Clime International Fund

Monthly Investment Report

October 2019

Clime International Fund

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Market Commentary - October 2019

The month of October delivered several market and macroeconomic themes worth highlighting. The IMF provided a more circumspect update specific to global growth forecasts; optimism surrounding a 'phase one' trade deal emerged; both the RBA and the US Federal Reserve cut interest rates; and the domestic 'AGM season' kicked off.

Australian equities lagged the 1.9% return of global markets during the month, with negative returns from gold, information technology and financial sectors more than offsetting the strong returns generated by the health care sector (+7.3% for the month). The rise in global equities for the month was significantly driven by Asian markets, with the Japanese market up +5.4% and the MSCI Asia ex Japan index delivering a return of +4.6%.

We suspect the rally in Asian equities particularly reflects the emerging optimism related to the announced 'phase one' trade deal between the US and China. US President Donald Trump suggested that the two countries have come to a 'substantial phase one deal', one that would seek to address issues encompassing agricultural trade, intellectual property and financial services.

Officials from both China and the US have since indicated that a roll back of tariffs on each other's goods would likely occur on completion of the phase one deal. In a sign of the geopolitical times, we remain measured when assessing the probability of a significant reduction of trade related hostilities in the near term.

The significant slowdown in manufacturing activity particularly highlighted the meaningful ripple effects being felt globally. A more cautious business sector, whereby significant investment decisions continue to be postponed, is now directly impacting economic growth rates. As we have highlighted in recent updates, weak manufacturing data continues to emanate from major economies including China, Germany and the US, though easier monetary policy has somewhat softened broader ramifications (to date).

The International Monetary Fund (IMF) presented its outlook for global growth during the month, with its message best described in its blog headline, 'Synchronised Slowdown'. The IMF has forecast global growth to be 3.0% for 2019, its lowest level since 2008–09, and a 0.3 percentage point downgrade from the April 2019 World Economic Outlook.

Despite projecting a rebound to 3.4% growth in 2020, the IMF did acknowledge that 'with uncertainty about prospects for several countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize.'

Domestically, we have observed a further round of weak (versus expectations) retail sales data coupled with another month of negative new vehicle sales data. Post month end, the Federal Chamber of Automotive Industries (FCAI) noted that new vehicles have now seen

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the 19th consecutive month of decreasing sales in the Australian market, with October 2019 sales down 9.1% compared to October 2018. In aggregate, we continue to see sluggish domestic consumption trends.

While extremely low interest rate settings have largely driven equities higher in CY2019, we note that concurrently forecast earnings trends have continued to moderate. This is particularly apparent within ASX large caps, with the ASX100 forecast to generate earnings growth of just +4.1% for FY2020 and -2.0% for FY2021. This contrasts with small cap earnings forecasts, which remain positive for both FY2020 and FY2021. We therefore continue to see significant merit in Clime's domestic 'all cap' strategy, which seeks to generate returns by investing in quality companies across the market cap spectrum.

We look ahead to November with significant interest, with the month bringing substantial opportunity to continue implementing our research program. Several investor conferences, coupled with a large number of AGM updates and company management meetings, will see your investment management team well positioned to execute in the coming months.

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.

Clime International Fund

Fund Performance - October 2019

The Clime International Fund gained 0.4% during October versus the MSCI World's gain of 0.4%. Calendar year to date the Fund has achieved 14.8% versus the composite benchmark's return of 10.1%.

Sage (+11.1%) has recovered after posting some poor results in July. They report their Q3 results later in November. When we bought into the company, Sage offered a free cash flow yield of 4.6% based on our estimates of free cash flow to the end of their fiscal year ending September 2020. Our forecasts reveal a growth rate of between 13%-14% compound over the next 4 years in both earnings per share and free cash flow. This is based on our assumptions that the company will continue to improve its cloud computing services and maintain a healthy retention ratio for its existing client base. In our opinion Sage offers relatively good value versus some more nimble competitors like Intuit and Xero.

Standard life (+9.5%) recovered during the month as cyclical stocks and emerging markets were favoured at the expense of developed markets. In general financials and financial services industries strongly outperformed as bond yields backed up and investors favoured high beta stocks geared towards a more favourable cyclical outlook.
This also read through in the performance of Lloyds (+8.2%) during the month as higher bond yields typically indicate a more favourable future net interest margin environment.

Yum! Brands (-12.2%) performed below expectations during the month on the back of disappointing results. Yum's third brand, Pizza Hut, continues to struggle as the company look to stabilise the business.

