

Clime All Cap Australian Equities Fund (Wholesale)

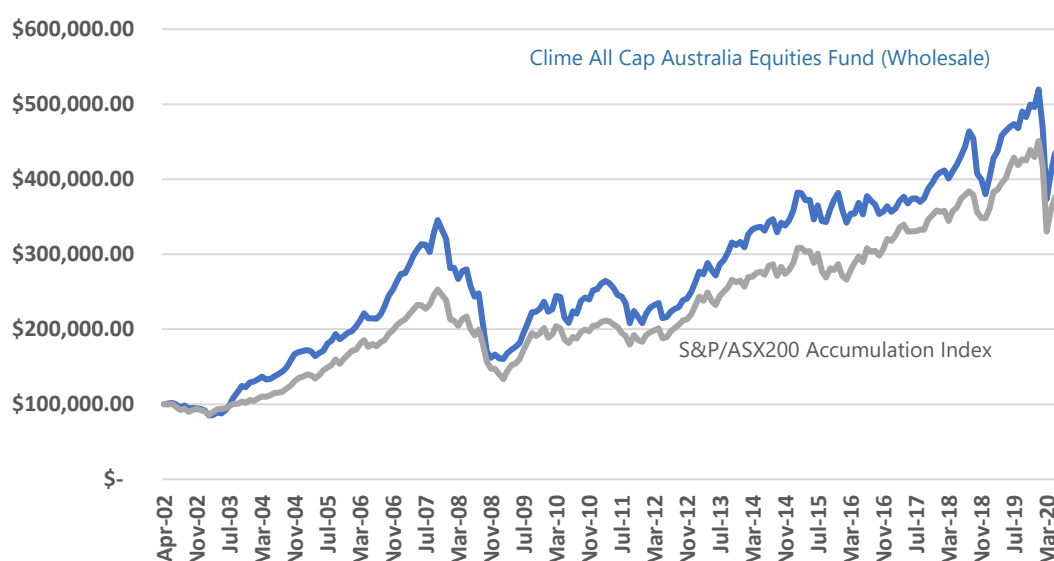
(Formerly Clime CBG Australian Equities Fund (Wholesale))



Monthly Report August 2020

The Clime All Cap Australian Equities Fund (Wholesale) seeks to deliver strong risk-adjusted returns by investing in a portfolio of high quality large, mid and small cap Australian companies that are attractively priced. Its objective is to achieve returns in excess of the S&P/ASX200 Accumulation index.

1-Month Net Return (Wholesale)*	1 - Year Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)*	Total Fund Size
4.7%	-0.3%	8.7%	\$63.4m



	1 month	FYTD	1-year	3-years*	5-years*	10- years*	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	4.7%	5.8%	-0.3%	8.1%	6.3%	7.8%	8.7%	366.6%
Benchmark	2.8%	3.3%	-5.1%	6.1%	7.5%	7.8%	7.8%	297.6%

Inception: 9 April 2002.

*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.

^Benchmark refers to S&P / ASX200 Accumulation Index

Fund Facts

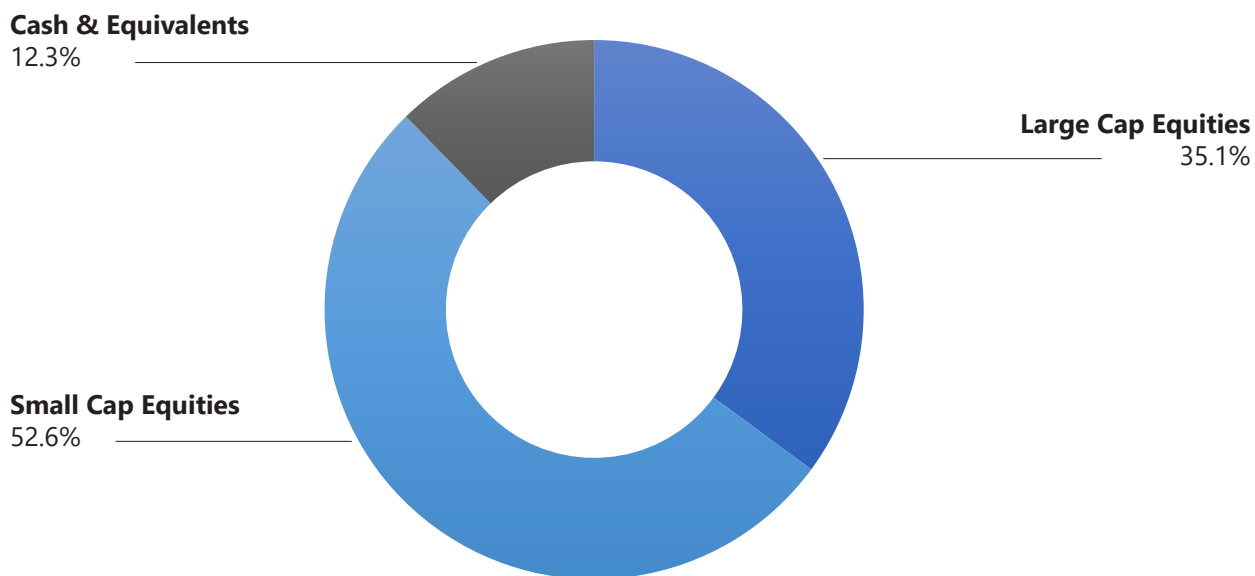
Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson & Vincent Cook
Fund Inception	April 2002
Fund Size	\$63.4m
Number of Stocks	25-40
Cash Distributions	Annually
Eligibility	Wholesale

