

Clime Smaller Companies Fund



Monthly Report July 2020

The Clime Smaller Companies Fund is a concentrated portfolio of high-quality businesses that are outside the ASX200 at the time of initial investment. The Fund invests in niche leaders that have superior business economics, strong balance sheets and significant growth prospects, provided they are attractively priced relative to assessed value. The Fund is designed to take advantage of the structurally inefficient and under-researched market segment of small capitalisation stocks.

1 Month Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)	Inception Total Return	Total Fund Size
1.0%	15.7%	61.2%	\$47.1m



	1 month	3 months	6 months	1 year	2 years	3 years	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	1.0%	14.7%	-11.8%	5.6%	12.8%	15.0%	15.7%	61.2%
Benchmark^	4.1%	16.4%	-9.1%	-5.4%	4.7%	6.4%	6.6%	23.4%

*Net returns are after all fees, taxes, and costs

^ CPI Trimmed Mean + 8% p.a. from 24th April 2017 and then 50% of the ASX Small Ordinaries Accumulation Index (XSOAI) and 50% of the ASX Emerging Companies Accumulation Index (XECAI) from the 30th June 2019

Fund Facts

Portfolio Managers	Jonathan Wilson & Adrian Ezquerro
Fund Inception	April 2017
Fund Size	\$47.1m
Number of Stocks	15-40
Cash Distributions	Annually
Eligibility	Wholesale & Retail

Top 5 Holdings (Alphabetical)

Company	ASX Code
City Chic Collective	CCX
Hansen Technologies	HSN
Mach7 Technologies	M7T
Macquarie Telecom Group	MAQ
RPM Global Holdings	RUL



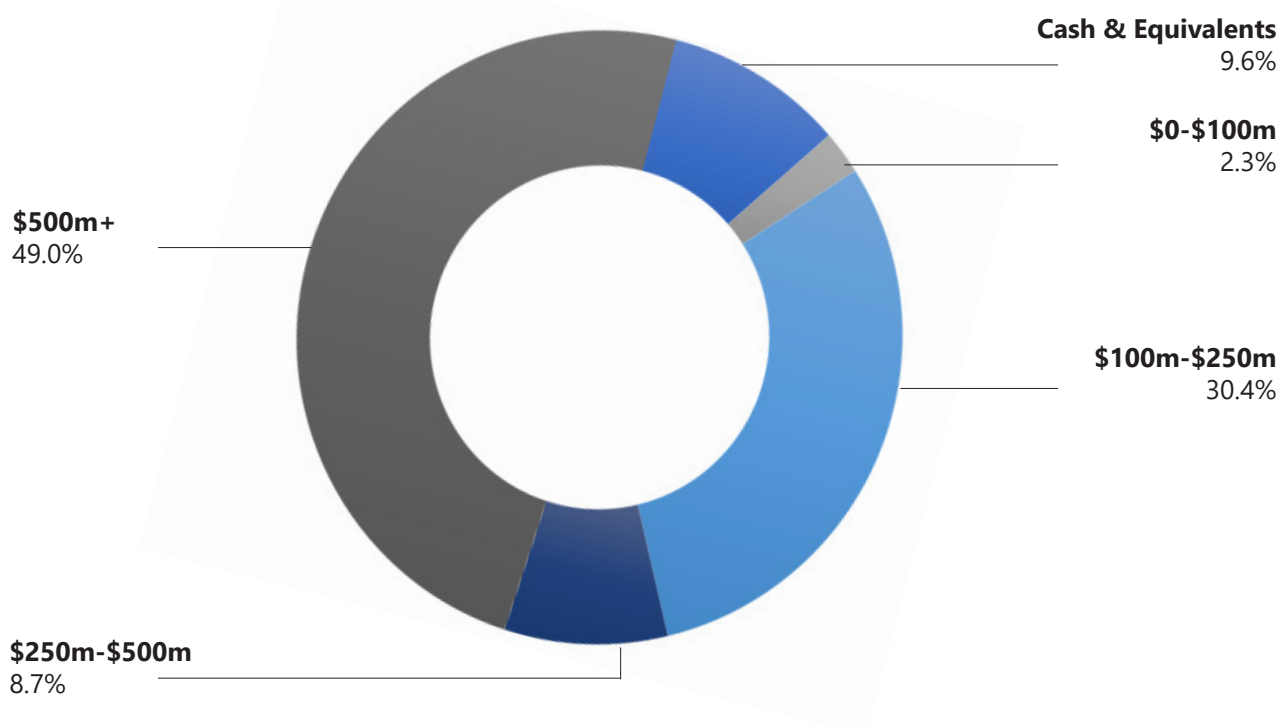
Unit Price

Date	Wholesale Unit (exit)
31/07/2020	\$1.4596

Distributions

Period Ended	Wholesale Units (cents)
30 June 2019	8.2837

Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Software & Services	27.9%
Diversified Financials	11.4%
Healthcare Equipment & Services	14.0%
Capital Goods	8.3%
Communication Services	7.1%
Technology Hardware & Equipment	4.4%
Consumer Services	5.9%
Retailing	7.5%
Media & Entertainment	2.3%
Semiconductors & Semiconductor Equipment	1.6%
Cash & Equivalents	9.6%



Portfolio Commentary

The Clime Smaller Companies Fund (CSCF) returned 1.0% in July, behind of the Benchmark return of 4.1%. The Fund has delivered 15.7% per annum after fees since inception, above the Benchmark return of 6.6% per annum.

The Fund finished the month with 9.6% held in cash.

The key contributors were:

City Chic Collective (CCX), Electro Optic Systems (EOS), Jumbo Interactive (JIN), and Afterpay (APT).

