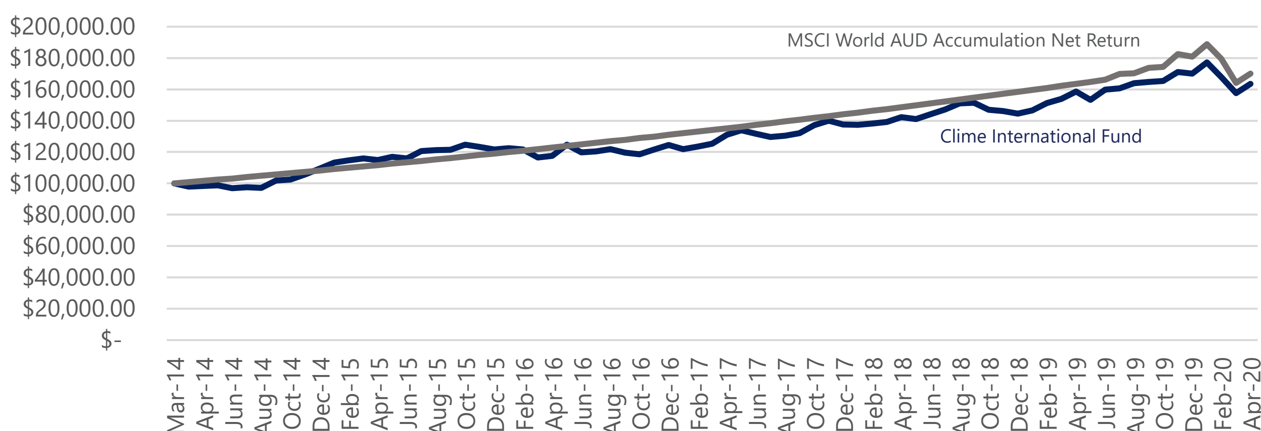
Clime International Fund

Monthly Report April 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.

1 - Month Net Return (Wholesale)*	1 - Year Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)*	Total Fund Size
3.8%	3.4%	8.4%	$99.7m



	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
Fund Net Return (Wholesale)*	3.8%	-7.7%	-1.1%	3.4%	7.8%	7.4%	8.4%
Benchmark^	3.7%	-9.9%	-2.4%	4.1%	8.0%	8.8%	9.0%
Excess Return	0.1%	2.2%	1.3%	-0.7%	-0.2%	-1.4%	-0.6%

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.

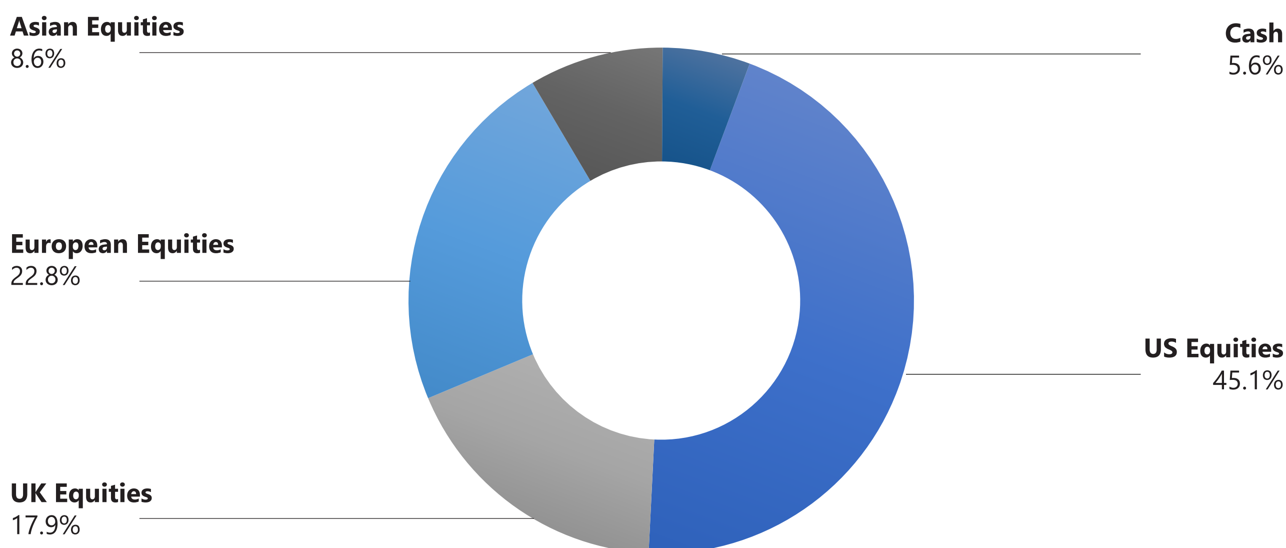
Fund Facts

Portfolio Managers	Pieter Fourie
Fund Inception	March 2014
Fund Size	$99.7m
Cash Distributions	Annually
Eligibility	Wholesale & Retail

Top 5 Holdings

Company	Sector	Weight %
Alphabet	Communications	5.3%
Facebook	Technology	5.0%
Tencent	Communications	4.9%
Reckitt Benckiser	Consumer Goods	4.6%
Booking Holdings	Tourisim	4.2%

Asset Allocation



Portfolio Commentary

Whether it's waiting for a covid-19 vaccine, obeying 'social distancing' rules, or healing our broken economy, it will ultimately be patience and time that help us prevail. The same can be said for anyone affected by the recent market crash. It's impossible to remain invested and fully defend against a fall of that nature, and it will take time and patience for people to recoup their losses. But while equity markets appear to have stabilised for now, how do investors approach that recovery when the outlook remains opaque and markets are skittish?

