Clime International Fund

Monthly Investment Report

November 2019

Market Commentary - November 2019

The ASX200 delivered a strong return in November, with a total return of +3.3%. The trend of negative forecast earnings revisions continued into the month yet equity valuations remain elevated. The 12-month forward P/E for the Australian market sits at 17.4x, though the context of historically low global bond yields also remains.

While financial markets are strong, economic fundamentals remain relatively soft. Since the start of 2019, Australian consumers have benefited from three interest rate cuts, tax cuts, strong commodity prices and a bottoming in the housing market. Nevertheless, wages growth has been absent, consumer confidence weak, and retail spending soft. Drought, fires and "eco-anxiety" have certainly not helped, and further revelations about banks behaving badly have soured the mood of bank shareholders.

Financial markets experienced an upbeat month, signalling rising optimism - this is somewhat surprising, coming only a few weeks after the IMF described the global economy as "precarious". Indeed, 2019 looks likely to post the weakest global economic performance for a decade. This reflects rising US-China trade tensions, their dampening impact on exports and industrial production, and a global manufacturing recession; and yet investors appear to see green shoots of recovery next year.

The IMF and other forecasters expect 2020 to be better than 2019, but market moves in recent weeks raise the question whether the outlook is much improved. Investors' enthusiasm may be overblown. So far the evidence is mixed; some data suggest the slide in the global economy is coming to an end, but the pace of recovery is expected to be weak.

Financial markets are forward-looking, generally catching on to trends before they become obvious in the economic data. Markets have been pointing towards a broad recovery, and many are close to all-time highs. There are two broad explanations for this: firstly, there are few alternative investments available, with rates so low, and secondly, investors probably expect that prospects for corporate profitability have improved over the last few months.

Government bond yields, usually a good indicator of economic momentum, have risen across advanced economies. Global trade is showing signs of stabilisation. Much of the fear regarding the global economy in October stemmed from the fear that global trade wars would intensify. Yet during November, the news was mostly positive. A disruptive no-deal Brexit looks less likely after PM Boris Johnson withdrew objections to a customs border in the Irish Sea. And while tensions between the US and China ebb and flow on a daily basis, we expect ultimately it will be in both sides' interests to agree a deal.

More positive trends have become visible in trade data, with volumes growing in recent months. In November, investment bank JP Morgan noted that its index of global purchasing managers' orders improved by the largest amount in four years – albeit from a low base.

In the shorter term, a focus on rational asset allocation and on yield is essential. Compounding of returns will reward patience, but will require active management across and inside asset classes to ensure that capital is neither lost nor devalued. As always, a watchful eye must be diligently maintained, but we perceive that the risk of a major market retraction is fairly low because interest rates are low and unlikely to rise. The offset is that returns will be lower than the historical norm.

Head of Investments - Adrian Ezquerro

With expertise in equity analysis and investment management, Adrian is focused on the delivery of strong risk-adjusted returns for clients. Adrian joined Clime Investment Management in 2007 and is responsible for the management and overall performance of Clime's investment strategies, representing gross funds under management in excess of $900 million.

Adrian's role includes the identification and evaluation of investment opportunities across a broad range of asset classes, sectors and market cap segments. His prior investment management roles at Clime have included Analyst, Senior Analyst and Portfolio Manager – Smaller Companies. Adrian was the Founding Portfolio Manager of the Clime Smaller Companies Fund, having seeded the fund and overseen its growth and significant success since inception. He also researched, developed and implemented Clime's proprietary Quality Score, a quantitative filter used to score and rank equities.

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Fund Performance - November 2019

Having spent much of 2019 worrying about the very real possibility of a global recession, investors are heading into the holiday period feeling slightly more relaxed about the outlook for next year. Interest rate cuts by the Federal Reserve, and an easing of monetary policy around the world, appear to have seen off a full-blown recession in favour of a more palatable slowdown in growth.

