

Clime All Cap Australian Equities Fund (Wholesale)

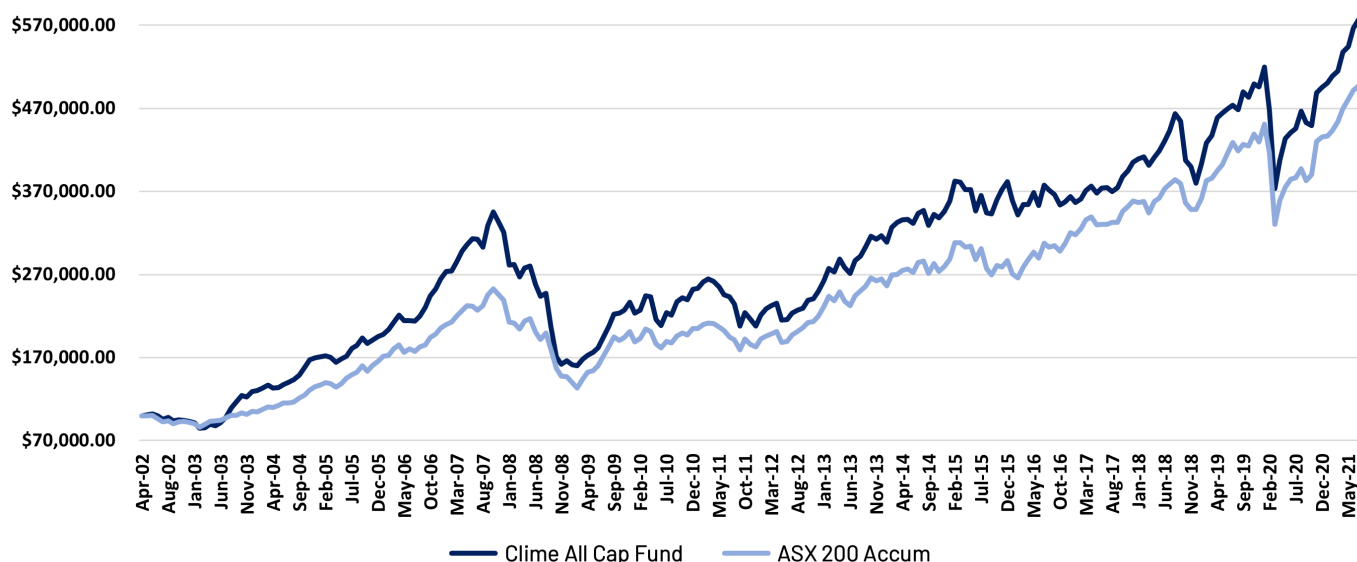
(Formerly Clime CBG Australian Equities Fund (Wholesale))



Fund Performance | July 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.

Month Net Return (Wholesale)	Since Inception per Annum	Since Inception Total	Total Fund Size
1.9%	9.5%	477.2%	\$71.5m



	1 month	FYTD	1-year	3-years	5-years	10- years	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	1.9%	1.9%	29.5%	9.2%	8.9%	9.0%	9.5%	477.2%

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.

