clime

Integrity Transparency Conviction

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

Integrity Transparency Conviction

Clime International Fund

After a turbulent end to 2018, this year managed to get off to a positive start, with equity markets recovering most of the losses they had endured previously. This recovery was largely due to the US Federal Reserve taking a U-turn on monetary policy in the wake of the market's reaction to increasing interest rates.

With the Fed now fearful of tightening monetary policy faster than markets can handle, sentiment has completely changed. Indeed, markets are even pricing in a possible rate decrease this year – although the Fed is not showing signs of such a move just yet. We've been waiting some time for valuations to improve across equities – especially in the US. While the volatility was short-lived, opportunities to trade manifested themselves.

While it's important to be nimble when short-term opportunities present themselves, it's equally important to be focused on the longer-term outlook, and evidence suggests we'll soon see a moderation in global economic growth.

If companies can deliver moderate growth in the months ahead, we can look forward to reasonable returns, albeit not at the pace we've seen in recent years. But if growth stagnates, then equities could struggle and we need to prepare ourselves for that by making sure we don't own stocks in the fund which are overvalued and can weather a tougher economic cycle.

Snapshot

Portfolio Annual Return (Wholesale)	Porftolio Annual Return (Retail)	Fund Size (Wholesale)	Fund Size (Retail)
10.7%	10.1%	$92.1m	$4.7m

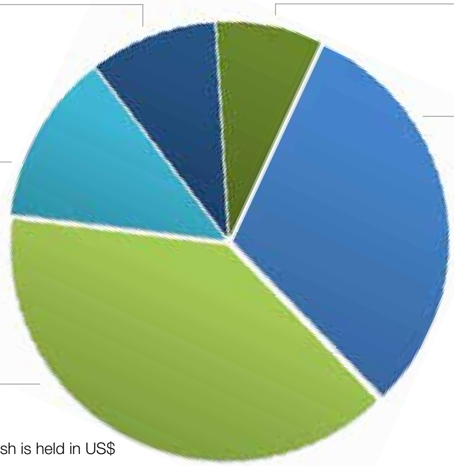
Performance (31/03/19)

	1 month	3 months	6 months	1 year	2 years*	3 years*	Inception*
Wholesale (AUD Portfolio Return)	1.8%	6.6%	1.6%	10.7%	10.9%	9.8%	8.9%
Retail (AUD Portfolio Return)	1.8%	6.6%	1.4%	10.1%	10.5%	9.4%	6.6%
Hurdle	0.8%	2.5%	5.0%	10.0%	10.0%	10.0%	10.0%

Inception: Wholesale Units: 4 March 2014. Retail Units: 11 March 2015.

*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.

Asset Allocation



* Majority of cash is held in US$

Distributions

Period Ending	Wholesale Units (cents per unit)	Retail Units (cents per unit)
30 June 2018	5.5659	4.5878
30 June 2017	3.9597	3.3798
30 June 2016	9.0831	7.5602

Top 5 Holdings

Stock	Ticker	Weight
Roche Holding AG-Genusschein	ROG SW	4.2%
Microsoft Corporation	MSFT US	4.1%
Alphabet Inc Class C	GOOG US	4.0%
Booking Holdings Inc	BKNG US	3.7%
Oracle Corp	ORCL US	3.7%