Clime Smaller Companies Fund

Monthly Investment Report

October 2019

Clime Smaller Companies Fund

Market Commentary - October 2019

The month of October delivered several market and macroeconomic themes worth highlighting. The IMF provided a more circumspect update specific to global growth forecasts; optimism surrounding a 'phase one' trade deal emerged; both the RBA and the US Federal Reserve cut interest rates; and the domestic 'AGM season' kicked off.

Australian equities lagged the 1.9% return of global markets during the month, with negative returns from gold, information technology and financial sectors more than offsetting the strong returns generated by the health care sector (+7.3% for the month). The rise in global equities for the month was significantly driven by Asian markets, with the Japanese market up +5.4% and the MSCI Asia ex Japan index delivering a return of +4.6%.

We suspect the rally in Asian equities particularly reflects the emerging optimism related to the announced 'phase one' trade deal between the US and China. US President Donald Trump
suggested that the two countries have come to a 'substantial phase one deal', one that would seek to address issues encompassing agricultural trade, intellectual property and financial services.

Officials from both China and the US have since indicated that a roll back of tariffs on each other's goods would likely occur on completion of the phase one deal. In a sign of the geopolitical times, we remain measured when assessing the probability of a significant reduction of trade related hostilities in the near term.

The significant slowdown in manufacturing activity particularly highlighted the meaningful ripple effects being felt globally. A more cautious business sector, whereby significant investment decisions continue to be postponed, is now directly impacting economic growth rates. As we have highlighted in recent updates, weak manufacturing data continues to emanate from major economies including China, Germany and the US, though easier monetary policy has somewhat softened broader ramifications (to date).

The International Monetary Fund (IMF) presented its outlook for global growth during the month, with its message best described in its blog headline, 'Synchronised Slowdown'. The IMF has forecast global growth to be 3.0% for 2019, its lowest level since 2008-09, and a 0.3 percentage point downgrade from the April 2019 World Economic Outlook.

Despite projecting a rebound to 3.4% growth in 2020, the IMF did acknowledge that 'with uncertainty about prospects for several countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize.'

Domestically, we have observed a further round of weak (versus expectations) retail sales data coupled with another month of negative new vehicle sales data. Post month end, the Federal Chamber of Automotive Industries (FCAI) noted that new vehicles have now seen the 19th consecutive month of decreasing sales in the Australian market, with October 2019 sales down 9.1% compared to October 2018. In aggregate, we continue to see sluggish domestic consumption trends.

While extremely low interest rate settings have largely driven equities higher in CY2019, we note that concurrently forecast earnings trends have continued to moderate. This is particularly apparent within ASX large caps, with the ASX100 forecast to generate earnings growth of just +4.1% for FY2020 and -2.0% for FY2021. This contrasts with small cap earnings forecasts, which remain positive for both FY2020 and FY2021. We therefore continue to see significant merit in Clime's domestic 'all cap' strategy, which seeks to generate returns by investing in quality companies across the market cap spectrum.

We look ahead to November with significant interest, with the month bringing substantial opportunity to continue implementing our research program. Several investor conferences, coupled with a large number of AGM updates and company management meetings, will see your investment management team well positioned to execute in the coming months.

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 now 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.

Clime Smaller Companies Fund

Fund Performance - October 2019

The Clime Smaller Companies Fund (CSCF) returned -2.5% (Wholesale, net of fees) in October. The Benchmark returned -0.4%.

The strongest contributors were:
RPMGlobal (RUL) and Integral Diagnostics (IDX). RUL's new subscription software offering has experienced strong early adoption. During October RUL launched the first of its mine design software solutions, complementing its mine operations software suite.

The largest detractors were:
Afterpay Touch (APT), Navigator Global Investments (NGI), Electro Optic Systems (EOS) and Hansen Technologies (HSN). Online engagement data points to a strong Christmas period for Afterpay, particularly in the new US and UK markets. NGI's Assets Under Management (AUM) update underwhelmed, with further outflows from the Mesirow acquisition over the September quarter. There was no negative news from EOS. During October EOS acquired Brisbane based space communications company EM Solutions, and formed a new Space Communications segment, complementing the existing Defence Systems and Space Systems business segments. News flow for HSN was light, however we remain positive on its outlook.

Portfolio Performance

Portfolio Return (Month) Wholesale	Portfolio Return (1 year) Wholesale	Portfolio Return Inception (Total) (Wholesale)	Wholesale Fund Size	Wholesale Unit Price (Exit) (As at 31 Oct 2019)
-2.5%	**27.9%**	**61.9%**	**$36.8m**	**$1.4660**

	1 month	3 months	6 months	FYTD	1 year	2 years	Inception*	Inception (Total)
Wholesale Portfolio Return (net of fees)	-2.5%	6.1%	15.9%	9.2%	27.9%	19.7%	21.1%	61.9%
Benchmark^	-0.4%	1.4%	9.5%	7.9%	14.7%	12.3%	11.8%	32.4%
Active Return	-2.1%	4.7%	6.4%	1.3%	13.2%	7.4%	9.3%	29.5%

** 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)

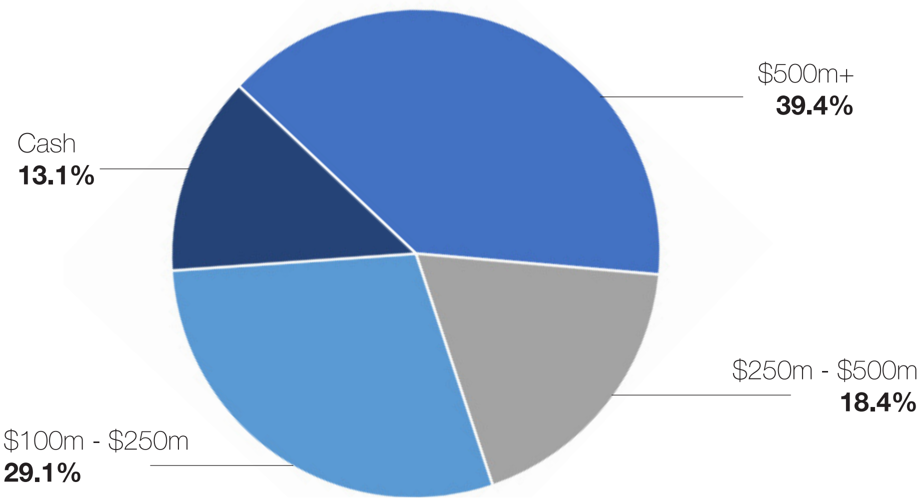
Company	ASX Code
Afterpay Touch Group	APT
Audinate	AD8
Electro Optic Systems	EO3
Macquarie Telecom	MAQ
RPM Global	RUL

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	11.4%
Software & Services	24.8%
Consumer Services	6.4%
Retailing	3.5%
Healthcare Equipment & Services	11.1%
Technology Hardware & Equipment	7.5%
Commercial & Professional Services	2.7%
Communication Services	6.1%
Capital Goods	10.5%
Semiconductors & Semiconductor Equipment	1.6%
Media & Entertainment	1.3%
Cash	13.1%

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).