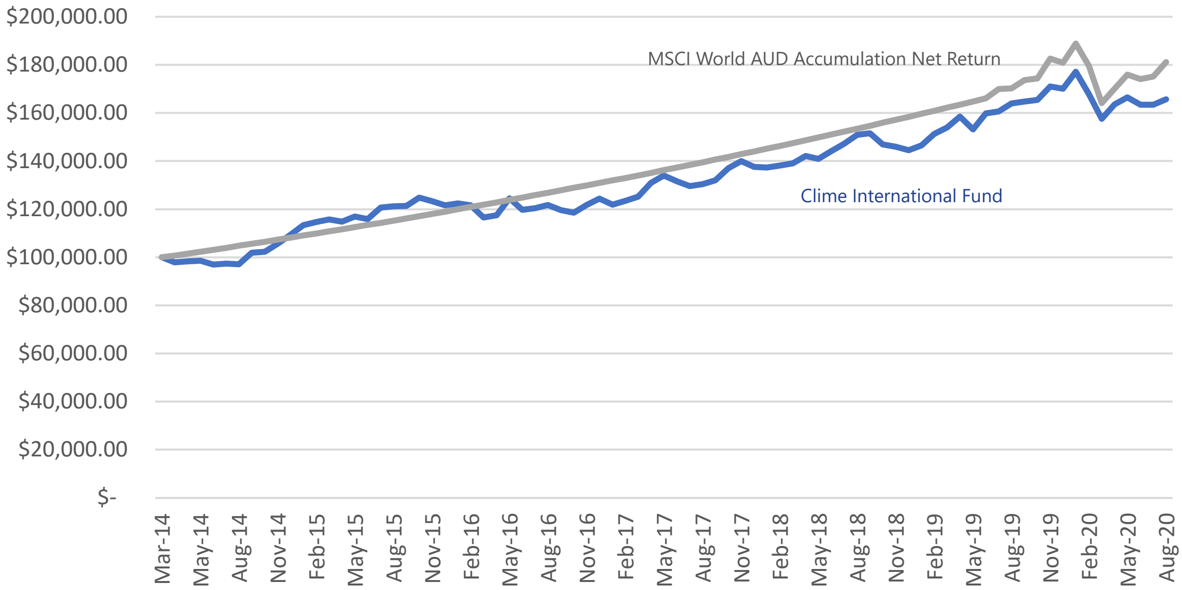
Clime International Fund

Monthly Report August 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
1.4%	1.0%	8.1%	$98.0m



	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
Fund Net Return (Wholesale)*	1.4%	-0.5%	-1.3%	1.0%	8.4%	6.5%	8.1%
Benchmark^	3.5%	3.0%	0.9%	6.4%	9.1%	9.5%	9.6%
Excess Return	-2.1%	-3.5%	-2.3%	-5.4%	-0.7%	-3.0%	-1.5%

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.