Top 5 Holdings (Alphabetical)

Company	ASX Code
BHP Group Limited	BHP
CSL Limited	CSL
Hansen Technologies Limited	HSN
Mach7 Technologies Limited	M7T
Jumbo Interactive Limited	JIN



Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Information Technology	19.5%
Financials	14.5%
Health Care	14.5%
Consumer Discretionary	11.9%
Materials	9.6%
Industrials	7.8%
Real Estate	4.1%
Communication Services	4.0%
Consumer Staples	1.8%
Cash & Equivalents	12.3%



Portfolio Commentary

The portfolio returned 4.7% in August, compared to a 2.8% return for the S&P/ASX200 Accumulation Index. The ASX again lagged the Developed World's return of 6.3% and the S&P500's return of 7.3%, though results exceeded aggregate expectations leading into reporting season.

Domestically, Technology (+15.5%), Consumer Discretionary (+8.7%) and REITs (+7.9%) outperformed the most, while Utilities (-4.8%), Communication Services (-3.8%) and Consumer Staples (-0.4%) underperformed.

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

- **Australian Equity Large Cap Sub-Portfolio (ASX100):** Key contributors CSL Limited (CSL), Goodman Group (GMG), BHP Group (BHP) & Altium (ALU), only detractor of note a2 Milk (A2M).
- **Australian Equity Small Cap Sub-Portfolio (Ex ASX100):** Key contributors Hansen Technologies (HSN), Jumbo Interactive (JIN), Mach7 Technologies (M7T), RPM Global (RUL), Navigator Global Investments (NGI) and Integral Diagnostics (IDX), key detractor Bravura Solutions (BVS).

During the month, a2 Milk (A2M), Codan (CDA) and Nick Scali (NCK) were added to portfolio. All companies reported strong results, have leading offerings in their respective markets and are backed by strong net cash balance sheets and talented, aligned management teams.

Large Cap (ASX100)

CSL Limited (CSL) returned 5.9% for the month after reporting a solid result that met the high expectations for this global healthcare leader. CSL achieved 14% earnings per share growth for the financial year. The largest segment of immunoglobulins recorded very strong revenue growth of 22%. Robust demand for influenza vaccines supported the Seqirus business while CSL incurred a one off hit to revenues from the transition to direct distribution of Albumin in China. CSL is participating in the development of treatments for Covid-19 both in the area of vaccines and antibodies, although a high degree of uncertainty is attributed to this investment. Looking forward to the 2021 financial year, the business faces some challenges from lower plasma collections in the US, while the longer term opportunities for the business are as strong as ever.

Goodman Group (GMG) returned 8.2% for the month and has risen 38.1% over the calendar year compared to -7.4% for the broad market. Goodman is on the right side of both the short and long term impacts of the pandemic, as it supports supply chains for essential goods and is leveraged to the growth of e-commerce which has accelerated through this period. Goodman has produced a solid track record of funds from operations growth, with a 5 year compound annual growth rate of 9.0%. Similarly, management has guided to 9.0% earnings per share growth for the 2021 financial year. Development work in progress increased by 59% to \$6.5bn during the year, reflecting strong tenant demand, with this amount 76% pre-committed at average 15 year lease terms. Work in progress is spread across 14 countries and 46 projects. Given development is the largest contributor to earnings, the large step-up in activity is a positive lead indicator for future earnings.

BHP Group (BHP) returned 3.2% for the month after reporting a resilient result with earnings per share down 2.2% on the prior year. The result reflected the benefit of BHP's diversified commodities exposure, as the weakness in the petroleum sector was offset by strength in iron ore. Petroleum sales declined by 31% as the oil price declined by 35% over the financial year. By contrast, iron ore sales increased by 21% with the average iron ore price over the year 16% higher. Since balance date, the iron ore price has strengthened by a further 25%, driving upgrades to earnings expectations for the current year. This strength in the iron ore price is supported by continued elevated steel production in China, at a rate north of 1 billion tonnes per annum. This is combined with recovering production in Europe at the same time as supply out of Brazil remains challenged and the major iron ore miners in Australia have flat production profiles in the near term.

