Clime Australian Income Fund
(Wholesale)

Fund Performance - January 2020

The Clime Australian Income Fund is a multi-asset class portfolio that invests in high-quality income generating assets. The Fund provides exposure to higher yielding securities in both listed and over the counter (OTC) markets. The Fund aims to achieve a total return of RBA cash rate + 3% p.a. whilst maintaining price stability.

Risk and return are considered to be equally important. As such, we construct the portfolio such that the risk, as defined by the annualised volatility of the change in the unit price, is in the 3% to 5% range (or 4.0% ±1.0%). The Fund pays regular quarterly income distributions in September, December, March and June.

The three interim distributions (September, December and March) are consistent and the final distribution for the financial year (June) includes capital gains and franking credits (if any).

Month Net Return (Wholesale)	1 Year Net Return (Wholesale)	Inception p.a. Net Return (Wholesale)	Total Fund Size
1.8%	9.1%	6.9%	$35.0m

	1 month	3 months	6 months	1 year	2 years (pa)*	3 years (pa)*	4 years (pa)*	Since Inception (pa)*
Net Portfolio Return (Wholesale)	1.8%	2.0%	2.2%	9.1%	5.7%	6.5%	7.6%	6.9%
Income	0.0%	0.7%	1.1%	4.2%	4.1%	4.0%	4.0%	3.7%
Capital Growth	1.8%	1.4%	1.0%	4.7%	1.5%	2.4%	3.4%	3.2%
Franking				0.2%	0.2%	0.2%	0.3%	0.2%
Volatility				2.9%	2.9%	2.7%	3.0%	3.2%

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.

*1 July 2015. Performance figures for more than 1 year are annualised, calculated after all applicable fees and taxes.
**Portfolio return is based on the change of the unit price including distributions but excluding franking credits. Franking credits will enhance portfolio returns and historically, have added about 0.2% pa to Fund returns as shown in the last column of the table above.

Top 5 Holdings

Security	Weight%
MBL Income Securities (MBLHB)	2.2%
CBA Capital Notes (CBAPD)	1.9%
NAB Income Secuities (NABHA)	1.8%
UBS 5y AT1 Capital Notes	1.8%
Charter Hall Social Infrastructure Trust	1.8%

