

Clime All Cap Australian Equities Fund (Wholesale)

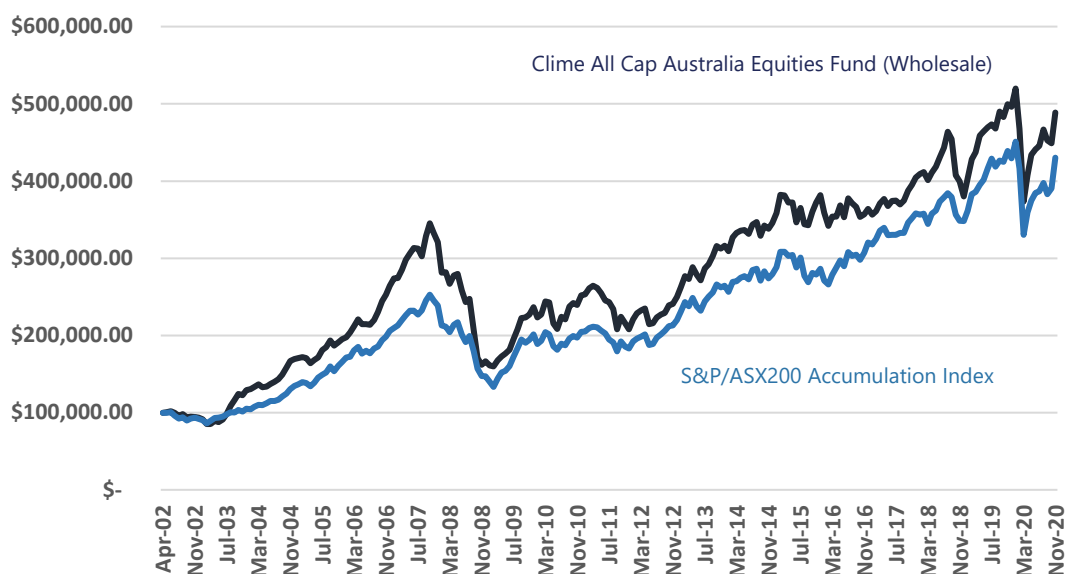
(Formerly Clime CBG Australian Equities Fund (Wholesale))



Monthly Report November 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)*	3 - Year Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)*	Total Fund Size
8.9%	7.4%	8.9%	\$62.3m



	1 month	FYTD	1-year	3-years*	5-years*	10- years*	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	8.9%	10.9%	-2.1%	7.4%	5.6%	7.4%	8.9%	388.9%
Benchmark	10.2%	11.9%	-2.0%	6.9%	9.1%	8.1%	8.1%	330.3%

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

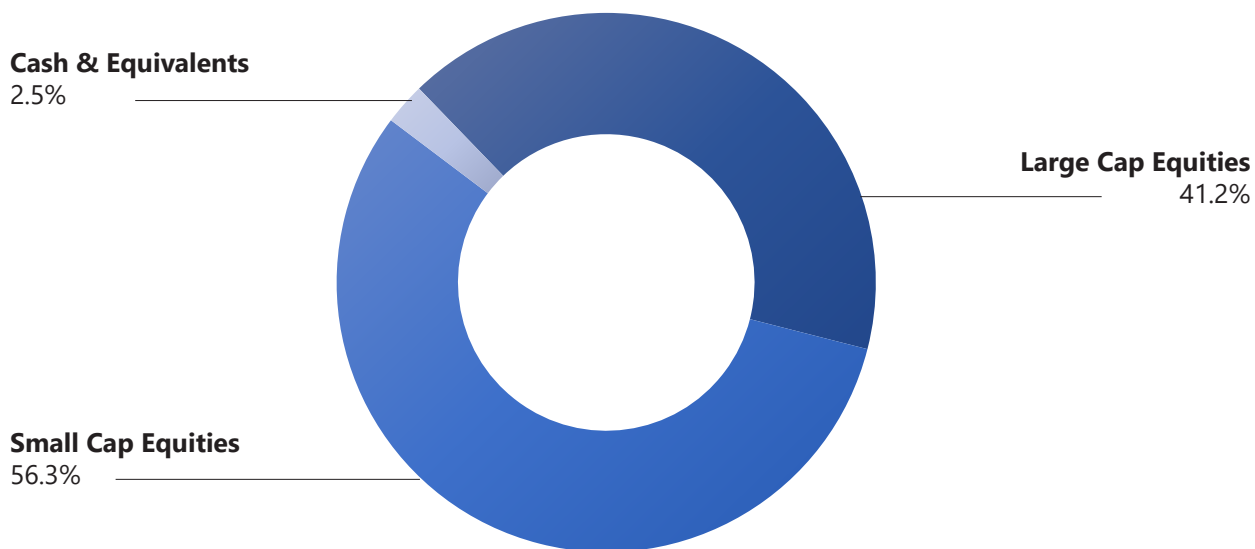
Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson & Vincent Cook
Fund Inception	April 2002
Fund Size	\$62.3m
Number of Stocks	25-40
Cash Distributions	Annually
Eligibility	Wholesale

