Clime CBG Australian Equities Fund (Wholesale)

Monthly Investment Report

November 2019

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clime

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.

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.

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Fund Performance - November 2019

Portfolio Return (1 Month)	Portfolio Return (1 Year)	Fund Size	Recent Distributions (Last 12 months)	Unit Price (Exit) (As at 30 Nov 2019)
3.4%	**25.0%**	**$65.8m**	**25.9cpu**	**$1.9337**

The portfolio returned 3.4% in November, compared to a 3.3% return for the S&P/ASX200 Accumulation Index. Key contributors and detractors to the portfolio return for the month were:

• Australian Equity Large Cap Sub-Portfolio: Positive contributors Amcor (AMC), BHP Group (BHP), CSL (CSL) & Woodside (WPL), detractors Westpac Banking Corporation (WBC), Australia and New Zealand Banking Group (ANZ) & National Australia Bank (NAB).

• Australian Equity Mid Cap Sub-Portfolio: Positive contributors Bravura Solutions (BVS), Webjet (WEB), Afterpay (APT) and Credit Corp (CCP), detractor HUB24 (HUB).

• Australian Equity Small Cap Sub-Portfolio: Positive contributors Audinate (AD8), Citadel Group (CGL), Navigator Global Investments (NGI) & APN Property Group (APD), detractor Lovisa Holdings (LOV).

The Australian equity market delivered a strong return for the month of November, with the technology (+10.6%), health (+8.8%) and consumer staples (+8.1%) sectors the standouts.

The portfolio traversed 'AGM season' reasonably well, with a large range of companies presenting generally positive updates. As a result, a broad range of portfolio constituents contributed positively to the monthly return.

Banks were the key laggard for the month, with WBC, ANZ and NAB all detracting, generally owing to a continuation of weak operating trends coupled with considerable regulatory concerns. The portfolio does however remain notably underweight the banking sector.

In more positive news, BVS issued refreshed FY20 guidance that was higher than expectations while CGL's 1Q20 trading update confirmed that deferred contracts from 4Q19 have been secured and will contribute to FY20 results, removing a key concern.

The portfolio enters the Christmas period in good shape, with a sound blend of growth and income generation evident across the large, mid and small cap market segments.

Fund Performance (30/11/2019)

	1 month	3 months	1 year	3 years*	5 years*	10 years*	Inception*
Fund Return	3.4%	6.7%	25.0%	11.8%	8.1%	8.2%	9.5%
Benchmark ^	3.3%	4.8%	26.0%	12.7%	9.9%	8.5%	8.7%

Inception: 9 April 2002.
*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.
^Benchmark refers to S&P / ASX200 Accumulation Index

