

ASX RELEASE

Update: Clime Investment Management Limited (ASX: CIW)

22 April 2020

Summary

As highlighted in our update from early April, the March quarter was particularly challenging as equity markets corrected sharply in light of the global spread of the coronavirus, COVID-19. Most global equity markets have experienced their worst quarter since the Global Financial Crisis 12 years ago, with unprecedented volatility as investors try to gauge the implications of large parts of the world's population being restrained by lockdowns of varying intensity.

While domestically rates of the transmission of coronavirus are trekking lower and rates of recovery are exceeding the rates of new infection, the Prime Minister has forecast that Australia's current lock down rules will endure for at least another four weeks. That would take us well into May before we see any chance of a tiered relaxation of strict people movement restrictions.

As at 31 March 2020, gross AUM balances across Clime's investments were approximately \$874 million: down 14% from \$1,019 million at 31 December 2019. Pleasingly, Clime experienced net new inflows during the March quarter, with Clime Private Wealth making a positive contribution in terms of providing advice and support for clients. Gross FUM as at market close Friday 17 April was \$908 million.

Portfolio positioning

Despite March quarter market volatility, Clime retains its focus on highly profitable business as measured by return on equity and return on invested capital. Extraordinary circumstances often call for decisive action and while we maintain a focus on long term horizons, we utilized the March quarter volatility to reposition portfolios by deploying capital into superior risk-adjusted opportunities. This included exiting companies we believed were acutely exposed to a significant downturn (travel related businesses, retailers dependent on foot traffic and leveraged businesses) and investing in both high-quality businesses already held in portfolios and other quality businesses where valuations provided attractive entry points.

We now own the majority of stocks within portfolios we will move forward with for the foreseeable future (based on our current thoughts for the path forward). It is our intention to buy more of these stocks, thereby adding to portfolio weights, should markets recede further in coming months.

Australia's COVID-19 Response and Impact on Markets

The Australian Government has put in place three economic stimulus packages totaling \$194 billion (9.7% of GDP) through Financial Year 2023-24, the majority of which is to be executed in FY20 and FY21. Measures include sizable wage subsidies (6.7% of GDP), income support to households, cash support to businesses, investment incentives and targeted measures for affected regions and industries.

Other measures include loan guarantees between the Commonwealth Government and the banks to cover the immediate cash flow needs of small and medium size businesses (up to \$20 billion). The Government is allocating up to \$15 billion to invest in residential mortgage backed securities (RMBS) and asset backed securities to help funding for small banks and non-bank financial institutions.

The Reserve Bank of Australia has cut the official cash rate twice (on 3 March and 19 March) to 0.25%, and announced yield targeting on 3-year government bonds at around 0.25% through purchasing of government bonds in the secondary market. APRA announced on 30 March that it is deferring its scheduled implementation of the Basel III reforms by one year to January 2023.

All these responses will be crucial in managing the response to the pandemic. But of course, the scale of the economic and financial costs remains unknown. In the US, both the world's largest economy and now the epicentre of the virus, a decline in GDP of between 15% and 30% is expected, while estimates of earnings of S&P 500 companies range from -10% to -100%. We can expect something broadly similar in Australia.

Fortunately, there are positives: the apparent speed with which China has managed to get back to a semblance of normality is encouraging; the monetary and fiscal responses around the world have been truly enormous and will allow many businesses to survive the "hibernation" period; banks are better capitalised and probably carry less risk than they did at the time of the GFC; and markets have adjusted to the extent where many high quality and resilient businesses are now available for investment at more attractive prices.

CIW Assets Under Management (AUM)

Clime's investment products and mandates include Managed Funds, Separately Managed Accounts, Individually Managed Accounts and the Listed Investment Company Clime Capital Limited (ASX: CAM). As at 31 March 2020, gross AUM balances across Clime's investments were approximately \$874 million: down 14% from \$1,019 million at 31 December 2019, as per below.

Investment Product	AUM 31 Mar 2020	AUM 31 Dec 2019	Change	% change
Clime Individually Managed Accounts (IMAs)	\$420m	\$485m	(\$65m)	(13%)
Listed Investment Company (Clime Capital Limited – ASX: CAM)*	\$105m	\$143m	(\$38m)	(27%)
Managed Funds and mandates	\$282m	\$314m	(\$32m)	(10%)
Separately Managed Accounts (SMAs)	\$67m	\$77m	(\$10m)	(13%)
TOTAL	\$874m	\$1,019m	(\$145m)	(14%)

**Note: CAM gross assets as most recently declared are \$111.5m. This figure includes on-market buyback of CAM and CAMG of \$572k, an accrual for interest payable of \$147k on the Convertible Notes (ASX: CAMG) for the month ended 31 March and combined tax assets of \$7.2m.*

Investment performance

Clime's investment portfolios are managed according to our style of investing in quality stocks using a strong valuation discipline. A summary of Clime's portfolios and 1-year performance against benchmark are shown below.



