Clime Australian Income Fund

Fund Performance - August 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
1.2%	-1.3%	5.4%	$39.5m

	1 month	3 months	6 months	1 year	3 years	5 years	Since Inception (pa)*
Net Portfolio Return (Wholesale)**	1.2%	2.4%	-2.5%	-1.3%	3.3%	5.4%	5.4%
Income	0.0%	1.2%	1.5%	2.6%	3.6%	3.8%	3.7%
Capital Growth	1.2%	1.3%	-4.0%	-3.9%	-0.4%	1.6%	1.7%
Volatility	-	-	-	8.2%	5.3%	4.7%	4.7%

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	2.2%
Sparke Infrastructure Group	2.1%
Commonwealth Bank PERL VII (CBAPD)	2.1%
Ausnet Services Limited (AST)	2.0%
Macquarie Bank Capital Notes (MBLPC)	1.9%

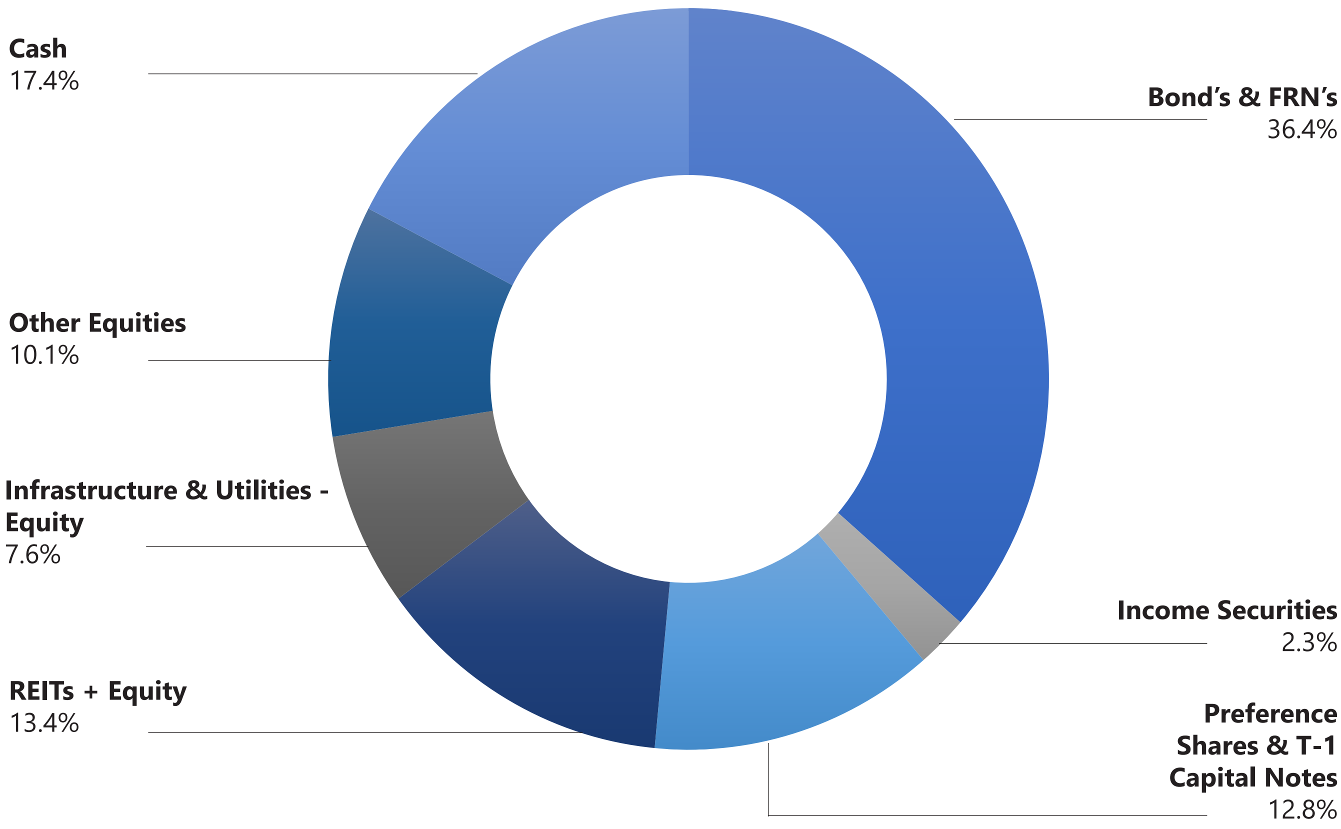
Fund Facts

Portfolio Manager	Dr Vincent Chin
Fund Inception	1 July 2015
Fund Size	$39.5m
Cash Distributions	Quarterly

Distributions

Period Ending	Wholesale Units (cents)
30 June 2020	1.2385 + 0.1426 franking credits
31 March 2020	0.4215
31 December 2019	0.7480
30 September 2019	0.5160
30 June 2019	2.5854 + 0.2533 franking credits
31 March 2019	0.8096

Asset Allocation



Portfolio Commentary

The Australian equity market rallied strongly in August 2020 with the ASX200 Accumulation index closing up 2.8%, while volatility remained high. It is likely that the rally is being pulled up by the record-breaking US equity market: unlike the previous month, where value sectors mostly rallied while growth sectors (notably technology) lagged, almost every sector was higher by month end (with the exception of gold). Despite the rally, the market remains about 15% below the peak reached in late February 2020.

In August 2020, we took part in three fixed interest offering. They are:

- Ausgrid 3.5y FRN
- QBE subordinated 6y non-call 16.25y FRN
- Goodman Finance 7y fixed rate bond.

The above fixed income investments' operating activities are diversified across utilities, financial services and property respectively. In the Utilities and Infrastructure (U&I) asset class, AusNet Services (AST) rallied with the market, and we continued to accumulate Telstra (TLS) on price weakness. Their FY20 results were in line with expectations but they have guided to a poorer outlook and its shares sold off sharply. We continue to refrain from adding to REITs at this stage.

