Monthly Investment Reports

March 2019

Market Commentary

While the rate of growth moderated during the month of March, with the S&P/ASX200 Accumulation Index up 0.7%, the first quarter of 2019 has come as a welcome relief for growth asset investors. Following the sharp pullback last November and December, global investor sentiment and market prices have recovered some of their optimism, largely off the back of a more dovish US Federal Reserve.

The reversal of fortunes in risk assets has come despite generally disappointing macro data across Europe, the US and China and the tempering of corporate earnings forecasts globally. The rally in global equities to date in 2019 has not been driven by expectations for better growth and rising corporate profits, but by reassurance that global central banks would temper their inflation-fighting objective and seek instead to sustain the post-GFC recovery.

Another factor supporting the equity market recovery has been the sense that the sell-off late last year was overdone. The near 30% de-rating in global equity PE ratios from end-January 2018 to end-December 2018 was both brutal and unexpected, given that the world's largest economy, the US, was growing strongly and experiencing a buoyant year for corporate earnings. But of course, markets are forward-looking, and fears of "peak earnings", a Sino-American trade war, a hard landing in China and a Federal Reserve determined to "normalise" rates sapped confidence and soured the mood. The fact that many of these fears have proved either unfounded or exaggerated has supported the rebound.

Now that the first quarter is over, we must assess whether that rebound is either warranted or sustainable. Over the course of the first 3 months of 2019, the S&P/ASX200 has risen 10.9% while global markets have enjoyed similarly impressive quarterly returns. A good part of those figures may be making up the losses from the quarter before that, but it remains for the market to be tested for the most critical factor, which is value.

The likelihood of material further upside for equity markets in the short term is, in our view, now dependent on central banks allowing financial conditions to remain loose, policymakers stimulating activity through prudent infrastructure spending and fiscal relief for households, the successful conclusion to trade talks, the US economy remaining reasonably strong and some sparking of growth in the European and Chinese economies.

In particular, we highlight the effectiveness or otherwise of the broad range of measures implemented by the Chinese authorities to cushion their growth slowdown. The Chinese consumer is the "single most important (factor) in the world economy", said Jim O'Neill, former Goldman Sachs chief economist. "The next 40 years of global growth might be about the Chinese consumer. It is very unlikely that any other country could step in to drive global consumption," he said. China has contributed around 30% of the global economy's growth since 2013, compared to 11-13% from each of India, the European Union, and the United States. The strength of China's economy is critical.

A key support to developed economies (the US, the Eurozone and Japan) remains consumption growth backed by solid labour markets and continued wage growth. To date, the absence of wage growth has been the disappointing factor in the recovery that we saw during last year, and this has been a spur to the growth of populism in many countries. A pause in the central banks' rate rising program and a well-targeted stimulus from China should provide the basis for global growth a little below trend. Resolution of trade conflicts would no doubt also reduce uncertainty and support global growth.

In an environment where economic risks are building and global growth is slowing, careful assessment of investment opportunities is required. The change in tone from the US Fed, and its increased sensitivity to growth and the financial cycle, has led to a fundamental reassessment of risks and opportunities in many financial markets, as the "lower for longer" thesis on interest rates reasserts itself. At the same time, while trade talks between the US and China seem to be progressing, the Brexit imbroglio and many other political risks remain heightened. However, these risks and changes in economic growth expectations present opportunities and an argument for active management and active asset allocation.

Clime's base case is that overall global equity returns in the medium term are likely to be positive but more muted than investors have been used to for most of the post-global financial crisis period. Nonetheless, we expect that late cycle volatility and macro-thematic market drivers combined with company-specific opportunities will provide a satisfactory set of portfolio alternatives for patient investors.

Thank you for your continued support of Clime.

Adrian Ezquerro
Head of Investments

Oclime

Integrity Transparency Conviction

Clime Australian Value Fund

The Clime Australian Value Fund delivered a return of 2.4% (Wholesale Units, net of fees) for the month. This was a sound outcome when compared with a 0.7% return for the S&P/ASX200 Accumulation Index.

As highlighted in last month's report, the portfolio continues to be incrementally reshaped to best capture a sensible balance of growth and sustainable income. Given the strong rally experienced over the quarter, particularly in mid and small caps, we have selectively reduced exposure to those securities that have appreciated beyond value.

Key contributors for the month included Jumbo Interactive (+24.7%), Hub24 (+19.9%), Audinate (+17.9%), Afterpay Touch (+13.6%), Collins Foods (+12.6%), Citadel Group (+8.8%) and Rio Tinto (+8.3%).

Key detractors for the month were Hansen Technologies (-7.9%), ANZ Banking Group (-7.0%) and Webjet (-6.5%).

The portfolio retains its focus on quality and value, while also capturing the sound blend of growth and income targeted by the 'all cap' strategy. Cash levels remain reasonable and allows the Manager to move swiftly, though selectively, as and when sensibly priced opportunity appears.

Distributions

Period Ending	Retail Units (cents per unit)	Wholesale Units (cents per unit)
31 December 2018	1.0879	0.9481
30 June 2018	1.3075	1.2652
31 December 2017	1.6705	1.2670
30 June 2017	1.7233	0.9930

Snapshot

March Return (Retail)	March Return (Wholesale)	Retail Fund Size	Wholesale Fund Size
2.4%	2.4%	$9.1m	$1.3m

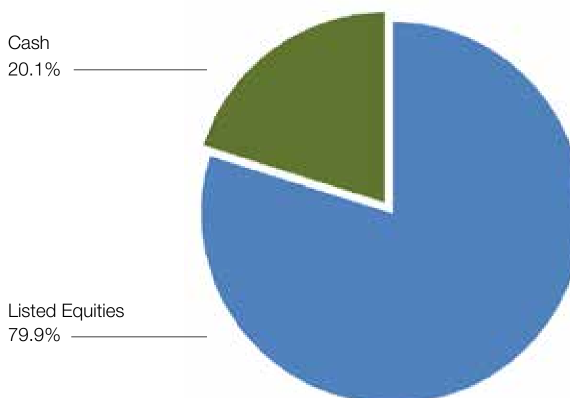
Fund Performance (31/03/19)

	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
Retail (AUD Portfolio Return)	2.4%	11.9%	-1.1%	11.3%	8.6%	3.7%	6.2%
Wholesale (AUD Portfolio Return)	2.4%	11.9%	-1.0%	11.5%	8.7%	3.9%	5.0%

Inception: Retail Units: 28 August 2006; Wholesale Units: 15 April 2011.

*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.

Asset Allocation



Top 5 Holdings

Security	Code	Weight%
Amcor Ltd	AMC	4.9%
Wesfarmers Ltd	WES	4.3%
Webjet Ltd	WEB	3.9%
BHP Billiton Ltd	BHP	3.7%
National Australia Bank Ltd	NAB	3.7%

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