Top 5 Holdings (Alphabetical)

Company	ASX Code
BHP Group	BHP
Electro Optic System	EOS
Jumbo Interactive	JIN
Mach7 Technologies	M7T
Westpac Banking Corporation	WBC



Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Financials	21.8%
Information Technology	18.0%
Consumer Discretionary	13.9%
Health Care	13.1%
Materials	9.9%
Industrials	9.0%
Real Estate	5.1%
Communication Services	4.4%
Consumer Staples	2.3%
Cash & Equivalents	2.5%



Portfolio Commentary

The portfolio returned 8.9% in November, compared to a 10.2% return for the S&P/ASX200 Accumulation Index. Global markets surged higher during the month, largely driven by positive vaccine news and increased certainty regarding the US election result.

Incredibly, the ASX200 lagged various offshore indices during November, with the S&P 500, Nasdaq and the FTSE 100 each delivering returns of 11.3%, 11.8% and 12.4% respectively. Domestically, at a sector level, a rotation back into those sectors most impacted by COVID-19 became evident, with Energy (+28%), Financials (+16%) and the broader 'Value' category (+16%) each outperforming.

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

- **Australian Equity Large Cap Sub-Portfolio (ASX100):** Key contributors Westpac (WBC), BHP Group (BHP), National Australia Bank (NAB), GPT Group (GPT) and Macquarie Group (MQG), no notable detractors.
- **Australian Equity Small Cap Sub-Portfolio (Ex ASX100):** Key contributors Mach7 Technologies (M7T), Jumbo Interactive (JIN), Electro Optic Systems (EOS), RPM Global (RUL) and Omni Bridgeway (OBL), no notable detractors.

Large Cap Sub-Portfolio Updates

National Australia Bank (NAB) and Westpac Banking Corporation (WBC) produced strong returns for the month, at +24.8% and +14.3% respectively. This reflected both the earnings results reported by the sector and positive developments on the economic front.

In terms of the economic outlook, declining COVID cases in Australia, the re-opening of state borders and increasing certainty of effective vaccines in 2021 have all improved economic prospects. This means that businesses and consumers are likely to be better placed to meet their debt obligations and consequently impairment charges for the major banks will be lower than earlier feared. This has been the key positive for the sector and was confirmed by the earnings results, with a lower charge in the second half and commentary that portfolios are performing better than expected.

The banks have also surprised positively in terms of capital adequacy, which is in part tied to loan performance. The banks have generally reduced expectations for risk weighted asset pro-cyclicality that results from deteriorating loan performance. This would otherwise be a material drag on capital levels. Consequently, banks could even emerge from this period with excess capital. The key challenges that remain for the banks are a lack of credit growth and net interest margin pressure, resulting from low interest rates, low demand for credit and a surplus of deposits.

BHP Group (BHP) returned +12.7% for the month, which reflected strong price appreciation for the company's key commodities. The iron ore price increased by 10.6% during the month in US dollar terms. Iron ore accounted for 64% of group EBITDA in the 2020 financial year. The copper price increased by 12.9% for the month and accounts for 19% of group EBITDA. However, the oil price was the stand out, increasing by 26.0% and accounting for 10% of EBITDA. These movements were only slightly offset by a 4.3% depreciation of the US dollar against the Australian dollar during the month.

GPT Group (GPT) returned 17.1% during the month. Despite a gradual pick up in bond yields in recent months, the property sector has benefited from the re-opening of the economy and a return to office work – albeit with remote working flexibility. Retail foot traffic across GPT's centres ex-Victoria had in September recovered to 91% of the level at that time last year. These improving fundamentals are more than offsetting the impact of higher bond yields on valuation.

Macquarie Group (MQG) returned 10.5% following the announcement of its first half 2021 financial year result. Net profit was down 23% on the same period last year, to \$985 million. This reflected higher loan impairment charges and lower asset realisations as deal flow was impacted by the COVID environment. However, the ultra-low interest rate environment is positive for asset prices and this is likely to be reflected in earnings as global travel re-opens, facilitating deal flow. Significant progress towards COVID vaccines in 2021 is therefore a positive for MQG, as is the outlook for lower impairment charges, in line with the major banks.

