

Clime Fixed Interest Fund



Fund Performance - January 2020

The Clime Fixed Interest Fund's primary objective is capital preservation. It aims to generate income returns above the RBA cash rate in the form of monthly income distributions. Its return objective is to outperform the benchmark of the RBA cash rate +2.0% p.a. The Fund's risk objective is set at 1.5% ± 1.0%, as defined by the weekly change of the annualised standard deviation of the unit price movement.

Portfolio Month Net Return	Portfolio 6-Month Net Return	Portfolio Net Return Inception p.a.	Fund Size	
0.6%	1.4%	3.5%	\$18.5m	
	1 month	3 months	6 months	Since Inception (Total)
Portfolio Net Return**	0.6%	0.9%	1.4%	2.7%
Risk	-	-	0.5%	0.5%

*Inception date: 17 April 2019

**Portfolio return is based on the change of the unit price including distributions and franking.

^The volatility of return is based on the change in the weekly unit price. Since the Fund is less than 12 months old, it is likely that risk indicated here is only an approximation.

Portfolio Commentary

Equity and bond markets started 2020 with strength: the ASX200 punched through 7,000 while in the bond market, the yield curve flattened and bond prices moved up. Equity investors were encouraged by the signing of the US-China Phase I trade deal, while debt investors ran for cover and bought the long end of the curve as they turned cautious on the economy. The severe bushfires and the novel coronavirus (2019-nCoV) are expected to impact a number of sectors of the domestic economy, particularly agriculture, tourism and retail.

By the end of the third week of January, with the 2019-nCoV outbreak spreading to over 20 countries and China locking down Hubei Province (with a population of 50 million), sovereign bonds of developed nations (including Australia) rallied even further. By month end, the Australian 10y bond yield was down (and the bond price up) about 40bp to finish below 1.0%, and US 10y Treasuries finished at 1.5%, (also compressed by about 40bp). These are large moves indeed.

Based on recent updates, it appears that the novel coronavirus is not as deadly as SARS, but significantly more contagious. This will prove challenging in a more connected world. Moreover, the absolute and relative size of China's economy is significantly larger than it was during the SARS epidemic in 2002/3. We therefore expect the impact of the 2019-nCoV, combined with the recent bushfires, will dampen domestic growth in Australia 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 2002/3.

For the Fund, we adhered to our mandate of capital preservation and income generation. In January 2020, the Fund was not as active as in previous months due to lesser activities in the primary market, except for senior debt issued by the major banks in the overseas market. The Fund posted a return of +0.6%, which is a strong outcome for a capital preservation fund. During the month, we added a couple of short dated senior debt securities. At month end, the asset allocation was 16.1% cash (including term deposits), 49.6% IG senior bonds, 16.4% IG subordinated FRNs, 7.4% HY unrated corporate bonds, 4.2% RMBS and 6.3% AT1 Capital Notes / hybrids.

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 some time. That said, the Fund should be able to provide consistent monthly cash distributions as we build up the baskets of predominantly IG senior and subordinated debt, and smaller exposures to HY bonds and other debt securities in the portfolio.