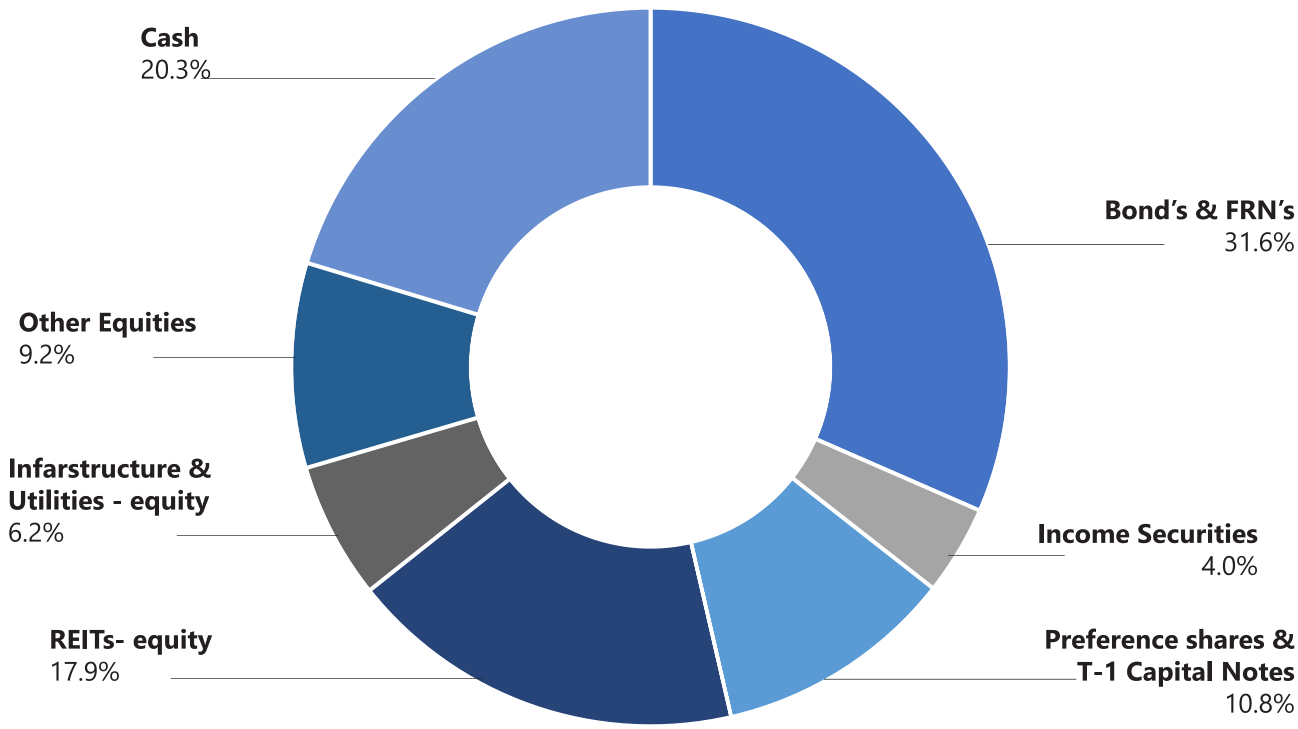
Fund Facts

Portfolio Manager	Dr Vincent Chin
Fund Inception	1 July 2015
Fund Size	$35.0m
Cash Distributions	Quarterly

Distributions

Period Ending	Wholesale Units (cents)
31 December 2019	0.7480
30 September 2019	0.5160
30 June 2019	2.584 + 0.2533 franking credits
31 March 2019	0.8096

Asset Allocation



Portfolio Commentary

The rally in the equity market continued into the new year, hitting a record 7,000 in the middle of January. Investor optimism was bolstered by factors including the official signing of the US-China Phase I deal on 15 January 2020, coupled with lower trading volume during the holiday season and the rally of the US equity market. By the third week of January 2020, the ASX200 exceeded 7,140 before the severity of the coronavirus (2019 – nCoV) dampened this upward trajectory to close up 5.0% for the month, still a very strong start to 2020.

The novel coronavirus appears to be not as deadly as SARS, but more contagious, which will complicate a more connected world. Moreover, the absolute and relative size of China's GDP is significantly bigger than it was during the SARS epidemic in 2002. We expect the impact of the 2019–nCoV, combined with the recent bushfires in Australia, will dampen economic growth for at least the next 1-2 quarters. Regional economies such as those in North Asia (Japan, South Korea) and South East Asia (Thailand, Singapore, Malaysia) rely significantly on China for trade and tourism and will likely feel similar material impacts compared to 2002/2003.

While equity markets have proved resilient, the bond market has reacted differently. Yields have compressed (prices up) and the curve has flattened, but credit spreads widened slightly. In our view, the equity market has not adequately priced in the potential risk of the 2019-nCoV epidemic, nor the major damage from the bushfire season and drought. However, we think the credit markets have begun to price in some of these risks with credit spreads widening. Sovereign bond yields may have overreacted: the Australian 10y bond yield compressed by around 40bp by month end to finish at 0.95%. This is a large move indeed.

The Fund posted a return of +1.8% for the month, a satisfactory to good outcome for a fund with less than 33% pure equity exposure. During the month, the Fund did not add any new positions other than limited additions to selected positions in fixed income, income equities (including Utilities & Infrastructure) and REITs, to provide steady income generation. Fund flow was used to increase cash weightings.

Consistent with the objective of providing relative capital stability while generating regular quarterly income, the Fund's 1-year portfolio volatility rose marginally to 2.9% (from 2.8%), while the headline S&P/ASX200 (equity) Index volatility increased measurably to 11.6% (from 10.8%) over the same period. This is a positive outcome given that the absolute risk still remains relatively low, and below 30% of the volatility of the ASX200.

Thank you.

Dr Vincent Chin
Portfolio Manager

Market Commentary

The year has started with mixed economic news: China and the US have agreed on a phase one trade deal, global central banks have maintained low interest rate settings and global manufacturing activity appears to be picking up. The IMF has stated that the global economic downturn in trade and manufacturing is bottoming out. Domestically however, the Australian economy continues to operate at below trend growth.