Small Cap Sub-Portfolio Updates

Mach7 Technologies (M7T) returned 36% for the month. On 13 November, M7T announced a \$5.3m 7-year contract with Trinity Health to provide its eUnity Enterprise Viewer software at multiple facilities within Trinity's 92 hospitals across the US. We understand the contract is based on a certain percentage of full requirements, with opportunities to expand in the future. The Enterprise Viewer is one of four component of Trinity's Unified Clinical Imaging Platform strategy, with contracts for the Diagnostic Viewer, Universal Worklist and Vendor Neutral Archive components likely to be awarded in the new year. We believe M7T is well positioned to provide the full suite to Trinity. In the event M7T wins the remaining tenders, it will be of significant financial and strategic value. Trinity is the fifth largest hospital system in the US and would represent M7T's first major reference site for its end-to-end medical imaging software solution.

Jumbo Interactive (JIN) returned 27% in November on the announcement of a 10-year agreement signed with Lotterywest (WA) to provide a white label version of its lottery management SaaS solution, Powered by Jumbo. Whilst the Lotterywest agreement is a welcome one in and of itself, perhaps of greater importance is its strategic value for Powered by Jumbo. Lotterywest will be JIN's first government reference site for its SaaS platform, and may assist JIN in winning contracts in the \$22 billion US state government lottery market. In late November JIN announced that the UK's Gambling Commission had issued a remote gambling software license to JIN, enabling JIN supply Powered by Jumbo to lottery operators in the UK. JIN's main source of revenues and income remains retailing Australian official lottery tickets, while Powered by Jumbo represents a potential future growth driver.

Electro Optic Systems (EOS) returned 21% on the back of positive vaccine news as well as further details about the new Space Communications division. During calendar year 2020 EOS experienced delays to contract deliveries of its Defence Systems to offshore customers. As a result, cash receipts were delayed, as final payments for Defence contracts are due on completion of testing and implementation at customer sites.

EOS is finalising a \$150m contract in the December quarter. On 24 November, EOS held a webinar providing details about its Space Communications business unit, with the update confirming management intentions to launch the new SpaceLink constellation by mid-2024.

Initially targeting Defence and Government customers, SpaceLink will initially provide a 10x increase in bandwidth versus prevailing microwave-based technologies, and 100x upon incorporation of EOS optical laser technologies in later constellations. Project economics are compelling with a project NPV of \$1 billion based on conservative assumptions for capacity utilisation. As EOS's \$1 billion market capitalisation is mostly underwritten by its Defence division, Space Communications represents a source of long term valuation upside.

RPMGlobal (RUL) returned 13% in what was a quiet month of November. RUL has experienced slower deal-flow as a result of COVID-19; however the pipeline grew due to strong underlying demand for its mining operations software. The near-term outlook has vastly improved on the positive vaccine news. In his 30 October AGM address, Managing Director Richard Matthews said his 'views are more upbeat than when we released our Annual Report in late August'. This reflects increasing awareness among mining companies about the need for software to enable remote mine operations.

Omni Bridgeway (OBL) returned 22% for the month after announcing on 17 November a new 5-year business plan, FY21-FY25 inclusive. FY20 completed OBL's previous 5-year strategy to transform from an Australia-focused litigation funder to a globally diversified litigation fund manager.

The management team led by CEO Andrew Saker executed on the strategy to great success. OBL is now the world's largest litigation funder by geographic footprint and headcount, boasts a market-leading case investment record, and generates internal rates of return exceeding 50% on case investments. OBL's new 5-year plan targets \$5 billion in Funds Under Management by FY25, up from \$2.2 billion as of 30 June. This will involve expanding OBL's offering to include claims monetisation, downside risk management, defence side funding and the establishment of an in-house law firm. However, it will require only a small investment in headcount, from 185 in FY21 to 210 in 2025, highlighting the powerful operating leverage inherent to the funds management structure.

Adrian Ezquerro
Head of Investments

Ronni Chalmers
Portfolio Manager - All Cap Australian Equities

Jonathan Wilson
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Portfolio Manager - ASX 100



Market Commentary

As we head towards the end of 2020, some of the major issues which have bedevilled markets and investors this year seem to be on a path toward resolution. The good news is that promising vaccines and better treatments for coronavirus are appearing, economic recovery from recession is on the cards, and the US political process is grinding towards a new Administration in Washington DC. However, there remain areas of concern, with mountains of government debt, enduring fiscal deficits, rolling QE programs and zero bound interest rates being features of the economic landscape.

