Clime International Fund

Quarterly Investment Report - September 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 Inception Date	A$44.33 million 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 30 September 2014

	AUD Portfolio Return	Hurdle
1 month	4.97%	0.79%
3 months	5.09%	2.43%
6 months	4.09%	4.89%
Inception	1.90%	5.63%

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.

Portfolio Attribution to 30 September 2014

	Underlying Portfolio Return	Currency Effect	AUD Portfolio Return
1 month	-1.37%	6.34%	4.97%
3 months	-1.78%	6.87%	5.09%
6 months	-1.16%	5.25%	4.09%
Inception	-0.25%	2.15%	1.90%

Clime Asset Management Pty Limited
Level 7, 1 Market Street Sydney NSW 2000 PO Box Q1286, Queen Victoria Building, Sydney NSW 1230 Phone 1300 788 568

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%	-1.70%	**-3.04%**	3.13%
2014 - 15	0.48%	-0.36%	4.97%										**5.09%**	2.43%

#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

Broadly speaking, capital markets posted negative returns in September. Major equity indices trod water for the first half of the month before dropping off to end down in total return terms. The FTSE All Share fell by 2.8%; the S&P 500 by 1.4%; the Hang Seng by 7.3%; and the MSCI Emerging Markets by 4.8%. In fact, the only major equity market to post positive total returns for the period was the Japanese Nikkei, which rallied 4.9% in local currency terms. The picture was less rosy in US dollars, however, as the Yen continued to weaken aggressively.

The ECB announced purchases of private sector assets, which will expand the ECB's balance sheet but are primarily meant to improve lending conditions.

Despite a short term bounce in equities and bonds, the MSCI Europe was unable to post a meaningful rally in September.

UK markets had a tough month, as uncertainty surrounding the Scottish independence referendum caused volatility in equity, currency and credit markets alike. The eventual resounding ‘No’ vote turned sentiment in the short term, but elevated valuations across asset classes proved brittle against an apparent deterioration in the geopolitical climate east of the continent. Tit for tat posturing rumbles on between Russia and the US, despite the brokerage of a ceasefire with Ukraine.

Pro-democracy civil unrest in Hong Kong weighed significantly on the emerging markets. The situation appears to be heightening, and risk assets may come under pressure if government forces are unable to control the electorate.

On a particularly weak day in the UK market, new addition Rolls-Royce drifted to an attractive entry level.

The structural drivers are clear; order book visibility carves a clear path to growth; and management are increasingly focussing on shareholder-friendly return metrics. BP was also added to the portfolio as the geopolitical climate presented opportunities in stocks exposed to Russia. We also sold out of the position in Anheuser-Busch since it reached our intrinsic value.

Over the course of September, the Fund has achieved a net return of 4.97% 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.

Performance Summary

The fund's large US$ cash position was very beneficial to the fund in the third quarter. The fund returned a positive 5.09% in the third quarter on the back of a very strong performance of 4.97% in the month of September, helped by a weak Australian dollar which lost 8% against the US$ over the reporting period.

The portfolio returns were also helped by strong returns from some of the larger positions in the fund, which is highlighted in the table on the below.

Stock	Total returns in AUD incl. dividends
Microsoft Corp	20.64
Proctor & Gamble	15.83
Accenture PLC	8.49
Mastercard	8.67
Burberry Group	5.87

* Returns from June 30 - Sept 30 2014

Some noticeable weak performers during the quarter include:

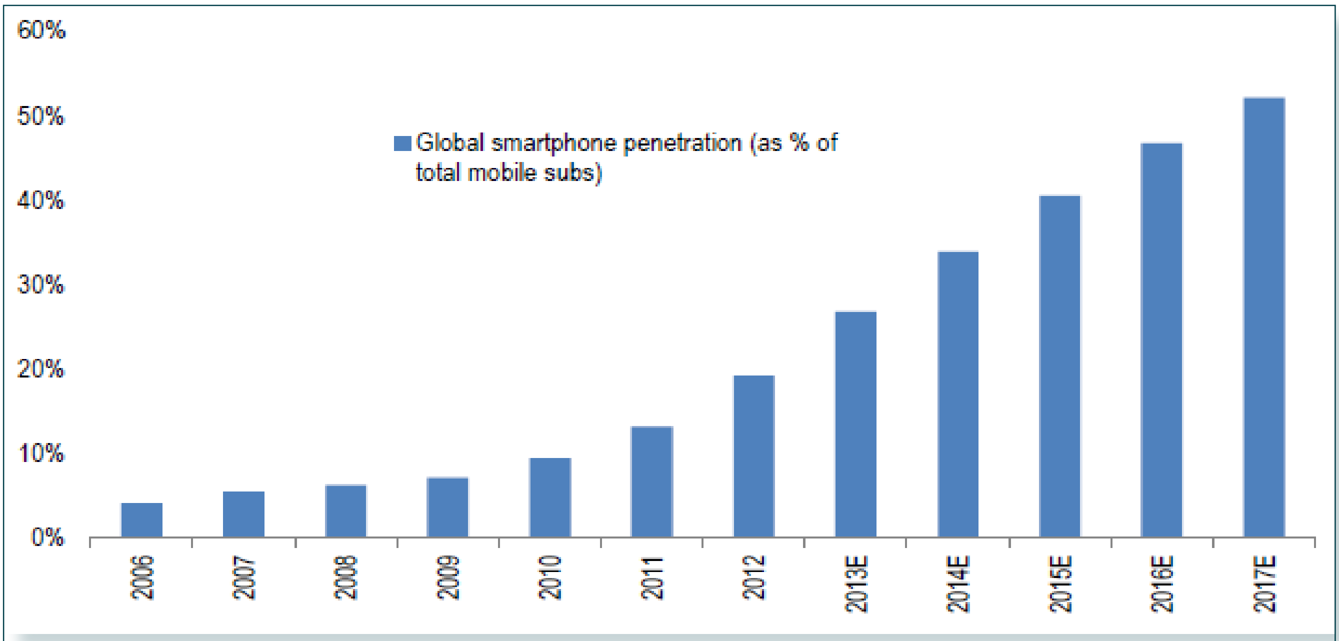
Stock	Total returns in AUD incl. dividends
LVMH Moet Hennessy Louis Vuitton	-9.06
Samsung Electronics	-7.66

* Returns from June 30 - Sept 30 2014

LVMH Moet Hennessy Louis Vuitton (MC:FP) was purchased during early August at Euro126 after a weak earnings report with some of its core luxury goods markets in Asia Pacific posting slower revenue growth than expected. We used this period of share price weakness to initiate a position with the share price currently above our initial purchase price.

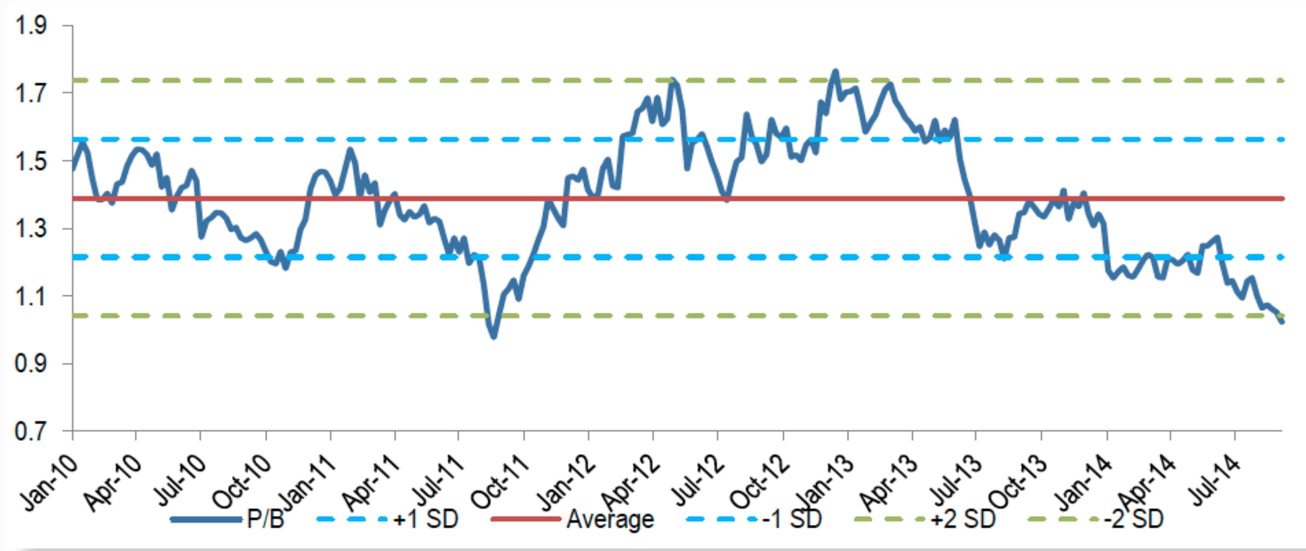
We increased our position in Samsung during the third quarter as the market digested a period of slower growth. In our models we forecast a sustainable ROE of 12% which should provide a return profile above our 10% hurdle rate going forward at current price levels. Some of the aspects worth noting on Samsung include:

- The leader in most of its key markets with attractive growth characteristics;
- Offers a high return on invested capital of 15% combined with a normalised return on equity of 12%;
- Its vertical integration provides substantial scale and cost advantage within the mobile business, underpinning operating margin;
- Even using extremely conservative mobile margin assumptions, Samsung still appears undervalued. The market is implying only a 5% operating margin to the mobile business, which appears conservative as the company was able to maintain a 9% operating margin during the peak of the financial crises;
- Smartphone penetration remains low and Samsung will benefit from a large replacement cycle over time.



Source. Bernstein

The valuation has reached multi-year lows based on price to book value.



Source. Bloomberg/SPI

Fund Outlook

Recent months have seen a larger than usual number of geopolitical strains on the world, which have tended to dominate media attention. Whether it has been the short war between Israel and Hamas, the civil conflict in Ukraine, unrest in Hong Kong, Ebola in Liberia or the rise of ISIL in Iraq and Syria, markets have had to contend with a steady stream of unsettling news from around the globe.

This has been set against a background of a two-speed global economy. On the plus side, at last there has been evidence of decent growth in the Anglo-Saxon economies, with solid data from both the US and the UK. On the other hand, Europe has once again weakened – in part due to the effects on activity of the sanctions that have been placed on Russia by the US and the EU, but in part because European economies are still struggling with the after-effects of the global financial crisis. In Japan, where the government and central bank have been pursuing an extremely aggressive form of quantitative easing, growth has been fitful, with recent consumption tax hikes making the data volatile. Overall, Japan still looks very fragile. Elsewhere in Asia, Chinese growth has been slowing and the authorities there have begun to relax monetary policy in order to boost growth towards the official target of 7.5%.

Over the period, asset prices have seen very gentle increases led, somewhat surprisingly, by fixed income. Both corporate bonds and Gilts have produced positive returns, including income, of single digits in local currencies since the end of March surprising many investors in the process. At the start of the year there was much talk of a “bond bubble”, but worries over sluggish growth and over the potential for deflation have helped bonds make solid gains.

In other assets, between March and June equities did reasonably well, before tailing off over the most recent quarter, with falls especially notable in emerging markets. Nonetheless, over the half year to the end of September returns have been positive, albeit only just. All of this return has effectively come from dividends rather than capital growth.

We would expect some increased volatility over the next few months as interest rates rise, reinforced by some of the geopolitical risks discussed above. However, for the time being we would use these volatile markets to look for opportunities to invest into our preferred equities trading below our assessment of intrinsic value. In our view interest rates will neither rise too far nor too fast, and so should not hurt economic activity and company profits too much. At the same time, with some economic growth globally, still very low interest rates, strong company balance sheets and increasing evidence of take-over activity, shares could continue to sustain valuations that, whist not cheap, are defensible based on the underlying fundamentals.

For our companies, free cash flows are still growing at a decent pace and balance sheets are in good shape. An example of an attractively priced business is Accenture, with management targeting a long term return on equity north of 50%.

Accenture is a leading global management consulting, technology services and outsourcing company, with more than 305,000 people serving clients in more than 120 countries. Accenture's client base is extensive, including 89% of the Fortune Global 100 and more the three-quarters of the Fortune Global 500. In terms of revenue split is well balanced between consultancy (54%) and outsourcing (46%).

