Clime Australian Income Fund

Fund Performance - March 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).

Portfolio Quarter Net Return (Wholesale)	Portfolio 1 Year Net Return (Wholesale)	Portfolio Return Inception p.a. (Wholesale)	Total Fund Size
-9.2%	-5.3%	4.1%	$35.4m

	1 month	3 months	6 months	1 year	2 years (pa)*	3 years (pa)*	Since Inception (pa)*
Net Portfolio Return (Wholesale)**	-9.7%	-9.2%	-9.1%	-5.3%	0.4%	1.6%	4.1%
Income	-	0.4%	1.1%	3.9%	3.9%	3.8%	3.6%
Capital Growth	-10.1%	-9.6%	-10.0%	-8.8%	-3.4%	-2.2%	0.5%
Franking	-	-	-	0.2%	0.2%	0.2%	0.2%

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%
Macquarie Income Securities	2.6%
Ausnet Service Limited	2.0%
NAB Income Secuities (NABHA)	1.9%
CBA PERLS VII	1.8%
Spark Infrastructure Group	1.8%

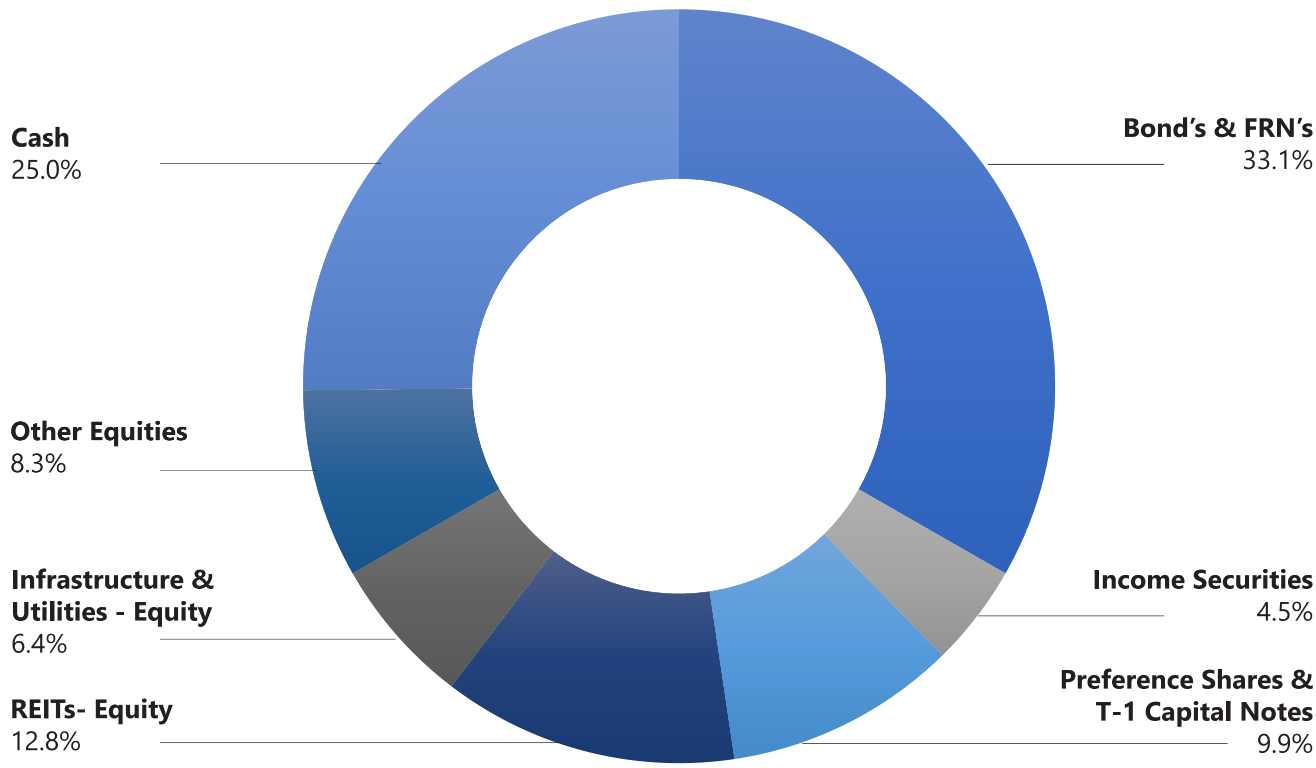
Fund Facts

Portfolio Manager	Dr Vincent Chin
Fund Inception	1 July 2015
Fund Size	$35.4m
Cash Distributions	Quarterly

Distributions

Period Ending	Wholesale Units (cents)
31 March 2020	0.4215
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



Investment Strategy

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.

