Clime Australian Income Fund

Fund Performance - May 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
2.0%	-1.6%	5.1%	$37.9m

	1 month	3 months	6 months	1 year	3 years (pa)*	Since Inception (pa)*
Net Portfolio Return (Wholesale)**	2.0%	-4.8%	-4.6%	-1.6%	3.0%	5.1%
Income	-	0.4%	1.1%	3.9%	3.8%	3.5%
Capital Growth	2.0%	-5.2%	-5.7%	-4.5%	-0.8%	1.6%
Franking	-	-	-	0.2%	0.2%	0.2%
Volatility	-	-	-	8.2%	5.2%	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	2.3%
Spark Infrastructure Group	2.1%
Ausnet Service Limited	1.9%
CBA PERL VII	1.9%
Telstra Corporation Limited	1.8%

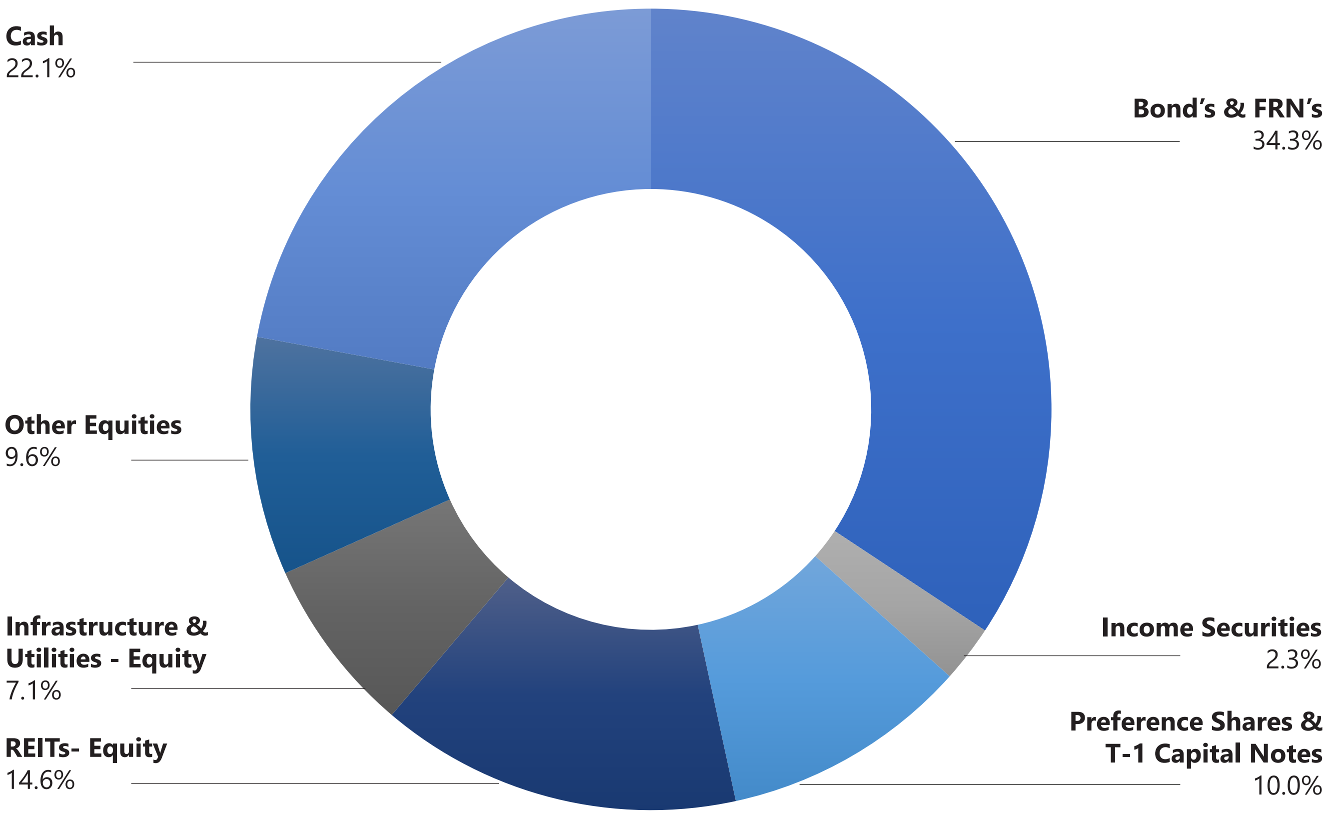
Fund Facts

Portfolio Manager	Dr Vincent Chin
Fund Inception	1 July 2015
Fund Size	$37.9m
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

The Australian equity market remained volatile in May. On 12 out of 21 trading days, the ASX200 closed with a change of more than 1%, and of those, on 3 days it changed by more than 2%. Moreover, the number of days where it was up strongly during the day and yet finished down, or vice versa, was quite common. Thus, the market was basically range bound until the last week of the month, when financials (i.e. the major banks) rallied strongly and the ASX200 Accumulation index closed up 4.4%. The market remains about 20% below the peak reached in late February 2020. For the Fund, we continued to invest across different asset classes in high quality names, focusing on the certainty of income and value, irrespective of debt or equity asset class.

In the debt and capital notes asset classes, we participated in two debt and one capital note (CN) issues. Woolworths Group issued 5y and 10y senior debt during the month. In line with our risk process, we selected the shorter 5y duration. Macquarie Bank has been busy with fixed income in the local debt market: it launched a listed CN MBLPC) and an OTC Tier 2 10y non-call 5y subordinated debt within 2 weeks of each other, and we participated in both. These debt papers and CN were in high demand and closed several times oversubscribed.

