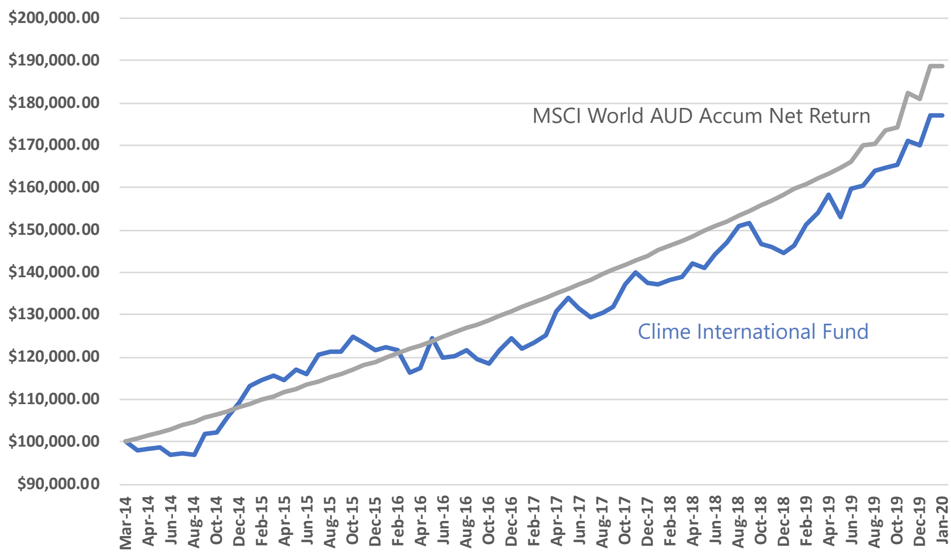
Clime International Fund

Monthly Report January 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
4.2%	21.2%	10.2%	$109.5m



	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
Fund Net Return (Wholesale)*	4.2%	7.1%	10.3%	21.2%	13.4%	9.4%	10.2%
Benchmark^	4.4%	8.3%	11.1%	18.3%	12.7%	11.6%	11.4%
Excess Return	-0.2%	-1.2%	-0.8%	2.9%	0.7%	-2.2%	-1.2%

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.

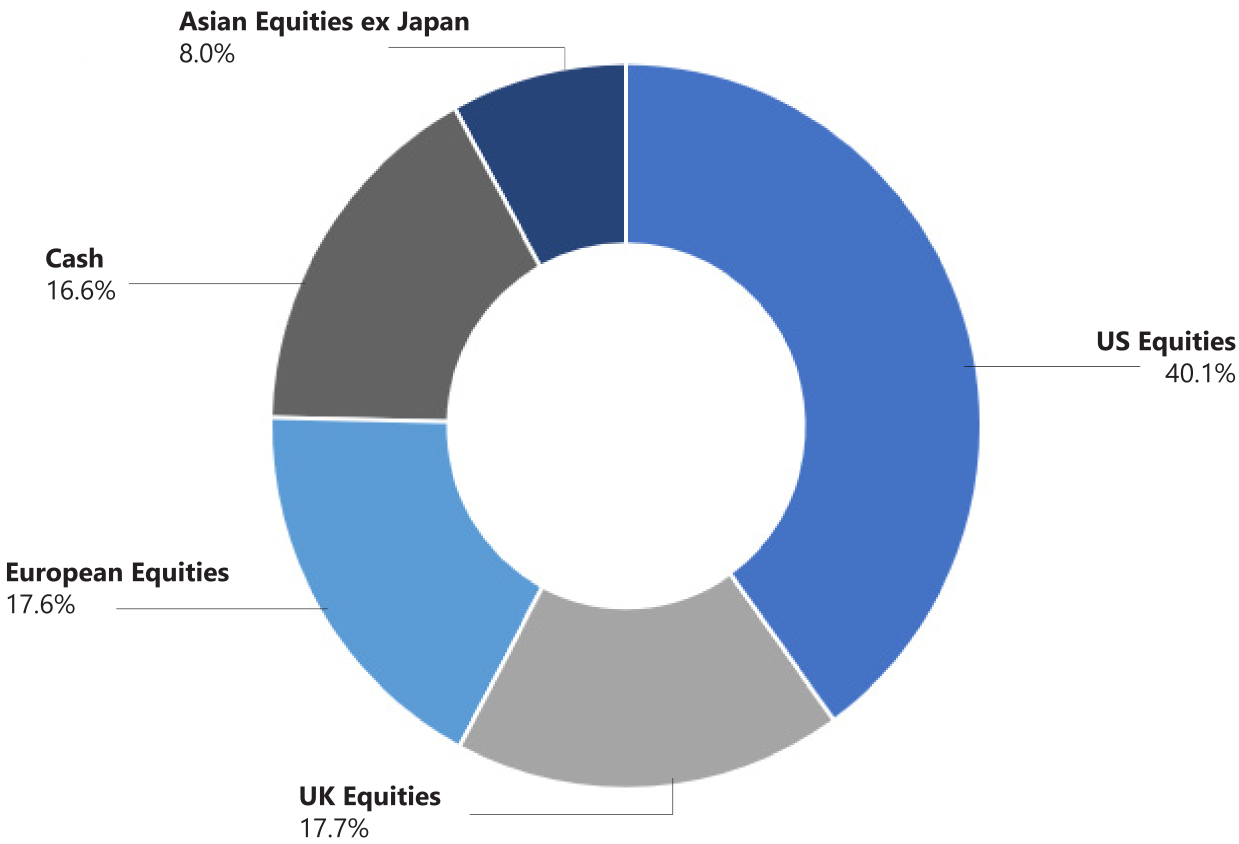
Fund Facts

Portfolio Manager	Pieter Fourie
Fund Inception	March 2014
Fund Size	$109.5m
Cash Distributions	Annually
Eligibility	Wholesale & Retail

