Clime Fixed Interest Fund

Fund Performance - April 2020

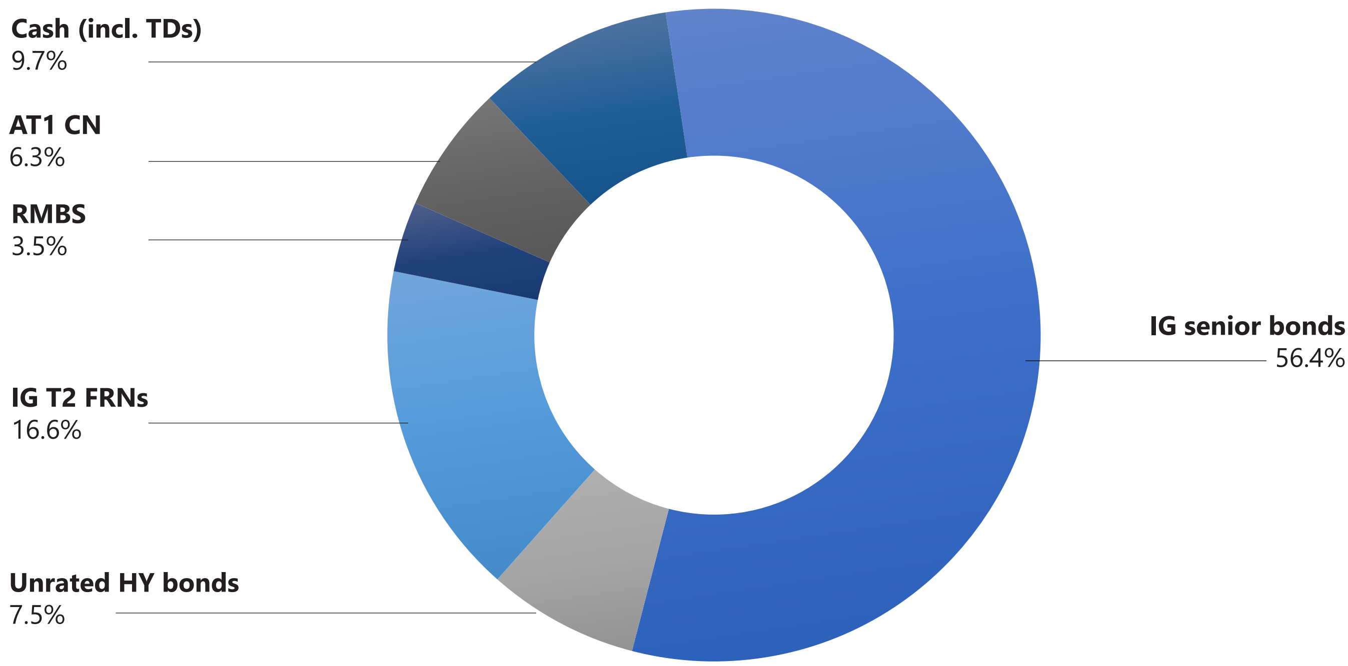
The Clime Fixed Interest Fund's primary objective is capital preservation. It aims to generate income returns above the RBA cash rate in the form of monthly income distributions. Its return objective is to outperform the benchmark of the RBA cash rate +2.0% p.a. The Fund's risk objective is set at 1.5%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

1 Month Net Return	Portfolio 6-Month Net Return	Portfolio Net Return Inception p.a.	Fund Size
1.3%	-1.1%	0.6%	$17.5m

	1 month	3 months	6 months	1 Year	FYTD	Since Inception*
Portfolio Net Return**	1.3%	-2.0%	-1.1%	0.7%	-0.2%	0.6%
Risk	-	-	-	-	2.2%	2.2%

*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 6 months old, it is likely that risk indicated here is only an approximation.

Asset Allocation



Fund Facts

Portfolio Manager	Dr Vincent Chin
Fund Inception	April 2019
Fund Size	$17.5m
Cash Distributions	Monthly

Portfolio Commentary

After a sharp spike in credit spreads in March 2020, the Australian iTraxx stabilised to around the 120bp and 140bp mark, down from over 240bp at the height of the panic. Yet the indicator remains far off the lows of mid 40 bp before the COVID-19 crisis. The equity market, as measured by the ASX200 accumulation index, has also rallied strongly from the low in late March to finish 8.8% higher for the month of April.

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 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, we think many financial markets, including the credit market, may be overly optimistic and we remain cautious in our approach for the Fund.

As credit spreads came back, we note the fixed income securities in the Fund have stabilised and prices of the 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. During the month, we continued the measured approach as described in the March update. At the end of April, the Fund remains almost fully invested with insignificant changes to the portfolio. We added a small parcel of PPCHB when there was an opportunity.

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 has left cash rates at 0.25% and expects rates to be on hold for an extended period. 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.

For the Fund, we adhered to our investment process of capital preservation and income generation. The Fund posted a return of 1.3% for the month of April. At month end, the asset allocation was 9.7% cash (including term deposits), 56.4% IG senior bonds, 16.6% IG subordinated FRNs, 7.5% HY unrated corporate bonds, 3.5% RMBS and 6.3% AT1 Capital Notes / hybrids.

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 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% ± 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-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 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% ± 1.0%	**Fees**	0.41%
Fund Size	$17.5m	**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