In the Utilities and Infrastructure asset class, we continued to add SKI (which has affirmed its distribution guidance recently), TCL and TLS on weakness. We believe the U&I asset class offers a better certainty of income compared to REITs in the near term due to uncertainty and the impact of the Code of Conduct in the longer term. This Code of Conduct was mandated by the Federal Government when they placed the economy into "hibernation" due to COVID-19. We continued to incrementally add to defensive equities (ex-banks) by buying SHL and IDX on price weakness as we continued to build bigger positions there.

The cash rate remains at 0.25% and Australian 10y bond yields remain below 1%. Short Term Bank Bills have traded below the cash rate since the middle of April 2020. This would normally suggest that the cash rate has further to fall, but in this case, it is more likely caused by the surplus cash in the banking system created by the RBA's cheap funding, hoarding by households, super funds and investors alike. This is probably the basis for the rallying equity market right now.

In Australia, the number of COVID-19 cases has been fluctuating around single digits and the teens. We believe it is unlikely to be totally eliminated until an effective vaccine or therapeutic medication is found. The economy needs to gradually open up from the forced shut-down in March 2020 regardless because it is not practical to wait 12 to 18 months for a credible health solution to open up the economy. During the month, the National Cabinet provided a roadmap for the staged opening of the local economy. It is likely the road to recovery will be tempered with uncertainty as the risk of a spike in cases remains as restrictions ease.

Globally, the spread of the COVID-19 is accelerating in South America, Russia and some third world nations, while it appears to have peaked in Western Europe and US. Unfortunately, geopolitical tension between the US and China are once again ratcheting up. With this backdrop, we believe it is best to remain fairly cautious.

The Fund posted a return of 2.0% in May. During the month, we continued the measured approach detailed in the March quarterly update. Twelve month volatility remains elevated and unfortunately, we expect will remain so for a while. That said, we believe it should gradually reduce over time. We remain confident of the Fund's ability to provide a regular quarterly distribution.

Dr Vincent Chin
Portfolio Manager

Market Commentary

Global markets continued with their extraordinary bounce from the low point on 23 March through the month of May. Although volatile, the Australian equity market benchmark S&P/ASX 200 Accumulation Index rallied to finish up 4.4% in May, adding to the 8% surge in April. This is still around 20% below the high reached in February, before the global pandemic and subsequent lockdowns took hold. The market is now focused on the recovery as more sectors open up and return to a semblance of normality. We expect that the domestic economy will probably recover at a somewhat tepid pace as business and consumer confidence take time to rebuild.

What explains this extraordinary bounce in markets since late March?

The global mood in investment markets is set on Wall Street. US stocks have been on a tear since the March low even as the COVID-19 pandemic cost 100,000 American lives, tens of millions of American jobs, shut down huge swaths of the global economy and depressed international trade. There are various explanations for the rebound. Firstly, the pandemic – while ghastly and enormously destructive – seems to have been largely contained in the developed countries, and the duration of the lockdown appears to have been shorter than feared. Secondly, the huge amount of stimulus coming out of the US Federal Reserve and other central banks have worked in avoiding a financial collapse and supported markets with ultra-low rates that will stay "lower for longer". Third, record low bond yields have meant that investors had few other attractive choices but to invest back into stocks. A final explanation: large IT companies, like Google, Microsoft, Facebook, Amazon and Netflix, which make up a quarter of the S&P 500 index, have benefited from a surge in demand during the pandemic and could emerge from this period even stronger. Investors are looking "across the valley" and seeing beyond the anticipated short and sharp recession.

These factors, perhaps in combination, help explain why the S&P 500 has gained over 35% since 23 March, and the ASX 200 a healthy 33%. But emerging risks will test the resolve of investors: valuations are now exceedingly rich. The S&P 500 companies are priced at around 21 times next year's earnings, and the ASX 200 close to 19 times. Both ratios are well above long term averages and close to or at 20-year peaks.

Geopolitical tensions are on the rise, which is certainly not helping the global economy. Chinese government officials told major state-run agricultural companies to pause purchases of some American farm goods as Beijing evaluates the ongoing escalation of tensions with the US over a range of issues, including Hong Kong. Chinese buyers have cancelled pork orders in the US, and barley orders in Australia.

With the US and its allies distracted by the pandemic, China's leadership has taken some bold steps on issues where they have often faced international pushback, including Taiwan, the South China Sea and a disputed border with India. With the US presidential election approaching in November, we can imagine these tensions getting worse in coming months.

There has been some rare good economic news over the last month. New data indicate that China's factories are continuing a tentative recovery from the pandemic. Manufacturing activity in the country unexpectedly rose last month, with the manufacturing Purchasing Managers Index increasing to 50.7 in May, better than expected. Manufacturing production recovered faster than expected, but exports from China remain sluggish as the rest of the world continues to grapple with the virus. Expectations are that across the rest of Asia, output is likely to remain well below normal levels for many months as domestic and global demand remain depressed.

While the economic data is yet to be presented, it is certain now that the global economy (including Australia's) is already in recession. As such, it is perhaps courageous to focus exclusively on the landscape beyond the valley. Nevertheless, this is where the markets are at. Our approach is that where we find compelling value in high quality companies, we intend to invest with confidence and conviction. We retain slightly larger cash levels than normal and are thus well positioned to deploy as and when further opportunities arise.

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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