

# Clime Australian Value Fund



## Monthly Report January 2020

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.

1 Month Net Return (Retail)	1 - Year Net Return (Retail)	Inception p.a. Net Return (Retail)	Total Fund Size
<b>4.9%</b>	<b>28.7%</b>	<b>7.2%</b>	<b>\$9.6m</b>

	1 month	3 months	1-year	3-years*	5-years*	Inception*
<b>Retail (AUD Portfolio Return)</b>	4.9%	8.7%	28.7%	12.3%	7.8%	7.2%
<b>Wholesale (AUD Portfolio Return)</b>	4.9%	8.8%	28.9%	12.5%	8.0%	6.7%

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.

## Top 5 Holdings (Alphabetical)

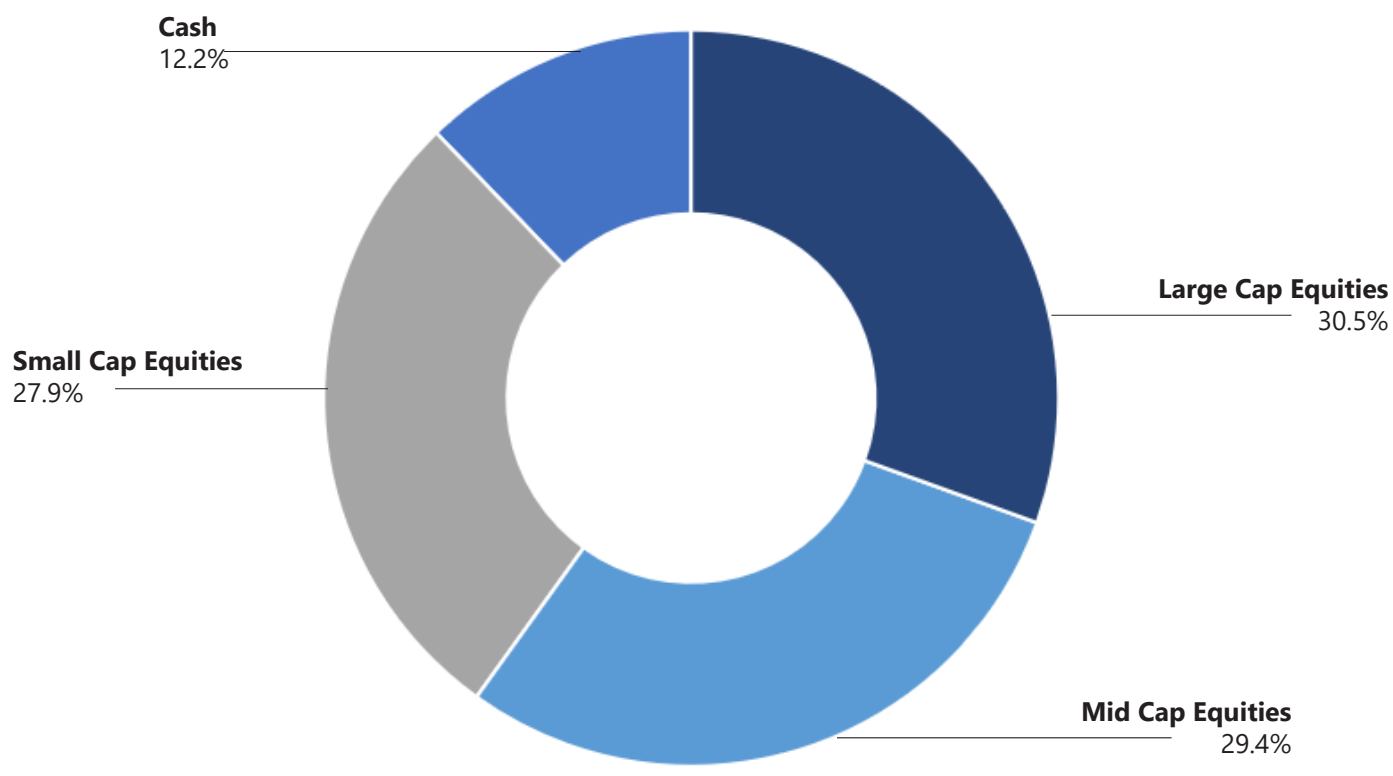
Company	ASX Code
<b>Ancor</b>	AMC
<b>BHP Group</b>	BHP
<b>CSL</b>	CSL
<b>Webjet</b>	WEB
<b>Westpac Banking Corporation</b>	WBC

