

Clime Australian Value Fund



Monthly Report April 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	
9.4%	-11.2%	5.2%			\$7.4m	
	1 month	3 months	1-year	3-years*	5-years*	Inception*
Retail (AUD Portfolio Return)	9.4%	-21.7%	-11.2%	2.9%	1.9%	5.2%
Wholesale (AUD Portfolio Return)	9.4%	-21.7%	-11.1%	3.1%	2.1%	3.7%

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)

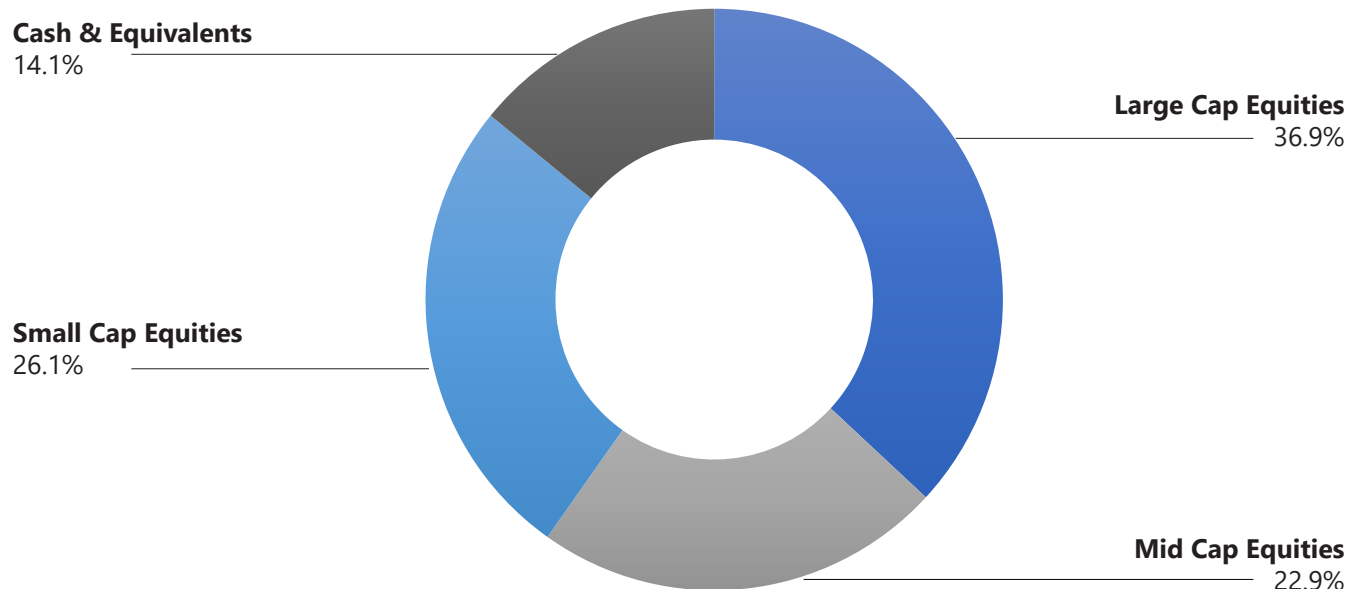
Company	ASX Code
Appen Limited	APX
Austal Limited	ASB
BHP Billiton Limited	BHP
Bravura Solutions Limited	BVS
CSL Limited	CSL

Fund Facts

Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson, Vincent Cook & David Walker
Fund Inception	August 2006
Fund Size	\$7.4m
Cash Distributions	Semi-annually
Eligibility	Wholesale & Retail



Asset Allocation



Asset Allocation by Sector

Industry	Weighting
Information Technology	18.0%
Financials	17.5%
Health Care	12.2%
Materials	11.7%
Consumer Discretionary	9.1%
Industrials	8.0%
Real Estate	5.4%
Communication Services	4.0%
Cash & Equivalents	14.1%



Portfolio Commentary

The portfolio returned 9.4% in April, compared to an 8.8% return for the S&P/ASX200 Accumulation Index and a 9.5% return for the S&P/ASX All Ordinaries Accumulation Index.

All sectors delivered positive performance in April, led by energy despite oil futures turning negative at one point. However, energy remains the worst performer over the past year. After strong outperformance during the sharp March sell-off, consumer staples (+2.6%) was an underperformer in April. Utilities (+3.2%), telecommunications (+1.0%) and healthcare (+4.9%) were other defensive sectors that lagged in a strong April rally.