When we set up the Fund, we followed the standard financial guideline that one in roughly 40 years negative return is a very low to low risk event. Based on this framework, the Fund would be calibrated in the lower end of the medium risk domain. Our view is that the suggested time frame for this investment is at least 3 years, and preferably 4 to 5 years. We have completed empirical modelling and are thus confident that the risk return objectives are achievable based on historical movements of financial markets over the last 30 to 40 years.

In view of the COVID-19 pandemic now sweeping across the world and normal economic activities being significantly curtailed, we acknowledge that it is unlikely that the investment strategy can, at least in the next 12 months, achieve its risk return goals. This is because we believe the seriousness of this pandemic is a 1 in 100 years event.

As we write, more than 2.0m confirmed cases have been recorded worldwide with more than 120k fatalities. There are two crises, i.e. a health crisis and an economic crisis, and both will weigh on the public purse. Governments, Central Bankers and other authorities are working to both save lives and to sustain the economy by the multiple emergency / relief packages announced. It is a fine balance because if the economy is put into hibernation for too long, there is the potential that we may spiral into a deep recession (or worse, a depression) but if they ease off too soon, the human cost would be extremely high.

As far as navigating the crisis on behalf of investors, we set in motion a strategy to change course towards the end of February / early March.

After undertaking various scenario analyses, we think the most probable scenario is a severe recession, likely to last 3 to 4 quarters. We have taken actions to protect the Fund, although damage to the portfolio has occurred as a consequence of the swiftness of the market decline.

Specifically, we have:

- Raised cash and maintained an elevated level of cash. Our base case before this crisis was 10% to 15% cash; we have now moved to 20% to 30%. We have widened the range because in these uncertain times, there is a need for additional flexibility to modulate risk and to provide opportunities.
- Where necessary, we introduced a small amount of protection via BBOZ put options.
- We have prioritised solvency instead of distribution and dividend. With many companies withdrawing their guidance, the chances of distributions and dividends being deferred, reduced or cut is high.
- We have monitored for any disjoint in the income debt securities and used the high cash level to accumulate when securities became extremely mispriced.
- We have prioritised fixed income securities with higher credit over equities. This is because if the company is solvent, they would honour their interest (debt) obligations ahead of paying out distributions or dividends. We highlight the A-REIT sector where it is likely that some tenants will not be able to pay their rent. Moreover, the rental relief directives from PM Scott Morrison have been explicit, i.e. the pain will be shared between tenants, landlords and their bankers. This implies REITs will need to cut distributions.
- We have avoided HY bonds but will consider them if they have strong cash flow and adequate NTA per share to cover the total debt owing.
- We lean towards the four major banks' capital notes where possible within the capital notes / preference share asset class but have avoided bank ordinary shares as they will likely cut or defer their dividends.
- We have prepared to raise cash in any strong rallies.
- Finally, we need to prepare for recovery "on the other side". It is impossible to predict when the market will bottom. At Clime, we have undertaken significant modelling (updated on a weekly basis) and listed several catalysts where we will deploy cash more aggressively once we are confident that the crisis has abated. The amount of cash we deploy back into the market will be commensurate with the signals being triggered.

As the situation is complex and fluid, our approach will be altered as we deem appropriate.

Perfomance and Volatility of Return (31/03/2020)

	Portfolio Return**	Income	Capital Growth	Franking
1 month	-9.7%	-	-10.1%	-
3 months	-9.2%	0.4%	-9.6%	-
6 months	-9.1%	1.1%	-10.0%	-
1 year	-5.3%	3.9%	-8.8%	0.2%
2 years (pa)**	0.4%	3.9%	-3.4%	0.2%
3 years (pa)**	1.6%	3.8%	-2.2%	0.2%
Since Inception (pa)*	4.1%	3.6%	0.5%	0.2%

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.

