

September 2021

“Acknowledging there are a number of short-term headwinds the medium term macro outlook remains positive”

Your **International Fund**





About your International Fund

Fund Facts

The Clime International Fund ("Fund") aims to provide consistent capital growth and income over the long term (5-7 years) by providing investors with exposure to international share markets. Whilst the Fund invests predominately in developed markets it may also have an allocation to shares in emerging markets.

Fund Benefits

The Fund brings together Clime's and Mercer's aligned investment beliefs, best ideas and research to provide investors with access to:

- a portfolio that is diversified across investment managers and styles to smooth market volatility;
- exposure to both active and passive management through local and global managers;
- dynamic asset allocation strategy involving medium term portfolio changes in response to changing market conditions.

Investor Suitability

This Fund is designed for investors who:

- are looking for exposure to international equities using a multi-manager approach;
- have a minimum of 5 years to invest.

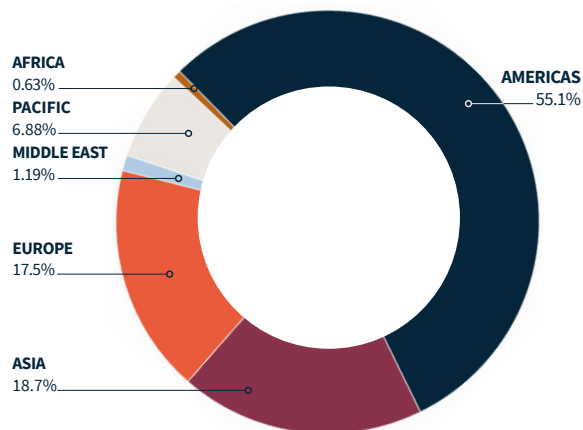
Risk Management

This Fund is a medium to high risk rating investment given the exposure to global markets. International investments may be more affected by political and economic uncertainties, lower regulatory supervision, movements in currency and interest rates and possibly more volatile, less liquid markets. Our multi-manager approach involves selecting optimal combinations of investment managers to achieve a level of diversification to mitigate risks.

Top 5 Holdings

Company	Weight
Microsoft Corporation	3.6%
Amazon.Com, Inc.	2.8%
Apple Inc.	2.2%
Alphabet Inc	1.7%
Unitedhealth Group Incorporated	1.4%

Regional Allocation



Asset Allocation by Industry

Industry	Weight
Communications Services	8.09%
Consumer Discretionary	12.70%
Consumer Staples	4.39%
Energy	3.01%
Financials	14.01%
Health Care	11.32%
Industrials	11.72%
Information Technology	23.95%
Materials	7.51%
Real Estate	1.62%
Utilities	1.67%

Performance

	1 month	3 months	6 months	1 year	3 years p.a*	5 years p.a*	Since Inception p.a*
Net Portfolio Return (Wholesale)*	-3.6%	2.7%	11.2%	20.6%	9.4%	10.7%	9.5%
MSCI All Country World ex Australia NR ^	-3.0%	2.9%	12.4%	26.5%	13.9%	12.3%	11.5%

Inception: Wholesale Units: 4 March 2014.

*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. The returns shown above are reflective of the Wholesale class only. Returns for the Retail class will be lower due to the higher fees associated with this investor class.

^10% p.a. from the 4th March 2014, the MSCI World Net Total Return Index in AUD from 30th June 2019, the MSCI All Country World ex Australia Net Total Return Index in AUD from 30th April 2021



Market Commentary

Concerns related to the pandemic delta wave, supply chains, iron ore pricing and the Evergrande crisis sent most global market sharply lower during the month. Global equities on a hedged basis posted modest decline in Q3, however, the depreciation of the Australian dollar against major developed markets saw the MSCI All Country World ex Australia Net Return Index rise 2.9% for the quarter. Emerging market equities fell 4.5% in Q3 in AUD terms as China continued to negatively weigh on the region.

During their September meeting, US Federal Reserve (Fed) officials indicated that they expect to soon slow the asset purchases they have been using to support the economy and predicted they might raise interest rates next year. This sent a clear signal that policymakers are preparing to curtail emergency monetary help.

Yet the virus persists, and many remain unvaccinated, preventing a complete return to normal activity. External threats also loom, including tremors in China's real estate market that have put financial markets on edge.