The good news is that, treated with respect, volatile markets are an investor's friend. For the last few years, equity markets have been overvalued and Þnding new opportunities with good longer-term returns has been difÞcult, to say the least. Since the crash, there is less investment risk in equity markets and there are more opportunities for growth. As active investment managers, we are well positioned to take advantage of these conditions.

That said, there are risks at large. The next few months and years will be about 'survival of the Þttest' and companies with high levels of debt are particularly vulnerable. As a result, we avoid investing in a company just because it is 'cheap'. If it doesn't survive the crisis, then hindsight will make it expensive. Instead, we remain resolute in our approach, which is to invest in resilient companies with strong balance sheets and the potential to achieve good results Until investors are convinced there are sustainable containment measures in place for covid-19, a persistent recovery in equities is unlikely. We need to be patient and allow companies to start making proÞts again. This won't happen quickly, so don't expect markets to surge in the near term. Instead, have faith in the longer-term opportunities available to us.

During April we sold our position in SAP. Our holding period was barely a month but the stock price bounced close to 30% from where we bought a new position in March. In the process the free cash ßow yield for SAP collapsed from 6% to 4% and we followed our valuation discipline. We trimmed our positions in Johnson & Johnson, Reckitt Benckiser, and Tencent. We added to our position in Alphabet.

Pieter Fourie
Portfolio Manager

Market Commentary

Global markets recorded an extraordinary bounce from the low point on 23 March through the month of April. In local currency terms, the NASDAQ, Russell 2000 and S&P 500 each delivered returns of 15.4%, 13.7% and 12.7% respectively. Although volatile, the S&P/ASX200 Accumulation Index rallied strongly to finish up 8.8% in April, the best monthly return since 1988. This is still 23% below the high reached in February, but 21% above the low reached in late March.

While small sections of the economy may snap back relatively quickly post lockdown, most sectors after COVID-19 will probably recover at a tepid pace. Business and consumer confidence will take time to rebuild, while some restrictions may become semi-permanent.

In its baseline outlook, the RBA expects economic activity in Australia to decline by 6% in 2020 before rebounding 6% in 2021. Despite this relatively strong recovery, the RBA still expects the unemployment rate to peak around 10% and be above 7% by the end of next year. Similarly, inflation is expected to be negative in 2Q, and even in 2021 is only expected to grow at 1.0% to 1.5%, well below the RBA's target band.
Australia's Treasurer expects the shock caused by the coronavirus lockdown to dwarf the impact of the global financial crisis. Josh Frydenberg said that the restrictions introduced to minimise the spread of coronavirus would cause unemployment to double, with economic activity falling by about A$4bn per week for as long as the lockdown remained in effect. Almost 1 million people have lost their jobs since the 14th of March following the temporary closure of businesses such as pubs, restaurants and retailers owing to social distancing rules.

The positive news is that Australia and New Zealand have so far been able to suppress COVID-19 with remarkable success. This suggests that domestic interstate travel may ease in due course, likely followed by movement between Australia and NZ. With China and most of Asia having also contained the virus reasonably well, the Asia-Pacific economies are likely to come out of the crisis earlier and ahead of Europe and the USA, possibly resulting in the strengthening of the AUD (and NZD) against a basket of international currencies.

Governments continued to undertake significant fiscal expansions. On the 14th of April, the Committee for a Responsible Budget estimated the US budget deficit will be $3.8tn this year – some 18.7% of GDP. As expected, the Federal Open Market Committee (FOMC) left the Fed Funds rate on hold at 0.0%-0.25%. The FOMC will "maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals".

In Australia, the RBA left cash rates at 0.25% and bought $50b of Federal and State Government Bonds in the yield targeting (QE) programme. We expect the cash rate in Australia to be on hold for an extended period.

Global bond yields remained low in April, with US 10 year government bond yields dropping another 6bp to 0.62%. In contrast, Australian 10 year government bond yields rose 13bp to 0.89%.

As the crisis unfolds, and while the economic data is yet to be presented, it is certain that the global economy (including Australia's) is already in recession. While the rate of infection growth has tapered in various geographies, the path for recovery remains uncertain, with prospective second waves of infection still a meaningful possibility.

Under this backdrop, and with company earnings guidance largely absent, it is possible that equity markets are somewhat over-confident about prospects. We remain cautious in our approach and are maintaining slightly larger cash levels than normally regarded as optimal; we will selectively invest some of this cash as and when high quality opportunity is apparent at prices that include a healthy margin of safety.

Adrian Ezquerro
Head of Investments

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