Top 5 Holdings

Company	Weight %
Reckitt Benckiser	4.8%
Intercontinental Hotels Group	4.7%
Alphabet	4.6%
Bayer	4.4%
Medtronic	4.4%

Asset Allocation



Portfolio Commentary

This time last year it was hard to escape the prospect of a global recession. Twelve months later and we are looking forward to a recovery in global economic growth, thanks to progress in finding a US-China trade compromise, and the likelihood that President Trump will be economically supportive leading up to the presidential election in November. Another reason for this turnaround is that central banks were quick to reverse interest rate hikes last year when they realised this approach was destabilising the global economy. Now they seem committed to keeping interest rates low, and we expect to see moderate economic growth this year as a result. This will sustain high levels of employment while giving more spending power to the consumer.

Equities offer the opportunity to grow earnings, and therefore returns – especially with a backdrop of supportive government and monetary policy. As a result, there has been a flight to equities as investors accept they must take more risk if they want to achieve some return. Inevitably this has become a double-edged sword. Returns last year were very good, but equities are now looking over valued and new opportunities are hard to find. At the same time, seemingly successful businesses are borrowing heavily to drive impressive growth and are at great risk should the cost of that borrowing increase – an issue that surfaced when US interest rates were increased in 2018. We think the answer is to stay invested in solid and established companies that are well positioned for an economic downturn and an inflation shock in equal measures. At the same time, we look for hidden opportunities, where good companies have been unfairly undervalued. They're harder to find at times like these, but with detailed research and analysis, such opportunities do exist.

During the month we exited our position in Allergan, and reduced our positions in Bayer and Booking Holdings.

We added to our positions in Yum! Brands, Danone, Anheuser-Busch Inbev, Reckitt Benckiser, Intercontinental Hotels Group, Unilever, Sabre and Cognizant.

Pieter Fourie
Portfolio Manager

Market Commentary

The year has started with mixed economic news: China and the US have agreed on a phase one trade deal, global central banks have maintained low interest rate settings and global manufacturing activity appears to be picking up. The IMF has stated that the global economic downturn in trade and manufacturing is bottoming out. Domestically however, the Australian economy continues to operate at below trend growth.

The S&P/ASX200 Accumulation, All Ordinaries Accumulation and Small Ordinaries Accumulation delivered returns of 5.0%, 4.7% and 3.4% respectively for the month. The robust returns generated by the Australian sharemarket in January largely reflect multiple expansion as aggregate earnings forecasts continue to be downgraded.

Economic fundamentals in Australia have deteriorated somewhat on the back of two recent factors; bushfires and the coronavirus pandemic. The bushfires have damaged huge swathes of the countryside, and will impact agriculture, tourism, and the local economies of many small and regional country towns. They have also damaged consumer confidence, which in turn is likely to further impact the retail sector.

The outbreak of coronavirus in China and its spreading across the world is a threat to inflows of international tourists, and to Australia's services trade account. The virus outbreak adds to the inevitable travel downturn caused by the bushfires.

In 2018, the Australian economy benefited from the visits of more than 1.4 million visitors from China. We expect this influx will now be severely checked and the next 6 months will be difficult for Australian companies exposed to this (such as tourism operators, education providers and the luxury retail sector). At this stage, the severity of the pandemic can only be roughly estimated – no one really knows the extent to which the Chinese economy will be impacted, or the flow-on effects for Australia.

In Australia, the east coast residential property market is back in full swing. CoreLogic housing prices for December showed strong gains in Sydney and Melbourne. Rising housing and share prices should be a positive catalyst for consumer sentiment. The latest job figures saw the unemployment rate fall to end 2019 at 5.1%, the lowest level since March last year. Other positives on the domestic front have been rising commodity prices, especially iron ore. On interest rates, Reserve Bank Governor Philip Lowe has stated that he expects rates will be "lower for longer".

Internationally, some of the key questions for 2020 are: have central banks laid the groundwork for an extension of the economic growth cycle, will corporate earnings rebound or does the business cycle turn down, who will President Trump fight against in the US Presidential election, and just how severe will the impact be of the coronavirus pandemic. We anticipate that the mood of the market will wax and wane over coming months, as the answers to these questions start to become clear. By extension, we expect markets to remain volatile.

Despite the various issues confronting markets, valuations are stretched on most fundamental measures. Thus, plenty of good news appears to be accounted for in equity market valuations. Ahead of what may be a volatile February reporting season, Clime portfolios are positioned somewhat more conservatively with slightly elevated cash positions.

Adrian Ezquerro
Head of Investments