Small Cap (ex-ASX 100)

Hansen Technologies (HSN) returned 41.4% on a standout FY20 result with underlying EBITDA coming in at \$78m and comfortably above pre-COVID guidance. Revenue increased 30%, mainly due to the Sigma business acquired last year as well as a healthy level of organic growth. For the uninitiated, HSN provides billing software to utilities and telcos. Customer retention is 99% and recurring revenue is around 70%. With bond yields near zero, HSN's free cash flow yield of around 8% leading into the result was a tantalising proposition. Although the stock rallied 40% post result, we think there is still some way to go before HSN is appropriately valued by the market.

Mach7 Technologies (M7T) returned 21.0% on a strong full-year result, albeit pre-announced, with revenue up 102% to \$18m and free cash flow of \$4.7m. The outlook for M7T has never been better following the acquisition of Client Outlook in June. Mach7 and Client Outlook are best-in-class solutions in the medical imaging, data storage and image viewing spaces, respectively. As a combination, the two solutions offer a highly competitive end-to-end medical imaging system to hospital networks in the US. This is a \$3 billion addressable market with structural tailwinds due to the migration from legacy systems to more innovative solutions such as Mach7, which is still in its infancy. Mach7 has a near term contract pipeline of \$40m and net cash of \$15m to support new initiatives.

Jumbo Interactive (JIN) returned 21.4% for the month. There were no surprises in JIN's FY20 result, however the strategic outlook was the highlight. Firstly, only 28% of lottery tickets are sold online in Australia, which underwrites long term growth for Jumbo's core Australian lotteries business. In the coming weeks, we expect news on a potential contract with Lotterywest to resell lottery tickets in WA and also provide lottery management software via its Powered by Jumbo platform. The latter could provide Jumbo with a high-quality government reference site to aid its international growth strategy, particularly in the \$21 billion US State Lotteries market.

The dust has now settled on reporting season, with Australia's earnings per share (EPS) falling 20% in FY20. Looking ahead, FY21 Australian market EPS is forecast to rise nearly 5% in FY21, driven by International Industrials and Resources. Banks and Domestic Industrials are forecast to deliver another year of falling EPS in FY21, albeit still much improved on FY20.

Having come through reporting season with the portfolio in sound shape, attention now turns to what remains an uncertain outlook. We reiterate that our focus remains on investing in high quality companies while maintaining strong valuation discipline. It is these companies, with competitive advantages, strong balance sheets and long term growth opportunities, that tend to take market share in downturns before powering out the other side.



Market Commentary

Stock indices around the globe pushed higher over August, continuing a trend that began at the end of March. A sagging US dollar combined with fiscal and monetary stimulus, strongly reinforced by the US Federal Reserve last week, has set sharemarkets racing. Indications that major global economies are on a recovery track have eased investor nervousness that peaked in March, despite the persistence of the COVID-19 pandemic. The MSCI World Index jumped 6.3% in August, the sharpest rally for that month in over 30 years.

Since the end of March 2020, the Australian sharemarket has bounced strongly and the ASX200 Index has risen by almost 1,000 points, or nearly 20%. This is a staggering recovery from the depths just five months ago, when economic Armageddon was forefront of investors' minds. But even this powerful rally is rather pale when compared with US indices: over the past 5 months, the Dow Jones has advanced 30%, the S&P 500 added 35% (its best 5 month run since 1938), and the Nasdaq advanced 53%, its strongest 5 months for 20 years. Australian indices have underperformed relative to the US largely because of index composition differences (Australia has larger weightings to banks and resources, less exposure to technology and healthcare), but even so, these returns certainly represent a "V" shaped recovery for the markets, if not for the broader economy.

Why have markets been so quick to bounce? As we know, markets are forward-looking. But "normality" is probably at least a year away and even that is not certain. The opening of our international borders, the resumption of travel and thus the return of an important part of Australia's services sectors (tourism and education related) is dependent upon a COVID vaccine being developed. Further, the vaccine must be widely available across the world. Indeed, the full recovery of the Australian economy – back to its level achieved in calendar 2019, may not occur until 2023.

What the markets are observing, though, is that the economic recovery (in Australia, China, the US and most developed countries), has commenced. The economic (or GDP) collapse in the June quarter should be the low point for the data. There will still be very negative GDP numbers produced on a rolling year or "previous corresponding period" basis over the next few months, however, it will be more informative to compare September quarter GDP to June quarter GDP to see the emerging trend lines.

