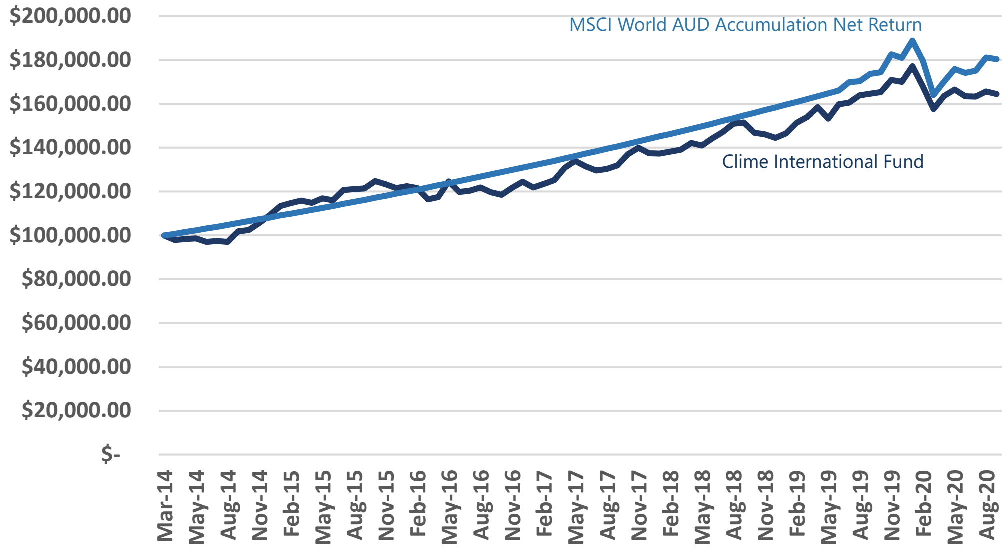
Clime International Fund

Quarterly Report September 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
0.7%	-0.1%	7.9%	$96.9m



	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
Fund Net Return (Wholesale)*	-0.6%	-0.7%	4.4%	-0.1%	7.7%	6.3%	7.9%
Benchmark^	-0.4%	3.7%	10.0%	3.9%	8.7%	9.2%	9.4%
Excess Return	-0.3%	-3.0%	-5.6%	-4.0%	-1.0%	-2.9%	-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.

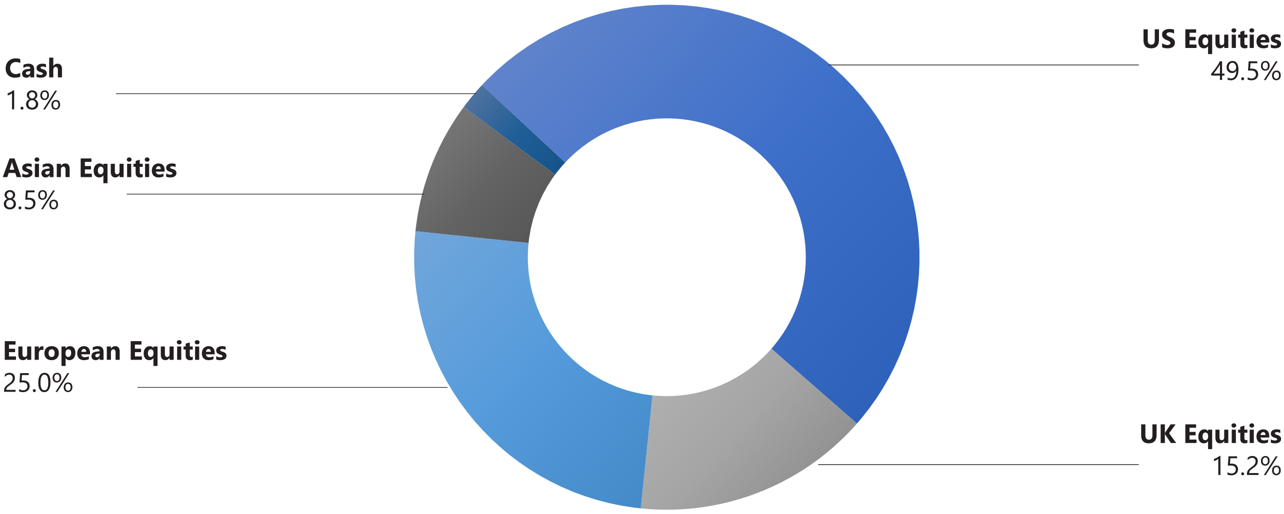
Fund Facts

Portfolio Managers	Pieter Fourie
Fund Inception	March 2014
Fund Size	$96.9m
Cash Distributions	Annually
Eligibility	Wholesale & Retail

Top 5 Holdings

Company	Weight %
Alphabet	5.2%
Facebook	4.5%
Oracle	4.1%
Booking Holdings	4.1%
Novartis	4.1%

Asset Allocation



Portfolio Commentary

Equity prices have recovered from the lows in March – a remarkable comeback amid so much uncertainty. But high valuations mean less opportunity for future returns and more risk for investors, so where do we go from here?

As the market crashed earlier this year, the price of great companies plummeted, and investment opportunities were abundant. Back then we forecast an average market return of 10% per year over three years, but those returns were actually realised in just six months. Such a dramatic recovery is clearly a positive outcome for those invested, but with prices now at elevated levels, investors are having to accept lower returns in the short term unless they take on greater risk.

Investors continue to favour the US equity market against other regions of the world. The US market is up 5.6% in US$ year to date versus the rest of the world being down by 6.7%. The net result is that global equities are up by 1.7% year to date as the positive performance of the US is dragged down by the rest of the world.

