Clime Smaller Companies Fund

Monthly Investment Report

November 2019

Clime Smaller Companies Fund

Fund Performance - November 2019

Fund Commentary

The Clime Smaller Companies Fund (CSCF) returned +3.3% (net of fees) in November. The Benchmark returned +0.3%.

The strongest contributors were:
Audinate (AD8), Bravura Solutions (BVS), Citadel (CGL), Afterpay (APT), APN Property (APD), EML Payments (EML), and Navigator Global Investments (NGI). Broadly these companies provided positive updates over the AGM period. BVS issued refreshed guidance that was higher than expectations. CGL's 1Q20 trading update confirmed that deferred contracts from 4Q19 have been secured and will contribute to FY20 results, removing a key concern. APT's AGM update included further evidence of strong performance in the key US market. In early November APT released the summary letter of the final audit report provided to AUSTRAC, which found historical technical non-compliance of AML/CTF rules due to incorrect legal advice. EML acquired Ireland-based prepaid payments and digital banking software provider Prepaid Financial Services (PFS). In a good win for the Gift Card segment, EML signed a multi-year contract with global shopping mall operator Simon Property Group.

The largest detractors were:
Lovisa (LOV) and Pivotal Systems (PVS). LOV's same store sales (SSS) growth for the first 17 weeks of the year was reasonable at +2.3%. The US expansion is gathering pace with 33 stores currently, up from 19 as at 30 June. PVS is weathering a prolonged general downturn in semiconductor equipment capex. Nevertheless, PVS is progressing well with customer wins for its novel gas-flow control technology and is well placed for a future upturn.

Portfolio Return (Month) Wholesale	Portfolio Return (Annual) Wholesale	Portfolio Return Inception (Total) (Wholesale)	Total Fund Size	Wholesale Unit Price (Exit) (As at 30 Nov 2019)
3.3%	**31.3%**	**67.2%**	**$42.4m**	**$1.5140**

	1 month	3 months	6 months	FYTD	1 year	2 years	Inception*	Inception (Total)
Wholesale Portfolio Return (net of fees)	3.3%	6.7%	15.4%	12.7%	31.3%	21.0%	21.8%	67.2%
Benchmark^	0.3%	4.0%	9.0%	8.2%	14.1%	12.0%	11.5%	32.7%
Active Return	3.0%	2.7%	6.4%	4.5%	17.2%	9.0%	10.3%	34.5%

** Inception: Wholesale Units: 24 April 2017, Retail Units: 24 July 2019. Performance figures for more than 1 year are annualised, calculated after all applicable fees and taxes. Returns have been calculated based on starting and ending unit prices after taking into account all ongoing fees, and assuming reinvestment of distributions.*
^ blended benchmark comprising 50% of the Small Ordinaries Accumulation Index and 50% of the Emerging Companies Accumulation Index from 1 July 2019, CPI trimmed mean +8% p.a. from 24 April 2017.

Prominent Holdings (Alphabetical Order)

