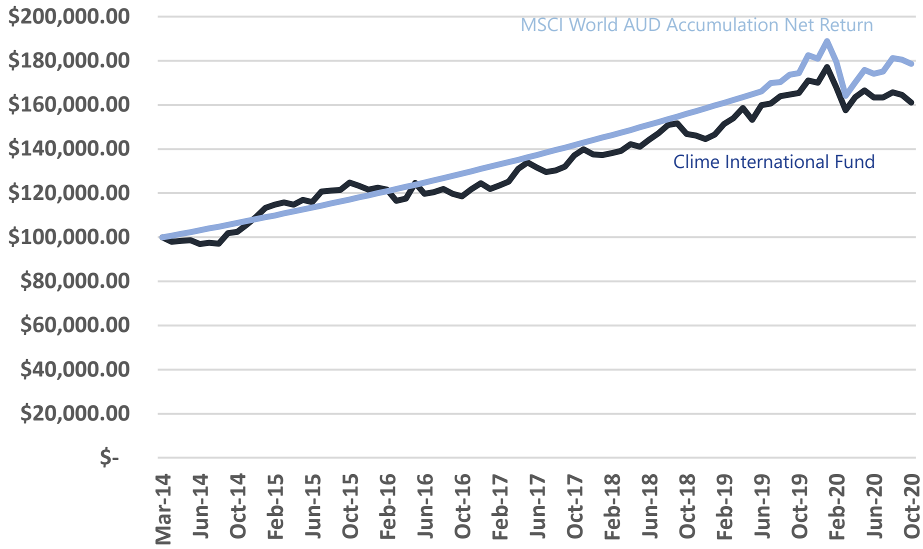
Clime International Fund

Monthly Report October 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
-2.1%	-2.6%	7.4%	$93.4m



	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
Fund Net Return (Wholesale)*	-2.1%	-1.4%	-1.5%	-2.6%	5.5%	5.2%	7.4%
Benchmark^	-1.1%	2.0%	5.0%	2.4%	8.0%	8.8%	9.1%

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.

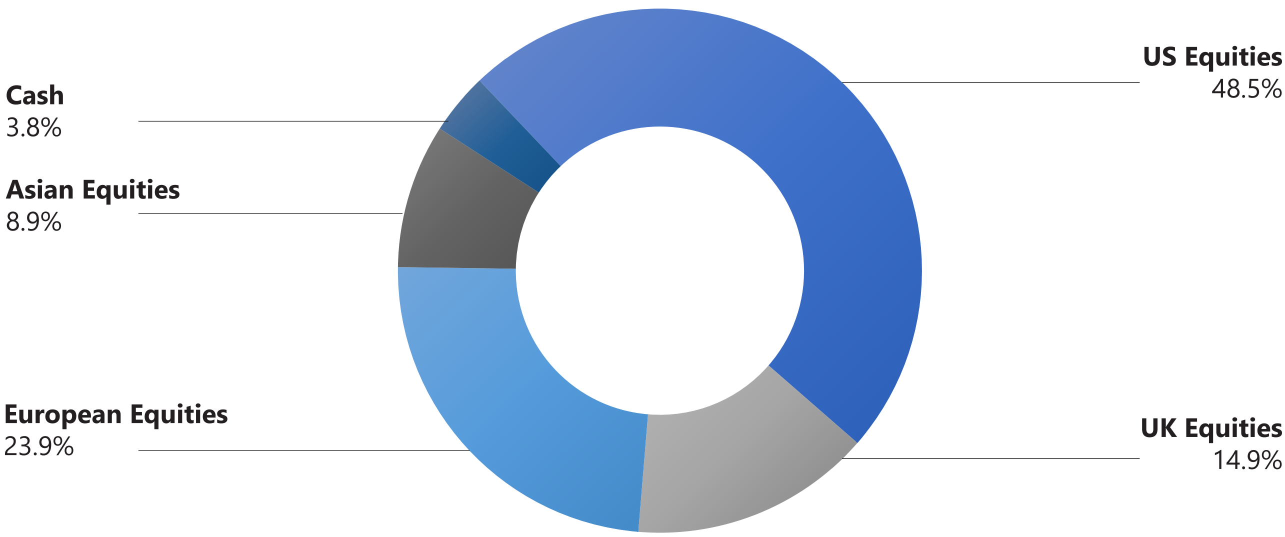
Fund Facts

Portfolio Managers	Pieter Fourie
Fund Inception	March 2014
Fund Size	$93.4m
Cash Distributions	Annually
Eligibility	Wholesale & Retail