The Fund has a goal-based investment style where at the portfolio level, we target a certain amount of income (higher than the RBA cash rate) and risk (materially lower than the equity market).

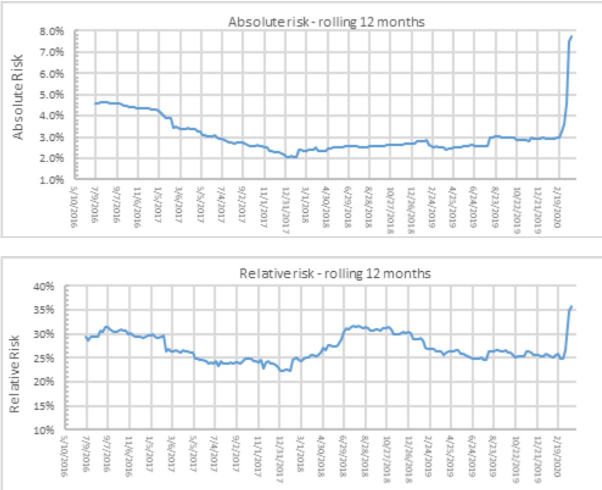
Other than the relative risk measure, from the tables and charts shown here, it is clear that the stated objectives were not achieved. This is due to the unprecedented crises presently being experienced all across the globe. The absolute risk is disjointed due to the massive and sharp movements in the bond and equity markets, while returns were poor due to the biggest drawdown for the year since 1987.

Figure 2 shows the total return on a cumulative return basis, compared with the RBA cash rate + 3.0% pa return objective.

	Volatility^			
	CAIF	ASX200	Ratio of CAIF/ ASX200	Sharpe ratio^^
1 year	7.8%	21.6%	35.9%	-0.6
2 years	5.8%	16.6%	34.7%	-0.2
3 years	5.0%	14.7%	33.7%	0.0
4 years	4.6%	14.3%	32.5%	0.4
Since Inception	4.7%	14.6%	32.1%	0.4

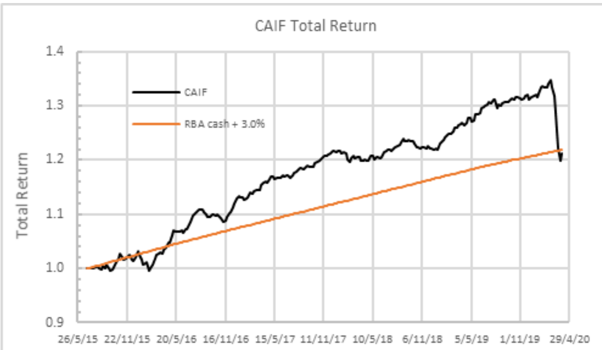
^Volatility is the annualised standard deviation of the NAV/unit as measured on a weekly basis.

^^Sharpe Ratio is calculated on a monthly basis.



Source: Clime Asset Management, IRESS

Figure 1 The absolute risk (top) and relative risk (to the S&P/ASX 200 Index) of the Fund using weekly prices since inception. The Fund has shown superior absolute and relative risk attributes since inception.



Sources: Clime Asset Management and RBA

Figure 2 Total Return of the Fund since inception. The orange line represents the minimum return that the Fund aims for, namely the RBA cash rate + 3% pa.

Clearly, we have not been able to achieve a positive risk adjusted return in these difficult and challenging times. As a result, the Fund exhibits a poor Sharpe ratio over this period.

Investment Commentary

At 31 March 2020, the Clime Australian Income Fund was diversified across six underlying sub-asset classes: Domestic Debt; Income & Preferred Securities; REITs; Utilities & Infrastructure (U&I); Equities; and Cash. Note REITs and U&I are also equities, but they are normally classified as a sub-set of the equity asset class as they tend to have a lower volatility under normal conditions. The underlying security weights in the portfolio ranged from around 0.1% to below 3.0%.

During the quarter, we made major changes to the Fund's strategic asset allocation (SAA), resulting from both active and passive actions. At 31 March 2020, the cash level had moved from below 15% at 31 December 2019 to about 25%. This movement was caused by a combination of net selling of selective securities in the portfolio to raise cash, inflows and the drawdown in the market. Macquarie Income Securities has been redeemed but the cash proceeds are payable in mid-April along with the last coupon. When this is paid, the cash holding will be closer to 27.5%, around the midpoint to the top end of our target.

