

# Clime Smaller Companies Fund

Monthly Investment Report - January 2018

## Investment Objective

The objective of the Fund is to generate sustainable long-term capital growth. The Fund seeks to achieve an annual total return of 8% above the Australian Consumer Price Index (CPI) over rolling five to seven year investment periods after management fees.

## Investment Strategy

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

## Fund Profile (Wholesale<sup>^</sup>)

Investment Manager	Clime Asset Management Pty Limited
Investments	The Fund invests in those companies that are outside of the S&P/ASX200 Index and above \$50m market capitalisation at the time of establishing a position.
Inception Date	24 April 2017
Income Distributions	Annual. Unless otherwise requested, distributions are automatically reinvested.
Management Fee	1.03% p.a. <sup>^^</sup>
Contribution Fee	Nil
Minimum initial investment	\$100,000
Minimum additional investment	\$10,000
Minimum balance	\$100,000
Expenses	0.21% p.a.
Withdrawal Fee	Nil
Performance Fee	Performance Fee of 20% of Fund's total return above investment objective of CPI <sup>^^^</sup> + 8% pa inc. GST.
Investment Horizon	Suggested minimum 5 years

<sup>^</sup>As defined by the Corporations Act

<sup>^^</sup>The Clime Smaller Companies Fund is currently in the incubation phase, during which time the manager will be charging reduced management fees. This will be reviewed on a (calendar) quarterly basis.

<sup>^^^</sup>Trimmed mean Consumer Price Index as measured by the Reserve Bank of Australia

## Portfolio Total Return (31/01/18)

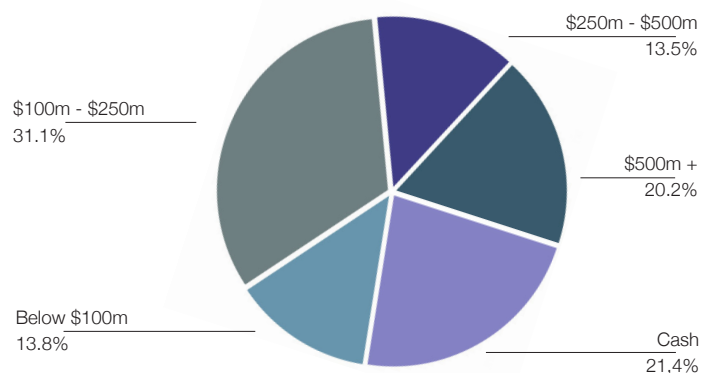
	Portfolio Return
1 month	2.37%
3 months	6.60%
6 months	13.58%
1 year	-
Inception*	20.50%

\* Inception: Wholesale Units: 24 April 2017. 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.

## Distributions

Period Ending	Wholesale Units (cents per unit)
30 June 2017	0.1564

## Asset Allocation by Market Capitalisation



## Prominent Fund Holdings (alphabetical order)

	Bravura Solutions Limited (ASX: BVS)
	Elanor Investors Group (ASX: ENN)
	Hansen Technologies Limited (ASX: HSN)
	Jumbo Interactive Limited (ASX: JIN)
	Navigator Global Investments Limited (ASX: NGI)

## Summary

The Clime Smaller Companies Fund delivered a return of 2.4% for the month, with a broad range of portfolio constituents contributing positively. Despite the solid results achieved in the relatively short time frame since inception, we would suggest that now is not the time to be complacent in the application of Clime's purposeful investment approach. This view reflects an interesting confluence of events observed in recent weeks and months.

With the 'synchronised global growth' story gathering pace, coupled with tax reforms in the US, investor optimism surged markedly over the past few months. The result has been a commensurate surge in equity pricing across many global markets.

Philosophically, we believe that over time (share) price follows value. Intrinsic value itself is driven by a view on the level of earnings, dividends and cash flow likely to be generated in the years to come. What has been observed in recent times is that aggregate company earnings estimates have trended higher. Though skewed to a resources sector that has bounced off post boom lows, when viewed in isolation these conditions provide a productive environment for an equity market rally.

However, as noted in prior commentaries, the ongoing supportive monetary policy settings globally have effectively encouraged an increasing level of speculative activity. As a result, pockets of froth have become evident across many global investment markets. In an era of almost unrelenting P/E expansion, we believe the price paid for the earnings profile observable is where we must be especially discerning. We continue to believe that valuations remain relatively full and reiterate our view that the price paid for future growth, earnings and distributions remains critically important.

At the time of writing, we've witnessed a return to a more volatile investing landscape. The equity sell-off over recent days has been driven by the speculative tone set by low / no cost of money also starting to be re-evaluated. We believe the extent of the sell-off has been magnified by a reversal in risk appetite by market participants succumbing to the desire to 'just keep buying' more risky assets and market index tracking funds.

In times of elevated volatility, it is important to maintain perspective. While the media will delight in reminding investors of the 'billions wiped off' markets, the reality is that the Australian market has simply, and perhaps sensibly, receded to levels observed in mid-October.

An extension of this broader context is the concept that, particularly apparent in smaller company investing, volatility brings with it opportunity. This is only the case, though, if one has value as a reference point and discipline in implementation. Within the universe of smaller companies, we place significant emphasis on calculating a fair value range, based on what we believe to be sensible earnings estimates. These views are then combined with qualitative overviews more specific to the company and sector in question to drive decision making.

The month ahead represents another small milestone for the fund, as we turn our attention to the February reporting season. Many of the companies that we are a part owner of deliver their half year results, which we look forward to reviewing in due course.

Having noted the above and though the opportunity set is somewhat reduced via increasing share prices across a number of Fund holdings, we still see areas of value in the less efficient areas of the market in which we operate. As you should expect, we remain focused on achieving strong risk-adjusted returns over the long term by investing in a portfolio of high quality smaller Australian companies that are attractively priced. Though still early in the investment journey, this focus will endure.

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