

# Clime Australian Income Fund



## Fund Performance - November 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%  $\pm$  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 |         |                       |
|---|---|------|---|----------|----------|--------|-----------------|---------|-----------------------|
| 3.1%                                      | 1.6%                                    | 5.9% | 1 month                                     | 3 months | 6 months | 1 year | 3 years         | 5 years | Since Inception (pa)* |
|   |   |      |   |          |          |        |                 |         |                       |
| <b>Net Portfolio Return (Wholesale)**</b> | 3.1%                                    | 4.0% | 6.5%  | 1.6%     | 3.8%     | 6.1%   | 5.9%            |         |                       |
| <b>Income</b>                             | -                                       | 0.4% | 1.6%  | 2.6%     | 3.6%     | 3.8%   | 3.6%            |         |                       |
| <b>Capital Growth</b>                     | 3.1%                                    | 3.6% | 4.9%  | -1.0%    | 0.2%     | 2.3%   | 2.3%            |         |                       |
| <b>Volatility</b>                         | -                                       | -    | -   | 8.6%     | 5.4%     | 4.8%   | 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)           | 2.6%    |
| Sparke Infrastructure (SKI)        | 2.0%    |
| Commonwealth Bank PERL VII (CBAPD) | 1.9%    |
| The GPT Group (GPT)                | 1.9%    |
| Ausnet Services Limited (AST)      | 1.8%    |

## Fund Facts

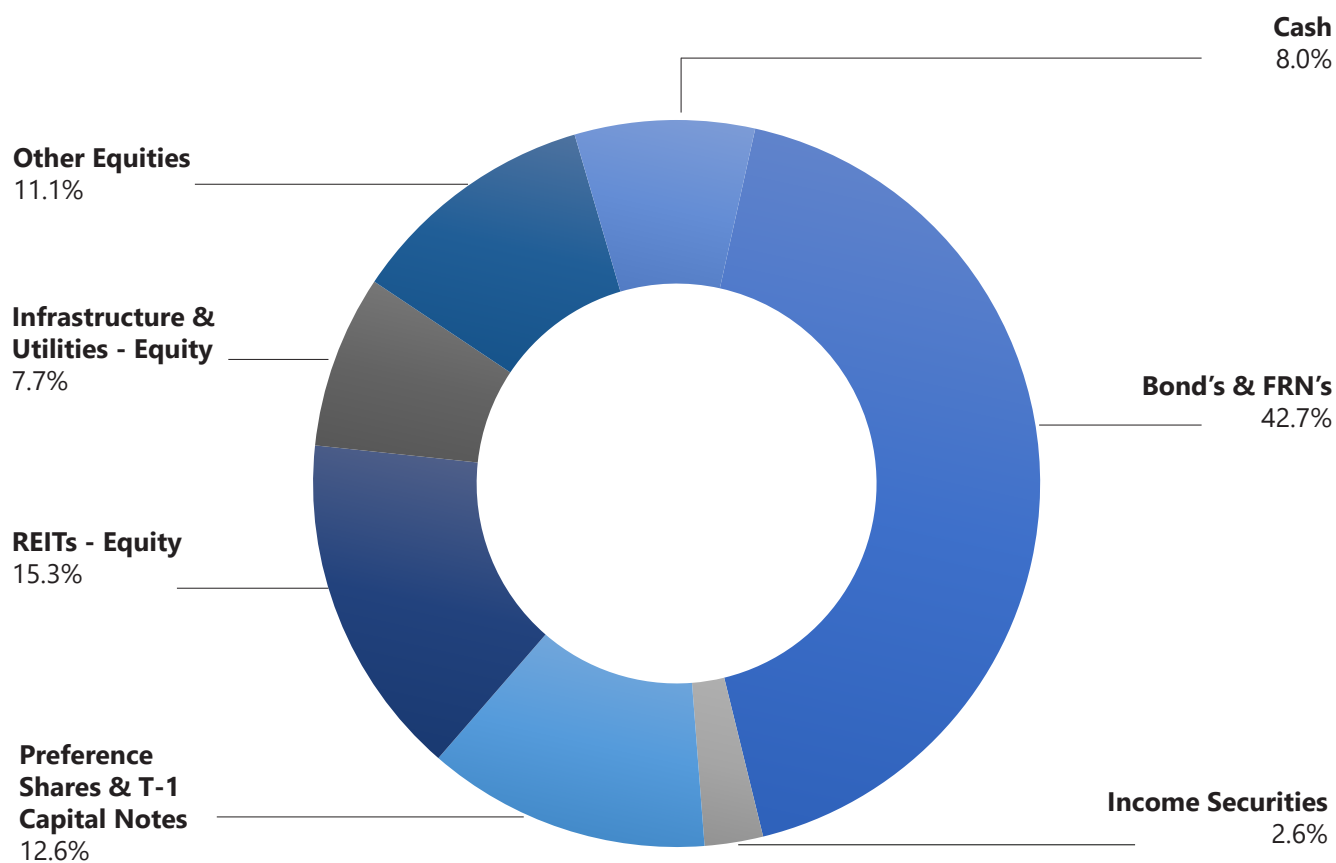
|                    |                 |
|--------------------|-----------------|
| Portfolio Manager  | Dr Vincent Chin |
| Fund Inception     | 1 July 2015     |
| Fund Size          | \$41.4m         |
| Cash Distributions | Quarterly       |



