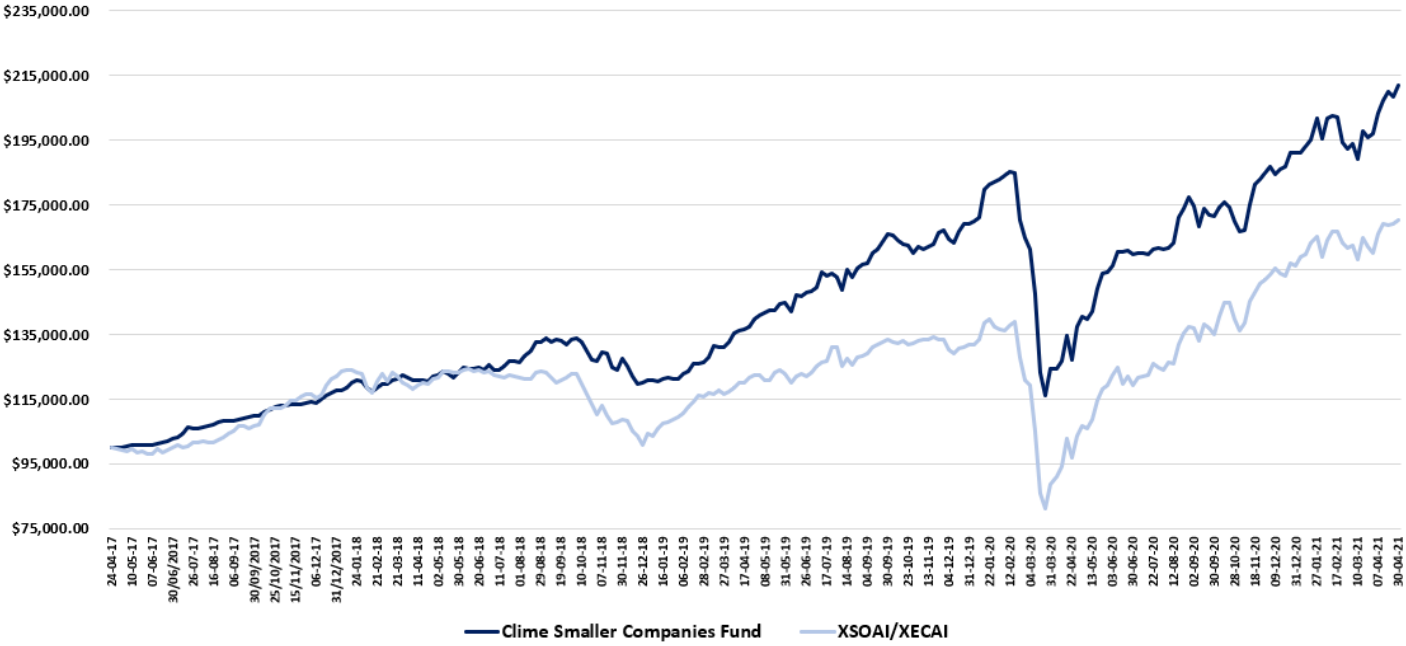
Clime Smaller Companies Fund (Wholesale)

April 2021 Monthly Report

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.

Month Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)*	Inception Total Net Return (Wholesale)*	Total Fund Size
7.7%	20.5%	111.9%	$82.1m



	1 month	3 months	6 months	1 year	2 years	3 years	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	7.7%	8.3%	27.4%	50.8%	23.2%	20.2%	20.5%	111.9%
ASX Small Ords Accumulation	5.0%	7.4%	21.4%	39.8%	10.1%	9.1%	11.4%	54.3%
Benchmark	6.2%	7.1%	25.0%	59.7%	18.4%	15.5%	14.0%	69.4%

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

Fund Facts

Portfolio Managers	Jonathan Wilson & Adrian Ezquerro
Fund Inception	April 2017
Fund Size	$82.1m
Number of Stocks	15-40
Cash Distributions	Annually
Eligibility	Wholesale