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

- Australian Equity Large Cap Sub-Portfolio: Key contributors BHP Group (BHP), Macquarie Group (MQG), Fortescue Metals Group (FMG), GPT Group (GPT) and CSL Limited (CSL), no material detractors.
- Australian Equity Mid Cap Sub-Portfolio: Key contributors Appen (APX), Bravura Solutions (BVS), Jumbo Interactive (JIN), Austal (ASB) and Altium (ALU), no material detractors.
- Australian Equity Small Cap Sub-Portfolio: Key contributors City Chic Collective (CCX), Audinate (AD8), Integral Diagnostics (IDX), Macquarie Telecom (MAQ), RPM Global (RUL) and Electro Optic Systems (EOS), key detractors Navigator Global Investments (NGI) and Citadel Group (CGL).

While both BHP and FMG delivered solid quarterly reports, which saw the latter upgrade its production guidance, the ongoing resilience of the iron ore price was the primary driver of monthly outperformance. CSL provided a COVID-19 update during the month, with the company reaffirming FY20 constant currency profit guidance of \$2.11b to \$2.17b.

Within the mid-cap sub-portfolio, we continue to believe the likes of ALU, APX, BVS and JIN are particularly well placed to weather the COVID-19 storm. APX reaffirmed its 2020 guidance for EBITDA to be in the range of \$125m to \$130m, with management noting 'the Company's global crowd workers are fortunately and ideally situated, working from home as usual.' Typical of many portfolio companies, APX maintains a strong balance sheet, with significant cash reserves.

CCX is a specialist in plus-size ladies fashion, which is a structural growth category. CCX was already generating 65% of group sales via its online channel, suggesting the company is particularly well positioned to transition successfully to a post-COVID world. Leading mining software provider RUL provided another positive update during the month, with management noting further growth in its Annual Recurring Revenue (ARR) profile.

The portfolio retains its focus on high quality companies with strong balance sheets. In turn, this provides the portfolio with significant resilience and a platform for the delivery of sound returns to investors over the medium to long term.



Adrian Ezquerro
Head of Investments



Ronni Chalmers
Investment Director



Jonathan Wilson
Portfolio Manager - Small Caps



Vincent Cook
Senior Analyst - Mid Caps



David Walker
Senior Analyst - Large Caps



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 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
Senior Analyst - Mid Caps



David Walker
Senior Analyst - Large Caps

Fund Information

Name	Clime Australian Value Fund	Investor Eligibility	Retail & Wholesale
Structure	Managed Investment Scheme	Minimum Investment	Retail: \$10,000 Wholesale: \$100,000
Investment Universe	ASX Listed Securities	Liquidity	Daily Unit Pricing Applications and Redemptions
Benchmark	12% pa return after Investment Management Fees and usual expenses but before any Performance Related Fee.	Fees	Retail: 1.03% management and 15.38% performance Wholesale: 0.87% management and 15.38% performance
Stock Holdings	25-40	Admin	Mainstream Fund Services Pty Ltd
Fund Size	\$7.4m	APIR Code	Retail: CRE0001AU Wholesale: CRE0005AU

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

The information contained in this document is published by Clime Asset Management Pty Limited ACN 098 420 770. The information contained herein is not intended to be advice and does not take into account your personal circumstances, financial situation and objectives. The information provided herein may not be appropriate to your particular financial circumstances and we encourage you to obtain your own independent advice from your financial advisor before making any investment decision. Please be aware that investing involves the risk of capital loss and past results are not a reliable indicator of future performance and returns. Clime Asset Management Pty Limited (Clime), EQT Trustees Limited, its Group companies, its directors, employees and agents make no representation and give no accuracy, reliability, completeness or suitability of the information contained in this document and do not accept responsibility for any errors, or inaccuracies in, or omissions from this document; and shall not be liable for any loss or damage howsoever arising (including by reason of negligence or otherwise) as a result of any person acting or refraining from acting in reliance on any information contained herein. No reader should rely on this document, as it does not purport to be comprehensive or to render personal advice. Please consider the Product Disclosure Statement and Clime Reference Guide before investing in the product.