Ladies fashion retailer CCX continues to execute on its global, online, and plus-size growth strategy. In July CCX announced an \$80 million institutional placement (completed 27 July) with an associated \$10 million share purchase plan (SPP, closing 18 August). The funds will be used to pursue acquisitions of ecommerce assets that may arise in the current economic environment. On 23 July, CCX was selected as Stalking Horse Bidder for the ecommerce assets of US peer Catherines as part of a Chapter 11 bankruptcy process. Assuming the transaction goes ahead, and CCX can bring Catherines' US\$67 million of sales in-line with the Group EBITDA margin of 15%, the US\$16 million consideration implies a multiple of just 1.5 times EBITDA. Post-acquisition proforma net cash of \$72 million is available for future opportunities.

Defence and Space technologies developer EOS provided its 2Q20 update on the 31st of July. At the headline level there were no big surprises versus May guidance. Earnings before interest and tax is guided to fall in the range between \$20m and \$30m. The weighted tender pipeline remains at \$3 billion, and the order backlog is unchanged at over \$600m. The balance sheet has \$128 million cash. The pandemic has caused a slow-down in deliveries and also has pushed back some contracts, however underlying demand is healthy and the business remains in sound financial condition.

Online lotteries reseller and software developer JIN rallied on the back of an updated reseller agreement with TAH, announced on 29 June. Negotiations are still in progress with WA Lotteries at the time of writing. Per the update, JIN extended its reseller license with Tabcorp (TAH) through to 2030, but will pay TAH annual service fees starting from FY21. In effect, JIN's margin on TAH ticket sales will fall from 20% to approximately 16% when the service fee is fully implemented in 2024. Despite the reduced margin, JIN should continue to deliver annual double-digit earnings growth over the medium term, driven by increasing online channel penetration from 30% currently. With a free cash flow yield above 5% (at the time of writing), \$60m net cash, and a significant potential growth option from the new Powered by Jumbo lotteries management software business, JIN remains attractively priced in our view.

Buy Now Pay Later leader APT rose on a solid trading update, with underlying sales of \$11 billion, up 112%, and stable net transaction margin of 2%. APT also announced an in-store strategy in the US, supported by Apple Pay and Google Pay integration, as well as Canada launch during 1H21. The business is well-positioned for the all-important Christmas trading period.

The key detractors were:

RPMGlobal (RUL), Mach7 Technologies (M7T), and Bravura Solutions (BVS).

RUL announced a solid FY20 trading update with software Total Contracted Value (TCV) of \$42 million, up 90% on FY19. On our numbers RUL started FY21 with net cash of over \$30 million. With a 3% share of the Total Addressable Market (TAM), strong operating momentum, and FY21 EV/EBITDA of 13 times, RUL is a long-term high conviction holding.

Medical imaging software provider M7T announced its 4Q20 trading update. Free cash flow for FY20 was \$4.5 million, up from -\$4.0 million in FY19. Cash on hand post-acquisition of Client Outlook was \$19 million. The business is at an inflection point in its journey and poised to capture share in what is a US\$2.75 billion addressable market.

BVS traded lower over July on no news. The business has a leading software suite for wealth and funds administration, a global pipeline of opportunity, \$100 million net cash, and trades at a multiple of FY21 earnings of around 19 times ex-cash.



Fund Information

Investment Objective

The Clime Smaller Companies Fund is a concentrated portfolio of high-quality businesses that are outside the ASX200 at the time of initial investment.

The Fund invests in niche leaders that have superior business economics, strong balance sheets, and significant growth prospects, provided they are attractively priced relative to assessed value. The Fund is designed to take advantage of the structurally inefficient and under-researched market segment of small capitalisation stocks.

Its objective is to outperform a blended benchmark comprising 50% of the Small Ordinaries Accumulation Index and 50% of the Emerging Companies Accumulation Index.

Investment Methodology

The Clime Smaller Companies Fund has a quality focus with a valuation discipline. Fund holdings are characterised by:

- A competitive advantage, leadership within a specific niche
- High levels of profitability and margin
- Low financial leverage
- Capital-efficient growth and cash generation
- Capable management aligned with shareholders
- Sustainable long-term growth
- Attractive share prices relative to assessed value

Position sizing reflects not only our assessment of valuation and quality, but also the degree of strategy execution.

Portfolio Managers

Jonathan Wilson

Jonathan has 6 years of investment experience, specialising in growth strategies. He was the founding Co-Portfolio Manager of the Clime Smaller Companies Fund. Jonathan holds a Bachelor of Engineering, Bachelor of Commerce from the Australian National University and is a CFA Charterholder.



Adrian Ezquerro

Adrian, Clime's Head of Investments, has 13 years of investment experience. Adrian was the founding Portfolio Manager of the Clime Smaller Companies Fund. Adrian holds a Bachelor of Science from the University of Wollongong, and a Graduate Diploma of Applied Finance from Kaplan Professional.



Fund Information

Name	Clime Smaller Companies Fund	Investor Eligibility	Retail & Wholesale
Structure	Managed Investment Scheme	Minimum Investment	Retail: \$10,000 Wholesale: \$100,000
Investment Universe	Ex-ASX 200 at initial investment	Liquidity	Weekly Unit Pricing Applications and Redemptions
Benchmark	50% of the ASX Small Ordinaries Accumulation Index & 50% of the ASX Emerging Companies Accumulation Index	Fees	Retail: 1.23% management and 20% performance Wholesale: 1.03% management and 20% performance
Stock Holdings	15-40	Admin	Mainstream Fund Services Pty Ltd
Stock Limit	15% at cost	APIR Code	Retail: SLT5667AU Wholesale: CLA1557AU
Fund Size	\$47.1m	Platform Availability	Netwealth, HUB24

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