Clime Smaller Companies Fund

Monthly Investment Report - July 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 Total Return (31/07/17)

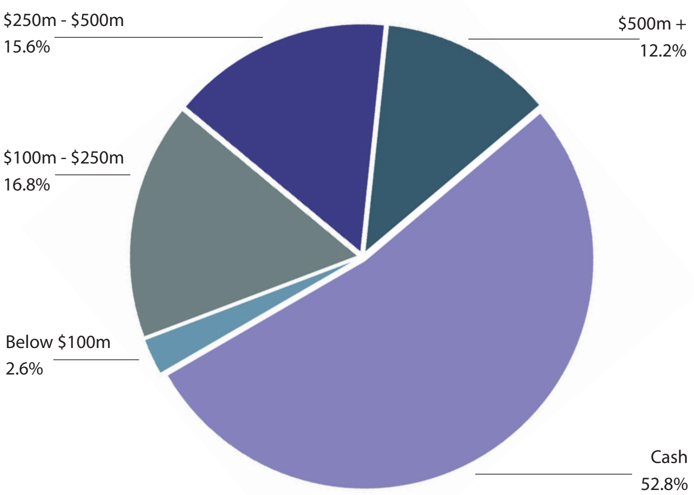
	Portfolio Return
1 month	3.2%
3 months	6.1%
6 months	-
1 year	-
Inception*	6.1%

* 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



Summary

Though our success (or otherwise) will be judged over a period spanning years, not months, we are pleased to have started this investment journey solidly. The Fund generated a return of 3.2% (after all fees) for the month of July, bringing the since (late April 2017) inception return to 6.1% (after all fees).

As communicated in prior monthly reports, our focus remains on steadily and sensibly building out the portfolio as attractive opportunities present. In line with this strategy, the portfolio closed the month with just under 53% held in cash having continued to receive steady inflows.

In recent years, one of the more resilient retail focused data series in Australia has been that of takeaway food services. The June ABS retail sales data release indicated turnover for this category grew at 8.4% (year on year), continuing a long period of above average growth rates specific to takeaway food services. It would seem that Australians quite enjoy eating out. Though this does not represent the defining reason for us building a position in Collins Foods (ASX: CKF), this dynamic has provided meaningful long-term structural support for the business.

Over the past two months, CKF has become of the more prominent holdings in the CSCF. The core business of CKF relates to the operation, management and administration of KFC restaurants across Australia, Germany and the Netherlands.

Though only listed on the ASX since 2011, Collins has been around since the 1960s, having obtained its first KFC franchise in 1968. In the decades since, CKF has steadily grown its footprint and is now one of the more prominent KFC focused franchise operators in the Australian market (at around 30% KFC network share). Today, CKF's KFC store network totals 252, with 223 restaurants in the Australian market and 29 in the Western European markets of Germany and Holland.

Looking ahead, our thesis primarily relates to the opportunity for the business to reinvest its substantial cash flow into organically growing the store network. To that end, management have indicated that they expect to roll out approximately 18 to 20 greenfield sites across all core geographies annually. This equates to organic footprint growth of 7% to 8% p.a.

When coupled with moderate growth in same store sales and likely incremental scale benefits, we believe CKF can generate double digit earnings growth over the medium term. While much remains to be executed, given a sound track record, experienced management and a strong existing foundation, we believe CKF can become a much larger business in the years to come.

We have also recently built out a new position in an emerging small cap property trust, Industria REIT (ASX: IDR). We believe an interesting few months lie in wait for IDR, an ASX300 AREIT which owns a portfolio of office and industrial properties across Brisbane, Sydney, Melbourne, Adelaide and Newcastle. Of particular interest is that the $2bn REIT, Growthpoint Properties Australia (ASX: GOZ), has taken an 18.2% position in IDR at $2.30 per security.

We do not believe this to be a passive investment for GOZ. Accordingly, we believe a future bid / future corporate activity to be more likely than not in the coming months. Furthermore, given the substantial manager holding of about 21% of the vehicle, coupled with the potential for further portfolio revaluations, any such bid would have to be a not-insignificant premium to the last stated NTA. Time will tell and we look forward to updating CSCF investors as this situation unfolds.

Corporate activity aside, we believe the investment in IDR, which was built out around net tangible asset (NTA) backing of $2.26 per security, is supported by fundamentals. Occupancy is relatively high at 96%, the weighted average lease expiry is sound at 7.8 years and gearing is comfortable at around 32%. On our numbers, IDR trades at a reasonable discount to our valuation. Concurrently, we will receive an attractive distribution yield of about 7.3%, paid quarterly.

The August reporting season sees the release of a wave of new information from the majority of ASX listed companies. With elevated cash levels in the Fund, we believe we are well positioned to swiftly take advantage of opportunities should they arise in the coming weeks.