Clime Fixed Interest Fund

Fund Performance - August 2020

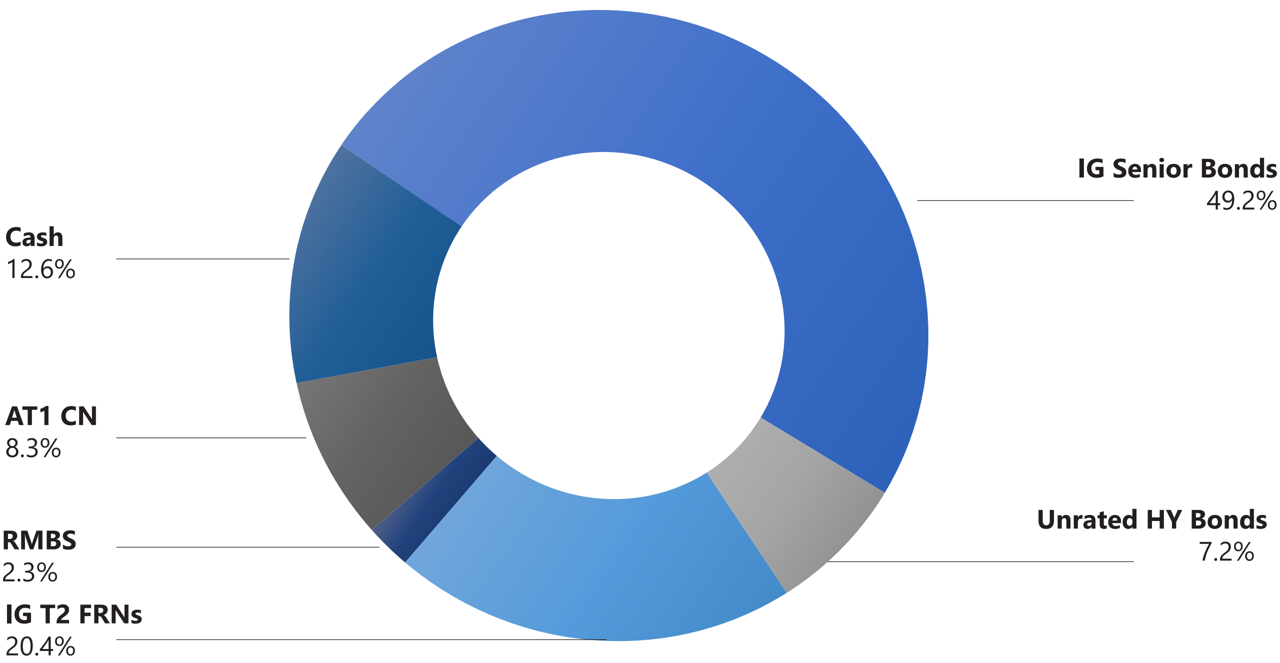
The Clime Fixed Interest Fund's primary objective is capital preservation. It aims to generate income returns above the RBA cash rate in the form of monthly income distributions. Its return objective is to outperform the benchmark of the RBA cash rate +2.0% p.a. The Fund's risk objective is set at 1.5% ± 1.0%, as defined by the weekly change of the annualised standard deviation of the unit price movement.

1 Month Net Return	Portfolio 1 Year Net Return	Portfolio Net Return Inception	Fund Size
0.5%	1.7%	2.2%	$18.6m

	1 month	3 months	6 months	1 Year	Since Inception*
Portfolio Net Return**	0.5%	1.8%	0.2%	1.7%	2.2%
Risk	-	-	-	2.2%	1.9%

*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	$18.6m
Cash Distributions	Monthly

Portfolio Commentary

Financial markets were strong in August 2020. At month end, the ASX200 Accumulation index was up 2.8% although volatility remained high, while the Australian iTraxx continued to tighten by another ~15 bp from the previous month. We believe accommodating central bank policies and the abundance of liquidity globally are the main causes for rallies in the equity and debt markets.

We participated in two new credit rated issues: QBE Limited 6y non-call 16y Subordinated Tier 2 debt and Ausgrid Finance Limited 3.5y FRN papers. They were priced at 2.75% and 1.10% over the BBSW90 respectively. In the rebalancing, we reduced our exposure to the 2029 maturity NAB Subordinated T2 debt for a profit as credit spreads tightened.

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 (or even longer), 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 (including a cluster in the CBD), with known and unknown origin across Greater Sydney. 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. In our search for quality in the fixed income market, we will concentrate on well-known names with strong creditworthiness.

As credit spreads tightened further, capital prices of fixed income securities in the Fund continued to appreciate. For the Fund, we adhered to our investment process of capital preservation and income generation, with monthly distributions. The Fund posted a return of 0.5% in August 2020. At month end, the asset allocation was 12.6% cash, 49.1% IG senior bonds, 20.4% IG subordinated FRNs, 7.2% HY unrated corporate bonds, 2.3% RMBS and 8.3% AT1 Capital Notes / hybrids.

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 raising (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 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.

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 in to 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 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	$18.6m	**Admin**	Mainstream Fund Services Pty Ltd
APIR Code	CLA0724AU		

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