

Clime Smaller Companies Fund

Monthly Investment Report - November 2017

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.

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

Portfolio Total Return (30/11/17)

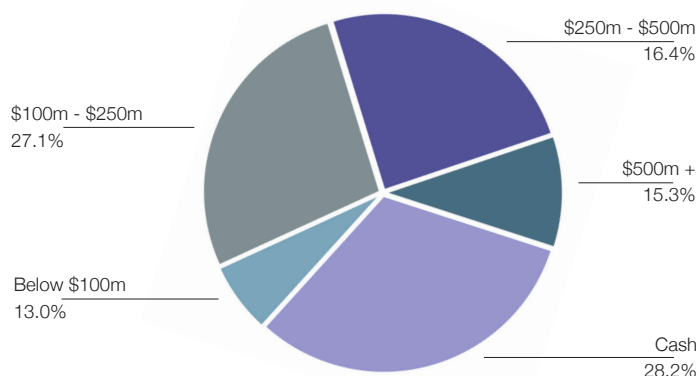
	Portfolio Return
1 month	1.07%
3 months	5.31%
6 months	13.11%
1 year	-
Inception*	14.24%

* 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)
	Navigator Global Investments Limited (ASX: NGI)
	Industria REIT (ASX: IDR)
	Hansen Technologies Limited (ASX: HSN)

Summary

The Clime Smaller Companies Fund (CSCF) made sound progress in November, returning 1.1% for the month (Wholesale Units, after fees). The Financial Year to Date 2018 return (Wholesale Units, after fees) is +11.2%. We continue to steadily build-out the CSCF. The Fund finished the period with 28.2% held in cash, the lowest level to date, and remains well positioned to exploit sensibly priced, high quality opportunities.

During the AGM season months of October and November, many ASX-listed companies typically provide an update on their activities. Some companies also provide guidance for the next reporting period. We're happy to report generally positive updates across the Fund's holdings. One of the highlights was traffic enforcement technology provider Redflex Holdings (ASX:RDF).

RDF is one of the world's largest developer/operators of red light and speed enforcement systems. Although its traditional Australia and USA markets are mature, the company plans to take its proprietary technology into growth markets across the UK and Europe. In these markets demand for new installations as well as replacement of legacy 'wet-film' based camera systems is several times RDF's global deployed base of 3,250 systems.

RDF is in our view a special situation where the business has fundamentally improved over the last twelve months and is positioned to capture a large international opportunity, however has a negative stigma attached to it over a past controversy, which still lingers in the share price.

Including the \$16.4m new equity raised in the fully-underwritten entitlement offer announced in November, in which the Fund participated, the enterprise trades at less than 5 times our estimate of FY18 earnings before interest, tax, depreciation and amortisation, and less than 10 times free cash flow. These multiples imply expectations of declining earnings.

The negativity primarily relates to a bribery scandal in the US which landed the then North America divisional CEO in jail. RDF faced potentially catastrophic fines of up to US\$300m in the lawsuit brought by the City of Chicago in 2013. Due to the uncertainty about the company as a going concern, over the following years RDF was capital-constrained and unable to pursue growth opportunities. However, in February of this year the case was settled for a more manageable US\$20m, with US\$10m to be paid out on 2017 and the remainder in instalments over the next 5 years. With a key uncertainty now lifted, RDF's ability to fund growth has substantially improved.

In addition, since 2013 RDF has undergone a complete management overhaul, culminating with the Group CEO appointment in August this year of industry veteran Mark Talbot. We view the appointment as a strong vote of confidence, with Talbot citing the quality and potential of RDF's recently launched proprietary camera detection technology (HALO) and citation management software (Alcyon) as key reasons for taking the role.

In late October we visited RDF's Melbourne headquarters to see the latest technology offerings and gain a better understanding of their intended growth strategy. The HALO enforcement product is a world-first in that it provides functionality for all enforcement scenarios in a single pole. HALO improves infringement capture rates, and its configuration lowers installation costs. With Alcyon, RDF has 'productised' its back-office system, which is a unified photo enforcement platform. Cloud-based, agnostic, scalable and streamlined to simplify management of photo enforcement cases, Alcyon is a significant value proposition in jurisdictions where citation management is carried out on legacy in-house systems.

We believe RDF now has the flexibility to compete strongly in both the Americas and International markets. The Americas is dominated by a small number of players and is almost exclusively serviced on an end-to-end basis (Build, Own, Operate, Maintain contracts). This produces high recurring revenue, and with falling capex, typically leads to strong free cash flow that can be allocated to fund offshore growth objectives. We believe RDF's proprietary technology gives it an edge on US competitors, which mainly integrate third party systems and are hence less able to expand globally. Management is confident of defending its approximate 25% share in the US and expects to return to low single digit growth in the years ahead.



International sales are more project-based and RDF competes for contracts for camera systems and/or back office software. RDF's software is a key differentiator, which enables the company to bid on a wider range of contracts and provides cross-sell opportunities. Regulatory compliance is driving market growth in Europe, which is expected to be over 9% per annum, over the next 5 years.

With a strong balance sheet, a highly experienced management team and an impressive product set, we are confident RDF will return to growth in the next few years.

The information contained in this document is published by the Clime Asset Management Pty Limited. The information contained herein is not intended to be advice and does not take into account your personal circumstances, financial situation and objectives. The information provided herein may not be appropriate to your particular financial circumstances and we encourage you to obtain your own independent advice from your financial advisor before making any investment decision. Please be aware that investing involves the risk of capital loss and past results are not a reliable indicator of future performance and returns. Clime Asset Management Pty Limited (Clime), its Group companies, its directors, employees and agents make no representation and give no accuracy, reliability, completeness or suitability of the information contained in this document and do not accept responsibility for any errors, or inaccuracies in, or omissions from this document; and shall not be liable for any loss or damage howsoever arising (including by reason of negligence or otherwise) as a result of any person acting or refraining from acting in reliance on any information contained herein. No reader should rely on this document, as it does not purport to be comprehensive or to render personal advice. Please consider the Information Memorandum and our Financial Services Guide before investing in the product.