Clime Fixed Interest Fund

Fund Performance - May 2020

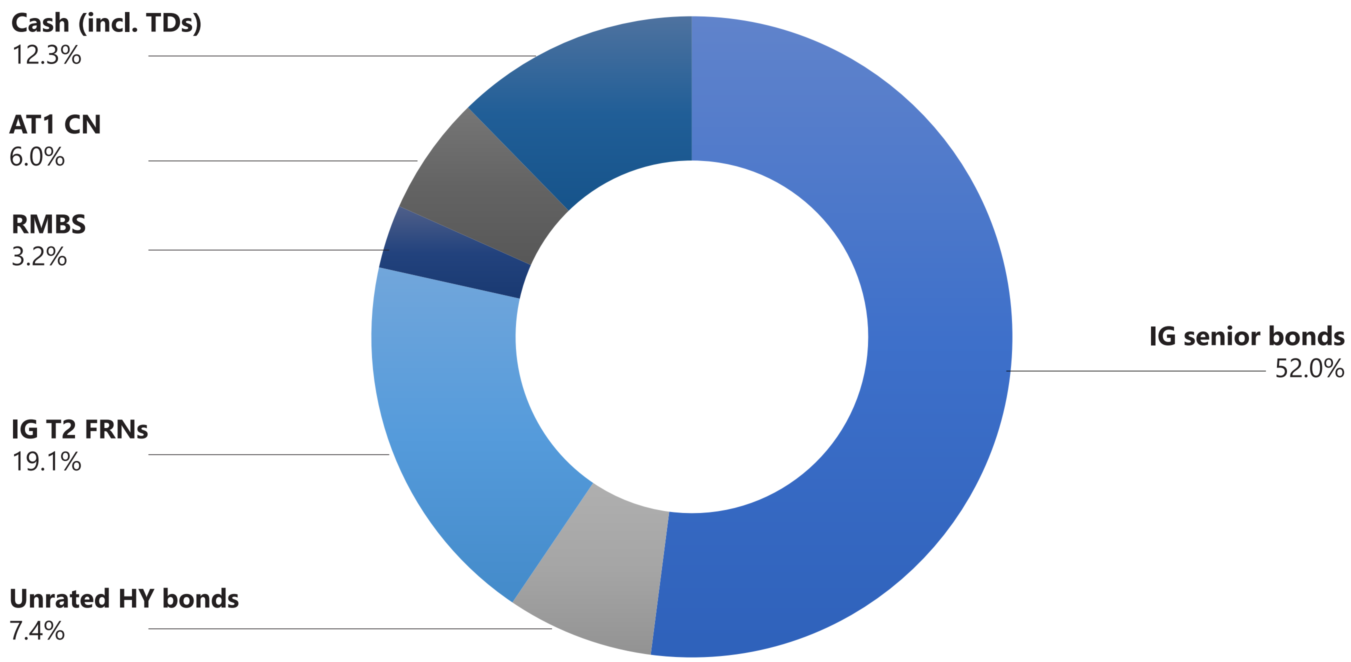
The Clime Fixed Interest Fund's primary objective is capital preservation. It aims to generate income returns above the RBA cash rate in the form of monthly income distributions. Its return objective is to outperform the benchmark of the RBA cash rate +2.0% p.a. The Fund's risk objective is set at 1.5% ± 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
0.6%	-0.8%	1.1%	$18.1m

	1 month	3 months	6 months	1 Year	FYTD	Since Inception*
Portfolio Net Return**	0.6%	-1.6%	-0.8%	0.7%	0.4%	1.1%
Risk	-	-	-	-	2.2%	2.1%

*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	$18.1m
Cash Distributions	Monthly

Portfolio Commentary

During May, the Australian iTraxx continued a gradual tightening as credit spreads drifted lower from 120bp to just above 100bp. This indicates that spreads have tightened by more than 120bp from the heights of the panic but remain off the lows of mid 40bp before COVID-19. The equity market, as measured by the ASX200 Accumulation Index, finished up strongly for the second month, adding 4.4%.

The cash rate remained at 0.25% and Australian 10y bond yields 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 surplus cash in the banking system created by the RBA's cheap funding, plus hoarding by households, super funds and investors alike. This is probably the basis for the rallying equity market right now.

The Governor of the RBA has indicated that the cash rate will remain at 0.25% until there was sustainable progress towards full employment and the 2-3% inflation target was achieved. This implies that the cash rate will remain at this ultra-low level for several years, making yield extremely difficult to access. As the Fund is now almost fully invested, we have opted to rebalance the portfolio within the asset classes to achieve a relatively high income return while refraining from materially increasing risk.

With this in mind, we have raised cash as the Member's Equity Bank senior security matured in May 2020 and exited the Citibank senior security previously held. With the funds raised, we participated in the Macquarie Bank OTC 5nc 10y credit rated subordinated debt paper and the Macquarie Bank listed Capital Notes (CN). These will provide an attractive pick up in yield albeit with a slight increase in duration risk.

In Australia, the number of COVID-19 cases has diminished, although the disease is unlikely to be totally eliminated until an effective vaccine or therapeutic medication is found. The economy needs to gradually open up from the enforced shut-down in March 2020 because it is not practical to wait 12 to 18 months for a credible health solution. During the month, the National Cabinet provided a roadmap for the staged reopening 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 COVID-19 is accelerating in South America, Russia and some third world countries, while it appears to have peaked in Western Europe and the US. Unfortunately, geopolitical tensions between the US and China are once again ratcheting up. Coupled with the social unrest in the US in the middle of a pandemic, we are not convinced that this will be a "V"-shaped recovery. With this backdrop, we believe it is best to remain cautious for an income-focused capital preservation styled fund.

As credit spreads tightened further, capital prices of fixed income securities in the Fund continued to appreciate. We expect any further recovery will now be more gradual. For the Fund, we adhered to our investment process of capital preservation and income generation, with monthly distributions. The Fund posted a return of 0.6% in May 2020. At month end, the asset allocation was 12.3% cash, 52.0% IG senior bonds, 19.0% IG subordinated FRNs, 7.4% HY unrated corporate bonds, 3.2% RMBS and 6.0% AT1 Capital Notes / hybrids.

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 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	$18.1m	**Admin**	Mainstream Fund Services Pty Ltd
APIR Code	CLA0724AU		

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