## 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

The market as measured by the ASX200 accumulation index finished up 10.2% in November 2020 as investors chose positive vaccine news over worsening COVID-19 cases in Europe and the USA. This massive rally was buoyed by the interim results of three vaccines developed by Pfizer, Moderna and AstraZeneca. All three phase III trials have indicated promising efficacy although AstraZeneca's vaccine was later criticised for sloppy reporting and incomplete data. There are additionally three vaccines developed by Chinese pharmaceuticals rumoured to be promising, also in Phase III trials, but which have received less media coverage possibly due to dearth of information or lack of interest by western media or both. Thus, it is likely that there will be sufficient vaccines for global distribution by the middle to second half 2021 for worldwide distribution and by 2022, COVID-19 may be substantially overcome. With the US election called and Joe Biden the President-elect, investors welcomed his first key picks for important economic policy roles and are expecting a more conventional and moderate approach to US international policy post 20 January 2021.

Locally, we believe Australia is in a better position than most other countries – not only in controlling COVID-19, but in driving growth in recovery. We suggest that investors will benefit from staying invested in Australian equities, property and credit markets. If the Australian economy recovers faster than expected, cyclical sectors (like resources and financials) will increasingly come back into favour over growth stocks (like IT and healthcare) and as commodity prices rise. As noted in the October 2020 report, we expect this rally to continue but with “event” driven volatility as there remain areas of concern, namely high levels of government debt, large fiscal deficits, rolling QE programs and zero bound interest rates.

In November 2020, we participated in NAB OTC Tier 2 subordinated debt and WBC Tier 1 capital notes, while we exited the shorter dated Bendigo and Adelaide Tier 2 subordinated securities. In the Utilities and Infrastructure (U&I) asset class, we purchased Spark New Zealand (SPK) as we anticipate a sustainable dividend of more than 5% and price stability. We topped up our financial / banking exposure in ANZ, MyState Limited (MYS) and WBC while we exited Sonic Healthcare (SHL) and introduced BHP Limited (BHP). These moves accord with our view of cyclical over growth rotation, which we expect to be sustained for some time.

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 to seek out higher yield.

We remain vigilant of market volatility while focusing on certainty of income from quality names in the U&I, selective REITs. In addition, we are incrementally increasing our exposure to cyclical growth with strong income yield. The Fund posted a return of 3.1% in November. During the month, we continued our measured approach outlined in the March quarterly report and further refined in the September report.

While the 5y rolling volatility figure remains slightly below the upper limit of the Fund's target, relative volatility remains well below its target. With reduced cash levels, we expect absolute risk will hover around the upper limit, while relative risk will likely plateau. Most important, we remain confident of the Fund's ability to provide regular quarterly distributions, albeit on a lower basis compared to pre-COVID-19 periods. This is a consequence of ultra-low BBSW rates, and companies reducing, cutting or stopping dividends because of uncertainty created by the pandemic. As the economy opens up once the pandemic subsides, dividends will gradually increase over time.

**Dr Vincent Chin**  
Portfolio Manager



## 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 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

|                              |                              |                             |  |
|------------------------------|------------------------------|-----------------------------|--|
| <b>Name</b>                  | Clime Australian Income Fund | <b>Investor Eligibility</b> | Retail & Wholesale   |
| <b>Structure</b>             | Managed Investment Scheme    | <b>Minimum Investment</b>   | Retail: \$10,000<br>Wholesale: \$100,000                             |
| <b>Investment Universe</b>   | Listed and OTC Markets       | <b>Liquidity</b>            | Weekly Unit Pricing<br>Applications and Redemptions                  |
| <b>Benchmark</b>             | 3% p.a. above RBA cash rate  | <b>Fees</b>                 | Retail: 1.13% management fee<br>Wholesale: 1.03% p.a. management fee |
| <b>Number of Positions</b>   | 60-80                        | <b>Admin</b>                | Mainstream Fund Services Pty Ltd                                     |
| <b>Fund Size</b>             | \$41.4m                      | <b>APIR Code</b>            | Retail: SLT1239AU<br>Wholesale: CLA0002AU                            |
| <b>Platform Availability</b> | Netwealth, HUB24             |                             |  |

### Contact Information

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