Clime Australian Income Fund

Fund Performance - January 2021

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
0.1%	0.7%	5.8%	$42.8m

	1 month	3 months	6 months	1 year	3 years	5 years	Since Inception (pa)*
Net Portfolio Return (Wholesale)**	0.1%	3.6%	5.9%	0.7%	4.0%	6.2%	5.8%
Income	-	0.3%	0.7%	2.2%	3.5%	3.8%	3.5%
Capital Growth	0.1%	3.4%	5.2%	-1.4%	0.5%	2.4%	2.3%
Volatility	-	-	-	8.6%	5.5%	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)	2.5%
Sparke Infrastructure (SKI)	2.2%
Commonwealth Bank PERL VII (CBAPD)	2.0%
The GPT Group (GPT)	2.0%
Ausnet Services Limited (AST)	1.8%

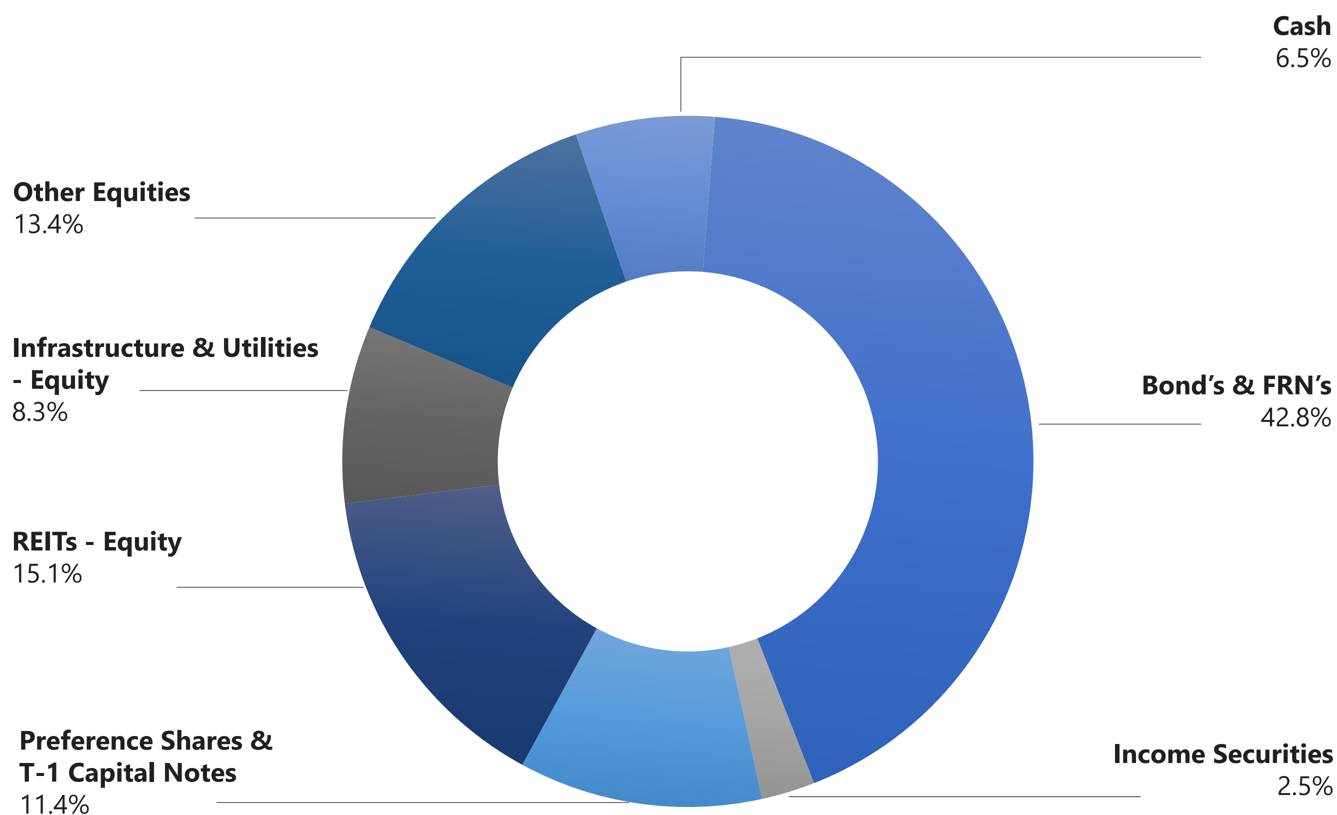
Fund Facts

Portfolio Manager	Dr Vincent Chin
Fund Inception	1 July 2015
Fund Size	$42.8m
Cash Distributions	Quarterly

Distributions

Period Ending	Wholesale Units (cents)
31 December 2020	0.3007
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 continued to rally as the low interest rate environment fostered by Central Banks provided conducive conditions to buy risk assets. Indeed there are signs of frothiness in some markets which would concern more conservative investors. The supportive conditions came in the form of dovish US Federal Reserve comments post the January FOMC meeting, i.e., no additional stimulus nor further cut in rates was announced, although there would be no tapering of support as the vaccines were rolled out - which would be positive for the economy. Consequently, the US market was sold off abruptly, as was the Australian market, resulting in the ASX200 Accumulation Index finishing up 0.3% (after peaking at +3.6% on 25 January 2021, three trading days before month end).

US President Joe Biden has swiftly moved to counter the rise of COVID-19 by encouraging mask wearing, mandating masks in all federal buildings, accelerating the vaccine roll out and pushing for a record US$1.9T relief package. This more conventional US administration is certainly working hard and fast to encourage the recovery. However, in the near term, with so much liquidity sloshing around financial markets, it is hardly surprising that frothiness in some markets 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.