Dr Vincent Chin
Portfolio Manager

Fund Facts

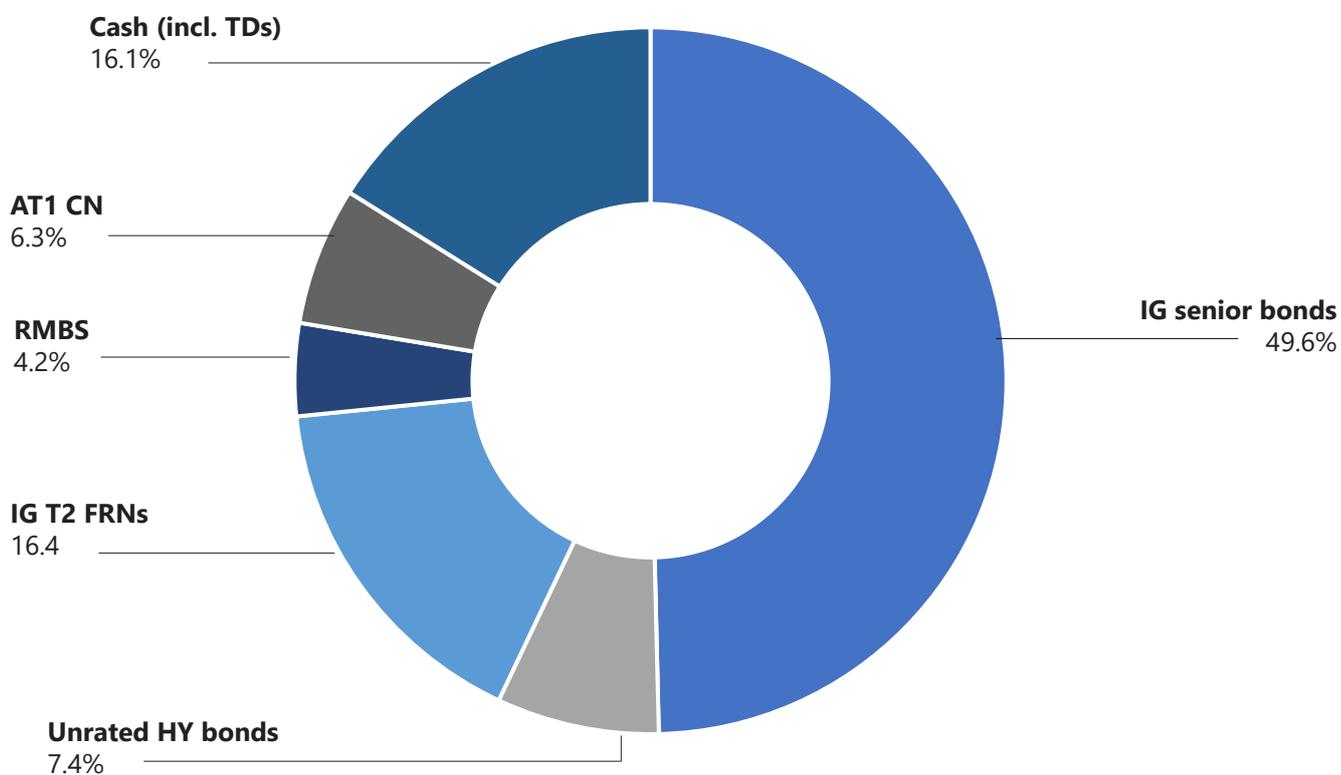
Portfolio Manager	Dr Vincent Chin
Fund Inception	April 2019
Fund Size	\$18.5m
Cash Distributions	Monthly



Distributions

The Fund distributes monthly on a cash basis (if any). In other words, all interest available for the month once received is distributed. For the January month, we distributed 0.0774 cent / unit.

Asset Allocation





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 main objective is capital preservation. In addition, we aim to generate income returns above the RBA cash rate in the form of monthly income distributions, with a target of 2% over the RBA cash rate (including franking if available). The Fund's risk objective is set at 1.5% \pm 1.0%, as defined by weekly changes of the annualised standard deviation, which is substantially lower than the equity market. In order to maximize the chance of achieving these objectives, the recommended investing time frame is at least 2 years.

Investment Methodology

The Clime Fixed Interest Fund seeks to provide an income stream above the RBA cash rate by investing mainly in the over the counter (OTC) market from a range of investment grade senior and subordinated debts, high yield bonds, asset backed securities, RMBS, income notes, capital notes and other fixed income / hybrids securities with a strong capital preservation focus. The portfolio will invest in selected high-quality individual debt and hybrid securities with consistent income generation.

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-factor quantitative models for stock selection and attribution performance analysis. Vincent is passionate about ethical investment across any asset including alternative 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 cell applications. He has published about 50 international refereed scientific publications and co-edited a proceeding in opto-electronics.



Fund Information

Name	Clime Fixed Interest Fund	Investor Eligibility	Wholesale
Structure	Managed Investment Scheme	Minimum Investment	100,000
Investment Universe	< 90 to 95% over the counter (OTC) in the capital debt market, AUD denominated only	Liquidity	Weekly Unit Pricing Applications and Redemption
Benchmark	Return : RBA cash rate + 2.0%; Risk : 1.5% \pm 1.0%	Fees	0.41%
Fund Size	\$18.5m	Admin	Mainstream Fund Services Pty Ltd
APIR Code	CLA0724AU		

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

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