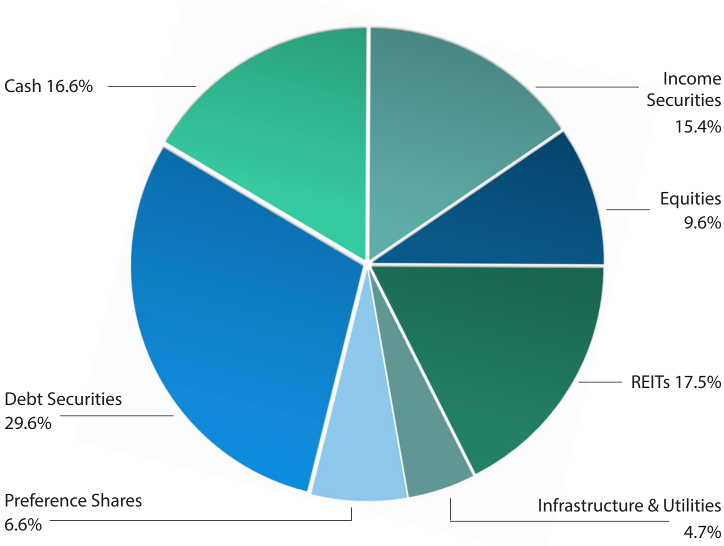
Note: Compound (geometric) returns are used in the above table's segmentation of Income and Capital Growth. This may result in small differences when compared with a simple addition of Income and Capital Growth components.

* Inception: Wholesale Units: 1 July 2015. Performance figures for more than 1 year are annualised, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period. The returns do not include the benefit of franking credits.

** Volatility is based on the annualised standard deviation of weekly price movements.

The 1 year volatility of the ASX200 is 12.3% over the same weekly measurement period; placing the Clime Australian Income Fund volatility significantly below that of the ASX200 Index. This is consistent with the Fund objective of providing capital stability while generating regular quarterly income.

Asset Allocation



Wholesale Units - Monthly Returns (since inception*)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	CAIF FYTD
2015 - 16	0.5%	0.6%	-1.3%	2.5%	-0.6%	1.5%	-1.6%	-0.3%	2.5%	1.3%	1.7%	0.7%	7.6%
2016 - 17	2.5%	-0.0%	-0.3%	-0.7%	0.8%	2.7%	-0.3%	1.5%	1.2%	0.9%	0.1%	0.3%	9.0%

*Inception date as at 1 July 2015 (Wholesale) at which point the Fund's units NAV was struck at an inception price of AUD 1.00.

Note: FYTD represents net return for the given financial year, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period.

Distributions

Quarter Ending	Wholesale Units (cents per unit)
30 June 2017	1.8451 +0.3189 franking credits
31 March 2017	1.0082
31 December 2016	0.9706
30 September 2016	0.5123
30 June 2016	2.1483 +0.3153 franking credits
31 March 2016	0.8246
31 December 2015	0.2390
30 September 2015	0.5383

Top 5 Holdings

Security	Weight%
Bendigo Subs T2 FRN	3.58%
SUNAU FRN	3.03%
Rural Funds Group	2.77%
Goodman Plus Trust	2.69%
CBA Convertible Note VII	2.56%

Quarterly Investment Commentary

At 30 June 2017, the Clime Australian Income Fund was diversified across six underlying sub-asset classes: Domestic Debt, Income & Preferred securities; REITs; Utilities & Infrastructure (U&I); Equities; and Cash. The underlying security weights in the portfolio ranged from around 0.5% to 3.5%.

The level of Fund activity during the June quarter was lower than previous quarters, reflecting

- The lack of attractive hybrid issuance;
- Yield based valuations becoming fuller;
- Concerns around international politics, especially the US;
- Geopolitical risks; and
- The persistent weaker global growth since the GFC, coupled with high debt levels globally.

Despite this environment we remain focussed on actively seeking out and accumulating regular income generating financial assets with an attractive (low) volatility profile. We believe the latter feature is paramount to our Fund's investment approach.