Positive news on coronavirus vaccines was followed by a rotation of stocks by market traders, who increased allocations to “value stocks” (those measured by actual profitability) that had been left behind during the pandemic. Market favourites in technology were switched into financials, real estate and energy.

Markets perceive that, whether it takes 6, 12 or 18 months, eventually the worst of the pandemic will be behind us. Therefore, the likelihood of economic recovery is not now in doubt and economists are upgrading their forecasts. US and other global markets were buoyed by vaccine developments and major US indices hit new highs. In Australia, the ASX 200 is lifting alongside and closing on the level it began 2020. However, our market (on a price basis, i.e., not including dividends) is still 5% below its pre-GFC peak (in 2007).

Markets are buoyed by two factors at present. First, is PER expansion caused by zero bound bond yields. Second are the earnings upgrades that flow from economic growth upgrades. EPS forecasts are rising across the world as analysts foresee certain recovery.

Away from asset markets, we are observing renewed growth in real economic activity. In the US, total retail sales during October bounced strongly, albeit with significant changes in composition. Compared with Oct 2019, total retail sales in the US were up 5.7%. In Australia, both business confidence and consumer confidence are recovering in a vigorous fashion.

Playing such an important role in consumer spending, housing remains of great interest. In the US, housing has been unexpectedly resilient through the Covid-19 downturn. Building stocks have benefited from PER expansion, building activity is recovering and US house prices have bounced. Indeed, house prices have outperformed the share prices of building stocks.

Australian residential property has also performed better than initially feared – except for small high-rise apartments. Following various stages of lockdown, most urban residents are prepared to pay a premium for larger space and better locations and have increased spending on home luxuries (electronic appliances, entertainment and more expensive kitchens and food ingredients). This divergence is showing up in capital cities across Australia and is particularly true in Sydney and Melbourne.

Some economists are predicting house price gains in Australia of 5-15% in the next couple of years, fuelled by low interest rates. Strength in housing is good news for the economy’s recovery, and for the sharemarket. Australia’s banks are among the world’s most exposed to mortgages, with housing loans at the four major banks equating to about 75% of our A\$2 trillion GDP.

It is not all good news, and the pandemic will leave lasting scars. Across the developed world (ex-Australia), high rates of unemployment are likely to endure. For instance, one in ten jobs worldwide is linked to travel and tourism and those industries are supported by a myriad of small businesses such as hotels, bus companies, tour guides, restaurants and souvenir shops. The knock-on effects are significant from the closure of international travel.

Many hundreds of thousands of small and medium-sized businesses have been decimated, and large corporates hurt, as demand for their output collapsed, their supply chains were disrupted, or they were locked down. The second waves and potential third waves now crashing on many economies in Europe and the US will make this worse. Financial fragility is increasing in already highly indebted sectors of high-income economies, as well as in emerging and developing countries.

However, it could have been much worse. The world economy has benefited from extraordinary support from central banks and governments. Sovereign debt has reached historic levels as countries across the globe do their best to support and sustain economic activity; estimates suggest fiscal and monetary responses exceed \$12 trillion dollars in total – far more than what was expended in the GFC.

Massive spending is going to raise public deficits and debt substantially. The global government fiscal deficit is forecast to hit 12.7% of world GDP this year; in high-income economies, it will reach 14.4%. The global ratio of general government debt to GDP is forecast to jump from 83% to 100% of GDP between 2019 and 2022, with high-income countries going from 105% to 126%.

Fortunately, real interest rates on long-term borrowing are either close to zero, or even below zero. Central banks are also committed to maintaining very easy monetary policies. Spare capacity is forecast to persist for an extended period, ensuring that inflation remains relatively benign. Of course, this represents the “consensus expectation”, and one thing we have learnt from the Covid pandemic is to acknowledge that the unexpected sometimes happens.

Australia is better positioned than most other countries – not only in controlling Covid, but in driving growth in recovery. We suggest that investors will benefit from staying invested in both Australian equities and quality property assets. Australian share prices have generally underperformed global share prices over the last 10 years (since October 2009, in local currency terms). There is now good reason to believe that this relative underperformance will reverse in the year ahead if the Australian economy recovers faster, cyclical sectors (like resources and financials) come back into favour over growth stocks (like IT and healthcare) and as commodity prices rise.

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 - All Cap 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	\$62.3m	Stock Limit	15% at cost
Liquidity	Weekly Unit Pricing Applications and Redemptions		

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