

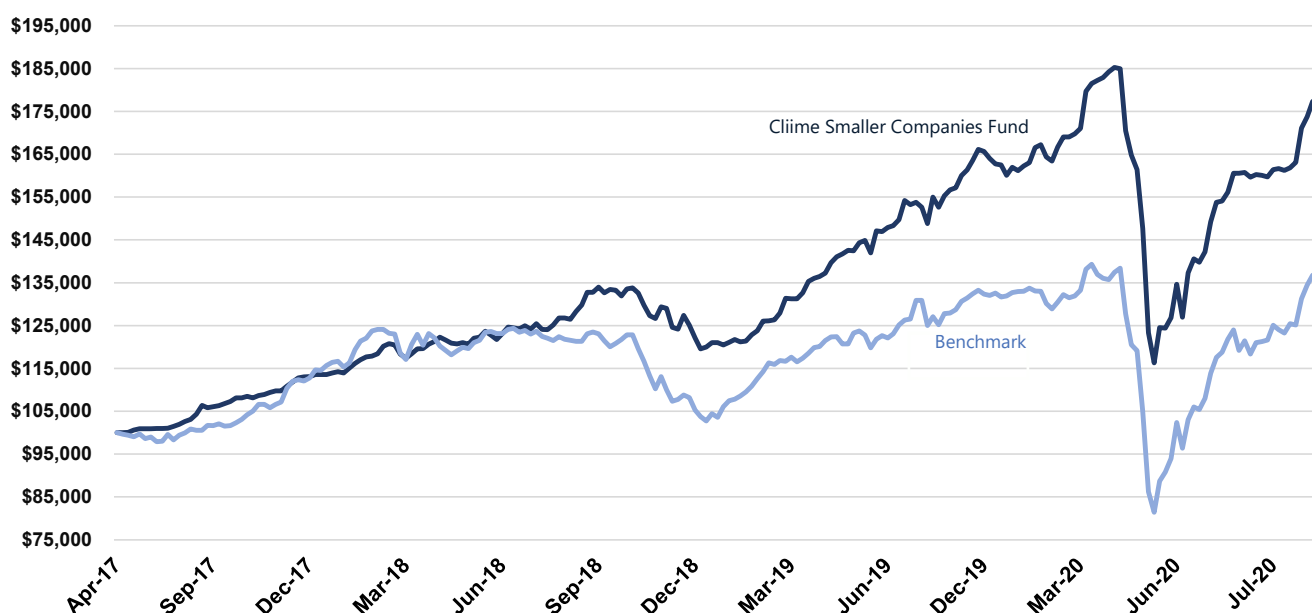
Clime Smaller Companies Fund



Monthly Report August 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
10.0%	18.6%	77.2%	\$52.4m



	1 month	3 months	6 months	1 year	2 years	3 years	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	10.0%	15.1%	7.6%	13.2%	15.0%	17.8%	18.6%	77.2%
Benchmark^	10.9%	15.1%	13.8%	7.3%	9.8%	9.8%	9.8%	36.9%

*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	\$52.4m
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
Jumbo Interactive Ltd	JIN
Mach7 Technologies	M7T
RPM Global Holdings	RUL



