

Clime All Cap Australian Equities Fund (Wholesale)

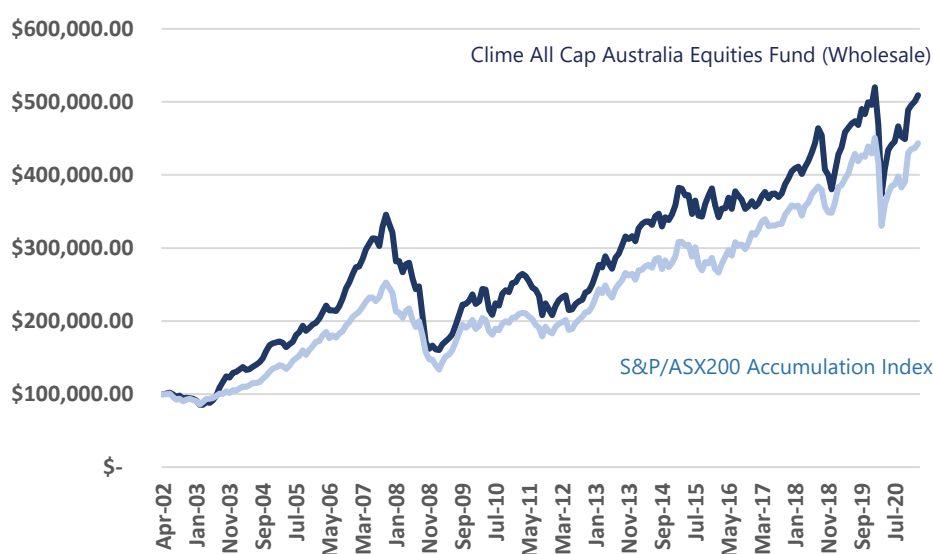
(Formerly Clime CBG Australian Equities Fund (Wholesale))



Monthly Report February 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
1.7%	7.4%	9.0%	\$63.2m



	1 month	FYTD	1-year	3-years*	5-years*	10- years*	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	1.7%	15.5%	8.8%	7.4%	8.3%	6.9%	9.0%	409.0%
Benchmark	1.5%	15.2%	6.5%	7.4%	10.7%	7.8%	8.2%	343.2%

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

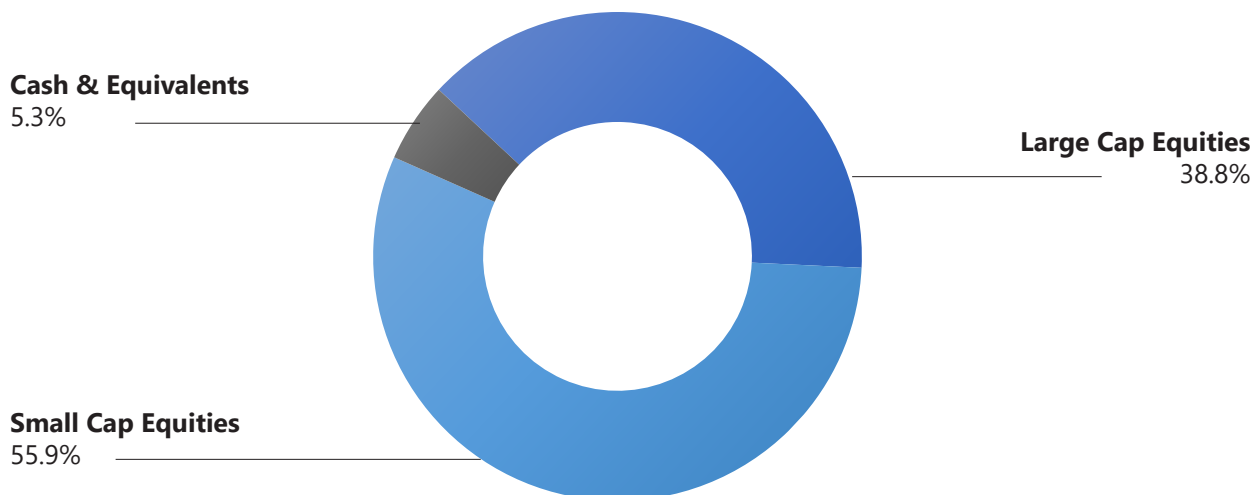
Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson & Vincent Cook
Fund Inception	April 2002
Fund Size	\$63.2m
Number of Stocks	25-40
Cash Distributions	Annually
Eligibility	Wholesale

Top 5 Holdings (Alphabetical)

Company	ASX Code
BHP Group	BHP
City Chic Collective	CCX
Hansen Technologies	HSN
Mach7 Technologies	M7T
Westpac Banking Corporation	WBC



Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Financials	23.4%
Information Technology	15.5%
Materials	15.1%
Consumer Discretionary	14.0%
Health Care	11.4%
Industrials	6.9%
Communication Services	3.0%
Real Estate	2.9%
Energy	2.5%
Cash & Equivalents	5.3%



Portfolio Commentary

The portfolio returned 1.7% in February, compared to a 1.5% and 1.4% return for the S&P/ASX200 Accumulation Index and the All Ordinaries Accumulation Index, respectively. Despite a generally positive reporting season, the Australian market lagged the 2.6% delivered by the S&P500 for the month.

