Clime Fixed Interest Fund

Monthly Investment Report

November 2019

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.

Market Commentary - November 2019

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 Fixed Interest Fund

Fund Performance - November 2019

Portfolio Return (Month)	Portfolio Return (3 - Month)	Fund Size	Recent Distribution	Unit Price (As at 30 Nov 2019) (Exit)
0.3%	**0.7%**	**$15.3m**	**0.0744** **(cents per unit)**	**$1.0143**

The bond market started November soft as it sold off sharply and the yield increased by ~30 bp within a 2 weeks period. By mid-November, when no formal agreement in the US-China trade talks was achieved, the bond market turned cautious and rallied. By month end, the Australian 10y bond yield finished down 0.1% (the bond price rose) to finish at 1.04%, and US 10y Treasuries finished at 1.78%.

Meanwhile, it was a different picture for equity investors as they held on to their optimism that a trade deal would be concluded. While the bond market remained cautious, equity markets turned bullish and the S&P ASX200 Accumulation Index finished strongly, up 3.3% in November.

For the Fund, we adhered to our mandate of capital preservation and income generation. In November, the Fund was active and participated in several senior investment corporate bonds and financial FRNs. In the investment grade corporate bond space, the Fund participated in two energy / utilities midterm debt offerings, being Origin Senior and Endeavour Senior midterm notes (MTNs). In the infrastructure sector, we participated in the Port of Melbourne Senior MTN. In the financial sector, we took part in Citibank's 3-year senior and National Australia Bank's 5-year non-call subordinated FRNs. In the high yield space, we participated in the Woolworth Holding Limited (David Jones Finance) 3 years non-call 6 years FRN issue.

In November, the short-dated CBA subordinated FRN was called back, resulting in a total return for this paper of 3.3% (annualised) over a 4-month period - a good return having considered the risk for this paper compared to the RBA cash rate.

At month end, the asset allocation was 11.5% cash (including term deposits), 58.2% IG senior bonds, 19.6% IG subordinated FRNs, 5.1% HY unrated corporate bonds, 1.9% RMBS and 3.7% AT1 Capital Notes / hybrids. At 30 November 2019, we had not yet invested in any income securities.

With the cash rate at 0.75% and forecast to fall further, the running yield for the portfolio is low and will remain so for a while. Under these circumstances, investors should lower their expectations for returns in this environment. That said, the Fund should be able to provide consistent monthly cash distributions as we build up the basket of predominantly IG senior and subordinated debt and smaller exposures to HY bonds and other debt securities in the portfolio.

Performance (30/11/2019)

	1 month	3 months	6 months	Inception*
Fund Return	0.3%	0.7%	1.5%	2.0%
Risk			0.4%	0.6%