The RBA cash rate remains at 0.25% and Australian 10y bonds at around 1%. Short Term Bank Bills have traded below the cash rate since the middle of April 2020. It is likely that the ultra-low yield for cash will remain for 2 to 3 years, forcing yield-seeking investors to take on higher risk.

The stricter lockdowns supplemented with a nightly curfew in Victoria appear to be paying dividends as the rolling seven day case average continues to decline. In NSW, we have again seen confirmed COVID-19 cases with unknown origin across Greater Sydney (including a cluster in the CBD). This reinforces the view that the path of the virus remains highly unpredictable.

Globally, the spread of the pandemic isn't getting much better with news of further waves in Europe and parts of Asia, notably India. Until an effective health solution, the virus will likely create intermittent disruptions. With geopolitical tensions and technological competition between the US and China looking set to increase in the run-up to the US election in early November, we intend to remain cautious and measured in our approach, focusing on certainty of income from quality names in the U&I, IT and healthcare sectors.

The Fund posted a return of 1.2% in August. During the month, we continued our measured approach outlined in the March quarterly update. While the 5y rolling volatility remains only slightly below the upper limit of the Fund's target, the relative volatility remains well below its target. We expect volatility will trend down over time. We remain confident of the Fund's ability to provide a regular quarterly distribution, albeit at a lower basis compared to pre-COVID times. This is a consequence of the ultra-low BBSW rate, and companies reducing, cutting or stopping dividends in the near term because of uncertainty created by the pandemic. As the economy opens up when the pandemic eventually subsides, we are confident that dividends will gradually increase over time.

Dr Vincent Chin
Portfolio Manager

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 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	$39.5m	**APIR Code**	Retail: SLT1239AU Wholesale: CLA0002AU
Platform Availablity	Netwealth, HUB24		

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