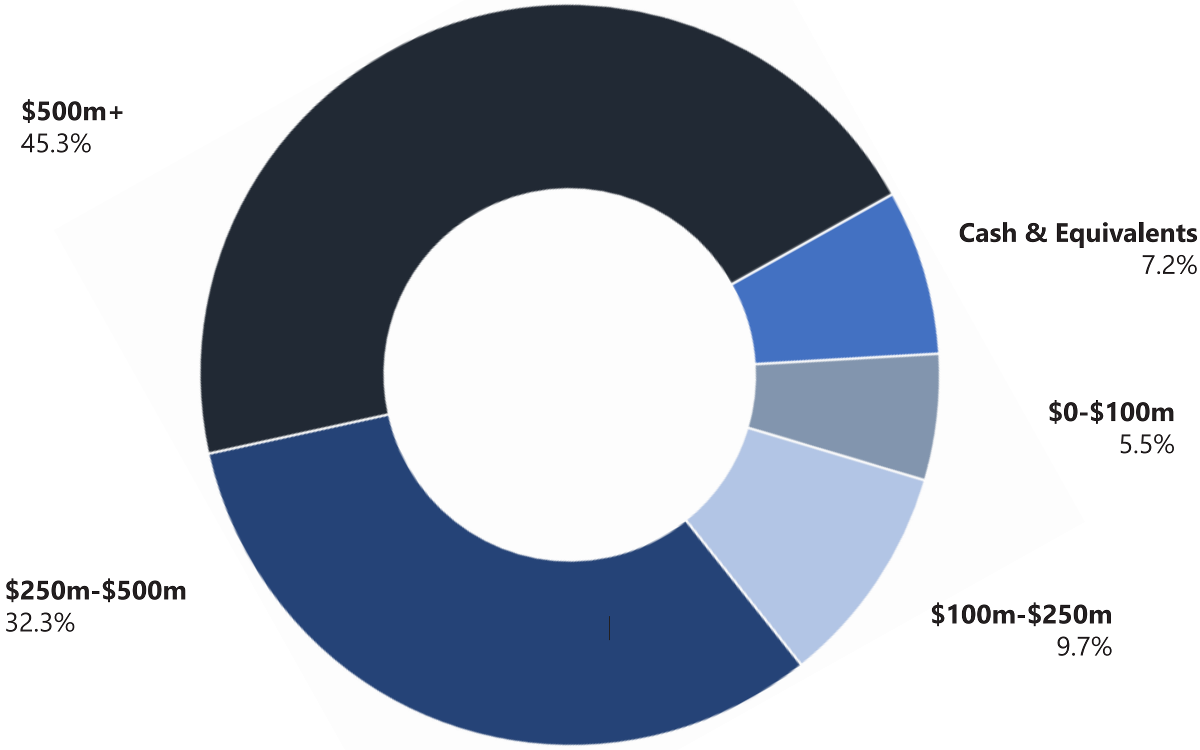
Top 5 Holdings (Alphabetical)

Company	ASX Code
City Chic Collective	CCX
Electro Optic System	EOS
Jumbo Interactive	JIN
Mach7 Technologies	M7T
RPM Global	RUL

Unit Price

Date	Wholesale Unit (exit)
30/04/2021	$1.9187

Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Software & Services	22.1%
Retailing	15.8%
Diversified Financials	11.2%
Health Care Equipment & Services	10.2%
Technology Hardware & Equipment	9.8%
Capital Goods	8.3%
Media & Entertainment	7.0%
Consumer Services	6.2%
Semiconductors & Semiconductor Equipment	2.2%
Cash	7.2%

Market Commentary

April started on a positive note for financial markets, after an exceptional first quarter, with divergent fortunes for equities and global bonds. The progression of the economic recovery will be the key driver of markets, and the ability to leave pandemic lockdowns behind will be the most important factor.

China was an early beneficiary of "early in, and early out" and will continue to be an important world economic growth engine; however it seems that with massive fiscal support, the US is likely to take over the reins, with growth in the American economy set to rise to levels not seen for 40 years.

Extraordinary monetary and fiscal stimulus and effective management of the pandemic has driven a V-shaped economic recovery in Australia, characterised by a rebounding labour market (with unemployment down to 5.6%), strong retail spending and continued strong housing demand. Unfortunately, worsening diplomatic relations with China, our largest trading partner, resulted in a reduction of Chinese investment in Australia of over 60%. Despite China's pullback, investment has increased in the real estate, mining, and manufacturing sectors.

In other positive economic news for Australia, inflationary pressures are yet to emerge, thus reassuring investors that rates are on hold for some considerable time. The 0.6% quarter on quarter rise in consumer prices in Q1 was well below the median consensus forecast of 0.9% and meant that inflation only edged up from 0.9% to 1.1%. An 8.7% q/q jump in fuel prices accounted for half of the rise in overall consumer prices.