We think the rally in the local market is justified as Australia is in a much better position than most other countries – not only in controlling COVID-19, but in driving growth in the recovery. It is still possible the economy in some deeply affected developed nations such as in the Euro zone, the UK and the USA may disappoint in the immediate term. Notably it is possible that the UK variant of the COVID-19 is yet to be fully priced in markets, as it is estimated that this variant known as B117 may account for 50% of total cases by late February / early March in the USA as it lags the UK and the Euro zone. Given the stretch valuations for many US equities, bouts of volatility in the near term are possible and any sharp increase in volatility in the global equity markets will likely be echoed here in Australia. In other words, while we are bullish on the local market and regional economy for the rest of the year as economies recover and monetary and fiscal policy remains supportive, we would not be surprised by higher volatility in the near term.

In January 2021, we did not introduce any new fixed income securities as we are fully invested in this asset class. In Utilities and Infrastructure (U&I), we continued to accumulate Spark New Zealand (SPK) as we anticipate a sustainable dividend of more than 5% and price stability. We topped up our banking exposure by incrementally increasing our exposure to NAB and WBC while we lightened WBC Capital Notes (WBCPE) in a switch. Following a review, we increased our exposure to Wesfarmer (WES) as we are positive on the domestic economy. We re-introduced Sonic Healthcare (SHL) at a lower price point after we took profit recently as we believe with the resurgence of COVID-19 in Europe and the USA will have a major positive effect on earnings from more testing. These moves accord with our view of cyclical over growth sectors rotation, which we expect to be sustained for some time.

In the February meeting, the RBA kept cash rates at 0.10%. They also announced their expectations that there will be no rises in the official cash rate until 2024. The RBA committed a further $100b of QE after the current program expires in April 2021. 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 sector, and selective REITs. In addition, we are incrementally increasing our exposure to cyclical growth with strong income yield. The Fund posted a return of 0.1% in January. 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, thereby confirming our thesis to increase exposure to equities over the past 6 to 9 months.

Dr Vincent Chin
Portfolio Manager

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 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	$42.8m	**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

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