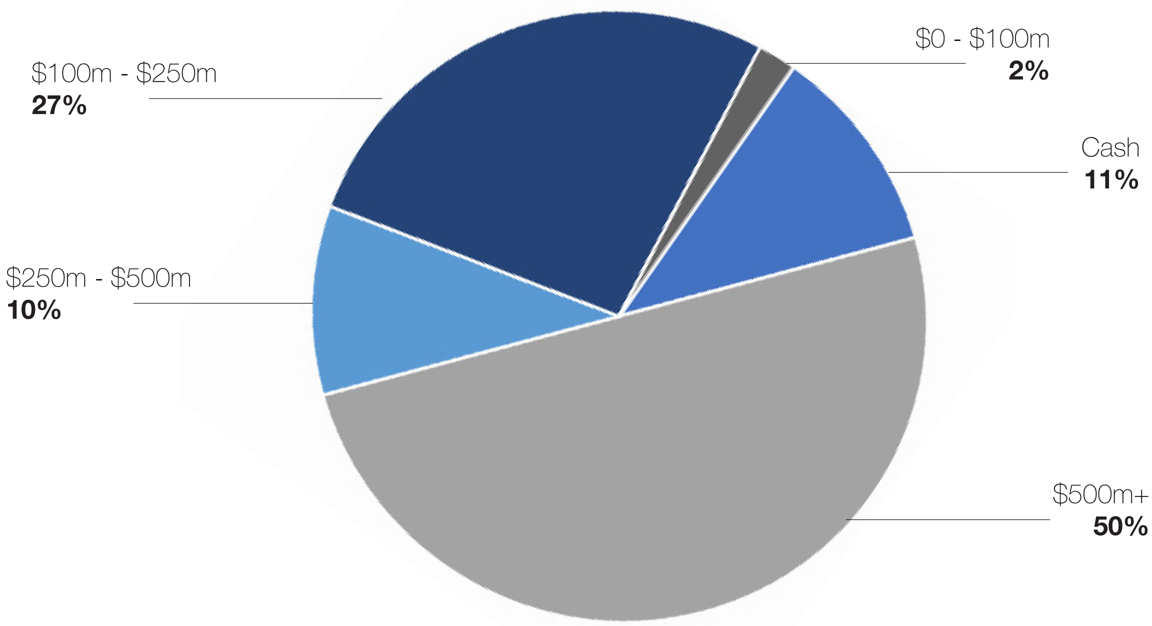
Company	ASX Code
Afterpay	APT
Audinate	AD8
Electro Optic Systems	EOS
Macquarie Telecom	MAQ
RPM Global	RUL

Clime Smaller Companies Fund

Distributions

Period Ended	Wholesale Units (cents per unit)
30 June 2019	8.2837
30 June 2018	4.3495

Asset Allocation by Market Capitalisation



Asset Allocation by Industry

Industry	Weighting
Diversified Financials	7.1%
Software & Services	29.3%
Consumer Services	5.7%
Retailing	5.2%
Healthcare Equipment & Services	10.1%
Technology Hardware & Equipment	9.7%
Commercial & Professional Services	4.0%
Telecommunication Services	5.6%
Capital Goods	6.8%
Real Estate	5.3%
Cash	11.2%

Clime Smaller Companies Fund

Investment Objective

The Clime Smaller Companies Fund seeks to deliver strong risk-adjusted returns by investing in a portfolio of high quality smaller Australian companies that are attractively priced.

The Fund aims to achieve returns above a blended ASX Small Ordinaries Accumulation (50%) and ASX Emerging Companies Accumulation indices (50%).

The Fund seeks to take advantage of what we believe to be a structurally inefficient market. The micro and small-cap segments of the market typically have limited research coverage, reflecting the lower commission potential on offer for traditional brokerage business models. Concurrently, lower levels of liquidity prevent large institutions from meaningful participation in this market segment. We believe this creates the opportunity for value-based, focused smaller company investors.

The Fund is appropriate for investors who seek to diversify their portfolios by increasing exposure to higher growth businesses outside the ASX200.

The Fund (established April 2017) has an investment horizon of a minimum of 5 years. Short-term returns are therefore not necessarily reflective of our long-term goals.

Investment Methodology

Clime's investment style is that we invest with a quality focus and a strong valuation discipline. Through rigorous fundamental analysis, Clime seeks to invest in a range of high-quality Australian equities (listed and unlisted) and cash. All holdings are subjected to our disciplined qualitative and quantitative team-based selection process. Portfolio returns are expected to be incrementally enhanced via franking credits on dividends.

The Fund invests in securities that are outside of the S&P/ASX200 Index at the time of initial investment.