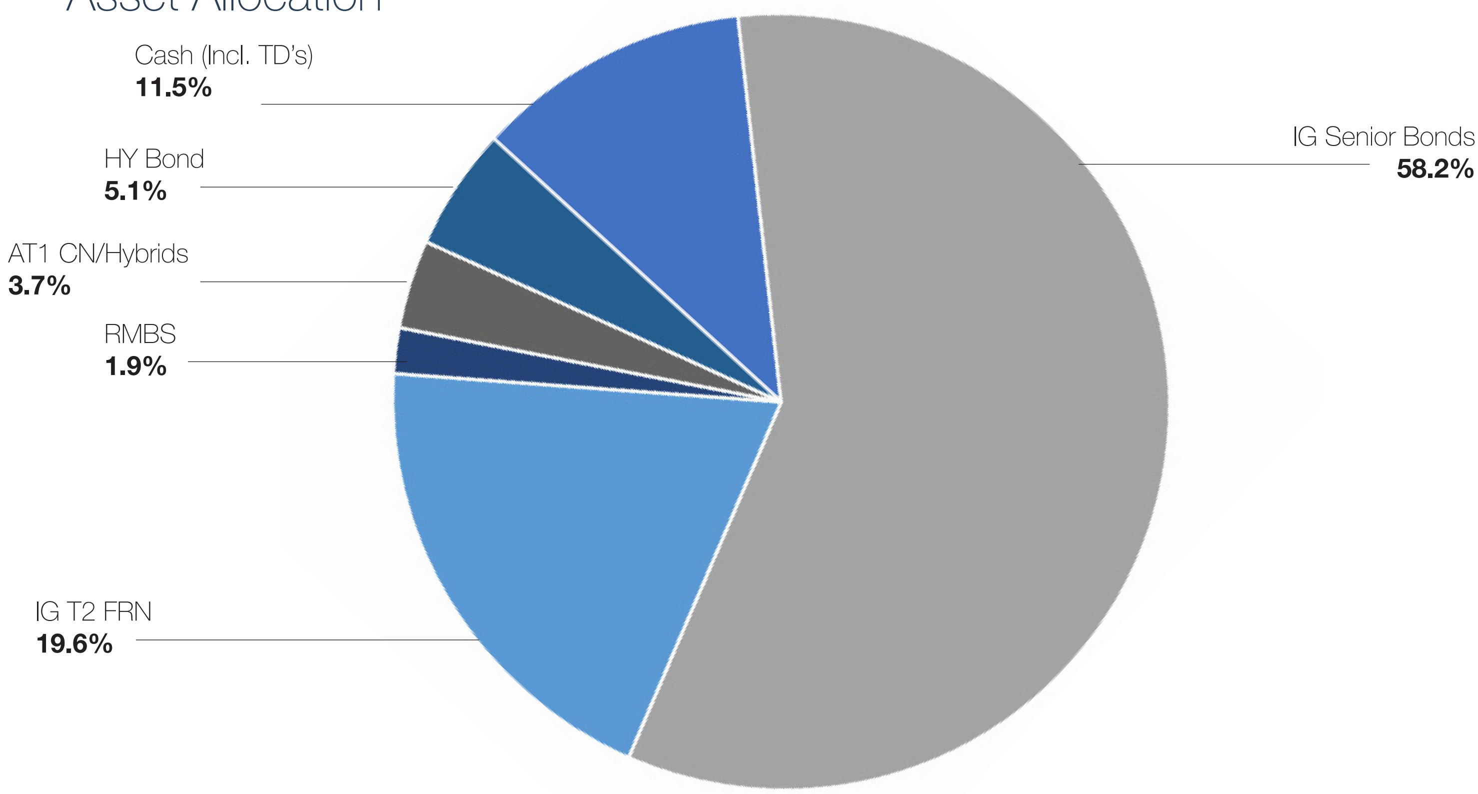
^Portfolio return is based on the change of the unit price including distributions but excluding franking credits.
*Inception: Wholesale Units: 17 April 2019. Performance figures are calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period. The returns do not include the benefit of franking credits

Clime Fixed Interest Fund

Distributions

Period Ended	Wholesale Units (cents per unit)
30 November 2019	0.0744
31 October 2019	0.0697
30 September 2019	0.1434
31 August 2019	0.1517
30 July 2019	0.0080
30 June 2019	-
31 May 2019	0.0277

Asset Allocation



Clime Fixed Interest Fund

Investment Objective

The Clime Fixed Interest Fund (CFIF) is for investors who want the potential for regular income while preserving capital.

The key objective of the Fund is to preserve capital, and to target an income return (after fees and usual expenses) of 1.5% to 2.5%[1] above the Reserve Bank of Australia (RBA) cash rate, over a 2 to 3-year investment term.

The Fund takes a conservative approach in providing investors with exposure to a wide range of Australian credit-based and rated and unrated corporate bonds and cash. Its investment philosophy seeks risk adjusted returns, based on:

- A robust investment process, and
- A focus on the core reason why fixed interest is often a key part of investment portfolios: generating meaningful income above the cash rate, the preservation of capital, and importantly, seeking protection against downside risk.

The Fund is intended to be a low to medium risk fund.

As the key objective of the Fund is to preserve invested capital, the Fund has a targeted risk objective of 1.5% +/- 1.0%. By comparison, over the 3-year period to 31 March 2019, the ASX 200 has held an average risk level of 10.6%.

1 As the fund may invest in capital notes, this may include franking.

Investment Methodology

Through rigorous fundamental analysis, Clime seeks to invest in a range of high-quality Australian credit-based rated and unrated corporate bonds and cash.

Investible assets may include rated and unrated debt securities and can be listed (including exchange traded funds) and over the counter (OTC). Issuers can be both Government and private issuers.

The bulk of the investments in the Fund are likely to be floating rate notes, supplemented by select fixed rate investments. The Fund may also invest in hybrid investments and other credit opportunities when they offer attractive risk adjusted returns with the added benefits of franking if available.

All holdings are subjected to our rigorous and disciplined qualitative and quantitative selection process.

As the key objective of the Fund is to preserve invested capital, the Fund has a targeted risk objective of 1.5% +/- 1.0%. By comparison, over the 3-year period to 31 March 2019, the ASX 200 has held an average risk level of 10.6%.

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