Integrity Transparency Conviction

Clime Smaller Companies Fund

Monthly Investment Report - September 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 (30/09/17)

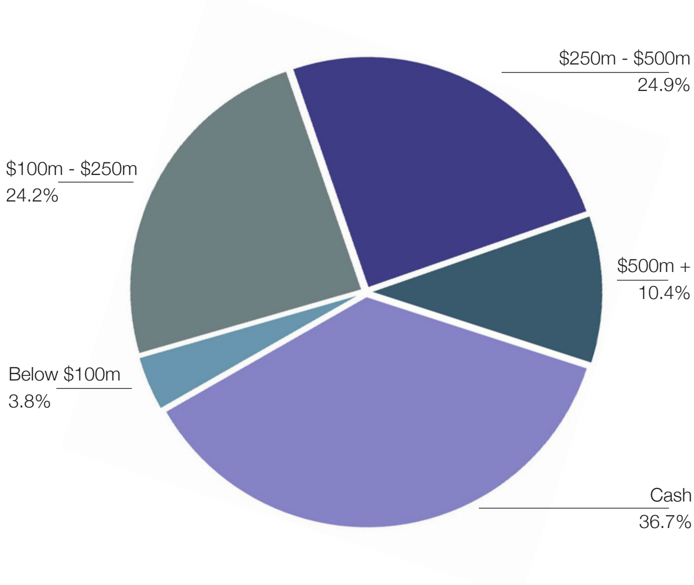
	Portfolio Return
1 month	1.16%
3 months	6.78%
6 months	-
1 year	-
Inception*	9.74%

* 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 Clime Smaller Companies Fund continued its steady progress during September, delivering a return of 1.16% for the month. We believe the Fund remains well positioned to take advantage of further select opportunities, as and when they arise.

One recent opportunity was in fact the most material change made to the portfolio during September. This was a marked increase in the portfolio weight of Bravura Solutions (ASX: BVS). Whilst we already had taken a relatively small position some months ago, a sizeable block trade afforded us the opportunity to build out the position at a meaningful discount to our intrinsic value.

For the uninitiated, BVS is a market leading global provider of enterprise software and software-as-a-service (SaaS) to the wealth management and funds administration industries. Established in 2004 and first listed on the ASX in 2006, BVS has grown to become a world class supplier of software and associated professional services to some of the world's largest superannuation, pension, life insurance, investment, private wealth and funds administration entities.

We believe the investment thesis for BVS stacks up well within our investment framework. Our analysis suggests that the company's core software product, Sonata, is gaining market share in a growing market. Sonata is the result of in excess of $100m of product development and investment that now has it best positioned to capture a significant market opportunity. This sees BVS largely replacing ageing legacy systems that are no longer fit-for-purpose. This is becoming increasingly evident across its core geographical markets of the United Kingdom, Australia, New Zealand and South Africa.

Among many things, we are attracted to Bravura's high degree of revenue visibility. This is due to the lengthy nature of its contracted client base, which typically spans 5 to 10 years. We also believe the business is well placed to drive significant margin expansion over time, particularly as the roll out and implementation of Sonata gathers pace.

To provide some further context around this, we believe it is useful to track the average revenue per Sonata client over time. As at FY2013, BVS had three Sonata clients producing an average annual revenue per client of $1.7m. In FY2017, Sonata clients numbered 20 while average revenue per client has nearly tripled to $4.6m.

We expect BVS to add between 3 to 5 new clients per annum for the foreseeable future, while revenue per client is expected to trend towards a range of $5m to $6m per annum. As (higher margin) annual license revenue becomes a greater share of the total group revenue, we also believe current EBITDA margins of ~17% will migrate towards a range of 20% to 25%, over the medium to long term.

A common feature that BVS shares with many other fund constituents is that it has a net cash balance sheet, which when coupled with sound cash generation, affords management considerable scope to both reinvest in the business while concurrently paying out a good level of bi-annual dividend income. In line with this view, management have provided earnings guidance that equates to per share earnings growth of approximately 15% for FY2018, while the forecast dividend yield approximates 5.5% p.a.

While we are notably positive about the prospects of BVS, we are also cognisant of the risks associated with the investment. Given the geographical spread of the business operations, currency risk will be omnipresent. Therefore, an appreciating AUD would act to temper earnings growth (which was the case in FY2017) and vice-versa.

Given BVS operates in the software and services sector, risk of technological change may adversely impact the operations of BVS in coming years. The client base of BVS are also concentrated in the financial services sector, the operating conditions of which would obviously be impacted in the event of any material economic slowdown.

It is for these reasons that BVS meets the CSCF's investment criteria; it is a high ROE business that has a best in class product offering, a strong balance sheet while also exhibiting an impressive track record of cash generation coupled with a positive outlook.

As is evidenced in the above monthly Fund update, we continue to seek out, focus on and accumulate ownership stakes in a growing range of high quality companies trading at discounts to intrinsic value.