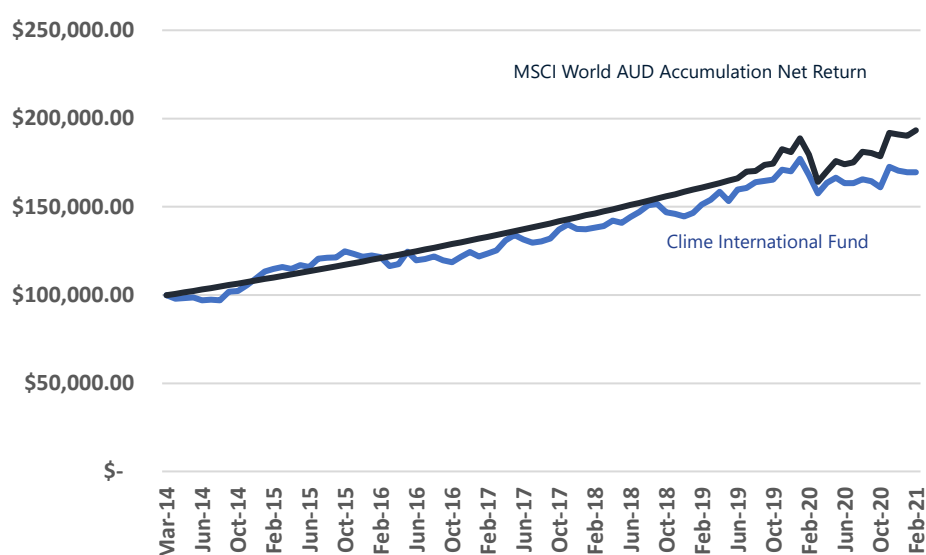




## Monthly Report February 2021

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.

3 Month Net Return (Wholesale)*	1 - Year Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)*	Total Fund Size
<b>-1.8%</b>	<b>1.0%</b>	<b>7.9%</b>	<b>\$94.7m</b>



	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
<b>Fund Net Return (Wholesale)*</b>	0.0%	-1.8%	2.4%	1.0%	7.1%	6.9%	7.9%
<b>Benchmark^</b>	1.6%	0.7%	6.7%	7.7%	9.8%	9.9%	9.9%

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

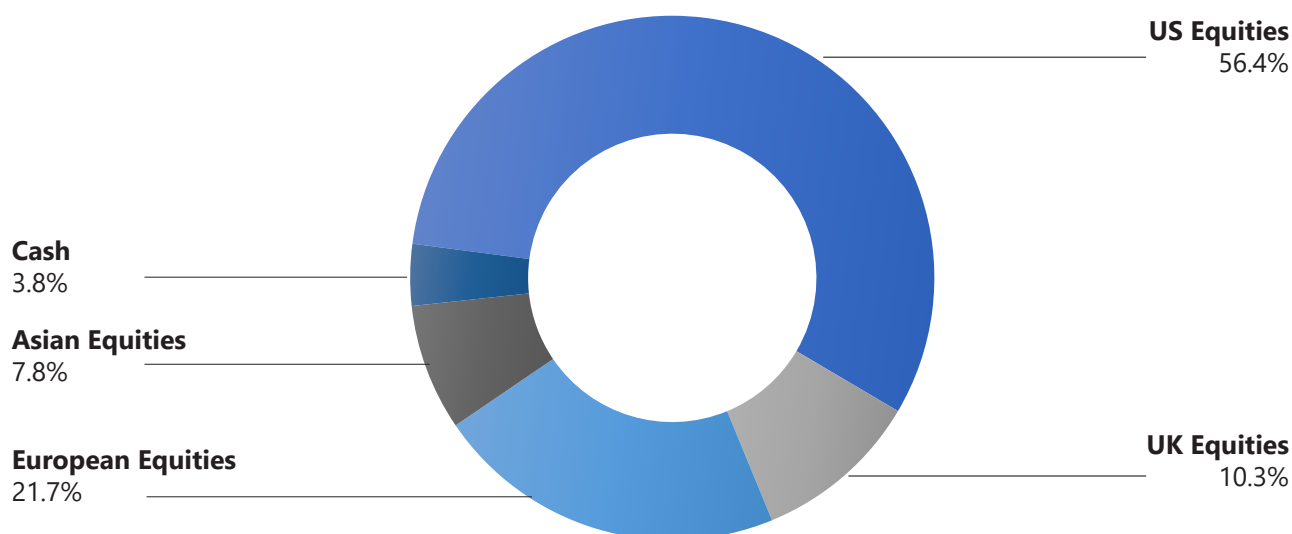
<b>Portfolio Managers</b>	Pieter Fourie
<b>Fund Inception</b>	March 2014
<b>Fund Size</b>	\$94.7m
<b>Cash Distributions</b>	Annually
<b>Eligibility</b>	Wholesale & Retail