On a sector level the difference in performance continues to be rather significant with information technology names up by 27% in US$ year to date and financials and energy stocks down by 21% and 45% respectively. Further negative news on when the travel industry may return to some form of normality has hit us hard this year. Incremental news in September turned more negative on Covid-19 as infection rates have picked up globally.

We believe names like Intercontinental, Bookings, General Dynamics, Heineken and ABI could recover meaningfully for us over time even though most of these names are a drag on performance in the short term. The pullback in shares related to the travel industry might also give us a chance to revisit names we have owned in the past, and we keep refreshing our fundamental views on individual names for attractive entry points. New names we added over the last quarter including Abbvie, Becton Dickinson, Alibaba and ADP are high quality businesses which are very well positioned in the industries they operate in.

We acknowledge that valuations in some sectors are at multi decade lows but we prefer to focus on business quality and attractive valuations, as opposed to purely statistically cheap valuations. More than often cheap valuations are simply a reflection of investors' concerns on the underlying quality of the business.

No new positions were added this month to the fund. We added to our positions in Alphabet and Facebook after a 20% pullback from the highs in late August.

Technology shares came under increasing pressure in early September but started to recover by the end of the month following a familiar pattern in the market as buyers stepped in.

We significantly increased our position in Becton Dickinson (BDX) this month. On the last day of the month BDX received some positive news when the company confirmed that Covid-19 tests that return results in 15 minutes have been cleared for use in certain European countries. These tests will add to BDX's incremental revenue and are very profitable for the company. We believe that BDX is now trading at valuation levels that we find very attractive for investors with a multi-year time horizon like ourselves.

Pieter Fourie
Portfolio Manager

Market Commentary

Following the severe COVID-19 global pandemic which commenced in the first months of the year, leading to shut-downs and recessions across the world, the global economy has begun a patchy yet vigorous recovery. This is evidenced by strength in consumer spending, housing activity and surveys of business conditions. In August, the JPMorgan Global Composite purchasing managers index (PMI) rose to 52.4 from 51.0, its highest since the pandemic began (and above its 51.7 average during 2019). Recent Chinese activity data, as well as exports from Japan and Taiwan, suggest global activity has picked up strongly during the third quarter.

The true shape and durability of the recovery in the months remaining until the end of 2020 and beyond, however, remains uncertain. We do not know the path which the pandemic will follow, although prospects for a vaccine and other treatments appear promising. Therefore, it remains unclear the pace at which consumers and businesses will be able to return to near-normal activity, amid the social impacts of the crisis and ongoing requirements for physical distancing and restricted business. Renewed lockdowns in the UK and other parts of Europe will likely weigh on near-term demand.

Equity markets sold off in September as rising virus numbers, the US presidential election and the stalled US fiscal stimulus gained attention. Despite these risks, the prospects for recovery remain positive.
We expect markets to remain volatile as the COVID-19 picture evolves, the earnings outlook becomes clearer, and we approach the end-game for the presidential election in the US. At present, polls suggest a Joe Biden victory over President Trump. We do not expect that this will be a cause for a market correction: whereas Biden may raise corporate taxes, his support for broad social security spending and a higher minimum wage would be a boost for income and consumption, both critical ingredients to the US domestic economy.

Within Australia, the containment of the second wave in Victoria has offered great relief, and the hope is for all lockdown measures and restrictions to be gradually lifted. Economic growth in Australia in the second quarter fell by 7.0%, confirming our first recession in almost 3 decades. This was better than many other countries, with the exception of China, which has staged a quite remarkable recovery. Within the domestic economy, retail sales have been predictably volatile, rising 6.0% over June and July, before falling 4.0% in August, as Victoria's lockdown intensified. But strong home loans data point to a stabilising housing sector, and consumer and business confidence has recently improved. Jobs market data continue to positively surprise, with unemployment dropping back to 6.8% from 7.5%, though renewed weakness may lie ahead.

The strong recovery in China and demand and prices for commodity exports such as iron ore have underpinned an improvement in Australia's outlook. The OECD has lifted its forecast for 2020 from -5.0% to -4.1%. In September, the Reserve Bank of Australia added further stimulus through its bank lending facility, and there has been recent speculation that rates could be cut in November from 0.25% to 0.10%. The federal budget to be brought down on 6 October is expected to provide further stimulus to the economy.

While the global recovery is most welcome, risks remain and volatility in investment markets in coming months would not surprise us. The US Presidential election (and including many Congressional seats and Governorships) remains a fierce battle, and the potential for a contested result creates great uncertainty. Many other risks abound, including further periodic outbreaks of the virus, geopolitical and international trade tensions, record levels of unemployment, disruption of manufacturing supply lines, and relatively high valuations in many markets.

Yet, on balance, unprecedented monetary and fiscal stimulus, a capex pick-up and broad progress in containing the virus suggest the world is still on track for a broad economic recovery. Central banks have been emphatic that they will err on the side of supporting the nascent recovery rather than allow the threat of incipient inflation to curtail their cheap money policies. After a 4.5% decline in 2020, the OECD expects global growth to rebound to 5.1% in 2021. Global interest rates are likely to stay low for an extended period, measured in years rather than months.

As always, we continue to recommend diversification across both securities and asset classes. Increased volatility in the face of the risks and uncertainties alluded to above should be seen as opportunities for asset allocation reviews, and if appropriate, for additional investment in high quality long term themes, such as technology, healthcare, automation, artificial intelligence, and care for the ageing population. We particularly favour securities able to generate growing revenue and profitability streams, and which have the potential to distribute rising levels of dividends over the long term.

Adrian Ezquerro
Head of Investments