Prior to March 2020, the debt market was very active, and we participated in the following issues:

- Macquarie 1-y senior debt,
- Credit Union Australia 3-y senior debt,
- Members' bank 3-y senior debt,
- Newcastle Permanent 5-y senior debt.

Beginning at the end of February and early March, the credit spread widened significantly. As the yield moves inversely proportional to the bond price, all debt papers have come back in price, some more than others. This is a function of credit worthiness and tenure. In early March, we took the opportunity to reduce / exit several debt securities where prices were holding up. This included Qube Holding subordinated debt (QUBHA) and NAB's listed Tier 2 debt paper (NABPE). We lightened Australian Unity Bond (AYUHD) and Gryphon Capital (GCI) prior to the prices falling.

For the Utility and Infrastructure asset class, we incrementally topped up Ausnet (AST) and Spark Infrastructure (SKI) prior to the COVID-19 crisis.

Between mid-February and early March, we started to reduce REIT sector exposure selectively. Some of the names we lightened were Scentre Group (SCG) and Centuria Office (COF) while we exited Elanor Commercial Fund (ECF) completely.

For the equity asset class, we lowered Amcor (AMC) exposure and used the proceeds to introduce Sonic Healthcare (SHL), a defensive healthcare stock with an excellent long-term track record. Our equities team at Clime is positive on resources as iron ore prices are holding up well. We increased our weighting in Rio Tinto (RIO) on weakness.

<u>Reflections of a Portfolio Manager</u>

As COVID-19 took hold globally in early March 2020, we acted to rebalance the portfolio in order to inoculate it from further damage. Despite that, the portfolio has been impacted – at least in the interim while the crisis is unfolding. We comment below on each asset class.

Debt securities:

In this bucket, we have both investment grade (IG) and high yield (HY) corporate bonds. For IG bonds, we have kept the duration short and have refrained from taking too much duration risk. For example, before the crisis hit, three of the four FRNs we participated in this quarter were 3 years or less.

For the HY unrated bonds, we have been careful to select companies which have high net tangible assets, and we prefer bonds if they are secured against their tangible assets – usually this is property or high resale tangible assets. Our "what if" scenario is recovery of the investment in the event the issuer becomes insolvent. To further minimise insolvency risk, we prefer companies that are relatively stable or in an essential service with good cash flow. Similarly, we have kept duration short. As long as the company is solvent, we expect interest to continue to be paid and the total investment to be redeemed in full when the bond matures.

As risk premiums increased in March 2020, credit spreads widened significantly resulting in price falls, but they should gradually move back to par value when they mature. Since the duration has been kept relative short, this should occur relatively sooner.

Preference Shares / Bank AT1 Capital Notes (CNs):

CNs are higher risk compared to IG bonds described above, but they offer a commensurate higher margin for income. So far prices of these securities have also dropped due to the spread widening. Close to 80% of our CNs are issued by major banks with the rest in Macquarie, AMP Group and Ramsay Healthcare Preference shares. We have extended our position in CN / preference shares at the quality end. We expect that this will provide better resilience to weather the crisis.

Utilities and Infrastructure -equity:

We have increased exposure to utilities and continue to selectively add as utilities are essential services; as we write, this sector has held up relatively well.

REITs- equity:

Of all the equities sub-sectors, the performance of the REIT equity sector has been poorest. To put into context, we estimate that about 5% of the portfolio's negative return in March 2020 is attributable to REITs as the Fund is overweight this sector.

That said, we did not envisage a situation whereby a legally binding lease agreement under State Real Property legislation would become "flexible" as the Federal Government is now mandating. We expect the implications of this will be felt long after this crisis is over. We will be thoroughly re-examining if REITs will lose their mantle as being defensive, income-generating assets.

Other equities:

Over the past few quarters, we recognised our overall exposure to financial sectors through their ordinary shares and CNs was high and we gradually brought this back.

Less than half of the 9% exposure in other equities in the portfolio is in financial stocks. Instead, we have incrementally added more industrial stocks with stable income (albeit not as high yielding as the banks).

As the crisis is still unfolding, we expect the portfolio to remain somewhat volatile in the months ahead and the performance may not follow quite the same pattern as in the past – at least, until some form of normality returns.

