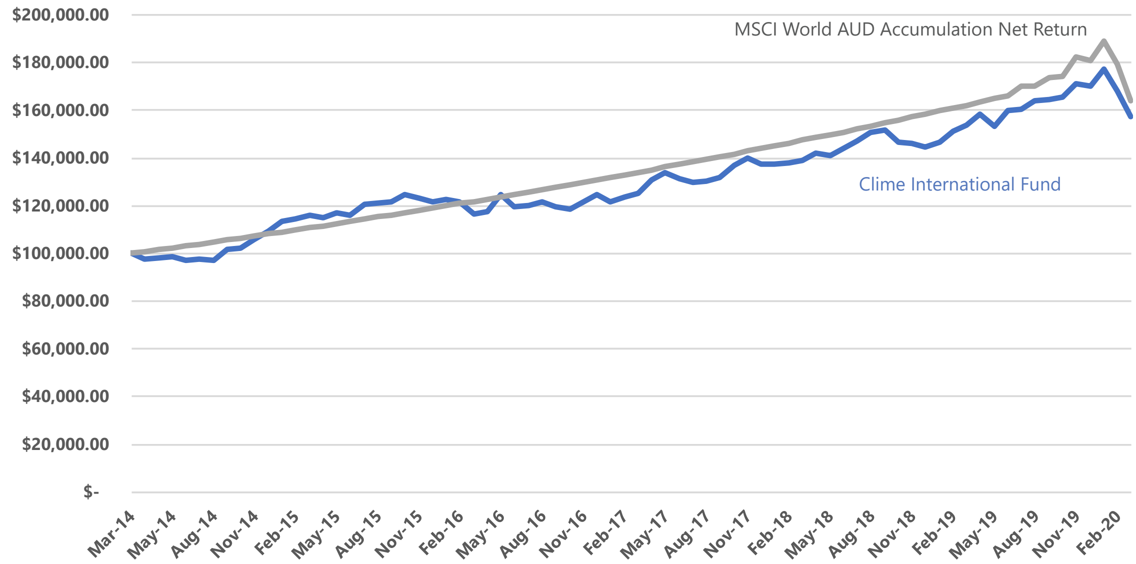
Clime International Fund

Quarterly Report March 2020

The Clime International Fund (CIF) aims to provide consistent capital growth and income over the long term (5-7 years) by investing in international securities. The Fund is intended to be a medium to high-risk fund, however the ability of the Fund to hold a significant cash position allows for capital preservation and the delivery of a smoother return profile. The Fund seeks to deliver a return in excess of the MSCI World Index.

Quarter Net Return (Wholesale)*	1 - Year Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)*	Total Fund Size
-7.3%	2.6%	7.8%	$97.2m



	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
Fund Net Return (Wholesale)*	-6.1%	-7.3%	-4.3%	2.6%	8.0%	6.4%	7.8%
Benchmark^	-8.6%	-9.3%	-5.6%	1.2%	7.0%	8.2%	8.5%
Excess Return	2.5%	2.0%	1.3%	1.4%	1.0%	-1.8%	-0.7%

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.
^10%p.a. from 4 March 2014 and then MSCI World Net Total Return Index in AUD from 1 July 2019.

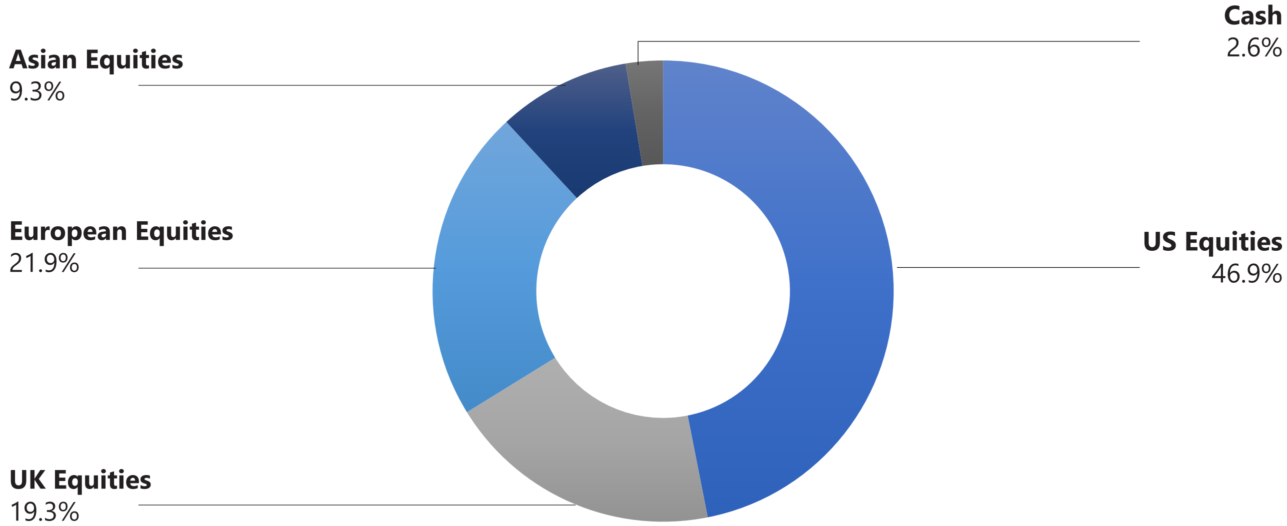
Fund Facts

Portfolio Managers	Pieter Fourie
Fund Inception	March 2014
Fund Size	$97.2m
Cash Distributions	Annually
Eligibility	Wholesale & Retail

