Integrity Transparency Conviction

Clime Smaller Companies Fund

Monthly Investment Report - August 2017

Clime Asset Management Pty Limited
Level 7, 1 Market Street Sydney NSW 2000

PO Box Q1286, QVB
Sydney NSW 1230

Phone 1300 788 568
www.clime.com.au

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 (31/08/17)

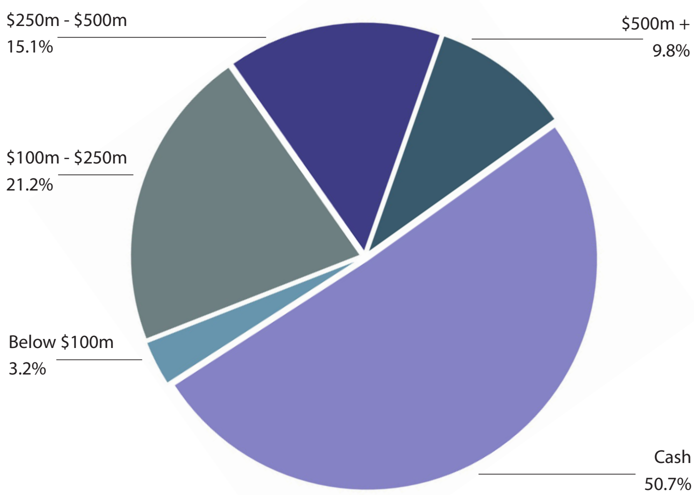
	Portfolio Return
1 month	2.25%
3 months	7.40%
6 months	-
1 year	-
Inception*	8.48%

* 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

The steady build out of the portfolio continued during August, with the CSCF delivering a return of 2.25% for the month. We closed the period with 50.7% of the Fund held in cash, though this was boosted by the receipt of a meaningful application late in the month. Net of this inflow, cash levels would have been closer to 40%. We continue to believe we are well positioned to selectively take advantage of sensibly priced, high quality opportunities.

As introduced in our prior monthly report, the months of February and August are particularly important for investors. This is because the majority of ASX listed businesses provide updates on their progress concurrent with the release of their half year and full year results. Importantly, this wave of new information provides the opportunity for investors to re-examine their investment theses and evaluate critical underlying assumptions for businesses' expected journeys ahead.

One further feature of reporting season is the increased volatility that tends to occur during these periods. It is our view that short-term volatility often provides the opportunity for those investors, such as us, that have longer term investment horizons.

The core of Clime's value-based investment approach is seeking out well managed, profitable businesses with strong cash flows, low debt and genuine growth at an attractive valuation. We are pleased to see the portfolio's growing representation in such businesses, two of which we introduce below.

In recent months, we have initiated positions in Jumbo Interactive (ASX: JIN) and Elanor Investors Group (ASX: ENN). Though JIN and ENN operate in vastly different sectors, both meet our investment criteria and we believe both businesses have bright future prospects.

Jumbo Interactive (JIN) is a leading digital retailer of official government and charitable lotteries. Though established in 1995 as an e-commerce business and listed on the ASX in 1999, it wasn't until the early 2000s that JIN turned its focus to selling lottery tickets online. Since that time, the company has grown to become one of Australia's largest digital retailers, processing $150m in lottery ticket sales per annum and managing over 2 million customer accounts.

In JIN, we see several positive attributes. Firstly, the online retailing of official government lotteries is effectively a duopoly (with Tatts, ASX: TTS). If someone wishes to purchase a lotto ticket online, it's a very narrow path to market and JIN's ozlotteries.com site captures a substantial (and growing) portion of this traffic.

We also view JIN's verified database of two million accounts as highly valuable. This allows JIN to engage with those interested in playing lotteries online in a highly cost-effective manner. Currently, about 14% of lottery tickets are purchased online, a figure that has doubled in the last five years. In many other markets, this percentage exceeds 20% (for example, Finland is 48%). We therefore see considerable scope for continuing structural growth of the whole online lottery market, migrating away from physical ticket purchase via a newsagent.

We believe one further avenue of underappreciated opportunity is that of charitable lotteries, currently a $1bn market in Australia. Given the strong existing technology platform and sector specific knowledge, we believe JIN is well placed to increasingly become the partner of choice for many large Australian charities. In effect, JIN's platform can replace more rudimentary methods of fundraising that currently exist, such as mailed raffle tickets. Though coming off a low base, we believe this part of JIN's business can be many multiples of its current size.

Finally, we note a pristine, cash heavy balance sheet that affords management significant capacity to fund its growth objectives while concurrently paying out a healthy level of fully franked dividends. Though only invested for a short period, we have already received 20 cents per share of fully franked income, equivalent to a yield of 7% (at current prices). It is for these reasons we are attracted to a business growing earnings at 20%+ p.a. and trading at less than 12 times forecast earnings (calculated as FY18 profit/enterprise value).

Elanor Investors Group (ENN) is another business with appealing growth prospects. ENN listed on the ASX in mid-2014 and has made an impressive start on its journey as a listed entity. The security price has rallied solidly from its initial offer price of $1.25, reflecting successful execution of the Group's numerous growth initiatives.

The Group has three core operating divisions: Hotels, Tourism and Leisure; Funds Management and Special Situation Investments. ENN delivered a sound FY2017 result that was marginally ahead of expectations.

Operationally, all key metrics are sound, with revenue up 29% to $98.5m, reported profit up 181% to $11.6m and core earnings up 9.6% to $12.7m. ENN's per security Net Asset Value (NAV) was up 27.5% to $1.75. Funds under management closed the year at $682m, up 41% on the prior corresponding period (pcp), while balance sheet investments also increased by 24% during the year to $159m.

In our view, the balance sheet of ENN holds significant latent value, with market values for directly held assets such as Merrylands and (to a lesser extent) Featherdale Wildlife Park likely to be higher than existing book values of $17m and $39m respectively. We continue to believe that ENN has the platform, management team and opportunity set to become a substantially larger business over the coming 3 to 5 years. Furthermore, at current prices, ENN also offers a forward yield of between 6.5% and 7.0%.

In aggregate, we are pleased with the Fund's navigation of the August reporting season, with a host of sound results contributing meaningfully to the portfolio's return.

While we are still in the early stages of the CSCF's investment journey, it has been a solid start. We remind investors that it is the longer-term compounding of returns that will ultimately determine the Fund's success.