Some of the aspects worth noting on Accenture include:

- A highly cash generative model and well diversified business in the IT Services industry.
- The company generates 20% of revenues from each of its five verticals, providing an element of protection from any sector specific slowdown.
- Solid visibility with 32% of revenue on fixed price long term contracts along with 48% on fixed and variable contracts.
- Well positioned to benefit from the long term secular growth shift towards "high value" services. IDC estimates that the worldwide services spending will reach $1.1trn by 2017.
- We believe that Accenture is adapting to exploit the new growth opportunities within this evolving industry. It is positioning itself to benefit from the long-term secular growth shift towards "high value" services, focusing on differentiated capabilities in digital/SMAC (social, mobile, analytics, and cloud).
- Accenture has a well-entrenched industry position and solid long term growth opportunities, enabling it to produce an estimated normalised return on equity of 54%, which we believe it will maintain for the foreseeable future.

Positions sold

During the quarter we sold our position in Anheuser-Busch InBev (ABI:BB). We highlight our previous positive points on the company.

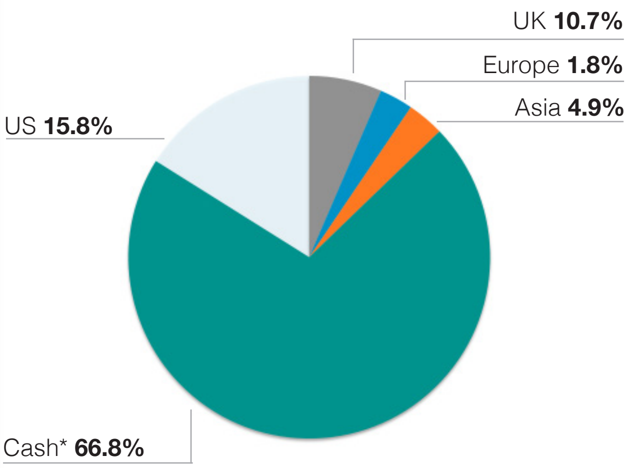
- ABI has rapidly emerged in its current position as a leading global consumer goods company through a combination of organic growth and aggressive acquisitions.
- With its leading organic growth rate and management's ability to integrate acquisitions seamlessly more than justifies a premium rating.
- ABI has grown earnings consistently by over 16% per annum over the last 5 years whilst increasing dividends by over 22% over the same period. At the same time management was able to pay off debt aggressively as the business generates ample free cash flow after all capital expenditure.
- We expect high single digits earnings and dividend growth to continue over the medium term as revenues grow in the mid single digits and operational efficiencies continue to increase.

We purchased ABI in various stages over the last 6 months at levels in the low to mid Euro 70's and exited the position at Euro 88.49 locking in close to 20% gains in AUD. Should ABI pull back to levels below Euro 80 we will start to build a position again in this high quality business.

During the quarter The Coca-Cola Company (KO:US) and Procter and Gamble (PG:US) were sold after reaching our fair value targets.

Fund Analysis to 30 September 2014

Asset Allocation



* Majority of cash is held in US$

Top Holdings

Stock	Market	Ticker
Samsung Electronics	South Korea (GDR)	SMSN LI
Mastercard Inc	US	MA US
Diageo PLC	UK	DGE LN
Burberry Group	UK	BRBY LN
Microsoft Corp	US	MSFT US
Oracle Corporation	US	ORCL US
BP PLC	UK	BP/LN
Yum! Brands Inc	US	YUM US
McDonald's Corp	US	MCD US
Accenture PLC	US	ACN US
Rolls-Royce Holdings PLC	UK	RR/LN

Summary of core positions & investment thesis

Structural Growth

Mastercard Inc

Mastercard is a well-positioned business exposed to a structural growth market, with electronic payments set to materially expand over the coming years. The business enjoys the rare combination of a dominant position in a market with a clear path to growth. This is a fundamentally robust business with cash flow from operations increasing by a 36% per annum, and net income by 28% since listing in 2006. We believe this trend will continue for the foreseeable future backed by its very low capital expenditure requirements and cash generative business model.

Accenture

We view Accenture as an attractive name with its highly cash generative model and well diversified business in the IT industry, making it relatively defensive in the event of macro deterioration. Expertise and customer relationships are a key contributor to setting Accenture apart from its peers; with more than a 100 clients contributing greater than $100m in annual revenue each. Accenture has a well-entrenched industry position and solid long term growth opportunities, enabling it to produce a return on equity around 55%, which we believe it can maintain for the foreseeable future.

