Clime All Cap Australian Equities Fund (Wholesale)

(Formerly Clime CBG Australian Equities Fund (Wholesale))

April 2021 Monthly Report

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 p.a. Net Return (Wholesale)	Inception p.a. Net Return (Wholesale)	Total Fund Size
4.4%	9.4%	9.2%	$67.4m

	1 month	FYTD	1-year	3-years	5-years	10- years	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	4.4%	21.9%	31.9%	9.4%	8.7%	7.5%	9.2%	437.5%
Benchmark (S&P ASX 200 Accum)	3.5%	22.1%	30.8%	9.5%	10.3%	8.4%	8.5%	369.8%

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.

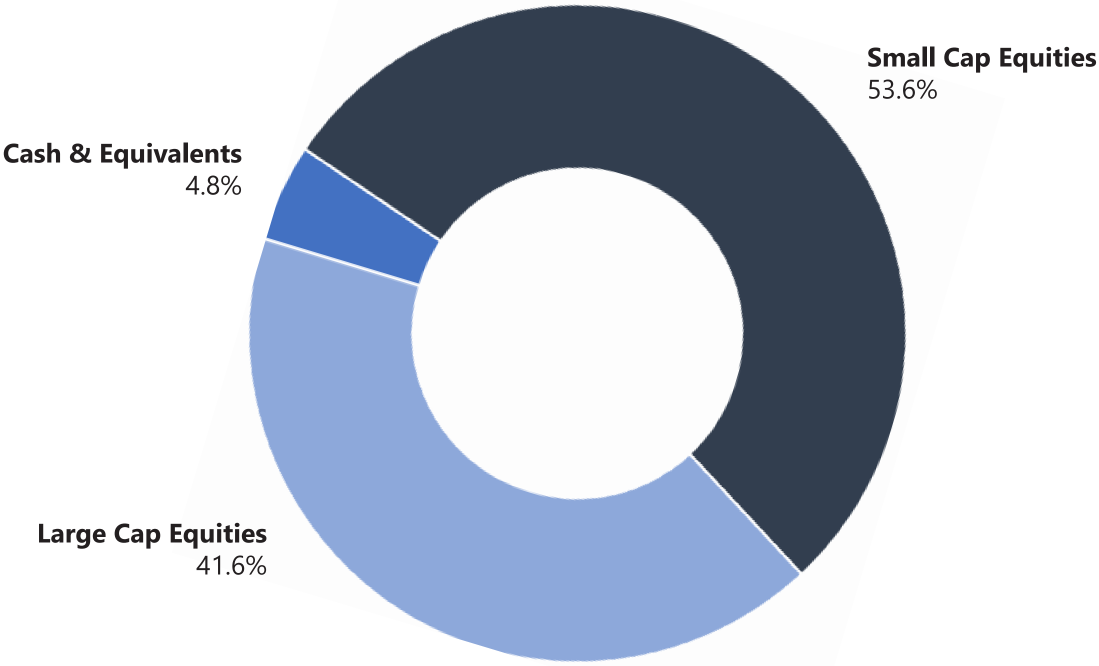
Fund Facts

Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson & Vincent Cook
Fund Inception	April 2002
Fund Size	$67.4m
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
Sonic Healthcare	SHL
Westpac Banking Corporation	WBC

Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Financials	21.7%
Materials	18.4%
Consumer Discretionary	14.9%
Information Technology	13.8%
Health Care	11.0%
Industrials	8.4%
Real Estate	3.0%
Energy	2.1%
Communication Services	1.8%
Cash	4.8%

Portfolio Commentary

The portfolio returned 4.4% in April, compared to a 3.5% return for the S&P/ASX200 Accumulation Index. While the monthly return for the Australian market was strong in absolute terms, the ASX again lagged most developed global indices. The S&P 500, Nasdaq and MSCI UK Indices delivered returns of 5.3%, 5.4% and 4.0% for the month, respectively.

Domestically, Technology (+9.7%), Materials (+6.8%) and Industrials (+4.3%) outperformed, while Energy (-4.9%), Consumer Staples (-2.5%) and Utilities (-1.2%) lagged. After a weak March quarter, Australian Bonds rallied during the month, in turn providing greater support to higher growth sectors within the equity asset class.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors Mineral Resources (MIN), BHP Group (BHP) and Fortescue Metals Group (FMG), no material detractors.
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors City Chic Collective (CCX), Codan (CDA), Adairs (ADH), Jumbo Interactive (JIN) and Rhipe (RHP), key detractors Electro Optic Systems (EOS) and Mach7 Technologies (M7T).