Portfolio Return (1 year) Wholesale	Portfolio Return (1 year) Retail	Fund Size (Wholesale)	Fund Size (Retail)	Exit Unit Price (Wholesale) (As at 31 Oct 2019)	Exit Unit Price (Retail) (As at 31 Oct 2019)
12.9%	**12.7%**	**$96.9m**	**$5.0m**	**$1.2561**	**$1.0349**

Performance

	1 month	3 months	6 months	1 year	2 year	3 years*	Inception*
Wholesale (AUD Portfolio Return)	0.4%	3.0%	4.6%	12.9%	10.0%	11.8%	9.3%
Retail (AUD Portfolio Return)	0.4%	3.0%	4.4%	12.7%	9.6%	11.5%	7.4%
Benchmark**	0.4%	2.6%	6.7%	11.9%	10.9%	10.6%	10.3%

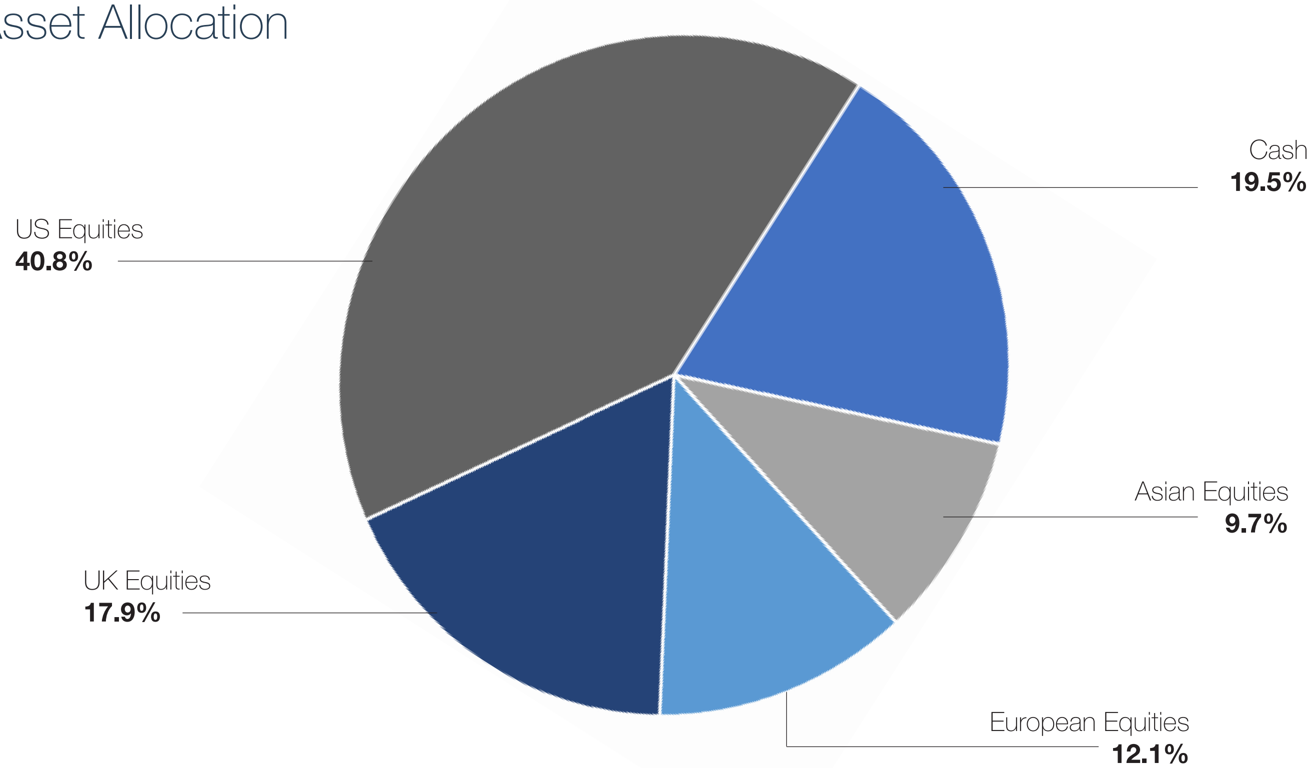
Inception: Wholesale Units: 4 March 2014. Retail Units: 11 March 2015.
*Performance figures for more than 1 year are annualised, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period.
** 10%p.a. from 4 March 2014 and then MSCI World Net Total Return Index in AUD from 1 July 2019.

Prominent Holdings

Company	Weighting %
SPDR Gold Trust	5.6%
Microsoft	4.9%
Medtronic	4.7%
Bayer	4.5%
Allergan	4.4%

Clime International Fund

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

Clime International Fund

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.