Clime Australian Value Fund

Monthly Investment Report

October 2019

Market Commentary - October 2019

The month of October delivered several market and macroeconomic themes worth highlighting. The IMF provided a more circumspect update specific to global growth forecasts; optimism surrounding a 'phase one' trade deal emerged; both the RBA and the US Federal Reserve cut interest rates; and the domestic 'AGM season' kicked off.

Australian equities lagged the 1.9% return of global markets during the month, with negative returns from gold, information technology and financial sectors more than offsetting the strong returns generated by the health care sector (+7.3% for the month). The rise in global equities for the month was significantly driven by Asian markets, with the Japanese market up +5.4% and the MSCI Asia ex Japan index delivering a return of +4.6%.

We suspect the rally in Asian equities particularly reflects the emerging optimism related to the announced 'phase one' trade deal between the US and China. US President Donald Trump suggested that the two countries have come to a 'substantial phase one deal', one that would seek to address issues encompassing agricultural trade, intellectual property and financial services.

Officials from both China and the US have since indicated that a roll back of tariffs on each other's goods would likely occur on completion of the phase one deal. In a sign of the geopolitical times, we remain measured when assessing the probability of a significant reduction of trade related hostilities in the near term.

The significant slowdown in manufacturing activity particularly highlighted the meaningful ripple effects being felt globally. A more cautious business sector, whereby significant investment decisions continue to be postponed, is now directly impacting economic growth rates. As we have highlighted in recent updates, weak manufacturing data continues to emanate from major economies including China, Germany and the US, though easier monetary policy has somewhat softened broader ramifications (to date).

The International Monetary Fund (IMF) presented its outlook for global growth during the month, with its message best described in its blog headline, 'Synchronised Slowdown'. The IMF has forecast global growth to be 3.0% for 2019, its lowest level since 2008-09, and a 0.3 percentage point downgrade from the April 2019 World Economic Outlook.

Despite projecting a rebound to 3.4% growth in 2020, the IMF did acknowledge that 'with uncertainty about prospects for several countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize.'

Domestically, we have observed a further round of weak (versus expectations) retail sales data coupled with another month of negative new vehicle sales data. Post month end, the Federal Chamber of Automotive Industries (FCAI) noted that new vehicles have now seen the 19th consecutive month of decreasing sales in the Australian market, with October 2019 sales down 9.1% compared to October 2018. In aggregate, we continue to see sluggish domestic consumption trends.

While extremely low interest rate settings have largely driven equities higher in CY2019, we note that concurrently forecast earnings trends have continued to moderate. This is particularly apparent within ASX large caps, with the ASX100 forecast to generate earnings growth of just +4.1% for FY2020 and -2.0% for FY2021. This contrasts with small cap earnings forecasts, which remain positive for both FY2020 and FY2021. We therefore continue to see significant merit in Clime's domestic 'all cap' strategy, which seeks to generate returns by investing in quality companies across the market cap spectrum.

We look ahead to November with significant interest, with the month bringing substantial opportunity to continue implementing our research program. Several investor conferences, coupled with a large number of AGM updates and company management meetings, will see your investment management team well positioned to execute in the coming months.

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 Value Fund

Fund Performance - October 2019

Portfolio Return Retail (Month)	Portfolio Return Wholesale (Month)	Retail Fund Size	Wholesale Fund Size	Retail Unit Price (Exit) (As at 30 Oct 2019)	Wholesale Unit Price (Exit) (As at 30 Oct 2019)
-2.0%	**-2.0%**	**$8.5m**	**$1.0m**	**$1.4260**	**$1.0465**

The portfolio returned -2.0% in October, compared to a -0.4% return for the S&P/ASX200 Accumulation Index and a -0.4% return for the S&P/ASX All Ordinaries Accumulation Index.

Key contributors and detractors to the portfolio return for the month were:
- Australian Equity Large Cap Sub-Portfolio: Positive contributor CSL (CSL), detractors Westpac Banking Corporation (WBC), Australia and New Zealand Banking Group (ANZ), National Australia Bank (NAB) & Amcor (AMC).
- Australian Equity Mid Cap Sub-Portfolio: Positive contributors GUD Holdings (GUD), Seek (SEK), Credit Corp (CCP) & Webjet (WEB), detractor Afterpay Touch (APT).
- Australian Equity Small Cap Sub-Portfolio: Positive contributors Integral Diagnostics (IDX) & Lovisa Holdings (LOV), detractors Navigator Global Investments (NGI), Electro Optic Systems (EOS), Hansen Technologies (HSN) & IMF Bentham (IMF).

CSL's AGM update was well received, with the company reaffirming guidance for solid growth in FY20, largely reflecting strong ongoing demand for CSL's plasma and recombinant therapies. ANZ's full year results underwhelmed and highlighted the headwinds facing the Australian banking sector at present.

The Mid-Cap sub-portfolio performed well during the month. GUD reaffirmed its FY20 guidance at its AGM while WEB rebounded off arguably oversold recent lows.

