Clime Australian Income Fund

Fund Performance - April 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 1- Month Net Return (Wholesale)	Portfolio 1 Year Net Return (Wholesale)	Portfolio Return Inception p.a. (Wholesale)	Total Fund Size
3.4%	-2.1%	4.8%	$36.8m

	1 month	3 months	6 months	1 year	3 years (pa)*	Since Inception (pa)*
Net Portfolio Return (Wholesale)**	3.4%	-7.8%	-6.0%	-2.1%	2.4%	4.8%
Income	-	0.4%	1.1%	3.9%	3.8%	3.6%
Capital Growth	3.4%	-8.2%	-7.0%	-5.7%	-1.4%	1.2%
Franking	-	-	-	0.2%	0.2%	0.2%
Volatility	-	-	-	8.1%	5.1%	4.8%

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%
NAB Income Notes	2.1%
Ausnet Service Limited	2.1%
CBA PERL VII	1.9%
Spark Infrastructure Group	1.7%
Rio Tinto Limited	1.6%

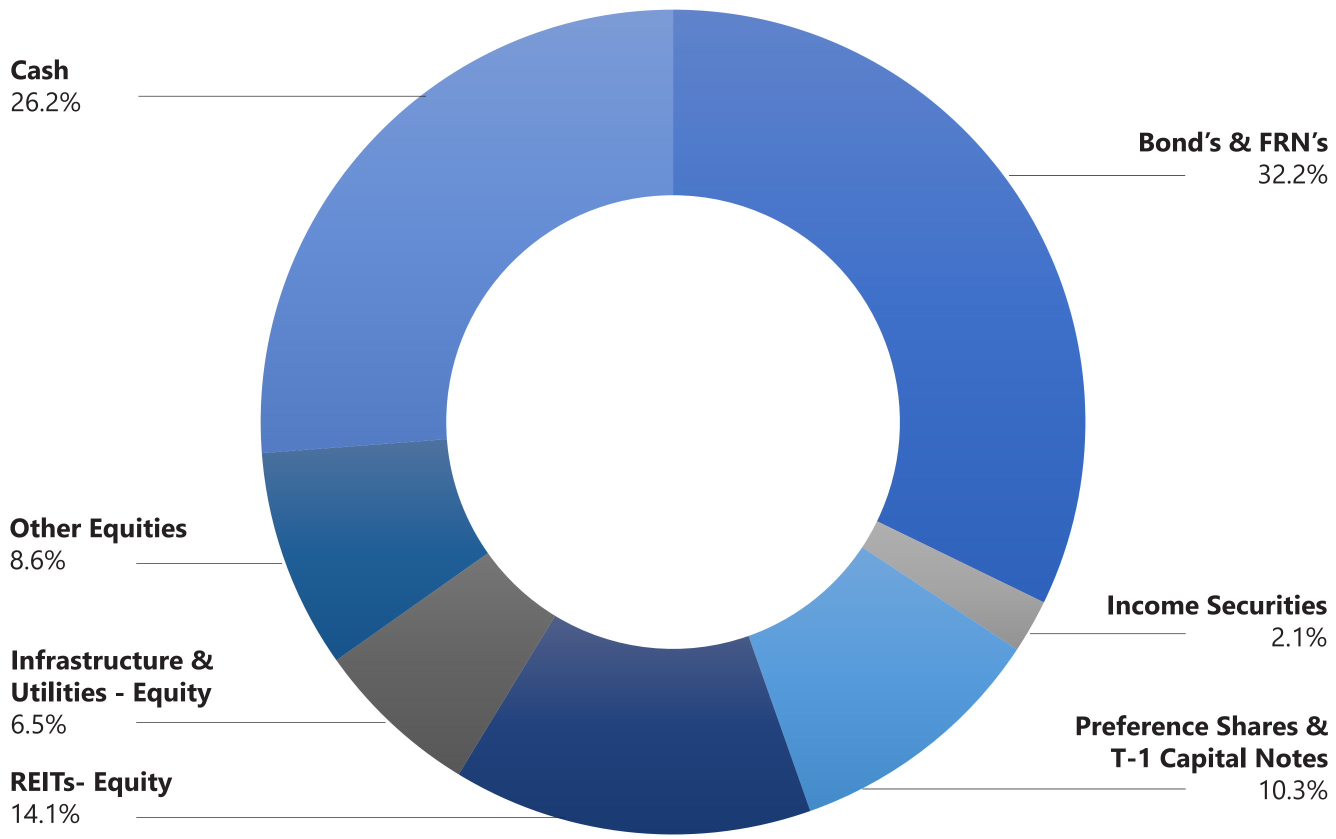
Fund Facts

Portfolio Manager	Dr Vincent Chin
Fund Inception	1 July 2015
Fund Size	$36.8m
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

Asset Allocation



Portfolio Commentary

Although volatile, the equity market benchmark ASX 200 Accumulation Index rallied hard to finish up 8.8% in April, the best monthly return since 1988. This is still 23% below the high reached in February, but 21% above the low reached in late March. While small sections of the economy may snap back relatively quickly post lockdown, most sectors after coronavirus will probably recover at a somewhat tepid pace as business and consumer confidence take time to build and some restrictions become semi-permanent. The positive news is that Australia and New Zealand have so far been able to supress COVID-19 with remarkable success. This suggests that domestic interstate travel may ease shortly and more economic activities may soon re-start. This will in the near term be followed by movement between Australia and NZ. With China and most of Asia having also contained the virus reasonably well, the Asia-Pacific economies are likely to come out of the crisis earlier and ahead of Europe and the USA, possibly resulting in the strengthening of the AUD (and NZD) against a basket of international currencies.

As credit spreads narrowed from over 240bp to between 120 and 140bp, fixed income securities in the Fund stabilised and the OTC market began to trade more rationally. The prices of bonds and CNs have moved up, assisting in the recovery of the Fund's unit price. We expect any further recovery will now be more gradual. For the REITs, landlords and their tenants are still working through