Fund Facts

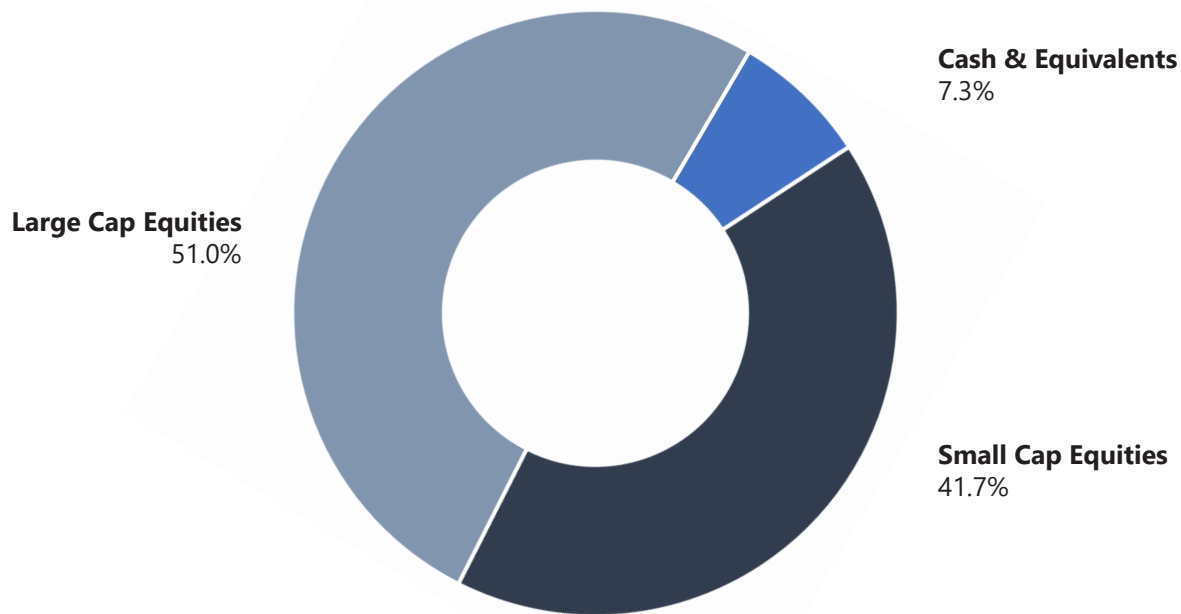
Portfolio Managers	Adrian Ezquerro, Ronni Chalmers, Jonathan Wilson & Vincent Cook
Fund Inception	April 2002
Fund Size	\$71.5m
Number of Stocks	25-40
Cash Distributions	Annually
Eligibility	Wholesale

Top 5 Holdings (Alphabetical)

Company	ASX Code
BHP Group	BHP
National Australia Bank	NAB
RPM Global	RUL
Sonic Healthcare	SHL
Westpac Banking Corporation	WBC



Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Financials	20.3%
Materials	19.1%
Health Care	14.2%
Information Technology	12.6%
Consumer Discretionary	12.3%
Industrials	8.3%
Communication Services	3.0%
Real Estate	2.1%
Consumer Staples	1.0%
Cash	7.3%



Portfolio Commentary

The portfolio returned 1.9% in July, compared to a 1.1% return for the S&P/ASX200 Accumulation Index. While a solid return, the ASX still lagged the 2.4% rise of the S&P 500. China's stock market corrected by nearly 14% in July due largely to the regulatory crackdown, and was a drag on Emerging Markets (-6%) and other Asian markets (Korea -3.6%, Japan -2.4%).

Domestically, Materials (+7.1%) and Industrials (+4.2%) led the way, while Technology (-6.9%) and Energy (-2.5%) underperformed.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors BHP Group (BHP), Mineral Resources (MIN) and Seven Group (SVW), key detractor of note Westpac (WBC).
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors RPM Global (RUL), Rhipe (RHP) and Macquarie Telecom (MAQ), key detractor of note Mach7 Technologies (M7T).

BHP Group (BHP) returned +10.1% as the market continued to upgrade earnings expectations in the context of very high iron ore and copper prices. This is translating to exceptionally high cash flows and expected dividends. The iron ore price in fact fell by 11.4% in the month, partially offset by 2.1% strengthening of the USD against the AUD. This is a result of curbs on steel production in China to reduce pollution, with the aim of holding production at the 2020 level this calendar year. In the first half of the year, Chinese steel production gained 12% while iron ore supply was below expectations.

Mineral Resources (MIN) gained +17.3%, benefiting from the same iron ore tailwinds as BHP as well as strength in the lithium price. Lithium pricing has increased by almost 100% this calendar year in the context of accelerating demand for electric vehicles.

Seven Group (SVW) returned +14.3% as they secured 70% ownership in Boral and given a robust earnings outlook for the existing business, which is leveraged to infrastructure, resources, and broader construction. SVW has now attained effective control of Boral without paying a takeover premium. Management is confident of their ability to turn around an historically underperforming Boral business, while the planned divestment of US assets will free up significant capital.

