Clime Australian Income Fund

Fund Performance - October 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
0.6%	-0.8%	5.4%	$41.5m

	1 month	3 months	6 months	1 year	3 years	5 years	Since Inception (pa)*
Net Portfolio Return (Wholesale)**	0.6%	2.2%	5.4%	-0.8%	3.1%	5.3%	5.4%
Income	-	0.4%	1.5%	2.6%	3.6%	3.7%	3.6%
Capital Growth	0.6%	1.9%	3.8%	-3.4%	-0.4%	1.6%	1.8%
Volatility	-	-	-	8.3%	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 (NABHA)	2.7%
Sparke Infrastructure (SKI)	2.0%
Commonwealth Bank PERL VII (CBAPD)	2.0%
Ausnet Services Limited (AST)	2.0%
Macquarie Bank Capital Notes (MBLPC)	1.8%

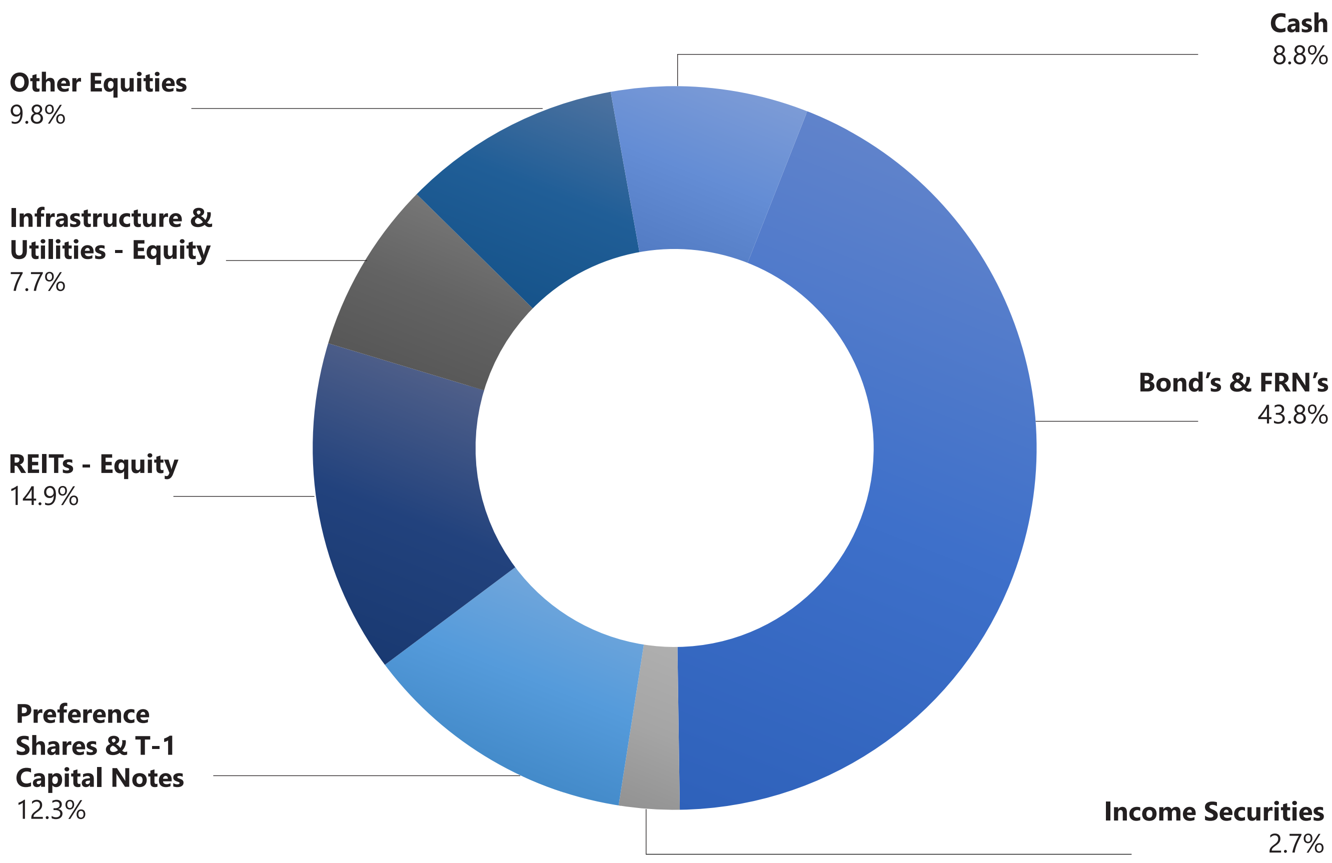
Fund Facts

Portfolio Manager	Dr Vincent Chin
Fund Inception	1 July 2015
Fund Size	$41.5m
Cash Distributions	Quarterly