Sectors returns were widely dispersed during the month, with the strength in Materials (+7.1%) and Financials (+5.1%) more than offsetting weakness in Information Technology (-8.0%), Utilities (-8.0%), Consumer Staples (-4.5%) and Consumer Discretionary (-2.6%). Also of note was the +9.4% outperformance of the 'Australian Value' category over 'Australian Growth' during February.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors BHP Group (BHP), Westpac (WBC), Macquarie Group (MQG) and Fortescue Metals Group (FMG), detractors Sonic Healthcare (SHL) and Wesfarmers (WES).
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors Zip Co (Z1P), Codan (CDA), Hansen Technologies and City Chic Collective (CCX), detractors RPM Global (RUL), Electro Optic Systems (EOS) and Navigator Global Investments (NGI).

BHP Group (BHP) returned 12.8% during the month as commodity prices continued to strengthen and BHP declared an interim dividend which exceeded expectations. The market consensus forecast for 2021 financial year dividends increased by 20% during February to \$3.04. Iron Ore, BHP's primary earnings driver, saw a 10% price increase in February, while the copper price increased by 16% and the oil price was 26% higher. The AUDUSD exchange rate was minimally changed, with the USD depreciating by 0.8%.

Westpac Banking Corporation (WBC) returned 12.7% following a strong quarterly update in which the write back of previous loan impairment provisions resulted in a \$500 million positive bad debt charge for the quarter. Improving loan book performance also resulted in lower risk weighted assets, supporting a stronger than expected capital position. WBC's CET1 capital ratio as at December 2020 was 11.9%, materially above the 10.5% benchmark for unquestionably strong, raising the prospect of capital management.

Sonic Healthcare (SHL) returned -7.7% as investors moved away from defensive growth sectors and COVID winners towards more cyclical companies and those which stand to benefit from the re-opening of economies. That said, SHL continues to exceed expectations, with current financial year earnings per share forecasts upgraded by 15% following the result. The excess profits that SHL is generating from COVID related testing will position the company with a very strong balance sheet to pursue earnings accretive acquisitions. In the context of other ASX listed healthcare companies, the stock also does not look expensive.

Wesfarmers (WES) returned -8.2% despite a strong result as stocks which have benefited from COVID were generally sold down in favour of more cyclically exposed resources and banks. Market consensus expectations for 2021 and 2022 financial year earnings were upgraded by 8-9% during the month. Clime further notes that dominant home improvement business Bunnings, which accounted for 60% of 2020 earnings, has been a high growth business for many years and is a beneficiary of the strengthening housing market.

Codan (CDA) delivered another impressive result, with first half revenue up 14% to \$194m and profit up 36% to \$41.3m. CDA continues to build on its market leadership position within the global metal detection market, driven by an R & D program that exceeds the annual spend of all of its competitors combined. CDA also announced the acquisition of Domo Tactical Communications (DTC) for \$114m, funded from existing cash reserves, and is a deal that is immediately earnings per share accretive. We remain upbeat about the future prospects for the business. Record levels of metal detection sales have continued, while communications will have a materially stronger second half.

Hansen Technologies (HSN) was one of the standout results from the February reporting season. Led by irrepressible CEO Andrew Hansen, HSN's first half revenue edged higher while profit surged 65% to \$29.6m. Despite a positive outlook and wonderful long term track record, which has seen earnings per share grow at a compound annual growth rate of 31.4% since 2006 (to FY21e), HSN currently trades on 12.6x forward earnings and a free cash flow yield of 8%. We remain of the view that the business represents excellent value at current prices.

The impact of Covid-19 on the progress of **RPM Global (RUL)** has been material, with the closure of international offices and travel bans impairing RUL's ability to get on site with clients and convert its significant pipeline of opportunity. Despite the challenges, RUL managed to grow its annual recurring revenue (ARR) during the half to \$15.8m from \$12.7m as at 30 June 2020.

Positively, sales are again accelerating, with management noting total contracted value of new software subscriptions sold year to date to be \$14.5m, of which only \$0.8m was recognised in the accounts for H12021. While the stock sold off during February, we emerged from reporting season with even greater confidence around the long term opportunity for RUL.

In December, **Electro Optic Systems (EOS)** pulled guidance of \$20-30m EBIT for the full year due to delivery delays of approximately two weeks of its Defence Systems units to an offshore customer. As a result, EOS reported a loss for the 2020 year.