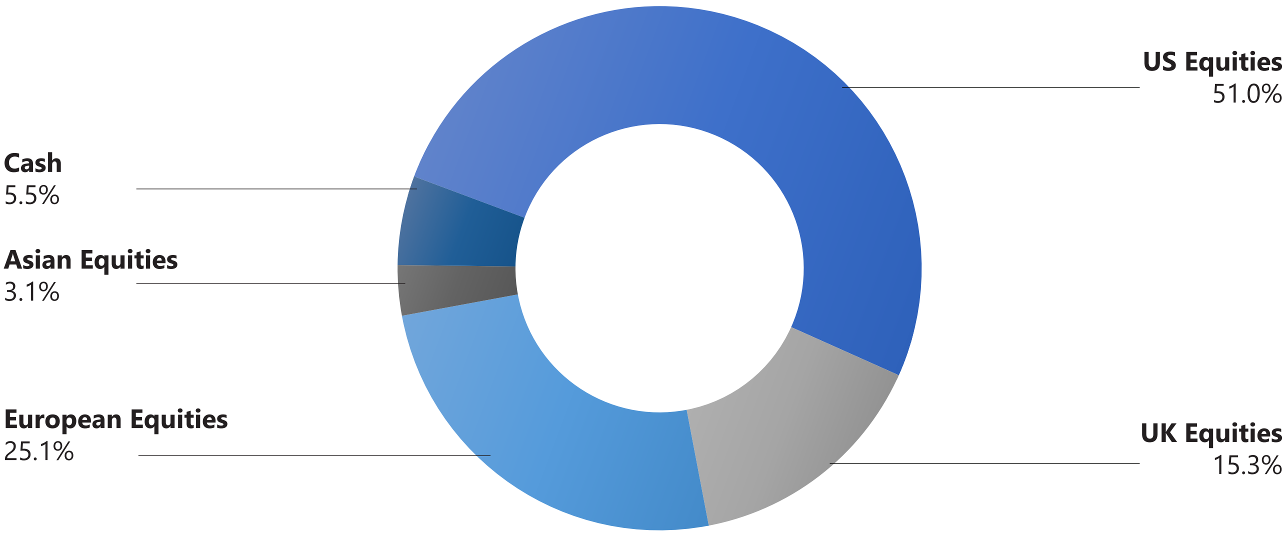
Fund Facts

Portfolio Managers	Pieter Fourie
Fund Inception	March 2014
Fund Size	$98.0m
Cash Distributions	Annually
Eligibility	Wholesale & Retail

Top 5 Holdings

Company	Sector	Weight %
Alphabet	Communications	4.6%
Booking Holdings	Tourism	4.4%
Heineken	Consumer Goods	4.1%
Novartis	Health Care	4.1%
Unilever	Consumer Goods	4.0%

Asset Allocation



Portfolio Commentary

The Clime International Fund underperformed the MSCI World Index during August, with the fund gaining 1.4%, and the MSCI World index gaining 3.5%.

The divergence in regional equity performances continued into August as the United States powered ahead against other regional stock markets. Since the old market highs on February 19th this year the UK FTSE (by example) lost 15% in US$ whilst global equities are now up by 4% in US$.   The US market is up by 5% from the old February highs and the technology heavy Nasdaq index is now higher by 20% from the previous highs in February.

For fundamental investors like ourselves the lack of earnings growth and relentless rerating of the US market is fascinating given the lack of earnings growth this year. We believe that a high quality approach focusing on not overpaying for great businesses will reap long term rewards.

The best performing stock during the month was InterContinental Hotels Group (+23.38) as the group reported better-than-expected first half results. Clearly the hotel industry is in the eye of the covid-19 storm but the asset-light business model has helped IHG remain resilient. Revenues were down significantly, as one would expect, but the company still posted a profit. Encouragingly 97% of their hotels are now open as of the end of July and occupancy has been slowly increasing. It troughed during April at 20% but has since recovered to 45% in July. IHG continue to grow their franchise system, with 3% more rooms now than at the same point last year.

Other strong performers during July were Facebook (+11.8%) and Booking Holdings (+11.1%). Facebook continues to profit from increased engagement across its platforms and was helped by a new shopping section on its namesake social network. The market is now starting to see a clear line of sight to e-commerce monetisation.

In terms of laggards, Sabre (-10.6%) and Diageo (-10.1%) underperformed. Sabre has had to raise money to shore up their balance sheet on the back of still very low air travel volumes.

Pieter Fourie
Portfolio Manager

Market Commentary

Stock indices around the globe pushed higher over August, continuing a trend that began at the end of March. A sagging US dollar combined with fiscal and monetary stimulus, strongly reinforced by the US Federal Reserve last week, has set sharemarkets racing. Indications that major global economies are on a recovery track have eased investor nervousness that peaked in March, despite the persistence of the COVID-19 pandemic. The MSCI World Index jumped 6.3% in August, the sharpest rally for that month in over 30 years.

Since the end of March 2020, the Australian sharemarket has bounced strongly and the ASX200 Index has risen by almost 1,000 points, or nearly 20%. This is a staggering recovery from the depths just five months ago, when economic Armageddon was forefront of investors' minds. But even this powerful rally is rather pale when compared with US indices: over the past 5 months, the Dow Jones has advanced 30%, the S&P 500 added 35% (its best 5 month run since 1938), and the Nasdaq advanced 53%, its strongest 5 months for 20 years. Australian indices have underperformed relative to the US largely because of index composition differences (Australia has larger weightings to banks and resources, less exposure to technology and healthcare), but even so, these returns certainly represent a "V" shaped recovery for the markets, if not for the broader economy.

