Clime Australian Value Fund

Monthly Report July 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
1.2%	-4.1%	6.1%	$8.0m

	1 month	3 months	1-year	3-years*	5-years*	Inception*
Retail (AUD Portfolio Return)	1.2%	10.2%	-4.1%	6.8%	3.8%	6.1%
Wholesale (AUD Portfolio Return)	1.2%	10.3%	-4.0%	7.0%	4.0%	4.7%

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.

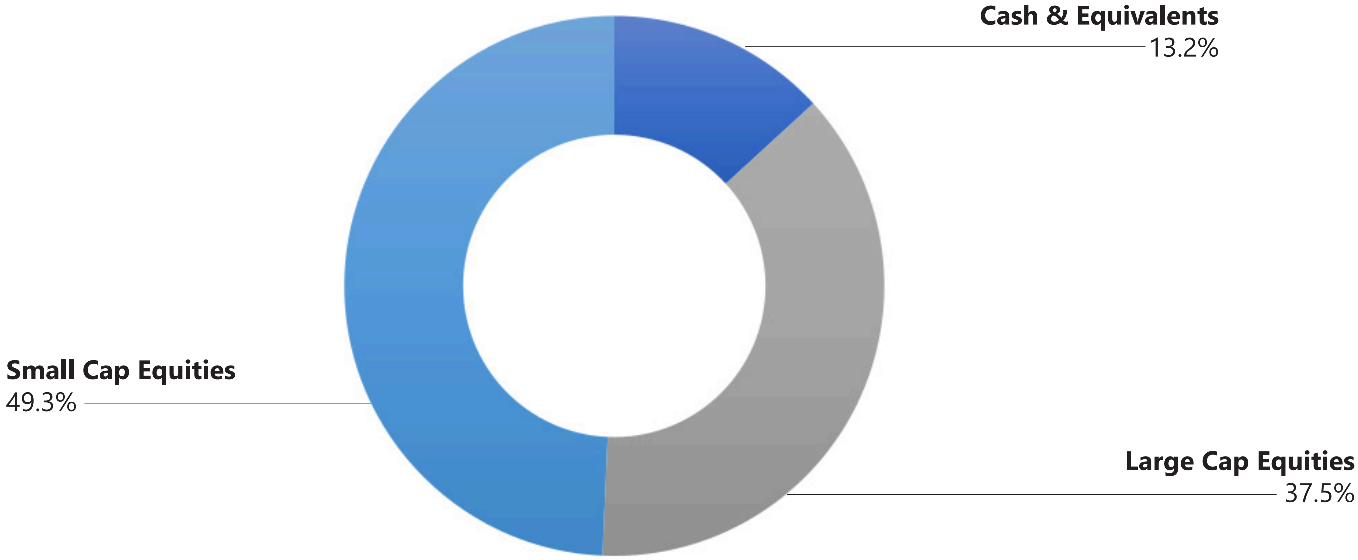
Top 5 Holdings (Alphabetical)

Company	ASX Code
BHP Billiton Limited	BHP
CSL Limited	CSL
City Chic Collective Limited	CCX
Mach7 Technologies	M7T
Macquarie Telecom Limited	MAQ

Fund Facts

Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson & Vincent Cook
Fund Inception	August 2006
Fund Size	$8.0m
Cash Distributions	Semi-annually
Eligibility	Wholesale & Retail

Asset Allocation



Asset Allocation by Sector

Industry	Weighting
Information Technology	17.3%
Financials	17.7%
Health Care	13.8%
Materials	9.2%
Consumer Discretionary	11.1%
Industrials	7.9%
Real Estate	5.3%
Communication Services	4.5%
Cash & Equivalents	13.2%

Portfolio Commentary

The portfolio returned 1.2% in July, compared to a 0.5% return for the S&P/ASX200 Accumulation Index.

The Australian market managed a modest gain for the month, significantly underperforming the advances of both Developed and Emerging Market MSCI World indices. Domestically, the Materials (+5.8%), Technology (+4.6%) and Communication Services (+3.4%) sectors outperformed the most, while the Energy (-6.6%), Health Care (-3.9%) and Industrials (-3.9%) sectors underperformed.

Key contributors and detractors to the portfolio return for the month were:
- **Australian Equity Large Cap Sub-Portfolio (ASX100):** Key contributors Goodman Group (GMG) and Fortescue Metals Group (FMG), only notable detractor CSL Ltd (CSL).
- **Australian Equity Small Cap Sub-Portfolio** (Ex ASX100): Key contributors City Chic (CCX), Jumbo Interactive (JIN) and Electro Optic Systems (EOS), key detractors RPM Global (RUL), Bravura Solutions (BVS) and Invocare (IVC).

FMG released a positive quarterly production report during the month, while the company continues to benefit from the significant strength in the iron ore price. FMG is now shipping iron ore at a rate of approximately 178 million tonnes per annum and achieving world class cash mining costs of US$13 per tonne.

Given the combination of such an efficient cost base and the strength in the iron ore price, Fortescue was able to deliver an EBITDA margin in the first half of 53%. Margins in the second half are likely to improve, while analysts are expecting a final dividend in the order of $1.00 per share (fully franked), when the company announces full year results in August.

Although various sub-sectors across the property market are looking vulnerable in a pandemic afflicted world, industrial property has thus far proved resilient. The trends of ongoing online expansion and growth in the digital economy have been accelerating due to COVID-19. A key ASX-listed beneficiary of these trends is GMG, which continued its recent strength during the month.

Plus-sized women's fashion retailer City Chic (CCX) announced the potential acquisition of the e-commerce assets of US apparel retailer Catherines during July. CCX has bid US$16m (AUD$22.4m) as the 'stalking horse bidder', which means Catherines has selected CCX to make the first bid, while the pair work through a transition plan. We took part in the associated capital raising and remain optimistic about the long term opportunity set for CCX, especially in much larger offshore markets.

