

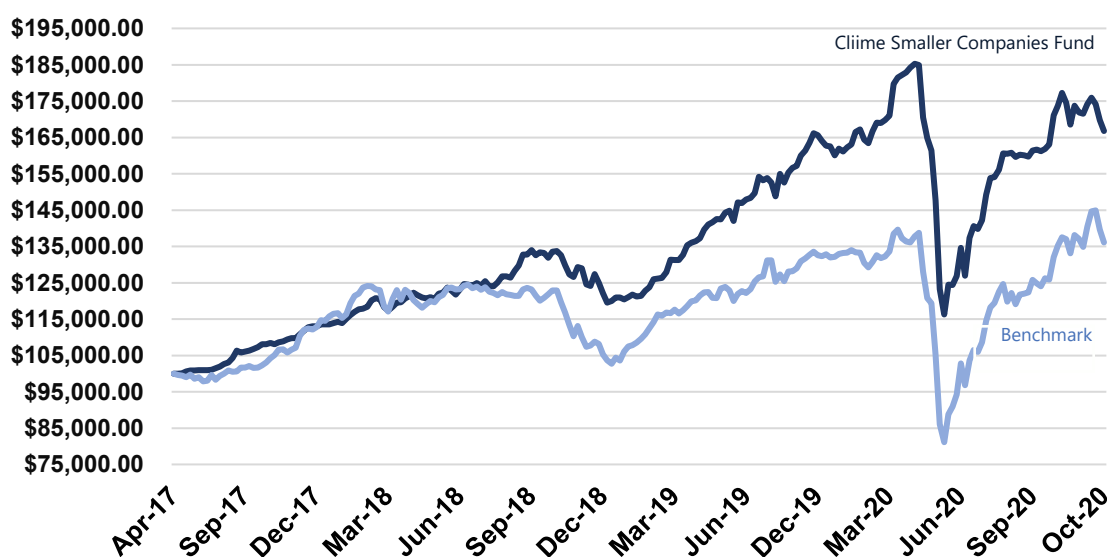
# Clime Smaller Companies Fund



## Monthly Report October 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
<b>-3.0%</b>	<b>15.5%</b>	<b>66.4%</b>	<b>\$49.4m</b>



	1 month	3 months	6 months	1 year	2 years	3 years	Inception p.a.	Inception Total
<b>Fund Net Return (Wholesale)*</b>	-3.0%	3.2%	18.4%	2.8%	14.6%	13.7%	15.5%	66.4%
<b>Benchmark^</b>	0.9%	9.8%	27.7%	2.4%	8.3%	8.9%	9.0%	35.5%

\*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

<b>Portfolio Managers</b>	Jonathan Wilson & Adrian Ezquerro
<b>Fund Inception</b>	April 2017
<b>Fund Size</b>	\$49.4m
<b>Number of Stocks</b>	15-40
<b>Cash Distributions</b>	Annually
<b>Eligibility</b>	Wholesale & Retail

### Top 5 Holdings (Alphabetical)

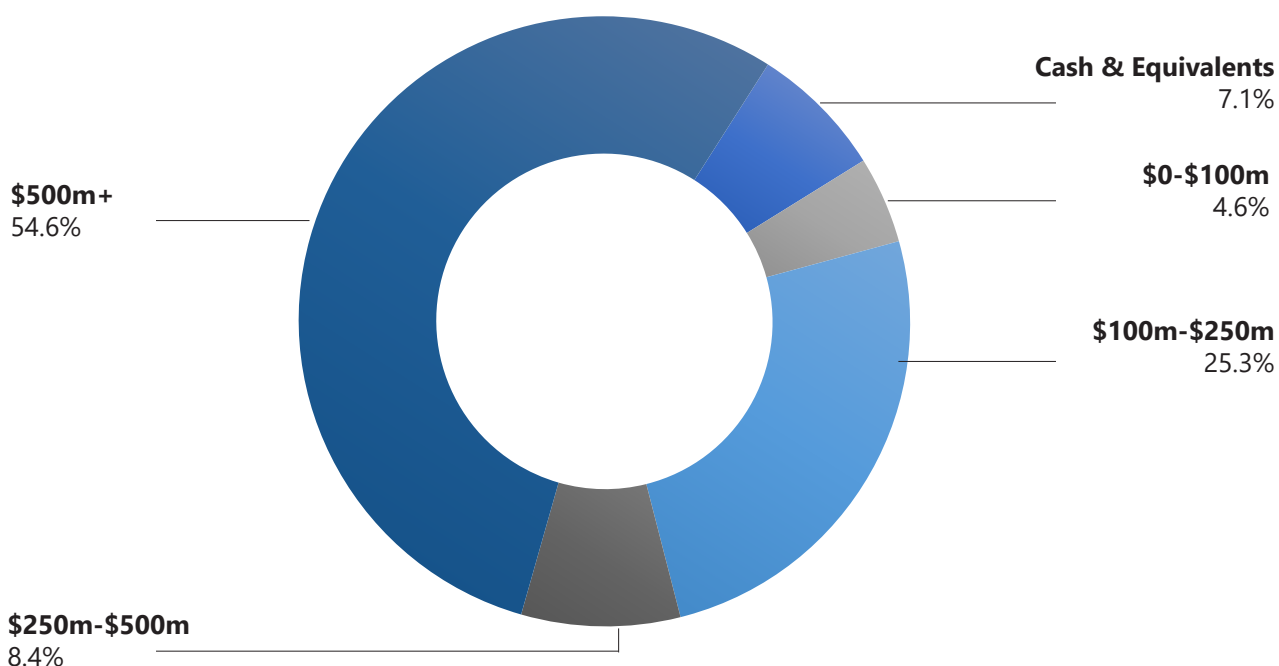
Company	ASX Code
<b>Electro Optic Systems</b>	EOS
<b>Hansen Technologies</b>	HSN
<b>Jumbo Interactive</b>	JIN
<b>Mach7 Technologies</b>	M7T
<b>RPM Global Holdings</b>	RUL



