

Clime International Fund

Monthly Investment Report - May 2014

Investment Objective

The Clime International Fund (the Fund) aims to achieve a 10% annualised return in Australian dollars after all fees and expenses measured over a rolling 5 year period.

The Fund seeks attractive returns, through investing in a portfolio of International listed securities. The Fund's goal is to select high quality individual investments that allow the creation of a best ideas global portfolio. The Fund follows a value based methodology and will only invest in equities when an appropriate margin of safety against value is perceived.

Investment Strategy

The Fund is an absolute return fund which seeks attractive capital growth over the long term from a portfolio of International listed securities, with a view to capital preservation.

Sanlam Private Investments (SPI), the Fund's sub-investment manager, believes investment markets continually offer opportunities for it to exploit. Markets are inefficient, driven by human emotion as well as logic. In the end, logic wins. However, in the periods where emotion rules, assets can become incorrectly priced. This provides the opportunity to invest.

SPI is an active investment manager and monitors markets constantly. SPI invests with conviction, backed up by rigorous and disciplined research and a sensible approach to risk control. In this way the Fund seeks to add real value to its investors in a world of low returns punctuated by periods of volatility.

Fund Profile

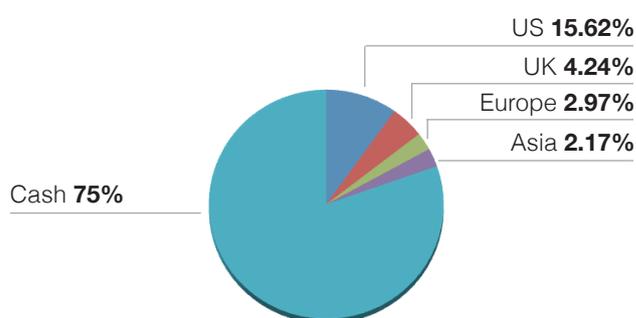
| | |
|------------------------|---|
| Investment Manager | Clime Asset Management Pty Limited |
| Sub Investment Manager | Sanlam Private Investments (UK) Ltd |
| Fund Size - Wholesale | A\$36.84 million |
| Inception Date | 4 March 2014 |
| Distributions | Annual |
| Management Fee | 1.54% p.a. Wholesale Units calculated and paid monthly in arrears on the last business day of the month |
| Entry Fee | Nil |
| Contribution Fee | Nil |
| Expenses | 0.21% p.a. |
| Withdrawal Fee | Nil |
| Benchmark / Hurdle | 10% |
| Performance Fee | 20% of any amount by which the Fund outperforms the rate of 10% per annum |
| Buy / Sell Spread | 0.25%/0.25% |
| Investment Horizon | 5 years |

Fund Performance to 31 May 2014

| | AUD Portfolio Return | Hurdle |
|-----------|----------------------|--------|
| 1 month | 0.30% | 0.80% |
| Inception | -1.37% | 2.41% |

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 to unit price for the given period.

Asset Allocation



Portfolio Attribution to 31 May 2014

| | Underlying Portfolio Return | Currency Effect | AUD Portfolio Return |
|-----------|-----------------------------|-----------------|----------------------|
| 1 month | 0.79% | -0.49% | 0.30% |
| Inception | 2.01% | -3.38% | -1.37% |

Top Holdings

| Stock | Market | Ticker |
|----------------------|-------------------|---------|
| Mastercard | US | MA US |
| Burberry Group | UK | BRBY LN |
| Anheuser-Busch InBev | Belgium | ABI BB |
| Microsoft | US | MSFT US |
| Accenture | US | ACN US |
| Samsung Electronics | South Korea (GDR) | SMSN LI |
| Yum! Brands | US | YUM US |
| Oracle | US | ORCL US |
| McDonald's | US | MCD US |
| Diageo | UK | DGE LN |
| Coca-Cola | US | KO US |

Wholesale Units - Monthly Returns since inception

| Financial Year | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | CIF FYTD | #Hurdle FYTD |
|----------------|-----|-----|-----|-----|-----|-----|-----|-----|---------|-------|-------|-----|---------------|--------------|
| 2013 - 14 | - | - | - | - | - | - | - | - | -2.11%* | 0.45% | 0.30% | - | -1.37% | 2.41% |

#Hurdle represents the 10% per annum benchmark returns. FYTD represents net return for the given financial year, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period.

* Inception date as at 4 March 2014, at which point the wholesale unit's NAV was struck at an inception price of AUD 1.00

Summary

Once again, events in the financial markets have been dictated by politics and monetary policy. The equity markets east and west of the Atlantic moved towards new all-time highs, while the month of May saw mid cap equities pare relative underperformance from April. The MSCI World Equity Index rose a modest 2.6% in sterling terms over the period, while European equities posted similar returns.

The ECB's move to open the door to more aggressive stimulus heightened speculation as to the timing, magnitude and medium of delivery for monetary easing. Accordingly, European bond yields continued to tighten. Peripheral yields burrowed towards those of the core markets; we note that the Spanish 10 year government paper now offers a mere 20 basis points of incremental yield relative to the corresponding Gilt, down from as much as 600bps in July 2012. Corporate activity remained a core theme throughout May. Pfizer's multi-billion takeover approach for AstraZeneca was scuppered towards the end of the month, but the equity capital markets remained buoyant with a number of high-profile IPOs during the period, and more to follow in June.

The European elections pointed strongly to growing right-of-centre Euroscepticism, not least in the UK where the UKIP snatched a majority of MEP seats, primarily from the governing coalition. While the EU electorate's disenchantment with the incumbent system is clear, we view an exit from the EU as unlikely in the medium term. Nevertheless, recent comments from President Mario Draghi suggest that a change to policy will not happen in the near term.

We used mid-month weakness in equity markets to add new positions in Oracle and Yum! Brands. These stocks provide an average return on equity in excess of 40%, underpinned by clean balance sheets and strong prospects for organic growth. Oracle, the world's second largest software company, has exposure to secular growth in enterprise and cloud software technology. Yum! Brands, the owner of household names such as KFC and Pizza Hut, saw 9% same store sales growth in China earlier this year, as the company continues to regain lost ground in the region following some reputational issues last year.

US stock indices have moved to historic highs, and while we still see equities as the most attractive asset class relative to the alternatives, we remain cautious in investing the Fund's cash as we wait for attractive entry points.

Over the course of May, the Fund has achieved a net return of 0.30% against the Fund's monthly target return of +0.8% (AUD).

Clime has an objective of holding a diversified portfolio of approximately 25 to 30 listed companies displaying characteristics including:

- High returns on equity or the potential to achieve this;
- An easily understood and sustainable business model;
- Competent and experienced management whose interests are aligned with shareholders;
- A well-funded balance sheet not overly burdened with debt; and
- Strong track record of dividend and earnings growth.

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