Why have markets been so quick to bounce? As we know, markets are forward-looking. But "normality" is probably at least a year away and even that is not certain. The opening of our international borders, the resumption of travel and thus the return of an important part of Australia's services sectors (tourism and education related) is dependent upon a COVID vaccine being developed. Further, the vaccine must be widely available across the world. Indeed, the full recovery of the Australian economy – back to its level achieved in calendar 2019, may not occur until 2023.

What the markets are observing, though, is that the economic recovery (in Australia, China, the US and most developed countries), has commenced. The economic (or GDP) collapse in the June quarter should be the low point for the data. There will still be very negative GDP numbers produced on a rolling year or "previous corresponding period" basis over the next few months, however, it will be more informative to compare September quarter GDP to June quarter GDP to see the emerging trend lines.

As far as the Australian economy is concerned, Federal Government assistance (JobKeeper, JobSeeker and business cash flow support) will continue but will be better targeted from the December quarter to support sectors most clearly in need. The domestic economy will probably operate at say, 80% capacity throughout most of 2021, but unless you are unlucky enough to be in one of those sectors directly affected, this will not be apparent because of government assistance programs. The fiscal support will continue for as long as necessary with fast tracked infrastructure investment undertaken to ensure that there is no slack in the construction sector. The services sector will be sustained by Government assistance that will only diminish when internal borders (interstate) are totally opened – presumably in early 2021.

On the Australian sharemarket, there have been winners and losers. In the category of short term winners are clearly the discretionary retailers (think of the "Netflix effect", home comforts, IT spend) that benefited from the consumption "sugar hit" of income support and early access to super. Retailers that also have a secure and efficient online offering benefited from the surge in demand.

Households have also benefited from a lowering in the cost of living, because travel (including to work) has been curtailed so everyday non-discretionary costs have declined. Some have benefited from a real increase in net disposable income and this has occurred as a recession enveloped the economy. This dual occurrence is quite unprecedented.

The increased activity online (for both consumers and business) has benefited IT service companies operating in that space. Some IT companies have reported a surge in demand for their online services and benefit the longer the pandemic continues. Much of the increased demand can be noted as structural in nature, with the pandemic effectively representing a pull forward of longer dated demand profiles.

On the flip side is the longer list of losers that have weathered the worst of the initial storm through government assistance or by astutely accessing capital markets through equity raisings that ensured their survival. Travel related stocks have raised billions in capital and the subscribers to those raisings (and their shareholders at large) will be confronted with no income (dividend) return for years.

There is of course deep concern over growing unemployment, both here and abroad. A new report from the University of Chicago estimates that 32% to 42% of the recent layoffs from the pandemic in the US could result in permanent job losses. There are two issues: first, many small and medium-sized businesses are going bankrupt or shutting down permanently, so they will not be re-hiring staff. Second, even after parts of the economy reopen, many people will be hesitant to shop, travel and go out to eat as they did before. Businesses operating at half capacity or switching to online or takeout do not need nearly as many workers.

The US Government has urged companies to "furlough" workers (a temporary unpaid leave of absence) instead of laying them off, since a furlough allows for some sort of employer-employee relationship to remain even though staff are no longer reporting for work. Unease is rising among many of these jobless workers as they approach two or three months out of a job. In the United States, approximately 25% of laid-off workers say they will be in "real financial trouble" in less than a month if nothing changes. Among those laid off, 40% say the pandemic has been a "serious source of stress" in their life, compared with 29% among other Americans.

The Australian company reporting season was generally noted to be better than initially feared. To a degree, this reflected the significant reduction in earnings expectations leading into reporting season, coupled with a demonstrated resilience from a range of Australian corporates. We believe Australian investors will be best served by focusing exposure on those sectors that continue to exhibit such resilience, most notably across the technology, healthcare and resources sectors.

Adrian Ezquerro
Head of Investments