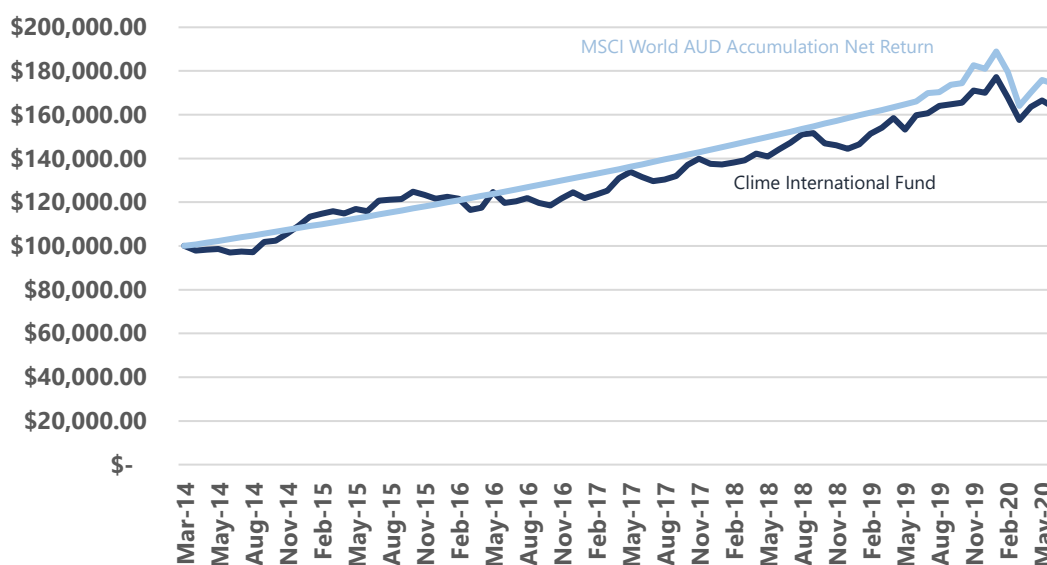




## Quarterly Report June 2020

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
<b>3.7%</b>	<b>2.2%</b>	<b>8.1%</b>	<b>\$99.5m</b>



	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
<b>Fund Net Return (Wholesale)*</b>	-1.9%	3.7%	-3.9%	2.2%	7.6%	7.2%	8.1%
<b>Benchmark^</b>	-1.0%	6.1%	-3.8%	4.8%	8.2%	8.9%	9.2%
<b>Excess Return</b>	-0.9%	-2.4%	-0.1%	-2.6%	-0.6%	-1.7%	-1.1%

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

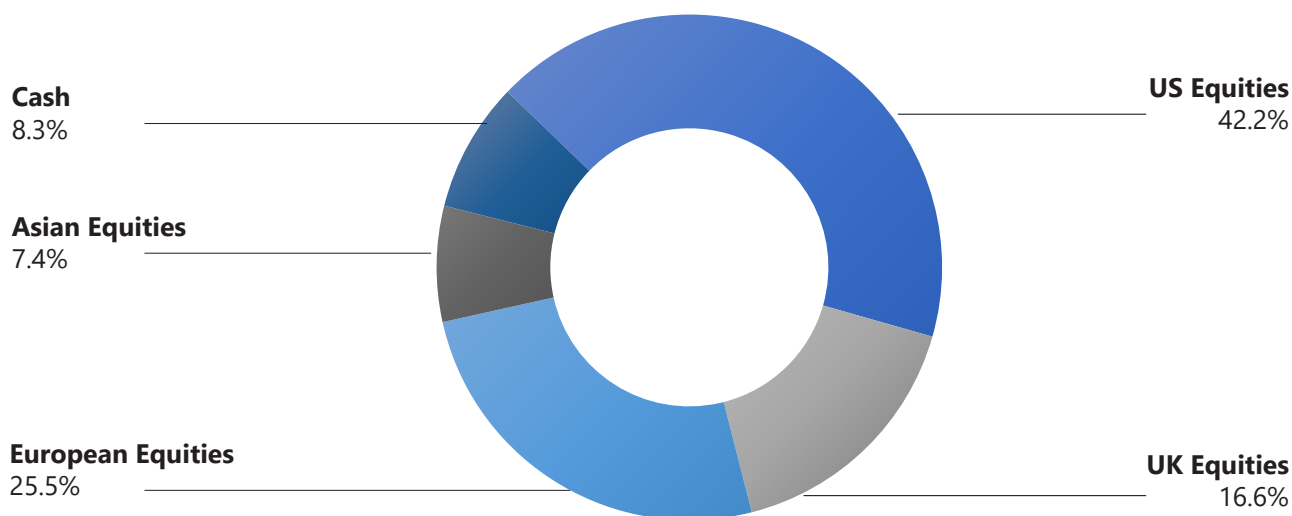
<b>Portfolio Managers</b>	Pieter Fourie
<b>Fund Inception</b>	March 2014
<b>Fund Size</b>	\$99.5m
<b>Cash Distributions</b>	Annually
<b>Eligibility</b>	Wholesale & Retail

### Top 5 Holdings

Company	Sector	Weight %
<b>Alphabet</b>	Communications	4.7%
<b>Booking Holdings</b>	Tourism	4.4%
<b>Facebook</b>	Technology	4.3%
<b>Bayer</b>	Healthcare	4.3%
<b>Johnson &amp; Johnson</b>	Healthcare	4.2%



## Asset Allocation



## Portfolio Commentary

Given the continued uncertainty surrounding Covid-19, it would have been wrong to assume a sharp recovery in equity markets after such a deep shock back in March. Yet, here we are. With equity returns now higher than they were for most of 2019, the recovery has been extraordinary.