Top 5 Holdings

Company	Weight %
Alphabet	4.9%
Heineken	4.3%
Booking Holdings	4.1%
Oracle	4.1%
Unilever PLC	3.9%

Asset Allocation



Portfolio Commentary

A high-level view of global equity performance tells a story of rising prices and returns of around 40% since the stock-market crash back in March. But when we dig beneath the surface, we find a two-tier market made up of a handful of large-capitalisation companies whose valuations have soared and small-to-medium-sized companies that are not faring so well. To illustrate this, a comparison of the year-to-date returns (as at end September) of the MSCI World Total Return Index (up 1.7%) and the MSCI World Equal Weighted Total Return Index (down 6.6%) shows an 8.3% difference. This is good news for investors since it means there are still growth opportunities to be found. But we must also be mindful that, while company earnings should improve, this will take time, and we will need to be patient.

Despite a return to lockdown in several western economies, there are signs the economy is recovering. The purchasing managers' index, which measures economic trends in manufacturing, has risen from 37 in April to 53 in September – the highest it has been for over two years. Factories are running, and inventory levels are being restocked. Unusually for a global recession, recovery is being hindered by the services sector, and this is likely to be the case until a Covid-19 vaccine has been found and governments can confidently open public areas without restrictions.

The extraordinary volatility of the market does allow us to make dynamic changes to the portfolio where markets overreact. Names like Samsung and Tencent both outperformed the market by 20% from the high point in September and illustrates just how polarised the market has become.

Samsung announced stellar results this month. The company benefited from growth in the semiconductor industry as 5G technology ramps up demand for new products which require ever more memory capacity. We first reduced Samsung in early January and added to the name in May upon significant weakness. We have owned Samsung now for close to 3 years and even thought the stock has returned 30% since then we believe the company remains well positioned and is attractively valued.

We have reduced our position in Tencent this month when the stock was up by 60% year to date. Tencent has been a good performer for us since we invested in December 2016 (+224%) and we maintain a 2,7% position in the fund. New names added during early part of the year include Heineken and Novartis. We are patient for our long term investment thesis to play out in Heineken and Novartis even though they have been left behind by a rampant market since the end of March. The weakness in both these names his month is frustrating but may allow us to add to our positions in the future.

Our decision to sell American Express in June on concerns about their exposure to travel related exposure is also vindicated as the stock is down 25% from its highs in June.

During October we also sold out of our position in Cognizant after a holding period of six years. More details on our decision to sell this name is provided under the portfolio activity section.

Over the last two months the additions of names like AbbVie, Becton Dickinson, Alibaba and Anthem have improved the quality of our holdings in the fund at attractive valuations.

Very depressed names like Bayer, Bookings Holdings and General Dynamics have held back our performance this year. We believe that based on normalised earnings all these names offer good value for long term investors like ourselves. We are excited about the growth prospects of high quality business like Google, Facebook, Tencent, Alibaba and Microsoft. All of these names have delivered returns between 20% and 60% this year far out pacing the returns of the market which is essentially unchanged.

We have reduced our exposure to Google, Facebook and Tencent due to strong rallies but remain long term investors and look for opportunities to add to these positions.

Visa has underperformed the market this year as its end markets have weakened due to the COVID19 epidemic. Any further sustained weakness in this name will be used as an opportunity to add to the position based on a strong recovery in earnings.

The outlook for equities over the next three to five years is one of lower returns and increased volatility as some companies will do better than expected while others disappoint. Valuations in many companies are high, making easy wins hard to come by; however, the market has repeatedly overlooked a number of quality businesses in favour of high-growth tech names. Although caution should be exercised, this provides opportunities for careful stock-pickers willing to do their homework.

