Integrity Transparency Conviction

Clime Smaller Companies Fund

Monthly Investment Report - June 2017

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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^)

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.^^
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^^^ + 8% pa inc. GST.
Investment Horizon	Suggested minimum 5 years

^As defined by the Corporations Act

^^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 and is expected to be in place until the fund size reaches A$10 million.

^^^Trimmed mean Consumer Price Index as measured by the Reserve Bank of Australia

Portfolio Performance (30/06/17)

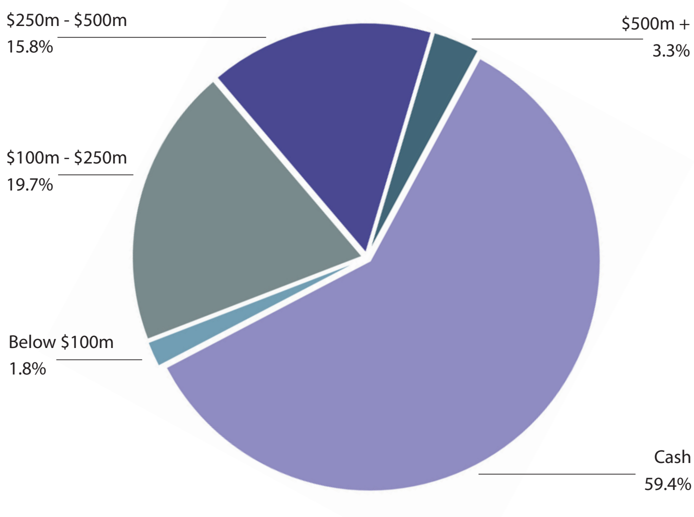
	Portfolio Return
1 month	1.75%
3 months	-
6 months	-
1 year	-
Inception*	2.77%

* Inception: Wholesale Units: 24 April 2017. 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. The returns do not include the benefit of franking credits.

Distributions

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

Asset Allocation by Market Capitalisation



Summary

With the closing of the financial year, commonly at this point in time, investors and fund managers pause to reflect on the year that was. The Small Ordinaries Index produced a modest return of just 3.7 per cent while the accumulation index, which includes dividend income, produced a solid total return of around 7.0 per cent. However, these headline index numbers belie the range of performance outcomes for many small cap constituents, which varied considerably.

Any number of factors can and will drive share prices in the near term. Whether it be consumer and business confidence, bond yields and the pricing of risk assets, investor sentiment, currency fluctuations, government policy, geopolitical tensions or macro-economic news and views, there remains a myriad of influences that act to move markets and prevailing company share prices on a day to day basis.

Nevertheless, such near-term 'zigs and zags' are almost always outweighed by the longer term financial performance of the underlying business. It is often these near-term dips in the pricing of target companies (based on nothing more than noise) that create the opportunity for attractive entry prices.

While Clime's macro overlay acts to assist our longer-term portfolio positioning, at its core, we will generally focus our efforts on finding great companies that are early in their growth cycle. More specifically, we will continue to look for well capitalised emerging companies that can self-fund substantial future growth.

In May 2012, we had the great privilege of attending the Berkshire Hathaway Annual General Meeting in Omaha, Nebraska. Along with many thousands of other like-minded investors, we enjoyed listening to (and learning from) two of the titans of value investing, Warren Buffett and Charlie Munger. Among the many lessons learnt which included a prescient view on US housing and the theme of 'buy commodities, sell brands', we believe the key take home message focused on the tenure of investment time horizon. During Q & A, when asked about the specifics of Buffett's investment process, he noted:

"I look at the earnings power and the competitive position for a given business with a 5 to 10 year view. I always think about how the world will develop... And the worst thing one can do is listen to the latest headlines when buying or selling a stock."

In many ways, this comment effectively mirrored an all-time favourite Buffett quote that aims to critically focus the mindset of long term investors: "Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily understandable business whose earnings are virtually certain to be materially higher five, ten and twenty years from now".

On a day to day basis, today's market is impacted by endless streams of noise often delivered by pundits with a greater interest in selling papers, generating click throughs or trading commissions than they are in building your long-term wealth.

Whilst it may be difficult to be 'virtually certain' about the long-term earnings outlook for almost all companies, we believe the probability of longer term success is higher when we focus on companies with sound track records, strong fundamental foundations and opportunity for significant future self-funded growth. These attributes are reflected in more than a handful of positions we have begun to build out in the Clime Smaller Companies Fund. Philosophically, this will remain the core of our investment portfolio and though it is early in Fund's investment journey, we have started this journey with solid first steps.

The Fund generated a return of +1.8% (after fees) for the month and as at 30 June, held approximately 59 per cent in cash. We continue to make steady progress in building out the portfolio, sensibly deploying capital into select opportunities.

One of the first positions established in the Fund in May was APN Property Group (ASX:APD), a specialist real estate focused fund manager with around $2.5bn of funds under management (FUM). Established in 1996 and listed on the ASX in 2005, APD continues to build a strong platform that encompasses management of one (soon to be two) listed REITs, a real estate securities business and direct property syndicates.

We view APD as an attractive prospect for various reasons. Firstly, over the coming years, we see considerable scope for future growth driven by the creation of new listed and unlisted funds. APD looks set to list its new Convenience Retail REIT on the ASX in the coming weeks, which will add a further $300m of assets under management. Secondly, the balance sheet is rock solid, positioning the group well to both invest for growth while also allowing for potential capital management activity. As at 31 December 2016, cash on hand exceeded $27m. APD continues to directly hold another property asset valued on balance sheet at $24.2m. If this were to be sold at some stage this year, which we believe is probable, all else being equal net cash would balloon to more than $40m.

In aggregate, net of all liabilities, APD's tangible asset backing comprises cash and property assets of between $110m and $115m (at market value), or between $0.35 and $0.365 per share. Therefore, at the Fund's entry price, we were only paying for the tangible asset backing of the business and little if anything for a profitable funds management operation with $2.5bn of FUM. Though only realised in hindsight, we acquired our position in APD alongside management, who were adding to their already meaningful positions on market around the same time.

More recently, we have commenced building a position in a high quality dental and management services business, 1300 Smiles (ASX:ONT), at what we believe is a reasonable discount to intrinsic value. ONT owns and operates full service dental facilities at its sites across Queensland, New South Wales and South Australia. ONT enables the delivery of services to patients by providing the use of dental surgeries, practice management and other services to self-employed dentists effectively carrying on their own dental practices. The dentists pay fees to ONT for the provision of these services under a Dental Service Agreement with the company.

ONT started business as Townsville Family Dental Pty Limited in September 2000 and listed on the ASX in March 2005. Upon listing, ONT had a total of 6 dental surgeries in operation in Queensland. Today, ONT has a total of 26 established multi-dentist facilities across Queensland, NSW and South Australia. ONT is a company we have followed for many years. Over this time, management has proven itself adept in delivering sustainable self-funding growth, with per share earnings, dividends and cash flow all more than tripling over the past decade. With a strong net cash balance sheet, frugal and committed management, and a strong opportunity set, we believe the business remains well placed to deliver sound returns to investors over the medium to long term.

We will continue to sensibly deploy capital into what we see as compelling investment opportunities, and look forward to sharing this journey with you.

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