The S&P/ASX200 Accumulation, All Ordinaries Accumulation and Small Ordinaries Accumulation delivered returns of 5.0%, 4.7% and 3.4% respectively for the month. The robust returns generated by the Australian sharemarket in January largely reflect multiple expansion as aggregate earnings forecasts continue to be downgraded.

Economic fundamentals in Australia have deteriorated somewhat on the back of two recent factors; bushfires and the coronavirus pandemic. The bushfires have damaged huge swathes of the countryside, and will impact agriculture, tourism, and the local economies of many small and regional country towns. They have also damaged consumer confidence, which in turn is likely to further impact the retail sector.

The outbreak of coronavirus in China and its spreading across the world is a threat to inflows of international tourists, and to Australia's services trade account. The virus outbreak adds to the inevitable travel downturn caused by the bushfires.

In 2018, the Australian economy benefited from the visits of more than 1.4 million visitors from China. We expect this influx will now be severely checked and the next 6 months will be difficult for Australian companies exposed to this (such as tourism operators, education providers and the luxury retail sector). At this stage, the severity of the pandemic can only be roughly estimated – no one really knows the extent to which the Chinese economy will be impacted, or the flow-on effects for Australia.

In Australia, the east coast residential property market is back in full swing. CoreLogic housing prices for December showed strong gains in Sydney and Melbourne. Rising housing and share prices should be a positive catalyst for consumer sentiment. The latest job figures saw the unemployment rate fall to end 2019 at 5.1%, the lowest level since March last year. Other positives on the domestic front have been rising commodity prices, especially iron ore. On interest rates, Reserve Bank Governor Philip Lowe has stated that he expects rates will be "lower for longer".

Internationally, some of the key questions for 2020 are: have central banks laid the groundwork for an extension of the economic growth cycle, will corporate earnings rebound or does the business cycle turn down, who will President Trump fight against in the US Presidential election, and just how severe will the impact be of the coronavirus pandemic. We anticipate that the mood of the market will wax and wane over coming months, as the answers to these questions start to become clear. By extension, we expect markets to remain volatile.

Despite the various issues confronting markets, valuations are stretched on most fundamental measures. Thus, plenty of good news appears to be accounted for in equity market valuations. Ahead of what may be a volatile February reporting season, Clime portfolios are positioned somewhat more conservatively with slightly elevated cash positions.

Adrian Ezquerro
Head of Investments

Fund Information

Investment Objective

The Fund's return objective is to provide regular income above the RBA cash rate in the form of quarterly cash distributions and aims to achieve a return of at least the RBA cash rate + 3.0% pa. It seeks to deliver a strong risk-adjusted total return and is expected to have a level of volatility of returns significantly less than equity indices, with unit price stability along the way. The Fund's risk objective (as defined by the annualised standard deviation) is 4.0% ± 1.0%, with a rolling 12 months relative risk measure of less than 40% of the S&P/ASX 200 Index. In order to maximise the chance of achieving these objectives, the recommended investing time frame is at least 3 years.

Investment Methodology

The Clime Australian Income Fund seeks to provide an income stream above the RBA cash rate from a portfolio of Australian listed and over the counter (OTC) securities, with a view to price stability. The portfolio will invest in selected high-quality individual securities with consistent income generation. Portfolio yield is likely to be the bulk of the portfolio return and will likely be enhanced by franking credits.

Portfolio Managers

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.

Fund Information

Name	Clime Australian Income Fund	**Investor Eligibility**	Retail & Wholesale
Structure	Managed Investment Scheme	**Minimum Investment**	Retail: $10,000 Wholesale: $100,000
Investment Universe	Listed and OTC Markets	**Liquidity**	Weekly Unit Pricing Applications and Redemptions
Benchmark	3% p.a. above RBA cash rate	**Fees**	Retail: 1.13% management fee Wholesale: 1.03% p.a. management fee
Number of Positions	60-80	**Admin**	Mainstream Fund Services Pty Ltd
Fund Size	$35.0m	**APIR Code**	Retail: SLT1239AU Wholesale: CLA0002AU
Platform Availablity	Netwealth, HUB24		

Contact Information

Investor information
Clime Asset Management
Ph: 1300 788 568
Email: info@clime.com.au

Administrator
Mainstream Fund Services
Ph: 1300 133 451
Email: registry@mainstreamgroup.com