Clime seeks to identify high quality securities issued by businesses which contain most if not all of the following characteristics:

- A competitive advantage, leadership within a specific niche and a sound track record
- Financial strength, high levels of profitability and margin
- Low financial leverage
- Relatively low capital requirements allowing a business to generate cash while growing
- Highly capable management team aligned with creating shareholder value
- Companies that can deliver genuine sustainable long-term growth
- Investments that can be purchased at appropriate prices

Portfolio Manager - Jonathan Wilson

Jonathan joined Clime in 2014 and has over 5 years of investment experience. Jonathan is responsible for security selection and portfolio construction and management for the Clime Smaller Companies Fund. He was the Founding Analyst of the Fund.

Jonathan holds Bachelor of Engineering, Bachelor of Commerce from the Australian National University (2006 - 2011) and is a CFA Charterholder (2014 - 2017).

Clime Smaller Companies Fund

Market Commentary - November 2019

The ASX200 delivered a strong return in November, with a total return of +3.3%. The trend of negative forecast earnings revisions continued into the month yet equity valuations remain elevated. The 12-month forward P/E for the Australian market sits at 17.4x, though the context of historically low global bond yields also remains.

While financial markets are strong, economic fundamentals remain relatively soft. Since the start of 2019, Australian consumers have benefited from three interest rate cuts, tax cuts, strong commodity prices and a bottoming in the housing market. Nevertheless, wages growth has been absent, consumer confidence weak, and retail spending soft. Drought, fires and “eco-anxiety” have certainly not helped, and further revelations about banks behaving badly have soured the mood of bank shareholders.

Financial markets experienced an upbeat month, signalling rising optimism – this is somewhat surprising, coming only a few weeks after the IMF described the global economy as “precarious”. Indeed, 2019 looks likely to post the weakest global economic performance for a decade. This reflects rising US-China trade tensions, their dampening impact on exports and industrial production, and a global manufacturing recession; and yet investors appear to see green shoots of recovery next year.

The IMF and other forecasters expect 2020 to be better than 2019, but market moves in recent weeks raise the question whether the outlook is much improved. Investors’ enthusiasm may be overblown. So far the evidence is mixed; some data suggest the slide in the global economy is coming to an end, but the pace of recovery is expected to be weak.

Financial markets are forward-looking, generally catching on to trends before they become obvious in the economic data. Markets have been pointing towards a broad recovery, and many are close to all-time highs. There are two broad explanations for this: firstly, there are few alternative investments available, with rates so low, and secondly, investors probably expect that prospects for corporate profitability have improved over the last few months.

Government bond yields, usually a good indicator of economic momentum, have risen across advanced economies. Global trade is showing signs of stabilisation. Much of the fear regarding the global economy in October stemmed from the fear that global trade wars would intensify. Yet during November, the news was mostly positive. A disruptive no-deal Brexit looks less likely after PM Boris Johnson withdrew objections to a customs border in the Irish Sea. And while tensions between the US and China ebb and flow on a daily basis, we expect ultimately it will be in both sides’ interests to agree a deal.

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Market Commentary - November 2019

More positive trends have become visible in trade data, with volumes growing in recent months. In November, investment bank JP Morgan noted that its index of global purchasing managers' orders improved by the largest amount in four years – albeit from a low base.

In the shorter term, a focus on rational asset allocation and on yield is essential. Compounding of returns will reward patience, but will require active management across and inside asset classes to ensure that capital is

Head of Investments - Adrian Ezquerro

With expertise in equity analysis and investment management, Adrian is focused on the delivery of strong risk-adjusted returns for clients. Adrian joined Clime Investment Management in 2007 and is responsible for the management and overall performance of Clime's investment strategies, representing gross funds under management in excess of $900 million.

Adrian's role includes the identification and evaluation of investment opportunities across a broad range of asset classes, sectors and market cap segments. His prior investment management roles at Clime have included Analyst, Senior Analyst and Portfolio Manager - Smaller Companies. Adrian was the Founding Portfolio Manager of the Clime Smaller Companies Fund, having seeded the fund and overseen its growth and significant success since inception. He also researched, developed and implemented Clime's proprietary Quality Score, a quantitative filter used to score and rank equities.