### Top 5 Holdings

Company	Weight %
<b>Alibaba</b>	5.1%
<b>Anthem</b>	4.5%
<b>Alphabet</b>	4.4%
<b>Facebook</b>	4.0%
<b>Oracle</b>	3.9%



## Asset Allocation



## Portfolio Commentary

The investment world continues to change, and the world is very different to a number of years ago. There were large drawdowns during the last 7 years but every pullback was an opportunity to add equity exposure. Global equity markets have reached new highs as Central Banks printed \$7trillion to fight Covid-19.

Today we are witnessing extraordinary gains from shares which generate low cash flows (relative to market value) or burn cash. If you don't own these companies investors might question our ability to spot these "winners".

Good stories often end with bad outcomes if they are not backed by sound fundamentals. During the 2000 technology bubble, the 2008 financial crisis and the 2020 Covid induced market meltdowns investors suffered tremendously. Businesses not supported by sound fundamentals collapsed in the market corrections that followed; we aim to minimise the risk of being invested in businesses not backed by sound fundamentals. We will not participate in good stories unless they are backed by measurable free cash flows, and are trading at or below intrinsic value. Every financial crisis is an opportunity to invest in sound businesses. We used the opportunities presented to us by the Covid-related market drawdown, and the subsequent vaccine-induced volatility in the recent months to invest in superior businesses like Anthem, Alibaba, Fiserv and Electronic Arts.

To remind our investors, our core investment principals have been unchanged since the strategy launched:

- Identify businesses with durable high returns on capital with strong recurring free cash flows
- Stay invested whilst the business is trading at or below our assessment of fair value
- Don't sell a great business only because it is temporarily over valued
- Repeat steps 1-3 over a full investment cycle

We avoid businesses which constantly invest all their free cash flows in the hope of a better future outcome. These types of businesses are very popular with investors at the moment. Instead we prefer businesses where we can identify how the cash is generated and reinvested.

A year on from the arrival of a global pandemic, and we finally have reason to feel optimistic again. The government has laid down a roadmap to normal life, and key data indicators are already pointing to a strong economic recovery in the next two to three years.

The recession has forced businesses to become more efficient by reducing overheads and adopting new technology. This will feed into productivity and profitability when the economy starts to recover, resulting in businesses being able to deliver on – and perhaps even exceed – their carefully laid plans.

Governments are being empowered to spend by central banks, with the US leading the way in supportive monetary and fiscal policy. President Biden has laid down significant spending plans, and the Federal Reserve is happy to print money in order to buy government bonds necessary to support that. In the short to medium term, this approach will help to fuel economic growth.

Economic indicators suggest global economic expansion Forward-looking economic indicators such as the Purchasing Managers' Index (PMI) are improving, with the PMI's manufacturing index at its highest level for over two years. In April 2020, the average index score across the G20 was 36. In January 2021, it was 54, signifying an outlook of growth and expansion.

The UK is leading the world with its successful rollout of the Covid-19 vaccine. This will ultimately enable the reopening of a meaningful economy, which will reduce unemployment levels and unleash pent up consumer spending. Cheap finance drives investment Interest rates are expected to remain low for the foreseeable future. This enables businesses to borrow cheaply, which supports growth and investment – especially as new opportunities arise in a post-Covid world.

