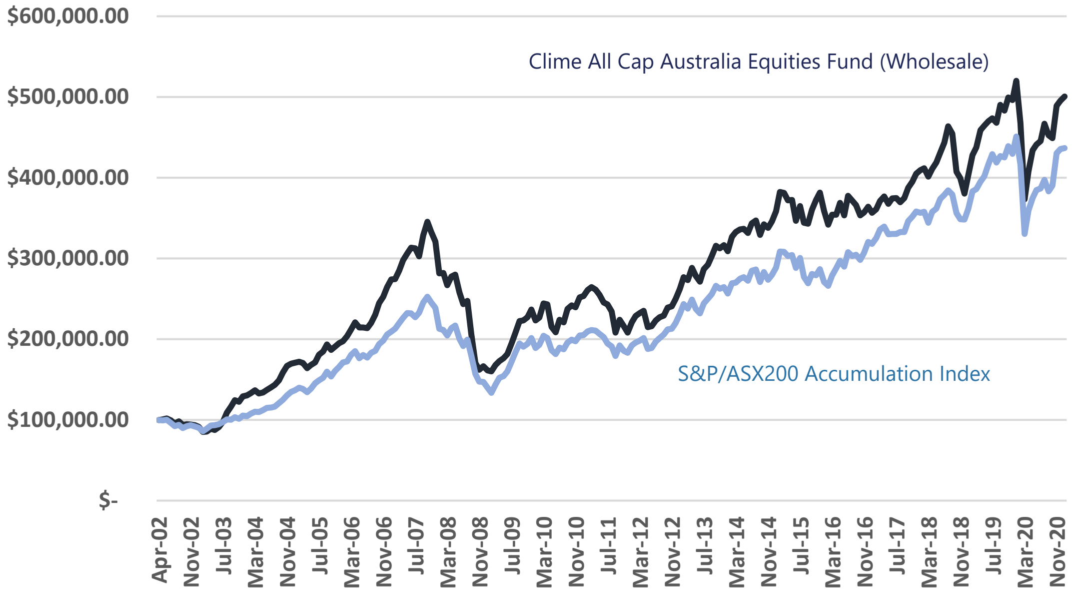
Clime All Cap Australian Equities Fund (Wholesale)

(Formerly Clime CBG Australian Equities Fund (Wholesale))

Monthly Report January 2021

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
1.0%	6.9%	8.9%	$61.6m



	1 month	FYTD	1-year	3-years*	5-years*	10- years*	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	1.0%	13.5%	-3.7%	6.9%	6.9%	7.0%	8.9%	400.5%
Benchmark	0.3%	13.6%	-3.1%	7.0%	10.0%	7.9%	8.2%	336.8%