## Fund Facts

<b>Portfolio Managers</b>	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson, Vincent Cook & David Walker
<b>Fund Inception</b>	August 2006
<b>Fund Size</b>	\$9.6m
<b>Cash Distributions</b>	Semi-annually
<b>Eligibility</b>	Wholesale & Retail



## Asset Allocation



## Asset Allocation by Sector

Industry	Weighting
Financials	20.3%
Information Technology	19.8%
Materials	12.9%
Consumer Discretionary	12.0%
Health Care	7.5%
Industrials	6.6%
Real Estate	3.1%
Utilities	2.1%
Energy	2.0%
Communication Services	1.5%
Cash	12.2%



## Portfolio Commentary

The portfolio returned 4.9% in January, compared to a 5.0% return for the S&P/ASX200 Accumulation Index and a 3.4% return for the S&P/ASX Small Ordinaries Accumulation Index.

While the domestic market delivered a strong return during the month, global markets were mixed as Coronavirus fears grew, highlighted by a -6.7% return from the Hang Seng. Expectations for a slow down in Chinese demand proved a headwind for commodities, with Brent Oil and Copper receding 16.4% and 9.5% respectively.

On the flipside, healthcare significantly outperformed during the month, led by a surging CSL (+13.2%). The technology sector also delivered strongly during January, with Afterpay (APT) advancing 32.2%.

Key contributors and detractors to the portfolio return for the month were:

- **Australian Equity Large Cap Sub-Portfolio:** Positive contributor CSL (CSL), detractor Treasury Wine Estates (TWE).
- **Australian Equity Mid Cap Sub-Portfolio:** Positive contributors Afterpay (APT), Credit Corp (CCP), Appen (APX) & EML Payments (EML), detractors Jumbo Interactive (JIN) & Webjet (WEB).
- **Australian Equity Small Cap Sub-Portfolio:** Positive contributors Electro Optic Systems (EOS), RPMGlobal (RUL), IMF Bentham (IMF), Macquarie Telecom (MAQ) & Mach7 Technologies (M7T), detractors Helloworld (HLO) & Lovisa Holdings (LOV).

CSL continues to rally into the first half result, off the back of continued strength in its core immunoglobulin (IG) market. TWE downgraded earnings guidance for both FY2020 and FY2021, largely reflecting commercial wine oversupply and associated aggressive discounting in the Americas market.

Expectations for significant growth continue to build for APT, while CCP delivered a strong first half result in late January. With significant domestic market share, the key attraction of CCP is the potential for the US debt ledger segment to become a much larger business over the medium to long term.

Travel and retail companies felt the impacts of bushfires and the early stages of the Coronavirus, with WEB, HLO and LOV all softening as a result. While acknowledging the near term risk to earnings, we retain conviction in the strength and longer term outlook for each of these companies.

EOS, a niche leader in remote defence systems and space technologies, rallied over the new year period on the back of a flurry of business updates. Whilst we're pleased with progress in defence systems, we look forward to potential opportunities in the space sector, where EOS has leading and highly coveted space monitoring and defence technology.

**Adrian Ezquerro**  
Head of Investments

**Ronni Chalmers**  
Investment Director

**Jonathan Wilson**  
Portfolio Manager

**Vincent Cook**  
Portfolio Manager

**David Walker**  
Portfolio Manager

## Market & Economic 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 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 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

## Portfolio Managers



**Adrian Ezquerro**  
Head of Investments



**Ronni Chalmers**  
Investment Director



**Jonathan Wilson**  
Portfolio Manager - Small Caps



**Vincent Cook**  
Portfolio Manager - Mid Caps



**David Walker**  
Portfolio Manager - Large Caps

### Fund Information

<b>Name</b>	Clime Australian Value Fund	<b>Investor Eligibility</b>	Retail & Wholesale
<b>Structure</b>	Managed Investment Scheme	<b>Minimum Investment</b>	Retail: \$10,000 Wholesale: \$100,000
<b>Investment Universe</b>	ASX Listed Securities	<b>Liquidity</b>	Daily Unit Pricing Applications and Redemptions
<b>Benchmark</b>	12% pa return after Investment Management Fees and usual expenses but before any Performance Related Fee.	<b>Fees</b>	Retail: 1.03% management and 15.38% performance Wholesale: 0.87% management and 15.38% performance
<b>Stock Holdings</b>	25-40	<b>Admin</b>	Mainstream Fund Services Pty Ltd
<b>Fund Size</b>	\$9.6m	<b>APIR Code</b>	Retail: CRE0001AU Wholesale: CRE0005AU

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