the Mandatory Code of Conduct for commercial leasing to SME; where tenants are eligible for the Commonwealth Government's Jobkeeper programme, landlords must offer proportionate reductions in rents payable (in the form of waivers and deferrals). As a result, the recovery of REITs as an asset class has been muted and remains uncertain. The utility and infrastructure asset classes have been mostly positive for the Fund, and this will probably remain the case as investors hunt for stable asset classes in which to park funds to generate sustainable yield above cash. Equity asset sub-sectors remain mixed, with financials continuing to slide, but offset by non-banking securities introduced into the portfolio.

The Fund posted a return of 3.4% for the month of April. During the month, we continued a measured approach as elaborated in the March quarterly update. The Fund exited AYUHD and incrementally bought the major banks AT1 / CN as we saw better value there. We topped up Growth Point Property (GOZ), APN Industrial REIT (ADI) and Transurban Group (TCL) as they appeared oversold. We introduced Integrated Diagnostics (IDX), a quality small-cap healthcare stock which had fallen sharply during the market drawdown.

As expected, the FOMC left the Fed Funds rate on hold at 0.0% 0.25%. The FOMC will "maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals". In Australia, the RBA left cash rates at 0.25% and bought $50b of Federal and State Government Bonds in the yield targeting (QE) programme. We expect the cash rate to be on hold for an extended period.

As the crisis unfolds, and while the economic data is yet to be presented, it is certain that the global economy (including Australia's) is heading into recession. The medical professionals continue to warn we should remain vigilant as the virus is highly contagious and there remains much unknown about its transmission. As such, it is foolhardy to forecast with much confidence the path to recovery "on the other side". Under this backdrop, and with company earnings guidance largely absent, it is possible the equity market is somewhat over-confident about prospects. We remain cautious in our approach for the Fund. With the Macquarie Income Notes (MBLHB) redeemed by Macquarie Bank, the Fund's cash level is over 25%, several percentage points higher than our optimal level; we will use some of this cash to deploy into the market when it offers opportunity in coming months.