Outlook

The world has certainly changed since the abrupt acceleration of the COVID-19 health crisis. We are increasingly hearing terms like "BC and AC" – before and after coronavirus to describe this tragic event. As we know, this health crisis is also an economic crisis as economic activities essentially grind to a halt while resources and effort are switched to combating the disease. It is estimated that up to 1m Australians applied to Centrelink to get unemployment benefits within 2 weeks and similar drastic job losses have occurred overseas. We expect more job loses worldwide in the weeks and months ahead.

Having learnt many lessons from the GFC 12 years ago, central banks and Governments have swiftly rolled out unconventional monetary policies and massive fiscal programs to help cushion the deteriorating economic outlook.

Over the next 2 to 3 quarters, it is likely that we will move into a global recession, which includes Australia, despite the vast amounts of emergency funds being "thrown" at the global economy.

Due to the vast amounts of fiscal stimulus, extremely low interest rates (expected for many more years) and ongoing QE, it will take future generations many years to pay back the accumulated debts. There will probably be tax hikes and less social security benefits. These consequences are not very encouraging, and we anticipate that GDP growth will remain weak for some time.

Our immediate concern is to navigate the portfolio through these health and economic crises with minimum damage. Our near-term concern is that until there is a credible vaccine, it is likely that we will get a second wave if the social distancing rules are relaxed too early. This is because:
1. There are now community spread with unknown source.
2. COVID-19 has a long incubation time and is asymptomatic.
3. COVID-19 is highly infectious.

These are worrying times because it is possible that just when we thought it was safe, this disease can get out of control very quickly. That said, it is possible that the market will rally once infection cases are seen to have peaked. It is not possible to predict this as it depends on many factors, including how quickly Government relaxes the social distancing rules.

Ultimately, we believe that until the medical scientists find an effective vaccine or until the bulk of the population is tested for COVID-19 and most unknown cases resolved, we are not secure from further outbreaks and thus it seems difficult for the economy to be back on a sustainable path to recovery.

We reiterate that investors should lower their expectations of high returns over the medium-term, noting that the RBA cut cash rates to 0.25% and forewarned that rates will remain there for an extended period while introducing QE to control different part of the yield curve.

For the Fund, we adhere to our goal-based investment strategy of generating income higher than the RBA cash rate yet doing this with relative price stability. Moreover, with more than 50% of the portfolio in debt securities and capital notes, we are confident that we can continue to distribution quarterly income - one of main objectives of the Fund. We note that we are able to distribute $0.4215 / unit in March quarter 2020, resulting in a running yield of 3.4% for the last 12 months.

Finally, we ask for your understanding and patience. You can be confident that we will do our best to safeguard your investment in these challenging times.

Please stay safe and thank you for your on-going support.

Sincerely,
Vincent Chin, Portfolio Manager - Multi-Asset Income Strategies

Market Commentary

It will come as no surprise that the COVID-19 pandemic has had a shocking effect on the world's investment markets. Most global markets have experienced their worst quarter since the Global Financial Crisis 12 years ago, with unprecedented volatility as investors try to gauge the implications of large parts of the world's population being caught up in lockdowns of varying intensity.

As renowned investor Howard Marks writes, "The trade-off between the health costs and the economic costs will be a major challenge for every government. The inescapable fact during this pandemic is that what's good for the economy is bad for public health and vice versa." Countries that open too early will face secondary outbreaks, while those that leave it too long risk damaging their economy more than necessary.

Governments and central banks around the world have made emergency interest rate cuts and announced support measures of extraordinary size and scope to sustain economic activity at a reduced level – until we get to "the other side" of the crisis. Companies continue to withdraw their profit guidance, and many have been forced to raise fresh capital in order to bolster balance sheets ahead of the uncertain period in front of them.

As we write this report, some rare good news is that Australia may be past the worst of the health crisis in that "the curve" of new Covid-19 cases appears to be "flattening". Furthermore, the Australian Government's response has been swift and decisive.

The Government has put in place three economic stimulus packages, with total expenditure and revenue measures of $194 billion (9.7% of GDP) through Financial Year 2023-24, the majority of which is to be executed in FY20 and FY21. Measures include sizable wage subsidies (6.7% of GDP), income support to households, cash support to businesses, investment incentives and targeted measures for affected regions and industries.