Inventories increased over the year from \$53m to \$68m, and EOS recognised contract assets (shipped units to be monetised) of \$124m, up from \$40m, reflecting the COVID-related disruptions to final product delivery. EOS expects these contract assets to mostly unwind over the next 6 months, adding significantly to the company's current net cash position of \$66m.

Although EOS had preannounced these issues, shares were sold off. In our view, the weakness represents a solid opportunity for long term investors, as the issues relate to timing for a single contract within a single division, being Defence.

Looking ahead, the opportunities across the Defence, Communications and Space divisions of EOS encompass a total addressable market in the tens of billions over the coming decade. The market is clearly heavily discounting the potential realisation of these opportunities on recent performance. We believe the issues are transitory and see the business exiting 1H21 in a fundamentally stronger position.

With reporting season now behind us, and despite the re-emergence of market volatility, we remain positive on both current portfolio positioning and the outlook for portfolio companies.

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

The so-called "reflation trade" accelerated in February as COVID-19 infections receded and vaccination campaigns gathered pace in most major economies, including (a somewhat slow start) in Australia. Greater optimism about economic growth is evident in the sell-off in government bond yields, which experienced a large and sharp price reversal during February.

Even though the underlying force behind bond market moves is an improvement in the economic outlook, higher yields are raising fears that equity market valuations could be compromised. Given that expensive and "longer duration stocks" such as high growth tech are more vulnerable to higher discount rates, sector rotation to cyclical and value stocks continued during the month; thus while resources and financials did well, tech and utilities performed poorly. The US equity market has greater exposure to expensive tech stocks and growth sectors than does the ASX, which has relatively higher weightings to financials and materials.

Rising bond yields did cause some market ructions towards month end. But stock prices need not suffer from rising bond yields as long as the yield increase reflects favourable economic conditions (which also push up earnings and dividends), rather than a perception that inflation is about to break out in a sustained manner. Evidence from history suggests that the relationship between bond yields and equity prices shifts with changes in inflationary expectations.

The question being asked by market participants is whether a structural rise in inflation will occur that will cause inflation expectations to become uncontained. Our thoughts are that this is unlikely; with significant excess capacity still available in most economies, and with unemployment levels still high and minimal signs of wages growth, inflation is unlikely to rise above central bank targets in a sustained way. However, we recognise that a durable increase in prices on the back of very loose policy settings is a risk to this view.

The US\$1.9 trillion Biden virus relief bill that is making its way through Congress could have a large impact on whether or not inflationary pressures are transitory or become entrenched. The current price tag being advocated by President Biden (it may be slimmed down in the Senate) is roughly twice the size of the stimulus bill President Obama signed in 2009 to combat the GFC. That reflects the fact that Biden does not want to repeat the mistake of the 2009 bill, which many believe was too small to prevent a sluggish recovery. This time, Biden is erring on the side of aggressiveness, hoping to return the economy to full employment and spark wages growth.

Whether the Biden relief bill sparks inflation or not, at present the Federal Reserve remains committed to an ultra-accommodative policy stance. Central banks would prefer to consolidate the recovery rather than risk its fading, even if that means some tolerance of inflationary pressures. When considering the inflation outlook, note that US inflation has averaged slightly below 2% for the last 25 years. In the nine years since the Fed's announcement of a 2% inflation target, 12-month inflation has averaged under 1.5%.

The surge in bond yields does not reflect hawkish policy, and therefore should not weigh on equities over the next 12 or 18 months. Thus, we continue to have reasonable confidence in the market environment for risk assets, which benefit from the current backdrop of solid growth and accommodative monetary policy. This is especially true for cyclical sectors and value stocks.

Meanwhile, industrial commodities generated significant positive returns, powered higher by both the economic normalization theme and bullish supply-side fundamentals. This occurred despite the US dollar's advance, which tends to weigh on the commodity complex.

Industrial metals are particularly well poised to rally further: over the next 12 months, they will benefit from robust demand on the back of the recovering global manufacturing cycle. Stronger consumption will probably outpace supply, which is suffering from years of mining capex neglect. Longer term trends are likewise supportive. Metals benefit from the need to expand the global power grid in order to accommodate renewables amid the push for cleaner energy. This is particularly true in the case of copper, which is experiencing a decline in inventories amid mine supply disruptions and resilient demand. The International Copper Study Group estimates global copper markets experienced a significant shortage in 2020, and that this gap will only grow until more supply comes to the market, which will take many years.

In Australia, the corporate reporting season was better than expected, with "beats" exceeding "misses" by about 3x. More significantly, the forward-looking market Price Earnings ratio, which had stretched to around 20x in early January, has now reduced to around 18.5x based on upgraded results and forecasts for the next year – a ratio closer to longer term averages.

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	\$63.2m	Stock Limit	15% at cost
Liquidity	Weekly Unit Pricing Applications and Redemptions		

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