Pieter Fourie
Portfolio Manager

Market Commentary

Global markets continue to be supported by record low interest rates, fiscal and monetary stimulus on an unprecedented scale, and the accelerated digitalisation of the global economy. In the last week of October, global markets suffered their worst week since March (MSCI index down 5.3%), as virus-related lockdowns across Europe and the last days of the highly-contested US election pushed up volatility and sent investors to the sidelines. Over the month of October, the Australian sharemarket outperformed global peers and rose +1.9%, buoyed by a market-friendly Federal Budget, effective suppression of the pandemic in Victoria, and the promise of further monetary stimulus.

The Covid-19 pandemic has been the defining event of our time and yet, so little is definitively known about it. The extent and duration of the economic dislocations that the pandemic is causing are unknown, but the effects on the global economy are likely to be prolonged. A deep recession is likely to have significant economic and political effects and estimates of the timing of economic revival are complicated by the dependence of economies on effectiveness in controlling the virus. Unlike previous recessions, this economic downturn and recovery differs in that the downturn was driven by government shutdowns; fiscal and monetary support has been faster and bigger; forced asset sales have been avoided; it is dependent on containing the pandemic; and it is accelerating structural change.

Within the Covid environment, businesses capable of adapting quickly to an online milieu have thrived, whereas many caught up in sectors such as bricks and mortar retailing, international travel, live entertainment, and so on, have struggled. All these changes have meant big winners and losers in financial markets. In this report, we touch upon the state of the Australian economy and prospects for next year, and on one of the issues that at present is impacting upon financial markets, namely the US Elections.

Australian households received the Federal Budget with enthusiasm, despite the promise of rising debt and deficits: consumer sentiment surging 11.9% in October. Employment dropped back a little less than expected in September, with the unemployment rate edging down to 6.9%. Despite this, the big news in October was the speech by RBA Governor Phil Lowe in which he signalled a further policy easing in early November. As expected, the cash rate and 3-year bond yield target were cut from 0.25% to 0.1%. The RBA will also start buying up both 3-year and longer term government bonds.

Governor Lowe said that the RBA wants "to see a return to labour market conditions that are consistent with inflation being sustainably within the 2% to 3% target range." We interpret this to mean that the RBA will not be increasing the cash rate until actual inflation is sustainably within that range. We do not expect the cash rate to be increased for the next two to three years, making assets such as shares and real property comparatively more attractive.

Australia is a mid-sized open economy in an interconnected world, so what happens abroad has a large impact on both our exchange rate and our yield curve. In the past, the interest rate differentials provided a reasonable gauge to the relative stance of monetary policy across countries. We anticipate further QE and yield curve management. The RBA will be tolerant of some rise in inflation and will be led by the global monetary policy context.

Welcome to Bidenomics

While we still await an official declaration that Joe Biden will be the next President of the USA - we hope that it is not significantly longer before the result becomes crystal clear. A clear reading of the indicators, though, suggests that we ought to be thinking about a change in US administrations on 20 January 2021, and with it the advent of a significant shift in both style and policy.

Joe Biden is a lifelong centrist who does not appear to be captive to any strongly-held ideology other than his admiration for ordinary working and middle class Americans. If Biden enters the White House in January 2021, he will confront an extraordinary set of circumstances: the US economy is clawing its way back from the sharpest slump in living memory; the legacy of the pandemic will include millions of long-term unemployed; public debts will soon exceed the all-time high of 106% of GDP; and America faces a wave of bankruptcies and accelerated digital disruption in many industries.

President-elect Biden has pledged to "build back better" – a stimulus that could be worth $2trn-3trn, part of a boost to annual spending of about 3% of GDP. His tax rises on firms and the wealthy would be significant, rather than punitive. He would seek to rebuild America's decrepit infrastructure, give more to health and education and allow more immigration. His climate-change policy would invest in research and job-boosting technology. Of course, much will depend upon the ability to obtain support from a Senate which may be controlled by the Republicans. Run-off elections for two Senate seats in Georgia will be held on 5 January next year.

Because of the challenging backdrop and Biden's lack of a fixed economic doctrine, the range of outcomes attributable to a Biden presidency is still open. Biden says his goals are to tilt the balance of American capitalism in favour of workers, not the rich. Hopefully, he will offer competent administration. He is not expected to reverse America's new protectionism, or significantly alter the relationship with China, and nor does he have a plan to resolve the country's long-term fiscal problems.

Adrian Ezquerro
Head of Investments