Although we must be mindful of the risks associated with a slowing economy, and we don't yet have a resolution to the US-China trade war, the forward looking data has stabilised.

The US yield curve is no longer inverted, meaning the yield on long-term US Treasury Bonds is better than for short-term bonds. Given that an inverted yield curve has traditionally been a pre-cursor to recession, this is welcome news. At the same time, purchasing managers' indices have stabilised across the G20. This measure gives an idea of the prevailing direction of the wider economy, and we expect the current rate of growth to be sustained. Indeed, the most recent US GDP growth rate of 1.9% is consistent with the potential growth forecast. In times of slower economic growth, some companies will inevitably perform better than others. We continue to focus on well-run businesses that are less dependent on the economic cycle and that can deliver sustainable returns, even if economic growth disappoints.

To enable growth, we expect government spending to intensify - especially since central banks are keeping the cost of borrowing so low. Politicians are pointing to 'modern monetary theory' and low bond yields as evidence that the level of government debt doesn't matter.

During November, we added to our position in Johnson & Johnson, Reckitt Benckiser and Intercontinental Hotels Group. We trimmed our positions in Microsoft, Roche and Unilever and exited our positions in Standard Life and Lloyds. We initiated a new position in Anheuser-Busch Inbev.

Portfolio Return (1 year) Wholesale	Portfolio Return (1 year) Retail	Fund Size (Wholesale)	Fund Size (Retail)	Exit Unit Price (Wholesale) (As at 30 Nov 2019)	Exit Unit Price (Retail) (As at 30 Nov 2019)
17.4%	**17.2%**	**$100.6m**	**$5.0m**	**$1.2984**	**$1.0698**

Performance

	1 month	3 months	6 months	1 year	2 year	3 years*	Inception*
Wholesale (AUD Portfolio Return)	3.4%	4.3%	11.9%	17.4%	10.7%	12.1%	9.8%
Retail (AUD Portfolio Return)	3.4%	4.2%	11.8%	17.2%	10.3%	11.8%	8.1%
Benchmark**	4.7%	7.2%	10.8%	16.2%	13.1%	12.0%	11.0%

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.

Prominent Holdings

Company	Weighting %
SPDR Gold Trust	5.3%
Medtronic	4.7%
Allergan	4.5%
Bayer	4.3%
Alphabet	4.3%