Top 5 Holdings

Company	Sector	Weight %
Reckitt Benckiser	Consumer Goods	5.4%
Tencent	Communications	5.3%
Alphabet	Communications	4.6%
Johnson & Johnson	Consumer Goods	4.5%
Facebook	Technology	4.5%

Asset Allocation



Portfolio Commentary

As far as equity markets are concerned, the development of the coronavirus crisis has been as rapid as it has been unprecedented. As the epicentre of the virus moved from China to Europe, there was a sudden realisation that we were in the grip of a global economic shutdown, and equity markets repriced quicker than we have ever seen before.

Equity markets remained surprisingly un-phased in the early stages of the coronavirus crisis, despite China placing itself in lockdown and supply chains coming to an abrupt halt. But when the epicentre of the virus moved to Europe, the landscape changed, and this was quickly exacerbated by news that Saudi Arabia had instigated an oil price war. Normally we talk about concerns of an economic slowdown, but suddenly we were talking about a global economic shutdown – something none of us have experienced in our lifetime.

The resulting market crash was ultimately driven by concerns over the level of debt companies have and whether they can survive this. Thanks to government bailouts, it may be some time before we know the true cost to business and the overall economy, and we can expect continued volatility for the foreseeable future as a result.

We have talked for some time about the fact that equities have been expensive, which meant new opportunities were hard to Þnd. While markets may yet fall further, we can start to take advantage of some of those buying opportunities.

Our focus will be on Þnding resilient companies with low levels of debt and less reliance on achieving good sales. These businesses stand the best chance of getting through this and providing us with good long-term returns. We will also hold some cash to enable us to lock in opportunities as soon as the markets start to recover, and we have sight of the light at the end of the coronavirus tunnel.

During March we initiated positions in Accenture, SAP, American Express, and Visa. We added to our positions in Heineken, Diageo and Facebook.

Pieter Fourie
Portfolio Manager

Market Commentary

It will come as no surprise that the COVID-19 pandemic has had a shocking effect on the world's investment markets. Most global 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 caught up in lockdowns of varying intensity.

As renowned investor Howard Marks writes, "The trade-off between the health costs and the economic costs will be a major challenge for every government. The inescapable fact during this pandemic is that what's good for the economy is bad for public health and vice versa." Countries that open too early will face secondary outbreaks, while those that leave it too long risk damaging their economy more than necessary.

Governments and central banks around the world have made emergency interest rate cuts and announced support measures of extraordinary size and scope to sustain economic activity at a reduced level – until we get to "the other side" of the crisis. Companies continue to withdraw their profit guidance, and many have been forced to raise fresh capital in order to bolster balance sheets ahead of the uncertain period in front of them.

As we write this report, some rare good news is that Australia may be past the worst of the health crisis in that "the curve" of new Covid-19 cases appears to be "flattening". Furthermore, the Australian Government's response has been swift and decisive.

The Government has put in place three economic stimulus packages, with total expenditure and revenue measures of $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 some positives: the 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.

Philosophical thoughts - Investing with a focus on quality and value

There's no better time to reiterate one's investment philosophy than in a time of crisis. We remain focused on investing in quality companies while maintaining strong valuation discipline.

It's human nature to perceive threats more urgently than the opportunities that lie in wait on or over the horizon. At the same time, pessimism holds an allure that will often present those propagating it as the 'wise sage', perhaps in contrast those proffering a case for long term optimism.

While we acknowledge the significant near term uncertainty, we maintain the view that equities will offer genuine long term investors the ability to generate sound returns, over time. Firstly though, we must be positioned to endure a tougher environment; 'In order to succeed, you must first survive'. Thus, our resolve to focus on high quality companies with strong balance sheets, those companies with true staying power, has only solidified.

The ever calming voice of Warren Buffett wrote in his recent annual letter to investors; 'We constantly seek to buy businesses that meet three criteria. First, they must earn good returns on the net tangible capital required in their operation. Second, they must be run by able and honest managers. Third, they must be available at a sensible price.' He continued; 'Berkshire's assets are deployed in an extraordinary variety of wholly or partly-owned businesses that, averaged out, earn attractive returns on the capital they use.' Who are we to disagree with such sound principles?

Adrian Ezquerro
Head of Investments