We now look ahead to what will be a challenging reporting season. To a large extent, consensus estimates have already accounted for the expected significant downturn in FY20 earnings. While we suspect the market will be much more focused on outlook comments that impact earnings expectations for FY21 and FY22, it is difficult to see many companies providing decisive earnings guidance. In any case, we believe the portfolio remains well positioned to both navigate reporting season and to take advantage of any sensibly priced opportunity, should it arise in the coming weeks and months.

Adrian Ezquerro
Head of Investments

Ronni Chalmers
Portfolio Manager - Australian Equities

Jonathan Wilson
Portfolio Manager - Ex ASX 100

Vincent Cook
Portfolio Manager - ASX 100

Market Commentary

It seems crazy, but world sharemarkets in the three months to June completed one of their best quarters ever - for example, the S&P 500 Index was up 20% - and this during the deepest economic contraction since the Second World War. How can financial markets be so complacent while the COVID-19 pandemic continues to rage, and large sections of the global economy remain shut down?

Since late March, markets have surged back to levels that seem expensive, even as the pandemic rolls on and most companies report pretty awful profits. Of course, markets are forward-looking, so share prices have risen in anticipation of recovery.

Superficially, a number of financial markets appear inflated at present, and that includes sharemarkets and bond markets. Indeed, even precious metals like gold and silver are running hard. A number of markets seem quite divorced from economic fundamentals. On some valuation metrics, the US sharemarket is currently more expensive than it has been since the tech bubble period in 1999-2000.

But valuations have always been very sensitive to interest rates, whether the "official" short term cash rate set by central banks, or longer term Government bonds. Simply put, lower rates "across the curve" make shares look more attractive. And many investors prefer stocks because the dividends they yield are higher than either bank term deposits or fixed income securities. The ultra-low rate policies of the US Federal Reserve and other central banks have clearly acted to inflate asset prices.

Fiscal stimulus or support money from governments attempting to prop up the economic devastation of the pandemic is also finding its way into the sharemarket, further inflating prices. Stuck at home and without sport to watch or bet on, retail investors (the "Robinhood brigade") now account for 20-25% of US trades, up from about 15% a year ago.

Australia sees prices going backwards

In traditional economic models, central banks lower rates to stimulate activity when times are tough, and raise rates when inflation threatens to get out of control. The Australian Bureau of Statistics released its latest Consumer Price Index figures, which fell 1.9% in the June 2020 quarter. ABS economist Bruce Hockman said, "This was the largest quarterly fall in the 72 year history of the CPI." The annual inflation rate was -0.3% in the year to end June 2020 quarter. Since 1949, this was only the third time annual inflation has been negative. The previous times were in 1962 and 1997-98.

Returning to our traditional economic model, if there is no inflation in the system, then the central bank (in this case the RBA) can hold rates low for "as long as it takes". Importantly, this gives the Government the opportunity to borrow in the bond markets at very low rates too. And this is precisely what has occurred.

The Government has rather quickly raised the debt required to fund the forecast $167 billion increase in gross debt as outlined by the Treasurer recently. It then offered investors $15 billion in a 30-year bond issue that attracted some $38 billion in investor demand.

The debt manager for the Government, the Australian Office of Financial Management, has now sold more than $130 billion through a combination of auctions and capital markets deals since mid-March, when the pandemic prompted a surge in government spending to support the economy.

The 30-year bonds were priced to yield 1.94%. The deal size marks the third-largest Australian Government debt issue in history, and the longest outstanding Australian sovereign debt obligation. Whereas the long-term bond market was all but closed for issuers at the height of the COVID-19 crisis, long term securities are now highly sought-after.

In March, the Reserve Bank intervened in the bond market to restore its functioning and to lower borrowing costs. But unlike other central banks, it has limited its buying focus at the shorter end of the yield curve, with the aim of pinning the 3-year rate at 0.25%.

Concluding remarks

The market is constantly trying to capture every new piece of information or shift in economic sentiment, so its volatility at times suggest that economic conditions are frequently changing, unpredictable, shifting at the margin - responding to good news or bad news. Markets are forward looking. They incorporate all the known information at any point in time - but they also tend to "overshoot" when either going up or down.

Although the US market looks to have performed very well since the bottom on March 23, in fact it is really the mega-cap Tech companies that have lifted it as the pandemic has accelerated the economy's digitization. That is Apple, Microsoft, Facebook, Google, Amazon, Netflix etc; these stocks make up more than 20% of the market index. Most other sectors are flat or negative.

Traditional valuation methods do look stretched, but the market is looking past the pandemic and anticipating a sharp recovery in 2021. Also, if you adjust for the sub-1% rate of most government bonds, markets do not look as expensive.

There are some obvious risks that deserve mention apart from high valuations: geopolitical risks of worsening tension between US and China; the US election on 3 Nov and possibility of change in administration which creates uncertainty; domestic unrest in the US and the risk that President Trump will not accept an election loss; a second wave of the pandemic that necessitates longer and more strict lockdowns.

We would always emphasize the point that accurately timing markets is well-nigh impossible and attempting it is often counter-productive. Prudence suggests a sensible diversified portfolio held for the long term (5 years or more) is a preferable strategy. At present, it seems like the market is treating the pandemic for what it is, a major natural disaster that hits suddenly and then after a year or 18 months, it recedes or disappears - only it is not clear how long it will take to fully disappear. In the meantime, investors appear ready to look across the valley and try to imagine what 2021 will look like.

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	$8.0m	**APIR Code**	Retail: CRE0001AU Wholesale: CRE0005AU

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