Distributions

Period Ending	Wholesale Units (cents)
30 September 2020	0.4011
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

After a major selloff in September 2020 when the ASX200 accumulation index fell by 3.7%, the market rallied strongly in October, reaching more than 7.1% higher by the end of the third week. However, as the alarming resurgence of COVID-19 hitting Europe and the US toward the end of October, coupled with the uncertainty of the US election, investors turned nervous and the ASX200 fell sharply to finish the month up 1.9%. This return is attributed mainly to the major banks and selected large industrial stocks. These wild moves in the market are endemic of the economic, political and health crises gripping the world today. We think this may continue for a while yet. However, one thing is certain, regardless of who will reside at the White House after the election, Central Banks will continue to suppress interest rate well into the midterm (say, end of 2023) and apply QE generously. On the fiscal side, most Governments will likely go further into debt to stimulate their economies.

Given this backdrop, we think the market will rally but with heightened volatility as witnessed to date. In order to generate higher income returns than cash, and to have greater certainty of a regular income stream, there is a need to reduce cash levels in the portfolio as cash real returns are now negative (when inflation is taken into account).

In October 2020, we continued to reduce cash by taking part in three investment grade debt offering. They are:

- Ausnet Services 6y non-call 60y subordinated FRN;
- Port of Melbourne (Lonsdale Finance) senior secured 7y fixed rate bond; and
- Lendlease 7years fixed rate green bond.

The above fixed income investments' operating activities are diversified across utilities, infrastructure and property / infrastructure development respectively. In the Utilities and Infrastructure (U&I) asset class, we introduced Spark New Zealand (SPK) as we anticipate a sustainable dividend of more than 5% and strong price stability. We have started to invest in REITs selectively. At this stage, we have been accumulating Growthpoint Property Group (GOZ) and the GPT Group (GPT) as we see value at current prices. With these purchases, the cash level fell below 10%.

In early November 2020, the RBA cut its cash rate by 0.15% to 0.10%, reduced its target 3y bond yield to 0.10% and announced plans to purchase $100b government bonds (maturities of around 5 and 10 years) over the next six months. Earlier, the Governor of the RBA indicated that interest rates are expected to remain low for at least 3 years. This reinforces our view that there is a need to deploy cash into other asset classes.

Whilst the strict lockdown in Victoria has produced a positive outcome, we should remain vigilant of a potential third wave. This is highly possible until there is an effective COVID-19 solution. Globally, the spread of the pandemic is getting worse with major spikes in Europe and the USA as the northern hemisphere moves into the colder winter months.

We will remain cautious, focusing on certainty of income from quality names in the U&I, IT and now selective REITs. The Fund posted a return of 0.6% in October. During the month, we continued our measured approach outlined in the March quarterly report and further refined in the September quarterly report.

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. With reduced cash levels, we expect the absolute risk will hover around the upper limit while the relative risk will likely plateau. We remain confident of the Fund's ability to provide a regular quarterly distribution, albeit on a lower basis compared to pre-COVID periods. This is the consequence of the ultra-low BBSW rate, and companies reducing, cutting or stopping dividends because of uncertainty created by the pandemic. As the economy opens up once the pandemic eventually subsides, dividends will gradually increase over time.

Dr Vincent Chin
Portfolio Manager

Market Commentary

Global markets continue to be supported by record low interest rates, fiscal and monetary stimulus on an unprecedented scale, and the accelerated digitalisation of the global economy. In the last week of October, global markets suffered their worst week since March (MSCI index down 5.3%), as virus-related lockdowns across Europe and the last days of the highly-contested US election pushed up volatility and sent investors to the sidelines. Over the month of October, the Australian sharemarket outperformed global peers and rose +1.9%, buoyed by a market-friendly Federal Budget, effective suppression of the pandemic in Victoria, and the promise of further monetary stimulus.