Westpac (WBC) returned -5.0% as lockdowns around Australia are likely to have an impact on bad debts. Last year, the sector took significant provisions for expected defaults, which they were able to substantially reverse following a rapid economic recovery.

Fiscal and monetary policy support for the economy continues to be strong, while bad debt charges have been at a very low level. Positively, the sector has begun to return excess capital to shareholders, with buyback programs announced by ANZ and NAB to date. Mortgage credit growth also continues to strengthen, tracking at a 9% annualised rate over the past three months.

RPMGlobal (RUL) returned +13% for the month of July on the back of a 2 July update that highlighted 72% growth in software subscription revenue for FY2021. On our estimates, RUL's software division is valued at 7 times recurring revenue, which is modest when considering the significant growth opportunity of the business.

Rhipe (RHP) returned +21% after agreeing on 6 July to a Scheme Implementation Deed with Norwegian software distributor Crayon Group at \$2.50 per share.

Macquarie Telecom returned +28% with the company announcing on 14 July a 7MW or 16% expansion to its datacentre campus at Macquarie Park in Sydney, bringing total planned capacity at the campus to 50MW. In our view MAQ is fairly priced, however shares trade at a material discount to listed peers.

Mach7 Technologies (M7T) returned -8% reflecting subdued contract activity over the June quarter. FY21 started well, however, with existing customer Advocate Aurora Health (AAH, 28 hospitals) agreeing to a \$4.3m 5-year licence for M7T's eUnity medical imaging viewer software on 19 July.

Following a solid start to the new financial year, we now enter reporting season with relatively high expectations. Consensus estimates currently reflect expectations for earnings growth of about 25% for FY2021, slowing to 10% growth in FY2022. Given the raft of lockdowns currently impacting the domestic economy, and despite the solid health of corporate Australia, we expect outlook statements to remain circumspect.



Market Commentary

The global economy has come a long way since the shock of the pandemic recession in March 2020, and yet the recovery of 2021 has so far been volatile and difficult to navigate. The remainder of the year could be even more difficult with the added stresses of increasing numbers of Delta-variant covid cases and potential central bank actions, which themselves are dependent on changing economic data signals.

Although forecasting is always difficult, we maintain the following set of assumptions:

- The COVID-19 recovery will continue in waves, with the US appearing to have turned the corner and Europe following closely behind, but with emerging markets lagging behind. Lockdowns and vaccinations have become largely determinative of the strength of the recovery. We assume that current vaccines will remain effective in preventing further waves of serious COVID-19 hospitalisation and death rates, even if further variants arise. Australia continues to lag in vaccination rates.
- US, European and Australian consumers are generally flush with cash, driving a jump in global demand. We expect this high (albeit selective) demand to support economies through year end.
- Supply and demand mismatches are expected to continue to be a headwind for growth through the rest of 2021 via supply chain problems, labour market mismatches, and inflationary pressures. Transitory inflation effects are expected to continue to influence global commodity prices into the second half of the year.
- Central banks of developed economies - the US, the UK, Euro area, Japan, and Australia – will probably remain on hold through to the end of 2021, although we expect uncertainty over the outlook for policy in 2022 and beyond to affect markets toward the end of this year.

We are cognisant of risks to these assumptions, such as lack of progress towards large-scale vaccinations, continued supply chain fragility forcing up prices, declines in business and consumer confidence, and a tipping over in production growth in key markets for Australian goods, such as China. Nevertheless, the restart of economic activity is real and broadening out from the US earlier in the year to Europe and Japan, both of which are benefiting from accelerated vaccination rollouts and the tailwinds from a global capex cycle.

In most developed countries, the threat of further nationwide lockdowns being imposed is receding – with Australia being the current notable exception. More difficult to quantify is the risk of a viral variant emerging that evades vaccines or threatens countries more substantially, such as by targeting children or by becoming more deadly, but this is not our baseline assumption.

Interestingly, house prices are booming in almost every major economy in the wake of the pandemic. Of the 40 countries covered by OECD data, 37 saw real house price growth in the first three months of the year. Low interest rates, accumulated savings during lockdowns, and a desire for more space as people work from home are all fuelling the trend. House price growth can be good for economies because home owners feel richer, and they tend to spend more. However, too much of a good thing could turn into an unsustainable boom that could eventually create significant problems.

