



Clime Australian Income Fund

Quarterly Investment Report - December 2016

Investment Objective

The Fund aims to achieve a return 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 seek to provide an income stream above the RBA cash rate from a portfolio of Australian listed and unlisted securities, with a strong view for capital preservation.

The portfolio's goal is to select high quality individual investments that allow the creation of a best ideas portfolio for income generation. Portfolio returns are 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\$6.01 million 1 July 2015
Income Distributions	Quarterly. Unless otherwise requested, distributions are automatically reinvested.
Management Fee	1.28% p.a. [^]
Contribution Fee	Nil
Minimum initial investment	\$200,000
Minimum additional investment	\$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 full management fees. Effective 1 October 2016, the manager is charging a 0.25% management fee which will be reviewed at the end of the December quarter.

Performance and Volatility of Return (31/12/16)

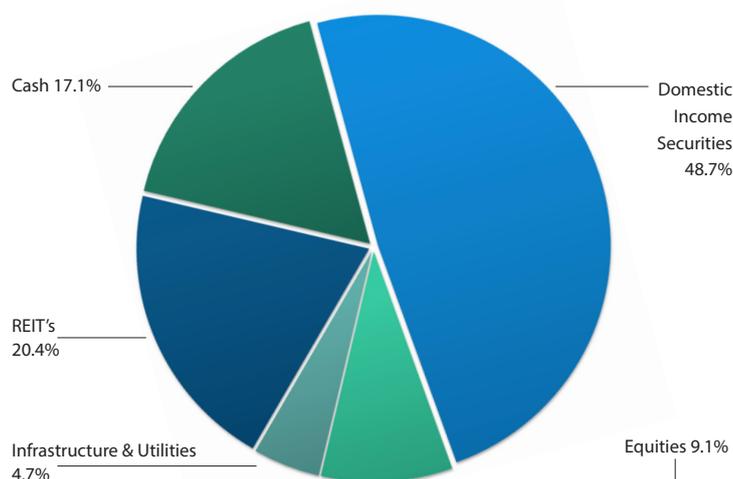
	Portfolio Return	Volatility**
1 month	2.68%	-
3 months	2.76%	-
6 months	5.00%	3.6%
1 year	9.49%	4.4%
Inception*	8.44%	4.2%

* 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 standard deviation of weekly price movements.

The 1 year volatility of the ASX200 is 14.6% over the same period as measured on a weekly basis; placing Clime Australia Income Fund at about 30% return volatility compared with ASX200 Index. This is consistent with the Fund providing capital preservation 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%	-0.01%	-0.27%	-0.68%	0.76%	2.68%							5.00%

*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)
31 December 2016	0.9706
30 September 2016	0.5123
30 June 2016	2.1483
31 March 2016	0.8246
31 December 2015	0.2390
30 September 2015	0.5383

Top 5 Holdings

Stock	Code	Weight%
Bendigo Subs T2 FRN	-	5.04%
SUNAU FRN	-	4.25%
Transurban Queensland - TQLAU	-	3.29%
Goodman Plus Trust	GMPPA	3.04%
CBA Convertible Note VII	CBAPD	2.79%

Quarterly Investment Commentary

At 31 December 2016, the Clime Australian Income Fund was diversified across four general asset classes: domestic debt; preferred securities; REITs, Utilities & Infrastructure (U&I) and other Equities; and cash. There were just over 40 securities in the portfolio with weights ranging from 0.5% to 5.0%.

The December 2016 quarter was an active one where we accumulated securities for their income stream, particularly in the REITs as this equities sub-sector was sold out. We also took the opportunity to acquire some unlisted Floating Rate Notes (FRNs). As at 31 December 2016, the following portfolio changes were made:

- Vicinity Centres – We have re-introduced Vicinity (ASX: VCX) into the portfolio after the REITs sector came back sharply over the past quarter.
- Qube Holdings subordinated debt – We have participated in the 7y subordinated debt of Qube Holdings Limited (ASX: QUB). QUB issued a listed debt securities (ASX: QUBHA) with a floating margin of 3.90% over the 90 day BBSW.

- IAG limited Capital Notes – We have participated in the recent capital notes offering from IAG Limited (ASX: IAGPD). It is a 6.5 years capital notes with a 4.7% margin over the 90 day BBSW.
- CBA Capital Notes (PERL VII) – We have started accumulating these T-1 Capital Notes of CBA (ASX: CBAPD) below par due to their lower trading margin. We believe the capital price will move up when it gets closer to the optional call date.
- MQG Capital Notes – We have decided to exit MQGPB for a good profit and switched proceeds to IAGPD.

In addition to the above changes, we have de-weighted our banks holdings post dividend payments. Major banks rallied strongly following Trump's election victory in a general market rotation away from defensive sectors into financials and resources. We switched some of these proceeds into REITs and Utilities stocks ahead of their December distributions, while taking advantage of the weakness in these sectors during the broader rotation.

In the unlisted market, we have participated in the Bendigo Bank B3, T2 paper. This paper was priced at 280bp over the 90 day BBSW and it was well over-subscribed. We have also bought a senior secured debt issued by Transurban Queensland, TQLAU. The trading margin was around 200bp over the 90 day BBSW. We believe these investments to be attractive steady income generators for the Fund.

Bond yield bottomed in mid-August and have continued to move higher. In the December quarter, the 10 year Australian bond yield moved up by a further 85bp to 2.76%, resulting in increased volatility on defensive income assets. Post Trump's election win, this has resulted in US 10 year treasury softening more than the Australian 10 year bond and has seen a narrowing in the spread between the US and Australian bond yields.

Global bond markets have sold off since yields bottomed in mid-August 2016. We anticipate some upward movement at the long end of the yield curve and see some stabilisation in 2017; a more gradual rate of change. We will continue to ensure that the Clime Australian Income Fund is appropriately positioned. With cash holdings close to 20%, we await opportunities to selectively accumulate attractive high-yielding and lower volatility assets that offer regular income and steady long term performance.

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