The objective of the Fund is relative capital stability while generating regular quarterly income. The Fund's 1-year portfolio volatility rose sharply during the COVID-19 crisis, as noted in our March quarter update. Whilst we remain confident that income will continue to be generated for quarterly distributions, and that modest capital gains may gradually recover, it is likely that the absolute risk as measured by annualised volatility will take longer to settle down. The relative risk is still within the targeted range, albeit has also gone up. We continue to have confidence in the Fund's ability to provide attractive total returns to income-oriented long term investors.

Dr Vincent Chin
Portfolio Manager

Market Commentary

Global markets recorded an extraordinary bounce from the low point on 23 March through the month of April. In local currency terms, the NASDAQ, Russell 2000 and S&P 500 each delivered returns of 15.4%, 13.7% and 12.7% respectively. Although volatile, the S&P/ASX200 Accumulation Index rallied strongly to finish up 8.8% in April, the best monthly return since 1988. This is still 23% below the high reached in February, but 21% above the low reached in late March.

While small sections of the economy may snap back relatively quickly post lockdown, most sectors after COVID-19 will probably recover at a tepid pace. Business and consumer confidence will take time to rebuild, while some restrictions may become semi-permanent.

In its baseline outlook, the RBA expects economic activity in Australia to decline by 6% in 2020 before rebounding 6% in 2021. Despite this relatively strong recovery, the RBA still expects the unemployment rate to peak around 10% and be above 7% by the end of next year. Similarly, inflation is expected to be negative in 2Q, and even in 2021 is only expected to grow at 1.0% to 1.5%, well below the RBA's target band.
Australia's Treasurer expects the shock caused by the coronavirus lockdown to dwarf the impact of the global financial crisis. Josh Frydenberg said that the restrictions introduced to minimise the spread of coronavirus would cause unemployment to double, with economic activity falling by about A$4bn per week for as long as the lockdown remained in effect. Almost 1 million people have lost their jobs since the 14th of March following the temporary closure of businesses such as pubs, restaurants and retailers owing to social distancing rules.

The positive news is that Australia and New Zealand have so far been able to suppress COVID-19 with remarkable success. This suggests that domestic interstate travel may ease in due course, likely followed by movement between Australia and NZ. With China and most of Asia having also contained the virus reasonably well, the Asia-Pacific economies are likely to come out of the crisis earlier and ahead of Europe and the USA, possibly resulting in the strengthening of the AUD (and NZD) against a basket of international currencies.

Governments continued to undertake significant fiscal expansions. On the 14th of April, the Committee for a Responsible Budget estimated the US budget deficit will be $3.8tn this year – some 18.7% of GDP. As expected, the Federal Open Market Committee (FOMC) left the Fed Funds rate on hold at 0.0%-0.25%. The FOMC will "maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals".

In Australia, the RBA left cash rates at 0.25% and bought $50b of Federal and State Government Bonds in the yield targeting (QE) programme. We expect the cash rate in Australia to be on hold for an extended period.

Global bond yields remained low in April, with US 10 year government bond yields dropping another 6bp to 0.62%. In contrast, Australian 10 year government bond yields rose 13bp to 0.89%.

As the crisis unfolds, and while the economic data is yet to be presented, it is certain that the global economy (including Australia's) is already in recession. While the rate of infection growth has tapered in various geographies, the path for recovery remains uncertain, with prospective second waves of infection still a meaningful possibility.

Under this backdrop, and with company earnings guidance largely absent, it is possible that equity markets are somewhat over-confident about prospects. We remain cautious in our approach and are maintaining slightly larger cash levels than normally regarded as optimal; we will selectively invest some of this cash as and when high quality opportunity is apparent at prices that include a healthy margin of safety.

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	$36.8m	**APIR Code**	Retail: SLT1239AU Wholesale: CLA0002AU
Platform Availablity	Netwealth, HUB24		

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