Acknowledging there are a number of short-term headwinds the medium term macroeconomic outlook remains positive nevertheless, for the following reasons:

- Whilst economic growth has hit a soft path, economies remain in the early cycle of a strong economic recovery. Current weakness is driven by idiosyncratic factors, which should fade in the coming quarters.
- The delta variant and subsequent lockdowns have had some impact on consumption; however, vaccines have been shown to drastically reduce the risk of suffering from a severe case of the disease.
- It is difficult to predict how long it will take for supply to recover, and some sectors may face issues over the medium term. Market forces will likely align supply with underlying demand in many sectors over coming quarters. Government intervention is a potential risk to this view.
- Inflation remains more persistent than expected earlier in the year. Central banks continue to stick to their narrative that inflation is transitory. A strong economy will likely be able to handle tighter policy and if economic growth does not materialize, policy is less likely to tighten. Risk to this view is the onset of stagflation but is generally deemed a low risk at the moment.
- China's ongoing regulatory crackdown has been mostly if not fully discounted in Chinese equities, and the global economic impact appears to be limited.

Portfolio Commentary

Over the quarter, the Clime International Fund returned 2.7% (after fees) marginally underperforming the MSCI AC World ex Australia Net Return Index by -0.2%. The Fund held a slight overweight to emerging market equities over the quarter, which was a detraction whilst investors became concerned over China's regulatory crackdown and Evergrande. The slightly positive tilt to emerging markets reflects our belief that much of these concerns have been factored into prices, leaving room for upside surprises.

The Ironbark Royal London Concentrated Global Share Fund returned 3.4% (net) for the quarter. The fund underperformed its benchmark over the quarter – stock selection in Consumer Staples and Financials was the main drag.

Key contributors for the quarter include Old Dominion Freight Line, Constellation Software and Bridgestone Corporation. Key detractors for the quarter were Ocado, Suncor Energy and Samsung Electronics.

Old Dominion Freight Line, an American less than truckload shipping company that is in the 'compounding' category of the corporate life cycle, performed strongly amid the current shortage of truckers. As supplies of many goods are constrained Old Dominion Freight Line's premium service offering focusing on delivering on time and undamaged is more valuable than ever to customers.

Constellation Software, a 'mature' Canadian diversified software company that completed 28 acquisitions of software companies during the third quarter, surpassing quarterly average levels. The company has an exceptional track record of generating an attractive return on capital from its acquisition driven model.

Bridgestone is a 'turnaround' multinational Japanese auto and truck parts manufacturer founded in 1931. Global tyre demand has largely recovered and initiatives under the mid-term business plan (2021-23) look to be paying off. The outlook for the rest of 2021 and 2022 is bright.

Ocado, a UK-based 'accelerating' business specialising in online grocery solutions and logistics detracted as consumers continued to revert back to pre-pandemic consumption patterns. We believe that their technology is superior to the competitors, and that the cost advantages that this superiority can deliver is being underestimated in the long run.

Suncor Energy, a Canadian integrated energy 'turnaround' company specialising in production of synthetic crude from oil sands, detracted due to oil prices being flat in the third quarter after a strong first half of the year. Energy prices are seeing upward pressure and there is little priced into the Suncor stock price.

The company is also focused on reducing their carbon emissions profile through investments in new projects.

Samsung Electronics, a South Korean 'mature' multinational electronics corporation, pulled back during the third quarter amid improving inventory levels and as demand driven by the working from home trend started to ease. Nevertheless, on a valuation basis the company continues to be good value.

The **William Blair Global Equity Fund** returned 4.7% (net) for the quarter. Third quarter outperformance was primarily driven by positive stock selection across most sectors.

Key contributors for the quarter include holdings in the Health Care and Information Technology sectors. Key detractors included an overweight allocation to the Consumer Discretionary sector, coupled with below average stock selection within the Financials sector.

Charles River Laboratories is a contract research organisation (CRO) that has evolved to be the global leader in the early stage portion of the research market with a dominant market share lead, working on 85% of all FDA-approved drugs in both 2018 and 2019.

Atlassian, a software company within Information Technology, was an additional source of outperformance.

AIA Group Ltd (within Financials) hindered relative results.

During the period, Information Technology exposure was increased through the purchase of **Autodesk Inc.** a leader in computer-aided design software with a focus on architectural, product engineering, and construction end markets. Health Care exposure was also increased during the period funded by reductions to Consumer Discretionary holdings. From a geographic perspective, notable adjustments were increases to the US and Japan, offset by a decrease to Emerging Asia. The portfolio's weighting in Emerging Markets approximated +8.66% at the end of the period, down from +9.76% at the beginning of the period.



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