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

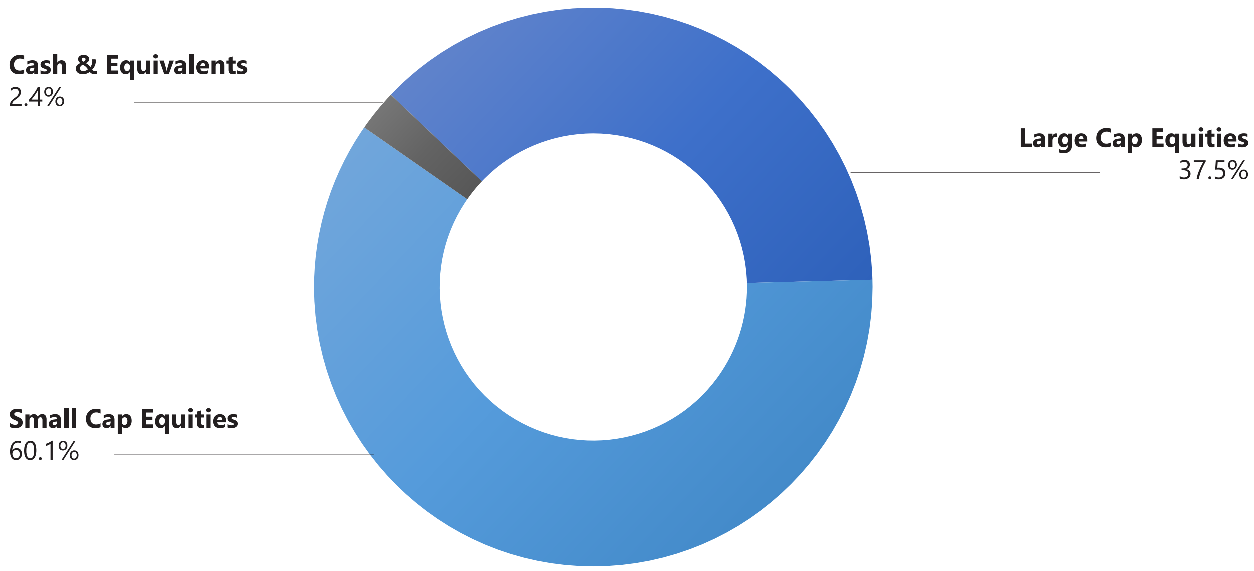
Fund Facts

Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson & Vincent Cook
Fund Inception	April 2002
Fund Size	$61.6m
Number of Stocks	25-40
Cash Distributions	Annually
Eligibility	Wholesale

Top 5 Holdings (Alphabetical)

Company	ASX Code
BHP Group	BHP
Mach7 Technologies	M7T
National Australia Bank	NAB
RPM Global Holdings	RUL
Westpac Banking Corporation	WBC

Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Financials	22.1%
Consumer Discretionary	17.5%
Information Technology	16.1%
Health Care	12.8%
Materials	10.5%
Industrials	7.9%
Communication Services	4.3%
Real Estate	2.6%
Energy	2.2%
Consumer Staples	1.6%
Cash & Equivalents	2.4%

Portfolio Commentary

The portfolio returned 1.0% in January, compared to a 0.3% return for both the S&P/ASX200 Accumulation Index and the All Ordinaries Accumulation Index. The ASX marginally outperformed major developed market indices, with the S&P 500 down -1.1% for the month, but underperformed the NASDAQ, US small caps and most major Asian indices.

Domestically, Consumer Discretionary (+4.8%) and Banks (+4.0%) led the way for the month, while the Real Estate (-4.3%) and Transport (-5.3%) sectors lagged.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors included Westpac (WBC), BHP Group (BHP) & Sonic Healthcare (SHL), only detractor of note Macquarie Group (MQG).
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors included Mach7 Technologies (M7T), Navigator Global Investments (NGI) & Lycopodium (LYL), detractors City Chic Collective (CCX) & Electro Optic Systems (EOS).

Earnings upgrades for the banking sector gathered pace during January, largely reflecting the growing expectation for lower bad debt expenses, as well as the spike in bond yields. When coupled with the relaxation of dividend restrictions, we now observe a more constructive environment for bank earnings and dividend growth over the coming 12 months. While the whole sector rallied during the month, WBC led the gains.

There were no surprises in BHP’s quarterly activities report delivered during the month, with the resource giant’s pillars of iron ore, copper and energy all enjoying the positive impacts of more buoyant commodity pricing. Earnings forecasts for SHL continue to be upgraded, owing to the improving operational trends for the group’s pathology and imaging businesses, coupled with ongoing strength in Covid testing volumes.

The positive news flow for M7T continued in January, with the release of a solid quarterly update as well as the announcement of a new contract win. In what is an important strategic win, M7T has been contracted by US-based Adventist Health System to implement the group’s Picture Archive Communication System (PACS) solution across all 22 of its hospitals. We continue to see long term opportunity in M7T, the realisation of which will of course require focused execution by management.

Similarly, NGI rallied strongly for the month, after upgrading its FY21 earnings guidance and delivering a better than expected December quarter assets under management (AUM) update.