Diageo

Diageo has built a leading portfolio of spirits brands, with an unmatched span of the so-called ‘price piano’, meaning that Diageo is unrivalled in its access to entry-level, premium and super-premium spirits. A strong pound sterling has presented headwinds, as has China’s crackdown on governmental gifting. However, with the valuation sitting at a discount to its global peer group and more recently rumours of M&A in the beverages sector, we are comfortable that now is a good time to access this structural growth story.

Yum! Brand Inc

While investors continue to regain confidence following the quality control issues in China, the market is re-focussing on the sector-leading same store sales growth that Yum! delivers via its enviable emerging market exposure. The firm’s Taco Bell brand, which contributes 20% of EBIT, is driving to enhance same/new store sales through the launch of a new breakfast menu. With return on equity in excess of 50% and an efficiently run balance sheet, we feel that the residual malaise surrounding China offers an attractive entry point.

McDonald's Corp

As long term investors, we believe that McDonald's can deliver a sustained recovery in US sales in particular whilst improving margins through a combination of adding debt, refranchising, and reducing admin expenses. With solid free cash flow generation, a growing dividend (6% p.a. over 3 years) and a return of equity north of 30%, we remain attracted to McDonald's ability to deliver decent returns in the low double digit range.

Rolls-Royce

Rolls Royce is a business with good long term visibility in its core Aero business, with an industry position second to none as a leader in its field along with 2 other major global competitors.

In our view the current valuation is not reflective of strong entrenched market position and we initiated a position after a period of very weak performance in the first 9 months of 2014.

We forecast a 4 year EPS compound growth rate close to 10% per annum combined with conservative assumptions of a 20% sustainable return on equity.

Self-help and Growth

Burberry Group

The long term growth drivers of rising wealth in emerging markets and the ensuing appetite for luxury goods is well-flagged, but perhaps less understood is the value Burberry can unlock through its ongoing business reorganisation. The insourcing of Burberry's previously outsourced Beauty business and the movement away from a license model in Japan appears to be gaining traction, and should deliver growth and margin accretion over the medium term. The valuation is attractive on a relative basis, and the stock will be well-supported in the event of sterling depreciation.

Microsoft Corp

We continue to see Microsoft growing its revenue at close to a 8% and earnings by just over 9% per annum for the medium term. Earnings are supported by excellent cash flow generation (operating cash flow +6.2% CAGR over the past ten years) and a very strong balance sheet. Although Microsoft's high margin software business is up against secular headwinds, its Azure and Office365 enterprise solutions are materially undervalued by the market in our view.

Unloved and Undervalued

Samsung Electronics

Samsung Electronics will show almost flat year on year 2014 EPS growth due to operating margin contraction in its handset business. However, we look past this short term deceleration to the book value per share, which will increase by over 20% this year due to the company's attractive return on equity of 18% (or close to 28% excluding the healthy cash balance). The growth in book value this year translates into a price to book value of less than 1.2 times based on 2014 estimates. We see this as highly attractive for a business with stable, albeit moderating, growth prospects driven by product innovation at his mobile division and the ongoing strength of its semiconductor division.

Oracle Corp

We continue to believe that Oracle is nearing an inflection point of a positive secular growth trend associated with its database line as well as its core license sales growth. We suspect that traditional applications software will continue to struggle with secular pressures, but equally all but the worst of these fears appear to be discounted, with shares trading at the lowest valuation relative to the S&P 500 we have seen since before the tech boom. Considering the free cash flow yield of 7.6%, we see good long term value in this name given the 28% return on equity.

BP PLC

As BP awakens from its Gulf of Mexico nightmare, the company can cut $2bn per annum from its inflated deep water well costs. It can also ramp production from a low base and risks on the Clean Water Act settlement are now skewed to the upside with the company over providing on any potential liabilities. BP is already the lowest-cost Major, spending $18 per produced barrel of oil equivalent in 2013, compared to $28 on average across the group. Offering a 5.5% dividend yield and a steady growth and return on equity profile of 11% we believe it can achieve our hurdle rate of 10% total return going forward.