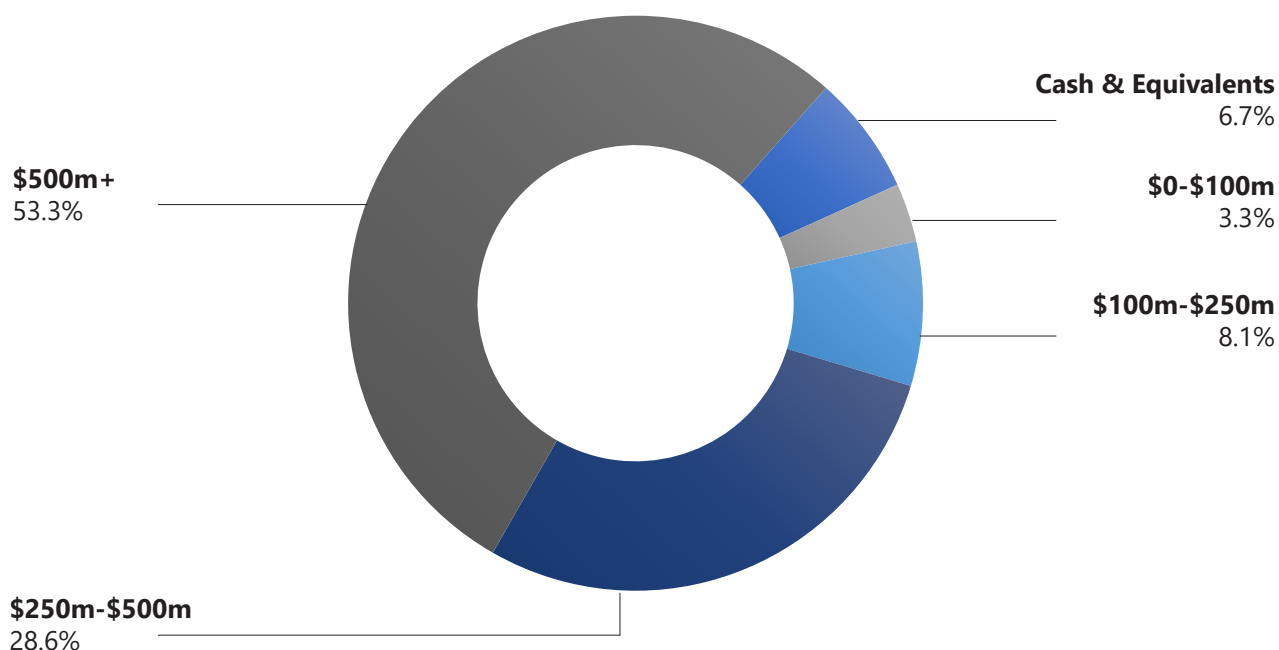
Unit Price

Date	Wholesale Unit (exit)
31/08/2020	\$1.6052

Distributions

Period Ended	Wholesale Units (cents)
30 June 2019	8.2837

Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Software & Services	32.1%
Healthcare Equipment & Services	13.3%
Retailing	9.7%
Diversified Financials	9.3%
Technology Hardware & Equipment	8.0%
Capital Goods	7.4%
Consumer Services	6.9%
Communication Services	4.8%
Media & Entertainment	1.8%
Cash & Equivalents	6.7%



Portfolio Commentary

The Clime Smaller Companies Fund (CSCF) returned 10.0% in August versus the Benchmark return of 10.9%. The Fund has delivered 18.6% per annum after fees since inception, above the Benchmark return of 9.8% per annum.

The Fund finished the month with 6.7% held in cash.

The key contributors were:

Hansen Technologies (HSN), Mach7 Technologies (M7T), RPMGlobal (RUL), Jumbo Interactive (JIN), and Afterpay (APT).

HSN was a standout of the reporting season, with underlying EBITDA coming in at \$78m and comfortably above pre-COVID guidance. Revenue increased 30%, mainly due to the Sigma business acquired last year as well as a healthy level of organic growth. For the uninitiated, HSN provides billing software to utilities and telcos. Customer retention is 99% and recurring revenue is around 70%. With bond yields near zero, HSN's free cash flow yield of around 8% leading into the result was a tantalising proposition. Although the stock rallied 40% post result, we think there is still some way to go before HSN is appropriately valued by the market.

M7T delivered a strong full-year result, albeit pre-announced, with revenue up 102% to \$18m and free cash flow of \$4.7m. The outlook for M7T has never been better following the acquisition of Client Outlook in June. Mach7 and Client Outlook are best-in-class solutions in the medical imaging, data storage and image viewing spaces, respectively. As a combination, the two solutions offer a highly competitive end-to-end medical imaging system to hospital networks in the US. This is a \$3 billion addressable market with structural tailwinds due to the migration from legacy systems to more innovative solutions such as Mach7, which is still in its infancy. Mach7 has a near term contract pipeline of \$40m and net cash of \$15m to support new initiatives.

RUL's FY20 result was notable for its solid figures despite deal flow being slowed by COVID-19 during the June quarter, which is traditionally the busiest contracting period for its core mining operations software division. With the software suite now finalised, and the shift to a subscription-based revenue model complete, FY20 marked a transition to a sales focus for RUL. The business is delivering, with Subscription Annualised Recurring Revenue (ARR) increasing 195% to \$12.7m over the year to 30 June. Including annual software maintenance revenues of \$20.6m, RUL's recurring revenue base exceeds \$33m. With a total addressable market of around \$1 billion and \$40m net cash, RUL has a long reinvestment runway. Although contract flow has slowed in the short term, we think patience will be rewarded.

There were no surprises in Jumbo's result, however the strategic outlook was the highlight. Firstly, only 28% of lottery tickets are sold online in Australia, which underwrites long term growth for Jumbo's core Australian lotteries business. In the coming weeks, we expect news on a potential contract with Lotterywest to resell lottery tickets in WA and also provide lottery management software via its Powered by Jumbo platform. The latter could provide Jumbo with a high-quality government reference site to aid its international growth strategy, particularly in the \$21 billion US State Lotteries market.

Buy Now, Pay Later ("BNPL") leader APT reported another exceptional full year result, with underlying sales up 112% and net transaction margins maintained at 2.3% despite adding 5.3 million new customers over the period. US underlying sales grew 330%. APT has \$2bn of growth capital to support further expansion in the US and globally. The result was accompanied by the launch of Canadian operations, as well as acquisitions of Pagantis in Europe and EmpatKali, which is based in Singapore and operating in Indonesia. APT is well positioned to capitalize on what will be a booming Xmas period for online retail. However, its success has attracted payments giant PayPal. On 1 Sept PayPal announced a copycat product, "Pay in 4", due for release before Xmas. PayPal's customer base (totaling 286m) dwarfs APT's of 9.9m, and its entrance on the BNPL scene may stunt APT's growth. APT has passed many tests, but this one needs to play out from a safe distance. Although we expect APT will meet this challenge, we substantially reduced our holdings at around \$90, with a view to potentially upweighting if it proves that it can successfully fend off competition from PayPal.

The key detractors were:

Bravura Solutions (BVS).

Wealth and funds administration provider BVS was sold down 20% on its FY20 result due to a subdued outlook commentary, with management stating "While the new sales pipeline remains strong, due to the wider impact of COVID-19 there is greater uncertainty in the timing of deal closures," and "It is therefore possible that FY21 NPAT will be similar to FY20". Pre-result FY21 consensus NPAT growth was 12%. The FY20 result itself was sound, with 13% organic earnings growth (ex the FinoComp and Midwinter acquisitions), compared with previous guidance of organic growth "in the mid-teens". Assuming BVS delivers FY21 earnings of \$40m, flat on FY20, the \$3.50 share price (at the time of writing) implies a multiple of 19 times, excluding net cash of \$100m. This appears cheap for an industry-leading software company with a multi-year reinvestment runway.



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	\$52.4m	Platform Availability	Netwealth, HUB24

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