Mineral Resources (MIN) returned 25.6% in April, supported by a 13.3% gain in the USD iron ore price and 5.9% increase in the lithium price. Mineral Resources is a beneficiary of current conditions for iron ore miners both through opportunities for mining services work and from iron ore mining in the company's own right.

BHP Group (BHP) also contributed positively to portfolio performance, returning 5.3%. BHP benefited from the abovementioned iron ore price movement, as well as the 11.9% gain in the copper price and 5.8% rise in the oil price in April. **Fortescue Metals Group (FMG)** gained 13.0%, matching the gain in the iron ore price, which is the focused resources exposure of this company.

Adairs (ADH) returned 22% reflecting broad strength across retail. The Australian consumer remains landlocked with $60bn of pre-COVID international travel spend still largely internalized. Furniture and houseware goods was one of the strongest categories in February (+26% YoY, ABS).

Rhipe (RHP) returned 27% in April, regaining declines over the March quarter. During the month, the cloud software distributor acquired cyber security specialist, emt Distribution, and announced a slight upgrade on a solid 3Q21, with FY21 operating profit guided to $18.0m (+36% YoY), up from $17.5m. The business is well capitalized and trades at a discount to peers.

Mach7 Technologies (M7T) returned -6% despite a solid 3Q21 update which included record cash receipts of $8.4m and positive operating cash flow of $3.3m. During month M7T announced it had been awarded 2021 Global Enterprise Imaging Solutions Product Leadership by Frost and Sullivan. M7T has $18m net cash and healthy contract pipeline heading into 4Q21.

Electro Optic Systems (EOS) returned -11% on a 1Q21 update that included $25m of operating cash outflow on $51m of cash receipts. EOS has $41m cash on the balance sheet, with a material portion of a $120m defence systems contract to hit the cash line 2Q21. Finalisation of this contract was delayed by travel restrictions during 2020. We believe that once the issue is resolved the market will refocus on the company's significant growth opportunities.

As we draw closer to the end of FY2021, we expect a multitude of earnings updates for ASX listed businesses to be delivered during the month of May. We are excited about our portfolio and remain positive on both the growth trajectory and long term opportunity set for our portfolio of businesses.

Adrian Ezquerro
Head of Investments

Jonathan Wilson
Portfolio Manager | Ex ASX 100

Vincent Cook
Portfolio Manager | ASX 100

Ronni Chalmers
Portfolio Manager | All Cap Australian Equities

Market Commentary

April started on a positive note for financial markets, after an exceptional first quarter, with divergent fortunes for equities and global bonds. The progression of the economic recovery will be the key driver of markets, and the ability to leave pandemic lockdowns behind will be the most important factor. China was an early beneficiary of "early in, and early out" and will continue to be an important world economic growth engine; however it seems that with massive fiscal support, the US is likely to take over the reins, with growth in the American economy set to rise to levels not seen for 40 years.

The world economy is recovering more quickly than was expected just 6 months ago, although the recovery is not uniform, with "low-income" developing countries enduring slower recoveries. Developing countries are at a disadvantage in engineering their recoveries because they lack the monetary and fiscal largesse now prevalent in more advanced countries.

The most recent forecasts from the IMF are that cumulative growth in global gross domestic product (GDP) per head between 2019 and 2022 is forecast to be only 3% lower than they anticipated back in January 2020 (before the onset of Covid). This forecast growth over 3 years is extraordinary given the actual 6.5% shortfall experienced in calendar year 2020.

Australian equities have recouped roughly 80% of the ground lost from the all-time high of last March - reached just before COVID-19 was designated a global pandemic by the World Health Organization - but the ASX still trails its developed market peers, especially the US.

Extraordinary monetary and fiscal stimulus and effective management of the pandemic has driven a V-shaped economic recovery in Australia, characterised by a rebounding labour market (with unemployment down to 5.6%), strong retail spending and continued strong housing demand. Unfortunately, worsening diplomatic relations with China, our largest trading partner, resulted in a reduction of Chinese investment in Australia of over 60%. Despite China's pullback, investment has increased in the real estate, mining, and manufacturing sectors.