Other measures include loan guarantees between the Commonwealth Government and the banks to cover the immediate cash flow needs of small and medium size businesses (up to $20 billion). The Government is allocating up to $15 billion to invest in residential mortgage backed securities (RMBS) and asset backed securities to help funding for small banks and non-bank financial institutions.

The Reserve Bank of Australia has cut the official cash rate twice (on 3 March and 19 March) to 0.25%, and announced yield targeting on 3-year government bonds at around 0.25% through purchasing of government bonds in the secondary market. APRA announced on 30 March that it is deferring its scheduled implementation of the Basel III reforms by one year to January 2023.

All these responses will be crucial in managing the response to the pandemic. But of course, the scale of the economic and financial costs remains unknown. In the US, both the world's largest economy and now the epicentre of the virus, a decline in GDP of between 15% and 30% is expected, while estimates of earnings of S&P 500 companies range from -10% to -100%. We can expect something broadly similar in Australia.

Fortunately, there are some positives: the speed with which China has managed to get back to a semblance of normality is encouraging; the monetary and fiscal responses around the world have been truly enormous and will allow many businesses to survive the "hibernation" period; banks are better capitalised and probably carry less risk than they did at the time of the GFC; and markets have adjusted to the extent where many high quality and resilient businesses are now available for investment at more attractive prices.

Philosophical thoughts - Investing with a focus on quality and value

There's no better time to reiterate one's investment philosophy than in a time of crisis. We remain focused on investing in quality companies while maintaining strong valuation discipline.

It's human nature to perceive threats more urgently than the opportunities that lie in wait on or over the horizon. At the same time, pessimism holds an allure that will often present those propagating it as the 'wise sage', perhaps in contrast those proffering a case for long term optimism.

While we acknowledge the significant near term uncertainty, we maintain the view that equities will offer genuine long term investors the ability to generate sound returns, over time. Firstly though, we must be positioned to endure a tougher environment; 'In order to succeed, you must first survive'. Thus, our resolve to focus on high quality companies with strong balance sheets, those companies with true staying power, has only solidified.

The ever calming voice of Warren Buffett wrote in his recent annual letter to investors; 'We constantly seek to buy businesses that meet three criteria. First, they must earn good returns on the net tangible capital required in their operation. Second, they must be run by able and honest managers. Third, they must be available at a sensible price.' He continued; 'Berkshire's assets are deployed in an extraordinary variety of wholly or partly-owned businesses that, averaged out, earn attractive returns on the capital they use.' Who are we to disagree with such sound principles?

Despite market volatility, Clime retains its focus on highly profitable business (as measured by return on equity and return on invested capital): hence you see a diverse portfolio that contains the likes of CSL Ltd (CSL), Appen (APX), Bravura Solutions (BVS), Electro Optic Systems (EOS) and Jumbo Interactive (JIN) to name just a few. Finally, on this note, we also agree with Warren Buffett that 'Reinvestment in productive operational assets will forever remain our top priority'.

The 'All Cap' Appeal

Investors can often seek affirmation and the safety of the crowd. However, in order to achieve above average long term investing results, one must think a little differently. Indeed, investing is a field that demands at least a degree of contrarian thinking. In part, this is one reason why we are so passionate about active management and 'All Cap' quality investing; allowing investors to take advantage of deep insights through meeting more than 500 companies annually and accessing high quality opportunities right across the market cap spectrum.

Exclusively corralling yourself into large cap equities will likely reduce drawdowns in periods of excess stress, but will ultimately converge longer term returns to that of the index. So, while some small caps will be tested during periods of market panic as we've seen in the March quarter, finding and allocating some capital to high quality emerging small and mid-cap companies will reward the patient, diligent investor. Of course, this is provided such an endeavour is done with reference to portfolio balances and the investor's specific needs and objectives such as cash requirements from the portfolio.

Portfolio repositioning

Extraordinary circumstances often call for decisive action. While we maintain a focus on long term horizons, portfolio repositioning in the face of elevated risk remains prudent. In turn, this affords scope to perhaps better deploy capital into superior risk-adjusted opportunities in the months to come.