There were no new investments or outright sales this month.

We trimmed our position in Intercontinental Hotels and added to our position in Reckitt Benckiser Group.

**Pieter Fourie**

Portfolio Manager



## Market Commentary

The so-called “reflation trade” accelerated in February as COVID-19 infections receded and vaccination campaigns gathered pace in most major economies, including (a somewhat slow start) in Australia. Greater optimism about economic growth is evident in the sell-off in government bond yields, which experienced a large and sharp price reversal during February.

Even though the underlying force behind bond market moves is an improvement in the economic outlook, higher yields are raising fears that equity market valuations could be compromised. Given that expensive and “longer duration stocks” such as high growth tech are more vulnerable to higher discount rates, sector rotation to cyclical and value stocks continued during the month; thus while resources and financials did well, tech and utilities performed poorly. The US equity market has greater exposure to expensive tech stocks and growth sectors than does the ASX, which has relatively higher weightings to financials and materials.

Rising bond yields did cause some market ructions towards month end. But stock prices need not suffer from rising bond yields as long as the yield increase reflects favourable economic conditions (which also push up earnings and dividends), rather than a perception that inflation is about to break out in a sustained manner. Evidence from history suggests that the relationship between bond yields and equity prices shifts with changes in inflationary expectations.

The question being asked by market participants is whether a structural rise in inflation will occur that will cause inflation expectations to become uncontained. Our thoughts are that this is unlikely; with significant excess capacity still available in most economies, and with unemployment levels still high and minimal signs of wages growth, inflation is unlikely to rise above central bank targets in a sustained way. However, we recognise that a durable increase in prices on the back of very loose policy settings is a risk to this view.

The US\$1.9 trillion Biden virus relief bill that is making its way through Congress could have a large impact on whether or not inflationary pressures are transitory or become entrenched. The current price tag being advocated by President Biden (it may be slimmed down in the Senate) is roughly twice the size of the stimulus bill President Obama signed in 2009 to combat the GFC. That reflects the fact that Biden does not want to repeat the mistake of the 2009 bill, which many believe was too small to prevent a sluggish recovery. This time, Biden is erring on the side of aggressiveness, hoping to return the economy to full employment and spark wages growth.

Whether the Biden relief bill sparks inflation or not, at present the Federal Reserve remains committed to an ultra-accommodative policy stance. Central banks would prefer to consolidate the recovery rather than risk its fading, even if that means some tolerance of inflationary pressures. When considering the inflation outlook, note that US inflation has averaged slightly below 2% for the last 25 years. In the nine years since the Fed’s announcement of a 2% inflation target, 12-month inflation has averaged under 1.5%.

The surge in bond yields does not reflect hawkish policy, and therefore should not weigh on equities over the next 12 or 18 months. Thus, we continue to have reasonable confidence in the market environment for risk assets, which benefit from the current backdrop of solid growth and accommodative monetary policy. This is especially true for cyclical sectors and value stocks.

Meanwhile, industrial commodities generated significant positive returns, powered higher by both the economic normalization theme and bullish supply-side fundamentals. This occurred despite the US dollar’s advance, which tends to weigh on the commodity complex.

Industrial metals are particularly well poised to rally further: over the next 12 months, they will benefit from robust demand on the back of the recovering global manufacturing cycle. Stronger consumption will probably outpace supply, which is suffering from years of mining capex neglect.

Longer term trends are likewise supportive. Metals benefit from the need to expand the global power grid in order to accommodate renewables amid the push for cleaner energy. This is particularly true in the case of copper, which is experiencing a decline in inventories amid mine supply disruptions and resilient demand. The International Copper Study Group estimates global copper markets experienced a significant shortage in 2020, and that this gap will only grow until more supply comes to the market, which will take many years.

In Australia, the corporate reporting season was better than expected, with “beats” exceeding “misses” by about 3x. More significantly, the forward-looking market Price Earnings ratio, which had stretched to around 20x in early January, has now reduced to around 18.5x based on upgraded results and forecasts for the next year – a ratio closer to longer term averages.

### Adrian Ezquerro

Head of Investments

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