## Unit Price

Date	Wholesale Unit (exit)
30/10/2020	\$1.5065

## Asset Allocation by Market Capitalisation



## Asset Allocation by Sector

Industry	Weighting
Software & Services	28.1%
Healthcare Equipment & Services	11.2%
Retailing	9.9%
Technology Hardware & Equipment	9.9%
Diversified Financials	9.8%
Capital Goods	8.5%
Consumer Services	6.8%
Communication Services	5.3%
Media & Entertainment	2.1%
Semiconductors & Semiconductor Equipment	1.3%
Cash & Equivalents	7.1%



## Portfolio Commentary

The Clime Smaller Companies Fund (CSCF) returned -3.0% in October versus the Benchmark return of 0.9%. The Fund has delivered 15.5% per annum after fees since inception, above the Benchmark return of 9.0% per annum.

The Fund finished the month with 7.1% held in cash.

### **The key contributors were:**

#### **Audinate (AD8).**

Audio visual networking technology provider Audinate held its AGM in October, including a positive 1Q21 trading update. Monthly revenues trended higher over the quarter, reaching pre-COVID levels by September. This was better than expected against a forecast 38% decline in unit volumes in 2020 included in AD8's FY20 result presentation in August. Recent sales resilience reflects AD8's diverse customer base, with stronger demand from corporate and higher education customers offsetting weakness from live music. Industry unit volumes are expected to rise significantly in coming years. AD8 set to capture much of this demand, with an 8 times adoption lead over its nearest competitor, and next-gen software defined networking products (supplanting electronic chips) to potentially accelerate end market acceptance.

### **The key detractors were:**

#### **Jumbo Interactive (JIN), Mach7 Technologies (M7T).**

Shares in online lotteries retailer and software provider JIN declined during October despite a positive AGM update. 1Q21 jackpot activity was soft with 8 jackpots versus 13 during the prior corresponding period, a 38% decline. However, JIN's revenues declined only 2% due to improved per-jackpot performance for the core lotteries business, with like-for-like sales up between 26% and 64%. Jackpot activity is a statistical outcome, and JIN is well positioned should it improve over the remainder of FY21. JIN has over \$60m net cash and trades at 24 times our FY21 earnings forecast. This is modest for a business with ongoing growth supported by the continued shift in Australian lottery ticket sales to online from 28% currently, and an international growth option from its early-stage lotteries management SaaS business, Powered by Jumbo.

M7T sold-off on a softer than expected 1Q21 update. After a strong 4Q20, cash flow reversed with a \$1.8m outflow for the quarter. Cash flow is significantly affected by the size and timing of contract payments, which include one-off license and professional services fees and recurring maintenance fees. We remain positive about M7T's prospects due to its market-leading product and adoption from leading hospital systems in the US and Hong Kong. Although deal flow has slowed due to COVID, the company has approximately \$40m in active tenders including two significant hospital systems in the US. M7T has approximately \$18m net cash and is guiding to a cash flow positive FY21.

**Jonathan Wilson**    **Adrian Ezquerro**  
Portfolio Manager    Head of Investments



## 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

<b>Name</b>	Clime Smaller Companies Fund	<b>Investor Eligibility</b>	Retail & Wholesale
<b>Structure</b>	Managed Investment Scheme	<b>Minimum Investment</b>	Retail: \$10,000 Wholesale: \$100,000
<b>Investment Universe</b>	Ex-ASX 200 at initial investment	<b>Liquidity</b>	Weekly Unit Pricing Applications and Redemptions
<b>Benchmark</b>	50% of the ASX Small Ordinaries Accumulation Index & 50% of the ASX Emerging Companies Accumulation Index	<b>Fees</b>	Retail: 1.23% management and 20% performance Wholesale: 1.03% management and 20% performance
<b>Stock Holdings</b>	15-40	<b>Admin</b>	Mainstream Fund Services Pty Ltd
<b>Stock Limit</b>	15% at cost	<b>APIR Code</b>	Retail: SLT5667AU Wholesale: CLA1557AU
<b>Fund Size</b>	\$49.4m	<b>Platform Availability</b>	Netwealth, HUB24

### Contact Information

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