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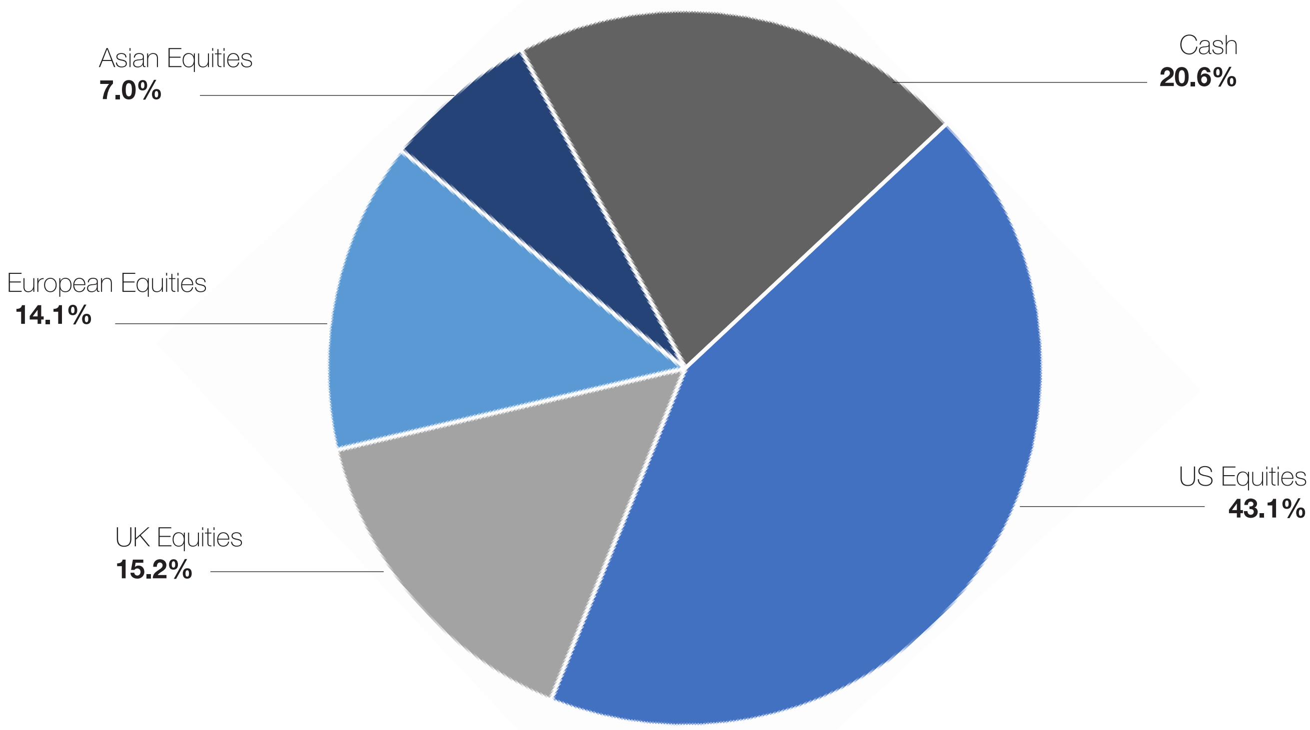
Asset Allocation



Distributions

Period Ended	Wholesale Units (cents per unit)	Retail Units (Cents per unit)
30 June 2019	8.2959	7.1365
30 June 2018	5.5659	4.5878
30 June 2017	3.9597	3.3798
30 June 2016	9.0831	7.5602

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Investment Objective
The objective of the Fund is to provide consistent capital growth and a growing level of income over the medium term (3-5 years) by investing in publicly-listed equity securities listed on a global basis, focussing predominantly on companies with a market capitalisation in excess of USD 1 billion. The Fund may not achieve its investment objective. Returns are not guaranteed.

Investment Methodology
The development and management of the Clime International Fund is carried out with Sanlam Private Investments (UK) (SPI UK) as the manager of the fund.

Clime Asset Management Pty Limited and SPI UK have developed an investment strategy and process that seeks to deliver strong risk-adjusted returns, over the long-term.

The Clime International Fund will select high quality individual investments to build an appropriately diversified, high conviction global portfolio. Through rigorous fundamental analysis we will identify high quality securities issued by businesses which contain many if not all of the following characteristics:

- A strong balance sheet enabling the business to service debt comfortably;
- A high cash return on equity;
- Relatively low capital requirements allowing a business to generate cash while growing;
- High market share in their principal product and/or service lines; and
- Short customer repurchase cycles and long product cycles

Investment selection will be of securities of businesses with management teams that typically act with the following behaviours:

- They undertake rational and justifiable corporate management;
- They maintain high returns on capital whilst generating excess cash after all reinvestment needs into the business; and
- They make synergistic acquisitions to ensure above average long-term growth.

The Fund manager will aim to achieve the objectives of the Fund by selecting individual listed securities. These securities can include:

- Ordinary Shares
- Preference Shares
- Hybrid medium term notes

The Fund manager will not be constrained by region or sector. The investable universe will be drawn from a broad universe of international securities. individual sector, security and liquidity limits ensure appropriate diversification with this high conviction portfolio.

The following additional constraints apply:

- No single holding in any security may constitute more than 6% of the Fund at any one time;
- The Fund may hold a maximum of 35 different securities at any time; and
- The Fund may not hold more than 5% of the total shares outstanding of any single security at any time.