Clime Australian Value Fund

Monthly Report May 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
6.6%	-6.1%	5.6%	$7.7m

	1 month	3 months	1-year	3-years*	5-years*	Inception*
Retail (AUD Portfolio Return)	6.6%	-7.1%	-6.1%	6.4%	3.1%	5.6%
Wholesale (AUD Portfolio Return)	6.6%	-7.1%	-6.0%	6.5%	3.2%	4.4%

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.

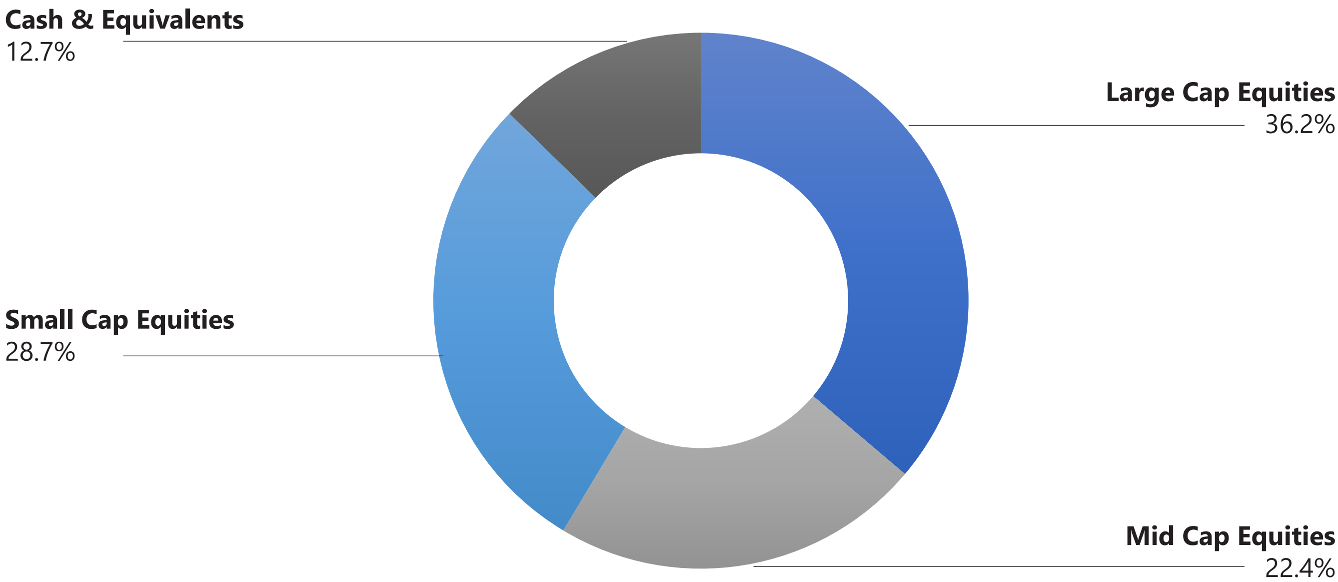
Top 5 Holdings (Alphabetical)

Company	ASX Code
Austal Limited	ASB
BHP Billiton Limited	BHP
Bravura Solutions Limited	BVS
CSL Limited	CSL
Westpac Banking Corporation	WBC

Fund Facts

Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson & Vincent Cook
Fund Inception	August 2006
Fund Size	$7.7m
Cash Distributions	Semi-annually
Eligibility	Wholesale & Retail

Asset Allocation



Asset Allocation by Sector

Industry	Weighting
Financials	19.1%
Information Technology	17.6%
Health Care	11.8%
Materials	10.6%
Consumer Discretionary	10.0%
Industrials	8.4%
Real Estate	5.5%
Communication Services	4.3%
Cash & Equivalents	12.7%

Portfolio Commentary

The portfolio returned 6.6% in May, compared to a 4.4% return for the S&P/ASX200 Accumulation Index and a 4.9% return for the S&P/ASX All Ordinaries Accumulation Index.

Most sectors closed higher over the month with Information Technology (14.5%) and Communication Services (8.4%) the best performing. Consumer Staples (-0.4%) and Health Care (-5.3%) were the worst performing sectors. The Small Resources Index continued its extraordinary bounce in May, up a further 14.3% for the month after returning in excess of 20.0% in April.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors Goodman Group (GMG), BHP Group (BHP), Fortescue Metals Group (FMG) and Macquarie Group (MQG), detractor CSL Ltd (CSL).
- **Australian Equity Mid Cap Sub-Portfolio:** Key contributors Appen (APX), Breville Group (BRG), Invocare (IVC) and Altium (ALU), no material detractors.
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors Electro Optic Systems (EOS), Macquarie Telecom (MAQ), City Chic Collective (CCX), Omni Bridgeway (OBL) and Mach7 Technologies (M7T), no material detractors.

Leading industrial property group GMG delivered another positive Q3 operational update early in the month, with management reaffirming FY20 earnings and distribution guidance. FMG, BHP and RIO continued their respective rallies during the month, with all companies benefiting from robust iron ore pricing. Free cash flow yields at spot commodity prices remain attractive for the major Australian resource companies.

BRG executed a surprise though relatively small capital raise during the month, which we participated in, while concurrently providing a particularly strong trading update. At a group level, BRG delivered 32% revenue growth from 1 January to 30 April 2020, a remarkable outcome given the circumstances.

APX and EOS each held Annual General Meetings (AGMs) during the month, with both reaffirming respective earnings guidance for calendar year 2020 earnings. CCX also provided a positive update towards the end of May, with the group's online channel reporting sales growth of 57% versus the prior corresponding period. Management also announced the staged re-opening of their ANZ store footprint.

Adrian Ezquerro
Head of Investments

Ronni Chalmers
Investment Director

Jonathan Wilson
Portfolio Manager - Small Caps

Vincent Cook
Portfolio Manager - ASX 100

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 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
Porfolio Manager - ASX 100

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	$7.7m	**APIR Code**	Retail: CRE0001AU Wholesale: CRE0005AU

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