This is largely due to the vast amount of government stimulus being pumped into the economy – particularly in the US – and signs that the real economy is re-opening for business. However, as Beijing was forced back into lockdown in mid-June, markets wobbled, and this was a stark reminder that nothing can be taken for granted.

### An improving but tentative outlook

While the level of volatility has subsided over recent weeks, it remains elevated, and we should expect further jitters until there is more certainty over a vaccine. Forward looking economic indicators, such as the Purchasing Managers' Index (PMI) are improving, but they are still predicting an economic contraction. Indeed, the global economy is unlikely to recover for two years or more, and there will be a significant impact on certain sectors of the job market. So, while there is plenty to feel optimistic about, we must continue to remind ourselves that we're in the middle of one of the most significant economic events in recent history, and times are likely to be tough.

Back in March, the dramatic correction meant we were comfortable taking slightly more risk since prices were low. As valuations have continued to recover, we have sold some of those opportunistic stocks to realise their value and lessen some of the risk we were taking. We are now focusing on companies that offer good long term returns and have a stable cash flow, and those that can protect portfolios from the threat of inflation.

During the month, we sold our American Express position after a very strong performance from mid-May (+40%). American express has now pulled back over 18% from where we sold it, leaving the Clime International fund with no financials exposure except for its position in Visa which was acquired close to the March lows earlier in the year.

We have continued to trim Tencent as the stock is up by over 50% from October last year in US\$.

**Pieter Fourie**  
Portfolio Manager



## Market Commentary

While we remain in the midst of a pandemic-induced global recession, we bear in mind that in due course, this too will end. History is clear – all recessions end, and economic downturns are followed by economic recovery. This recession will be no different even though its genesis is unique, and has been a truly shocking experience for markets and the populace alike.

The severity of the global recession and the significance of policy responses have been extraordinary. But we must guard against confusing short term market price movements with the long term prospects of an investment. The daily movement in the prices of most liquid assets generally reflect the speed and flow of “random information” and elevated levels of “noise”, whereas quality assets that benefit from long term economic growth eventually increase in “value” to reflect rising cash flows generated from that growth.

Over time, sometimes quite a long time, the price of the asset will converge with its value. Rational investors patiently seek to generate their returns over long periods. They also diversify their investments across various asset classes and utilise compounding as much as possible.

The onset of this recession has been sharp, and deep. While the policy responses likewise have been rapid and broad, and will dampen the severity of the downturn; they should also continue to aid and hasten the recovery. An unknown factor remains the trajectory of COVID-19 and the burgeoning risk of a second wave. While the timing of any medical solution is still undetermined, history suggests that eventually, human ingenuity will probably discover effective anti-viral drugs and vaccines.

Global central banks have acted in unison to lower the cost of capital and to ensure financial shocks and disruptions are quickly dealt with. In some respects, they appear to be behaving with desperation as they are charged with the funding of government liabilities that have been amassed with unprecedented mountains of debt.

The numbers are huge. To date, the US Federal Reserve balance sheet has expanded to 39% of US GDP – while this is dwarfed (in proportionate terms) in other jurisdictions, as in the European Central Bank (50% of GDP) and the Bank of Japan (117% of GDP). In Australia, the RBA balance sheet has expanded to 14% of GDP after outlaying \$50 billion on asset purchases designed to drive down the bond yield curve (with a specific target of 0.25% for 3 year bonds). In years ahead, these debts will need to be reduced and repaid. In the interim, increased leverage in the global financial system introduces increased risk and lowers resilience.

The path to full recovery for Australia’s economy is unlikely to occur until some point in 2022 at the earliest. It may be that FY23 is the year that Australia’s economic activity and output matches that of FY19. The closure of our borders to international travellers has affected both our tourism and education sectors. Tourism is our fourth largest export earner; in 2019 there were 9.3 million international tourists to Australia who spent a total of \$44 billion. Tourism accounts for 8% of our workforce.

Education is also a large export and generated \$38 billion in 2019. In 2020, this revenue stream will be decimated and any recovery in the first half of 2021 will require a significant commitment to an arrival isolation program. Another headwind is the slowing of population growth. It is likely that FY21 will see Australia’s lowest population growth rate since World War 2.

These observations suggest a significant weakening through 2020 of Australia’s production and income. When the economy recoups its 2019 level in a few years’ time, it will occur with a moderate increase in both our population and work force. Thus, the per capita income of Australia in FY23 will be lower than in FY19. It is also likely that our unemployment rate in FY23 will be higher than in FY19.

Our view is that after a period of sharp retracement in asset prices, there will likely be a long period of subdued investment returns. The best indicator of this is both the low actual and negative real yields of long term government bonds, which suggest that investment returns across the range of asset classes will be lower for a sustained period.

Whilst the short term is always hard to predict, the longer term is more certain. Because this recession is both sharp and deep, the initial recovery off this lower base will probably be stronger than usual. This gives the appearance of a decoupling of market prices from the short term economic pain that is widely felt and seen. It also leads to seemingly logical speculation that market prices are recovering too quickly, will falter and that a correction is imminent.



Thus, we are concerned that many of today's market prices for liquid assets are already reflecting the expectation of full economic recovery. This implies that in some instances, stock and other asset prices may be excessively optimistic, or indeed over-valued.

We cannot know with any degree of certainty if this will be the case or not. But we do believe that liquid asset prices will be volatile throughout the journey back to recovery. Price volatility is the natural result of zero interest costs and rampant currency printing which creates the fuel for excessive speculation.

Our view is that investors with medium to long term time horizons should stay exposed to growth assets if they are to achieve the returns they require to meet their longer term pension liabilities. The exposure to growth assets (mainly equities and property) can be supplemented and balanced by a measured exposure to corporate debt securities.

**Adrian Ezquerro**

Head of Investments