Much of LOV's AGM update highlighted the global rollout opportunity for the group, with store rollouts gaining momentum in France and the USin particular. NGI's quarterly Assets Under Management (AUM) update disappointed against expectations, though we retain the view that the business is modestly priced relative to earnings and its longer term prospects.

Fund Performance (31/10/2019)

	1 month	3 months	1 year	3 years*	5 years*	Inception*
Retail (AUD Portfolio Return)	-2.0%	2.2%	18.0%	10.6%	5.2%	6.7%
Wholesale (AUD Portfolio Return)	-2.0%	2.2%	18.2%	10.7%	5.3%	5.9%

Inception: Retail Units: 28 August 2006; Wholesale Units: 15 April 2011.
*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 exclude the impact of imputation.

Distributions

Period Ended	Retail Units (cents per unit)	Wholesale Units (cents per unit)
30 June 2019	1.0980	1.0491
31 December 2018	1.0879	0.9481
30 June 2018	1.3075	1.2652
31 December 2017	1.6705	1.2670

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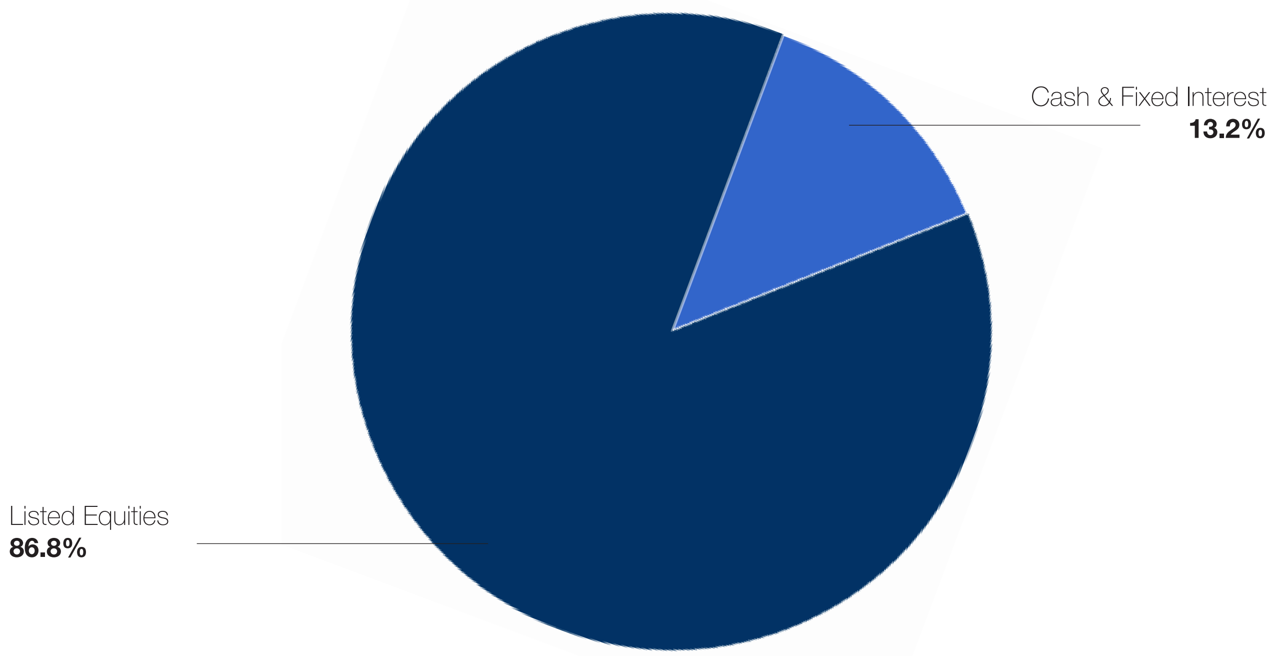
Prominent Holdings

Stock Code	Security	Weighting
BHP	BHP Group Limited	5.6%
AMC	Amcor PLC	5.0%
WBC	Westpac Banking Coporation	4.2%
NAB	National Australia Bank Limited	4.0%
BVS	Bravura Solutions Limited	3.9%

Asset Allocations



Clime Australian Value Fund

Investment Objective

The objective of the Fund is to provide consistent capital growth and a growing level of income over the medium term (3 - 5 years) by investing in securities listed on the Australian Securities Exchange. The Fund may not achieve its investment objective. Returns are not guaranteed.

Investment Methodology

Clime's investment style is that we invest with a quality focus and a strong valuation discipline. Through rigorous fundamental analysis, Clime seeks to invest in a range of high-quality Australian equities (listed and unlisted) and cash. All holdings are subjected to our disciplined qualitative and quantitative team-based selection process. Portfolio returns are expected to be incrementally enhanced via franking credits on dividends.

Clime seeks to identify high quality securities issued by businesses which contain most if not all of the following characteristics:

- A competitive advantage, leadership within a specific niche and a sound track record
- Financial strength, high levels of profitability and margin
- Low financial leverage
- Relatively low capital requirements allowing a business to generate cash while growing
- Highly capable management team aligned with creating shareholder value
- Companies that can deliver genuine sustainable long-term growth
- Investments that can be purchased at appropriate prices