Thus, in the face of the developing crisis, the first step for us was to dispassionately reassess those companies that we believed were acutely exposed to a significant downturn. This activity impacted companies that largely fell into two buckets: (1) Travel related businesses and retailers dependent on foot traffic, and (2) Leveraged businesses.

The likelihood of near term revenue either being impaired or ceased altogether for companies involved in the travel and bricks-and-mortar retail sectors was rising rapidly so the decision was made to remove these exposures from the portfolio during the quarter. This included our positions in Helloworld (HLO), Seek (SEK) and Webjet (WEB). While we rate these businesses and respective management teams highly, at the time of divestiture, we felt deeper discounts were likely to transpire in the weeks to follow. This indeed occurred, with WEB forced into a deeply dilutive capital raising late in the quarter.

It's a simple concept, but no business has ever died by having too much cash. Plenty of businesses have disappeared off the back of too much debt, however. Leveraged businesses, including leveraged financials, can be severely tested during downturns. As a result, we reassessed our investment theses for our positions in Afterpay (APT), Amcor (AMC) and Credit Corp (CCP). Similarly, we remain attracted to each of these businesses and may well revisit in the future, but felt the prudent course was to de-risk significant geared exposures in such an environment. Concurrently, we maintained a significant underweight position in the banking sector.

At the same time, to a smaller extent, we have utilised the degree of opportunity to initiate positions in a range of high quality companies that we indeed hope to own for many years from this point. Thus, the likes of Altium (ALU), Goodman Group (GMG), Breville (BRG), Technology One (TNE), REA Group (REA) and several other securities were introduced at 'starter' weights within portfolios during the quarter, which allows us to incrementally wade into these positions during weaker periods. We explore the investment theses for many of our new positions in the subsequent Portfolio Commentary section.

When coupled with the range of high quality businesses we already hold, we now believe we own the vast bulk of the portfolio constituents we will move forward with for the foreseeable future (based on our current thoughts for the path forward). It is our intention to buy more of these stocks, thereby adding to portfolio weights, should markets fall back to retest recent lows in the coming months.

What about earnings?

The longer term average P/E for the ASX200 is about 14.5x, which approximates the current P/E for the Australian market. However, it is notable that this only incorporates average company earnings downgrades of just -7% thus far: an improbably meagre figure given the scale of economic dislocation already evident. We therefore still see material downside to near term earnings forecasts, with the spectre of extended shutdowns and equity raisings only adding further pressure to earnings profiles.

Courtesy of UBS, since 1972, earnings per share (EPS) have fallen by 32% during an average recession. By sector, Resources EPS (-44%) has historically fallen the most on average, followed by the Financials (-27%) and the Industrials ex Financials (-25%). This provides useful context when assessing the relative optimism still embedded in current earnings forecasts. Furthermore, while EPS revisions have not yet gathered much steam, the number of ASX 200 stocks with downward EPS revisions is at record highs. We can readily observe that most ASX200 constituents that have provided guidance have either withdrawn or reduced their guidance since February.

While the above provides for a more circumspect outlook on equity performance, there remains several factors to support higher P/Es in today's environment. This includes enormous fiscal stimulus, record low interest rates, including ostensibly limitless QE funded buying of Government bonds, and a potentially faster recovery.

The Outlook

Looking ahead, a great many uncertainties remain, but we are confident that the portfolio is well positioned with a diverse range of financially strong, high quality businesses. While we do not know the tenure of the crisis, history suggests that high quality financially strong companies tend to power out of downturns, and this is how we are now positioned. Cash reserves are healthy at quarter end and afford us opportunity to incrementally add to target holdings with a view to holding and expanding these positions over the long term as market conditions turn more favourable.

Looking forward the approach for growth equity portfolio management is dictated by the following principles:

1. The portfolio will hold elevated levels of cash that will rise and fall according to opportunity and/or new updated significant information;
2. The portfolio will be generally more weighted to larger companies, with better market liquidity, identified by quality overlays and valued conservatively;
3. The portfolio's exposure to small capitalisation companies has been reduced to a level commensurate with a more risk averse environment focused on liquidity; and
4. The elevated cash holding is expected to be partly utilised by capital raising opportunities by companies that are challenged by the current environment but meet our quality analysis.

The current situation is dynamic, and our approach is to be active, nimble and open-minded to rapidly changing circumstances.

Thank you for your ongoing support.

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	$35.4m	**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

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