The recovery in the global economy is driving commodity prices higher. Australia recorded a goods trade surplus above $8 billion in March, as imports and exports both increased 15%, according to preliminary trade data released by the ABS. Iron ore is the foundation of Australia's export strength, accounting for 39% of all March exports. A record $14 billion of iron ore was exported in March, up $2.5 billion from February. Copper also made a significant contribution of $745 million, the third highest copper ore export month on record, and adding to the positive news flow for Australia's diversified mining groups.

In other positive economic news for Australia, inflationary pressures are yet to emerge, thus reassuring investors that rates are on hold for some considerable time. The 0.6% quarter on quarter rise in consumer prices in Q1 was well below the median consensus forecast of 0.9% and meant that inflation only edged up from 0.9% to 1.1%. An 8.7% q/q jump in fuel prices accounted for half of the rise in overall consumer prices. The weakness in underlying inflation in Q1 is consistent with the view that the RBA will announce further QE measures in due course. In our view, financial markets have probably gone too far in pricing in nearly three rate hikes by the end of 2023. We think the "normalisation" of interest rates will be a slower process than that.

Consumer confidence in many developed economies is surging, with households having amassed large amounts of savings and having received government support payments, but with little to spend it on during lockdowns. According to Moody's, consumers around the world have stockpiled an extra $5.4 trillion of savings since the pandemic began and are becoming increasingly confident about the economic outlook, paving the way for a strong rebound in spending as businesses reopen.

Booming global consumer confidence (notably in the US) suggests households will be willing to spend again as soon as shops, bars and restaurants reopen when restrictions are further eased. In the first quarter of this year, the Conference Board global consumer confidence index hit its highest level since records began in 2005, with significant uplifts in all regions.

The recovery in the US is steaming ahead, with recent data indicating rising confidence in the durability of the bounce-back; this is well illustrated by the surge in US retail trade figures. While last year's shutdown was unprecedented, the extent of the rebound since then is equally remarkable. Spending has recovered far more quickly than it did after the previous (GFC induced) recession.

The recovery in economic data is mirrored by the strong US earnings reporting season. US companies which have enjoyed the largest profit upgrades include cyclical businesses, such as energy (benefitting from rising oil prices), banks (leveraged to house prices and employment), technology (as consumers and companies invest with government support programs) and resource companies (high commodity prices). An exception to all the profit upgrades: the travel and leisure sectors are seeing downgrades as concerns persist as to how quickly international borders can be reopened.

High valuations in some parts of the market suggest that many companies are vulnerable to any disappointment in profit pronouncements or forward guidance. Hence a quality focused approach, coupled with strong valuation discipline, remains critically important. In particular, cash generation needs to be monitored to avoid getting ensnared by companies that are trading on hope rather than reality.

While some commentators have argued that the $6 trillion in recent stimulus programs announced by the Biden Administration will fuel a historic rebound in the economy, the stock market may have already accounted for the benefits. More balanced observers caution that three factors could weigh on earnings: higher taxes, rising input costs and increased financing expenses. Goldman Sachs has calculated that if the taxes planned to fund the various stimulus programs were fully implemented, they could cut corporate earnings by as much as 9% in 2022.

Equity markets have “front-run” the recovery, and are at or very near record peak levels. Nevertheless, as is always the case, risks remain. We regard the most significant risks to markets at present as being the following: the massive fiscal and monetary programs could cause an inflation outbreak; bond markets remain in “bubble-like” conditions and sharp periodic sell-offs of bonds are possible; shares and property markets are somewhat expensive, and disappointments could cause markets to correct; market sentiment and volatility measures indicate some complacency; and geo-political tensions between US and China could worsen, disrupting growth.

At present, the investment environment remains benign, investor confidence is high, and there appear to be few short-term catalysts for a change of direction. However, it pays to be cautious, especially once market complacency develops. Risks remain, and one potential negative surprise could be the re-emergence of inflation, with central banks behind the curve. All things considered; we retain our view that the positives outweigh the risks and as such, maintain our constructive stance on exposure to growth assets.

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

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% p.a. management and 20.5% performance (S&P/ASX200 Accumulation Index)
Stock Holdings	25-40	**Admin**	Mainstream Fund Services
Liquidity	Weekly Unit Pricing Applications and Redemptions	**Stock Limit**	15% at cost

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