The progress on recovery and associated reflating of economies means that central bankers face the difficult task in policy normalization in the second half of the year. While in the first half, central bank mandates were relatively clear (maintain easy monetary policy), the economic reopening means central bankers globally need to consider unwinding both asset purchases and near-zero rates. More than that, they need to carefully navigate between growth and inflation. This is a complicated and uncertain process, as the usual indicators and benchmarks that central bankers rely on are not as helpful as they normally might be following a conventional recession.

In the US, the risk is for the Federal Reserve to misjudge the navigation between high inflation and a tight labour market on one hand, and fundamental slack in the economy on the other. The labour market appears to be extremely tight, with far fewer people re-entering the labour force than expected. This has driven wage pressure up as other prices (such as used cars and building materials) have risen. The Fed will need to weigh the need to reduce inflationary pressures with its own assessment of labour market slack.

For China, a key risk is of policy misstep, with Beijing pushing an aggressive program against big tech, the education sector, and various other enterprises that it deems have become too independent and “profit-focused”. Part of this “de-risking program” is to encourage more corporate defaults in a bid to introduce more market discipline as well as maintain central government influence. However if they are too aggressive, Beijing risks triggering a credit crunch or disorderly contagion in the domestic financial markets. We expect that slower growth momentum in the second half of 2021 amid a credit slowdown suggests some stabilization in global commodity prices ahead.



In Europe, the European Central Bank (ECB) will err on the side of caution and tolerate a period of above target inflation as the economy rebounds from the pandemic shock. A key unknown for the ECB at this point is the amount of slack or permanent damage that the economy will be operating with once government support programs are withdrawn. A similar uncertainty faces the Bank of England (BoE). While both the ECB and BoE are forecasting that inflation will return to their policy targets in 2022-23, the risk is that inflationary forces may prove more enduring than currently assumed, triggering a faster and sooner-than-expected tightening of policy.

Although Europe is expected to continue reopening in the second half of the year and is likely to experience a boom in consumer spending as households wind down some of their enforced higher savings levels, government stimulus has been more restrained than that seen in the US or Australia and European economies are, in general, operating with more slack than is evident elsewhere.

Inflation remains a global topic of concern, and is expected to rise above target levels in 2021. The pace of inflation has been rising due to strong demand, higher commodity prices, base effects (due to abnormally low inflation in 2020) and stressed supply chains. These factors are expected to be largely transient, and resolve over the next 12 months without leading to further rising levels of inflation.

In summary, we note the following:

- In most developed markets, today's cash rates and projected cash rates are below the actual and likely inflation rate. Thus these rates represent negative real yields, which are highly stimulatory for those economies;
- The projected rise in yields by either the bank bill futures market (or the RBA) will probably not affect risk markets. In Australia, equity market yields and property yields are around 3% higher than the projected cash rates of 2 years hence;
- Equities and property assets are growth assets whose cash generation is supported by economic growth and inflation. To an extent, they are a hedge against inflation; and
- Sustained negative real yields, mild inflation, and predictable economic growth (as borders open in 2022/2023) suggest equities and property markets will continue to perform relatively well whilst bonds will not.

As investors look for opportunities, the divergent performance of various parts of the global economy means that some sectors, such as international travel, education, and hospitality, will remain weak. Other sectors, such as technology services, housing, and construction, have been buoyed by both government support and household demand. And yet other sectors, such as resource exports, have been sustained by extraordinary demand emanating from China, Japan, and other Asian countries.

There remain reasons to be optimistic about the potential for high quality listed companies to grow values in line with the economic recovery. In our view, the current trajectory of bond markets, equity markets and property assets will probably continue along their current paths, despite some angst about the risks of further pandemic pain, inflation, QE tapering, tax increases, and other perils. Therefore we remain constructive regarding growth-oriented investment markets.

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 - Smaller Companies



Vincent Cook
Portfolio Manager - Large Caps

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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