We now look ahead to the February reporting season with great interest. Earnings forecasts for the next 12 months across most sectors are bouncing strongly, notably led by the resources, financials, energy, and retail sectors. Despite this, we still anticipate outlook statements to remain relatively cautious, given the degree of economic uncertainty that remains on the horizon.

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

Market Commentary

Signs of frothiness in markets in late January caused concerns among more conservative investors. These jitters could trigger a profit-taking correction; however the fundamental picture still looks favourable for risk assets over the next 12 months. Mass vaccinations (in most countries, but not yet in Australia) leading to a return to normality and strong growth in the second half, with monetary and fiscal policy staying highly accommodative, is the most probable path ahead.

With so much liquidity sloshing around financial markets, it is hardly surprising that it is popping out in unexpected places. After the runup in Bitcoin, speculative stocks, and commodities like Lithium, late January saw a bubble in highly shorted stocks such as GameStop in the US, where day traders created a short squeeze stock price spike. But it is unlikely that such activities will materially disrupt conventional markets for any considerable time, nor create systemic risk for serious investors.

Meanwhile, the global vaccination program against covid-19 is progressing fairly smoothly, despite some logistical hiccups. In total, 80 million people have been vaccinated worldwide in just six weeks, with 30% of the population in Israel, 11% of the UK and 7% in the US, having received at least one dose. And, while the pandemic remains a millstone on economic growth for now, at least coronavirus cases have peaked in most countries, and covid-19 deaths have started to fall sharply. It is likely that enough people in the large, northern hemisphere developed countries will have been vaccinated by mid-year to allow a return to near-normal consumer behaviour in the second half.

More good news for investors: despite the pandemic peaking, central banks and fiscal authorities will not rein back on stimulus for some time. In the US, after the $900 billion additional package passed in December, the Biden administration has proposed a further $1.9 trillion. If this passes, it will bring total fiscal stimulus in the past year to 25% of GDP, more than five times the size of that during the GFC (although we expect the $1.9 trillion will be whittled down in an attempt to garner bipartisan support). Moreover, with the US savings rate at 13%, there is around $1.5 trillion in cumulative excess savings for consumers to spend when they are able to do so again. In Europe and elsewhere, outright fiscal stimulus is not so evident, but widespread extensions of wage-replacement schemes will continue to cushion consumption.

Monetary policy remains likewise exceedingly supportive. In January, when US 10-year Treasury yields rose from 92 basis points to 115 bps in less than a week, the Federal Reserve was quick to push back against any idea that it plans to tighten soon. Chairman Jay Powell said: "A lesson of the Global Financial Crisis is: Be careful not to exit too early… The economy is far from our goals... and we are strongly committed to using our monetary policy tools until the job is well and truly done."

The Fed has been transparent about its criteria for tightening: inflation must be 2% or higher, and on track to moderately exceed 2% for some time, and labour market conditions must have reached levels consistent with the Fed's assessment of maximum employment. This means it will look through any short-term spike in inflation (and, because of the base effect, April inflation data will likely spike to 3% year-on-year). None of these criteria look probable in the next 12 (or even 18) months.

In Australia, the Morrison government and the RBA remain committed to supporting the recovery. New housing finance continues to accelerate, and points to a further pickup in construction. As in the US, households have accumulated savings to support future consumption. Capital goods imports are rising, a sign that business investment is firming. In commodity markets, iron ore has remained high on Chinese demand, and other commodity prices including oil have been strong.

This remains an environment in which risk assets such as equities and real property are likely to continue to do relatively well. With rates so low, investors see cash and fixed-income instruments as unattractive. While equities may screen as superficially expensive, with the forward PE ratios appearing elevated, they are still attractive versus bonds.

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
Potfolio 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	$61.6m	**Stock Limit**	15% at cost
Liquidity	Weekly Unit Pricing Applications and Redemptions		

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