As a summary of portfolio activity, we exited DUE following the takeover from CKI Infrastructure with an outstanding income and capital gain delivered over a short time period. We have incrementally added to AMP Limited (AMP), Telstra Corporation (TLS) and Wesfarmer Limited (WES) ahead of distribution / dividends which provides an additional income benefit via franking credits. We also incrementally increased existing holdings in income securities (i.e. NABHA, MBLHB) and selective REITs and Infrastructure & Utilities securities ahead of their distributions in May and early June at the time when the markets were weaker. ANZHA – Basel II, T2 notes were redeemed by ANZ at the call date on 20 June 2017.

We have added one new income generating security in June quarter, being:
Suncorp Capital Notes – we participated in SUN capital notes offer (ASX: SUNPF). The new capital notes have an optional call date of over 5 years and are priced as 4.10% margin over the 90 day BBSW. This offer was heavily oversubscribed, reflecting strong investor demand.

In the unlisted OTC market, we participated in the Centuria Bond and Next DC (ASX: NXT) Notes III. Both are four year bonds with coupon payments well over 6% and capital gain potential should they be called back before maturity.

The 10-year Australian bond yield finished at 2.60% in 30 June 2017 after starting the quarter at 2.69%. It touched a low of 2.36% in mid-June. The sharp move in bond yield from 2.36% in mid-June to close the month at 2.60% was due to the broadly higher than expected inflation data out of Europe. This also cause a selloff in equity markets globally, particularly in the interest sensitive stocks such as REITs, Utilities and Infrastructure.

Clime has recently written an article on the changing landscape caused by technology disruption, changes in demographics and its interaction under the very low interest rate period that has been sustained for the past 15 years. Based on our work, we believe low inflation will be more of a norm over the near to midterm and, relative to historical levels, this will result in lower bond yields. As a result, we believe the weakening of yield sensitive securities in the past week is an opportunity to selectively accumulate these securities for the Fund. If you are interested in reading this article "The benefits and perils of ultra low interest rates over a sustained duration", please contact Clime directly. As the direct result of our view, we believe it is unlikely that 10y bond yield will move meaningfully beyond 3% over the medium term.

Despite the selloff in late June, we see global equities, and the US equity market in particular, remaining fully valued. We believe the prevailing economic conditions do not justify this heighten pricing level. Moving into FY18, we see it being prudent to maintain a diversified (and somewhat conservative) portfolio positioning given the fragility of the global market, political and geopolitical risks.

The primary objectives of the Fund are to provide capital preservation, income generation beyond the RBA cash rate, steady capital growth in line with inflation, while maintaining a lower volatility profile of returns. Whilst the likelihood of US yield curve inversion is still small, if the curve does flatten further from here, we believe the odds of a major slow down hitting the US subsequently increases. As a result, the cash position remains elevated and we remain vigilant given the prevailing political and geopolitical risks and economic environment.

Major central banks have utilised non-conventional monetary policy (so-called quantitative easing (QE)) since the GFC which, contrary to conventional wisdom, has resulted in virtually all financial asset classes having a positive correlation. As a result and compared to previous episodes, we believe this weakening of conventional wisdom will amplify capital loss (other than holding a higher level of cash) should a major slowdown or recession eventuate. We nevertheless also believe that high, predictable and sustainable yield securities will be more resilient should a slowdown occur. The unwinding of sustained coordinated QE programs will present challenges and likely create some turbulence in financial markets. Through this process and despite our best efforts, we believe it is unlikely that the Fund will not experience periods of negative returns, particularly in the event of a major slowdown / recession. As we take capital preservation seriously, should we see conditions deteriorate and the likelihood of a major slowdown increase, investors should expect to see higher cash levels in the Fund if we deem this is necessary.

At 30 June 2017, the cash level is around 17%, we remain resolute in ensuring that the Clime Australian Income Fund is appropriately positioned to provide regular income and preserve capital, while growing invested capital in line with inflation over the medium term.