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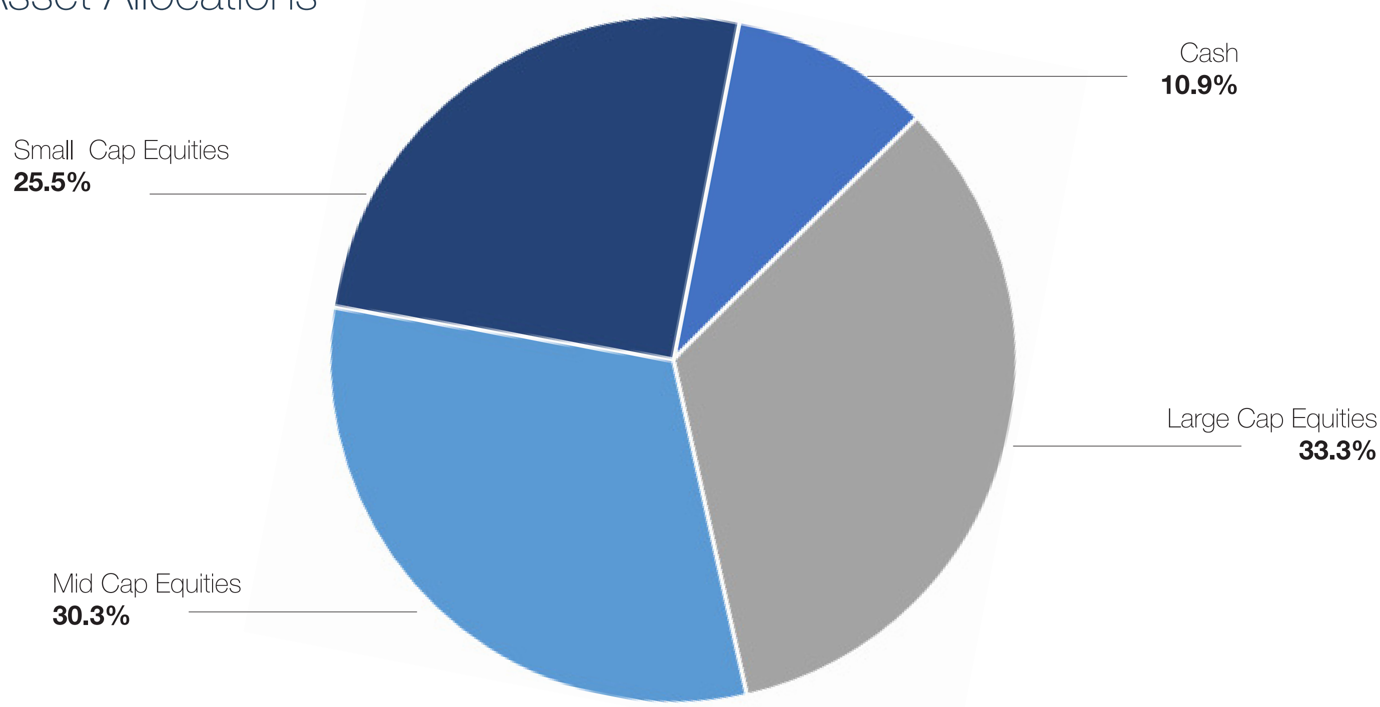
Distributions

Period Ended	Retail Units (cents per unit)
30 June 2019	25.9
30 June 2018	3.0

Prominent Holdings

Stock Code	Security	Weighting
BHP	BHP Group Limited	6.1%
AMC	Amcor PLC	5.3%
WEB	Webjet Limited	4.0%
WBC	Westpac Banking Corp	3.7%
BVS	Bravura Solutions Limited	3.5%

Asset Allocations



Clime CBG Australian Equities Fund (Wholesale)

Investment Objective

The objective of the Clime CBG Australian Equities Fund is to provide investment returns over the medium to long-term (3+ years) by investing in securities listed on the Australian Securities Exchange.

We believe that in the short-term markets are inefficient and investors can be irrational; and therefore that disciplined management can add value through the economic and market cycle. Over a rolling three to five-year investment horizon we expect to achieve investment returns in excess of the S&P/ASX200 Accumulation Index while assuming a similar level of total risk.

The Fund is suitable for those seeking primarily capital growth, with some supplementary income derived largely from dividends. This is a wholesale fund and you must qualify as a sophisticated investor to invest.

The Clime CBG Australian Equities Fund has an investment horizon of a minimum of 3 years. Short-term returns are therefore not necessarily reflective of our long-term goals.

Investment Methodlogy
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

Investment Director - Ronni Chalmers

Ronni founded the business which became CBG and was CIO and owner of the business when it was purchased by Clime in July 2017. Ronni has 38 years' experience in Portfolio Management, Stock Analysis and asset management businesses including;

2003 – 2013 Chief Investment Officer, FSP Equities Management Limited, subsidiary of ANZ
2001 – 2003 Investment Director, PSG (Aust) Funds Management Limited, partnership with PSG Investment Group, South Africa's fifth largest bank.

Ronni's previous funds management experience includes firms such as Bankers Trust and Oceanic Funds Management before forming PSG. Ronni holds a Bachelor of Commerce and Securities Institute of Australia International Portfolio Management F Fin