As far as the Australian economy is concerned, Federal Government assistance (JobKeeper, JobSeeker and business cash flow support) will continue but will be better targeted from the December quarter to support sectors most clearly in need. The domestic economy will probably operate at say, 80% capacity throughout most of 2021, but unless you are unlucky enough to be in one of those sectors directly affected, this will not be apparent because of government assistance programs. The fiscal support will continue for as long as necessary with fast tracked infrastructure investment undertaken to ensure that there is no slack in the construction sector. The services sector will be sustained by Government assistance that will only diminish when internal borders (interstate) are totally opened – presumably in early 2021.

On the Australian sharemarket, there have been winners and losers. In the category of short term winners are clearly the discretionary retailers (think of the "Netflix effect", home comforts, IT spend) that benefited from the consumption "sugar hit" of income support and early access to super. Retailers that also have a secure and efficient online offering benefited from the surge in demand.

Households have also benefited from a lowering in the cost of living, because travel (including to work) has been curtailed so everyday non-discretionary costs have declined. Some have benefited from a real increase in net disposable income and this has occurred as a recession enveloped the economy. This dual occurrence is quite unprecedented.

The increased activity online (for both consumers and business) has benefited IT service companies operating in that space. Some IT companies have reported a surge in demand for their online services and benefit the longer the pandemic continues. Much of the increased demand can be noted as structural in nature, with the pandemic effectively representing a pull forward of longer dated demand profiles.

On the flip side is the longer list of losers that have weathered the worst of the initial storm through government assistance or by astutely accessing capital markets through equity raisings that ensured their survival. Travel related stocks have raised billions in capital and the subscribers to those raisings (and their shareholders at large) will be confronted with no income (dividend) return for years.

There is of course deep concern over growing unemployment, both here and abroad. A new report from the University of Chicago estimates that 32% to 42% of the recent layoffs from the pandemic in the US could result in permanent job losses. There are two issues: first, many small and medium-sized businesses are going bankrupt or shutting down permanently, so they will not be re-hiring staff. Second, even after parts of the economy reopen, many people will be hesitant to shop, travel and go out to eat as they did before. Businesses operating at half capacity or switching to online or takeout do not need nearly as many workers.

The US Government has urged companies to "furlough" workers (a temporary unpaid leave of absence) instead of laying them off, since a furlough allows for some sort of employer-employee relationship to remain even though staff are no longer reporting for work. Unease is rising among many of these jobless workers as they approach two or three months out of a job. In the United States, approximately 25% of laid-off workers say they will be in "real financial trouble" in less than a month if nothing changes. Among those laid off, 40% say the pandemic has been a "serious source of stress" in their life, compared with 29% among other Americans.

The Australian company reporting season was generally noted to be better than initially feared. To a degree, this reflected the significant reduction in earnings expectations leading into reporting season, coupled with a demonstrated resilience from a range of Australian corporates. We believe Australian investors will be best served by focusing exposure on those sectors that continue to exhibit such resilience, most notably across the technology, healthcare and resources sectors.

Adrian Ezquerro
Head of Investments



Fund Information

Investment Objective

The Clime All Cap Australian Equities Fund (Wholesale) is a concentrated portfolio providing a balanced exposure to high quality companies across the large, mid and small cap segments of the ASX.

The Fund invests in leaders that have good economics, strong balance sheets, and significant growth prospects. The Fund is managed to generate a sound balance of capital growth and income.

Its objective is to achieve returns in excess of the S&P/ASX200 Accumulation index.

Investment Methodology

The Clime All Cap Australian Equities Fund (Wholesale) has a quality focus with a valuation discipline. Fund holdings are characterised by:

- A competitive advantage, leadership within a specific niche
- High levels of profitability and margin
- Low financial leverage
- Capital-efficient growth and cash generation
- Capable management aligned with shareholders
- Sustainable long-term growth
- Attractive share prices relative to assessed value

Position sizing reflects not only our assessment of valuation and quality, but also the degree of strategy execution.

Portfolio Managers



Adrian Ezquerro
Head of Investments



Ronni Chalmers
Portfolio Manager - Australian Equities



Jonathan Wilson
Portfolio Manager - Small Caps



Vincent Cook
Portfolio Manager - ASX 100

Fund Information

Name	Clime All Cap Australian Equities Fund (Wholesale)	Investor Eligibility	Wholesale
Structure	Managed Investment Scheme	Minimum Investment	Wholesale: \$100,000
Benchmark	S&P/ASX200 Accumulation Index	Fees	Wholesale: 1.03% management and 20.5% performance
Stock Holdings	25-40	Admin	Mainstream Fund Services
Fund Size	\$63.4m	Stock Limit	15% at cost
Liquidity	Weekly Unit Pricing Applications and Redemptions		

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