Strategy	Investment type	Benchmark	1-year benchmark performance	1-year strategy performance
Australian Equities				
Clime All Cap Australian Equity Fund (formerly CBG Australian Equities Fund)	Managed Fund <i>Wholesale and Retail investors</i>	ASX200 Accumulation Index	(14.42%)	(14.67%)
Clime Australian Equities Growth Strategy	Individually Managed Account (IMA) <i>Wholesale investors only</i>	ASX200 Accumulation Index	(14.42%)	(14.48%)
Clime Smaller Companies Fund	Managed Fund <i>Wholesale and Retail investors</i>	ASX Smaller Companies Accumulation Index (50%) ASX Emerging Companies Accumulation Index (50%)	(24.68%)	(6.15%)
Clime High Conviction Equities Strategy	Individually Managed Account (IMA) <i>Wholesale investors only</i>	ASX All Ordinaries Accumulation Index	(15.02%)	(19.50%)
Clime Australian Value Fund	Managed Fund <i>Wholesale and Retail investors</i>	Absolute Return (12%)	12%	(14.15%)
Clime Capital Limited (ASX: CAM)	Listed Investment Company <i>Wholesale and Retail investors</i>	ASX All Ordinaries Accumulation Index	(15.02%)	(17.59%)
Australian Income				
Clime Australian Income Strategy	Individually Managed Account (IMA) <i>Wholesale investors only</i>	RBA Cash Rate + 3%	3.99%	(2.99%)
Clime Balanced Ethical Income Strategy	Individually Managed Account (IMA) <i>Wholesale investors only</i>	RBA Cash Rate + 3%	3.99%	(5.20%)
Clime Australian Income Fund	Managed Fund <i>Wholesale and Retail investors</i>	RBA Cash Rate + 3%	3.99%	(5.28%)
Clime Fixed Interest Fund	Managed Fund <i>Wholesale investors only</i>	RBA Cash Rate + 2%	2.81%	(0.58%)
International Equities				
Clime International Equities Fund	Managed Fund <i>Wholesale and Retail investors</i>	MSCI World Index (in AUD)	1.16%	2.34%

Strategy	Investment type	Benchmark	1-year benchmark performance	1-year strategy performance
Multi-Asset Class				
Sterling Clime Conservative / Pension	Separately Managed Account (SMA) <i>Wholesale and Retail investors</i>	S&P/ ASX 200 Accumulation Index (20%) S&P/ ASX 200 A-REIT Accumulation Index (5%) MSCI World ex Australia Index in AUD (5%) Bloomberg Ausbond 0+ Year Index (60%) RBA Cash Rate (10%)	(0.55%)	(7.77%)
Sterling Clime Balanced	Separately Managed Account (SMA) <i>Wholesale and Retail investors</i>	S&P/ ASX 200 Accumulation Index (45%) S&P/ ASX 200 A-REIT Accumulation Index (5%) MSCI World ex Australia Index in AUD (10%) Bloomberg Ausbond 0+ Year Index (35%) RBA Cash Rate (5%)	(6.31%)	(9.88%)
Sterling Clime Growth	Separately Managed Account (SMA) <i>Wholesale and Retail investors</i>	S&P/ ASX 200 Accumulation Index (60%) S&P/ ASX 200 A-REIT Accumulation Index (5%) MSCI World ex Australia Index in AUD (15%) Bloomberg Ausbond 0+ Year Index (15%) RBA Cash Rate (5%)	(10.29%)	(11.14%)
Sterling Clime Australian Equities	Separately Managed Account (SMA) <i>Wholesale and Retail investors</i>	ASX200 Accumulation Index	(14.42%)	(14.03%)

* From inception at 24 April 2017, the benchmark for the Clime Smaller Companies Fund Benchmark was CPI Trimmed Mean + 8% p.a.. This changed on June 30 2019 to the current benchmark of 50% of the ASX Small Ordinaries Accumulation Index and 50% of the ASX Emerging Companies Accumulation Index.

Clime Capital (ASX: CAM) return is net of fees before tax.

Strategic initiatives

During FY2019, Clime launched two strategic initiatives to enhance client engagement and growth of assets under management.

Clime Private Wealth delivers tailored private wealth advisory services for wholesale and sophisticated investors. During the March quarter Clime Private Wealth improved client retention, resulting in net new inflows for the quarter. The Private Wealth advice offering is resulting in fee-based Client Service and Advice included in group revenues.

The second of these initiatives, third party distribution, provides the national community of around 25,000 Australian financial advisers with access to Clime's high-quality investment products and services. During the March quarter we continued to build relationships with financial advisers to help them understand the competitive advantages available from utilising Clime's investment products and services.

Balance Sheet

Clime has a strong balance sheet and as at 31 March 2020, CIW had approximately \$10.2 million of liquid capital, including \$4.8 million in cash. At the close-of-quarter share price of \$0.40 per share, CIW was capitalised at \$22.4 million.

Conclusion

In spite of challenging operating conditions, Clime remains well positioned to continue to grow and diversify the group's revenue streams to become an integrated wealth management business. We continue to deliver investment management and Private Wealth advisory services for our clients according to our values of Integrity, Transparency and Conviction.

Thank you for your ongoing support.

Rod Bristow
Chief Executive Officer
Clime Investment Management Limited

This document is approved by the Board of Directors of Clime Investment Management Limited for release to the ASX. For enquiries, please contact Rod Bristow 1300 788 568 or by email to info@clime.com.au