The Covid-19 pandemic has been the defining event of our time and yet, so little is definitively known about it. The extent and duration of the economic dislocations that the pandemic is causing are unknown, but the effects on the global economy are likely to be prolonged. A deep recession is likely to have significant economic and political effects and estimates of the timing of economic revival are complicated by the dependence of economies on effectiveness in controlling the virus. Unlike previous recessions, this economic downturn and recovery differs in that the downturn was driven by government shutdowns; fiscal and monetary support has been faster and bigger; forced asset sales have been avoided; it is dependent on containing the pandemic; and it is accelerating structural change.

Within the Covid environment, businesses capable of adapting quickly to an online milieu have thrived, whereas many caught up in sectors such as bricks and mortar retailing, international travel, live entertainment, and so on, have struggled. All these changes have meant big winners and losers in financial markets. In this report, we touch upon the state of the Australian economy and prospects for next year, and on one of the issues that at present is impacting upon financial markets, namely the US Elections.

Australian households received the Federal Budget with enthusiasm, despite the promise of rising debt and deficits: consumer sentiment surging 11.9% in October. Employment dropped back a little less than expected in September, with the unemployment rate edging down to 6.9%. Despite this, the big news in October was the speech by RBA Governor Phil Lowe in which he signalled a further policy easing in early November. As expected, the cash rate and 3-year bond yield target were cut from 0.25% to 0.1%. The RBA will also start buying up both 3-year and longer term government bonds.

Governor Lowe said that the RBA wants "to see a return to labour market conditions that are consistent with inflation being sustainably within the 2% to 3% target range." We interpret this to mean that the RBA will not be increasing the cash rate until actual inflation is sustainably within that range. We do not expect the cash rate to be increased for the next two to three years, making assets such as shares and real property comparatively more attractive.

Australia is a mid-sized open economy in an interconnected world, so what happens abroad has a large impact on both our exchange rate and our yield curve. In the past, the interest rate differentials provided a reasonable gauge to the relative stance of monetary policy across countries. We anticipate further QE and yield curve management. The RBA will be tolerant of some rise in inflation and will be led by the global monetary policy context.

Welcome to Bidenomics

While we still await an official declaration that Joe Biden will be the next President of the USA - we hope that it is not significantly longer before the result becomes crystal clear. A clear reading of the indicators, though, suggests that we ought to be thinking about a change in US administrations on 20 January 2021, and with it the advent of a significant shift in both style and policy.

Joe Biden is a lifelong centrist who does not appear to be captive to any strongly-held ideology other than his admiration for ordinary working and middle class Americans. If Biden enters the White House in January 2021, he will confront an extraordinary set of circumstances: the US economy is clawing its way back from the sharpest slump in living memory; the legacy of the pandemic will include millions of long-term unemployed; public debts will soon exceed the all-time high of 106% of GDP; and America faces a wave of bankruptcies and accelerated digital disruption in many industries.

President-elect Biden has pledged to "build back better" – a stimulus that could be worth $2trn-3trn, part of a boost to annual spending of about 3% of GDP. His tax rises on firms and the wealthy would be significant, rather than punitive. He would seek to rebuild America's decrepit infrastructure, give more to health and education and allow more immigration. His climate-change policy would invest in research and job-boosting technology. Of course, much will depend upon the ability to obtain support from a Senate which may be controlled by the Republicans. Run-off elections for two Senate seats in Georgia will be held on 5 January next year.

Because of the challenging backdrop and Biden's lack of a fixed economic doctrine, the range of outcomes attributable to a Biden presidency is still open. Biden says his goals are to tilt the balance of American capitalism in favour of workers, not the rich. Hopefully, he will offer competent administration. He is not expected to reverse America's new protectionism, or significantly alter the relationship with China, and nor does he have a plan to resolve the country's long-term fiscal problems.

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	$41.5m	**APIR Code**	Retail: SLT1239AU Wholesale: CLA0002AU
Platform Availablity	Netwealth, HUB24		

Contact Information

Investor information
Clime Asset Management Pty Ltd
Ph: 1300 788 568
Email: info@clime.com.au
AFSL: 221146

Administrator
Mainstream Fund Services Pty Ltd
Ph: 1300 133 451
Email: registry@mainstreamgroup.com