The weakness in underlying inflation in Q1 is consistent with the view that the RBA will announce further QE measures in due course. In our view, financial markets have probably gone too far in pricing in nearly three rate hikes by the end of 2023. We think the "normalisation" of interest rates will be a slower process than that.

Consumer confidence in many developed economies is surging, with households having amassed large amounts of savings and having received government support payments, but with little to spend it on during lockdowns. According to Moody's, consumers around the world have stockpiled an extra $5.4 trillion of savings since the pandemic began and are becoming increasingly confident about the economic outlook, paving the way for a strong rebound in spending as businesses reopen.

High valuations in some parts of the market suggest that many companies are vulnerable to any disappointment in profit pronouncements or forward guidance. Hence a quality focused approach, coupled with strong valuation discipline, remains critically important. In particular, cash generation needs to be monitored to avoid getting ensnared by companies that are trading on hope rather than reality.

Portfolio Commentary

The Clime Smaller Companies Fund returned 7.7% for the month, ahead of the Small Ordinaries Accumulation Index and Benchmark returns of 5.0% and 6.2% respectively. Since inception, the Clime Smaller Companies Fund has returned 20.5% per annum after all fees, ahead of the respective Small Ordinaries Accumulation Index and Benchmark returns of 11.4% and 14.0% per annum.

While the monthly return for the Australian market was strong in absolute terms, the ASX again lagged most developed global indices. The S&P 500, Nasdaq and MSCI UK Indices delivered returns of 5.3%, 5.4% and 4.0% for the month, respectively.

Domestically, Technology (+9.7%), Materials (+6.8%) and Industrials (+4.3%) outperformed, while Energy (-4.9%), Consumer Staples (-2.5%) and Utilities (-1.2%) lagged. After a weak March quarter, Australian Bonds rallied during the month, in turn providing greater support to higher growth sectors within the equity asset class.

Key contributors to the portfolio return for the month were Rhipe (RHP), City Chic Collective (CCX), Adairs (ADH), EROAD (ERD) and Straker Translations (STG), while key detractors included Electro Optic Systems (EOS) and Mach7 Technologies (M7T).

Rhipe (RHP) returned 27.0% in April, regaining declines over the March quarter. During the month, the cloud software distributor acquired cyber security specialist, emt Distribution, and announced a slight upgrade on a solid 3Q21, with FY21 operating profit guided to $18.0m (+36% YoY), up from $17.5m. The business is well capitalized and trades at a discount to peers.

Adairs (ADH) returned 22.0% reflecting broad strength across retail. The Australian consumer remains landlocked with $60bn of pre-COVID international travel spend still largely internalized. Furniture and houseware goods was one of the strongest categories in February (+26% YoY, ABS). We believe omni-channel retailers are best been positioned to take advantage of various potential scenarios relating to COVID. ADH generates close to 40% of sales online and will exit FY21 with a healthy net cash balance sheet.

Straker Translations (STG) returned 19.0% on a strong 4Q20 update, with revenue of NZ$9, up 21% and positive operating cash flow. Quarterly figures included only 2 months of Lingotek (acquired 21 Jan) and 6 weeks of IBM revenues (strategic partnership announced Nov 2020). IBM revenues are ramping up, and we see significant growth next quarter from further contribution from the two new divisions.

Mach7 Technologies (M7T) returned -6.0% despite a solid 3Q21 update which included record cash receipts of $8.4m and positive operating cash flow of $3.3m. During the month M7T announced it had been awarded 2021 Global Enterprise Imaging Solutions Product Leadership by Frost and Sullivan. M7T has $18m net cash and healthy contract pipeline heading into 4Q21.

Electro Optic Systems (EOS) returned -11.0% on a 1Q21 update that included $25m of operating cash outflow on $51m cash receipts. EOS has $41m cash on the balance sheet, with a material portion of a $120m defence systems contract to hit the cash line 2Q21. Finalisation of this contract was delayed by travel restrictions during 2020. We believe that once the issue is resolved the market will refocus on the company's significant growth opportunities.

As we draw closer to the end of FY2021, we expect a multitude of earnings updates for ASX listed businesses to be delivered during the month of May. We are excited about our portfolio and remain positive on both the growth trajectory and long term opportunity set for our portfolio of businesses.

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 7 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 14 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**	Wholesale
Structure	Managed Investment Scheme	**Minimum Investment**	Wholesale: $100,000
Investment Universe	Ex-ASX 200 at initial investment	**Liquidity**	Weekly Unit Pricing Applications and Redemptions
Benchmark	50% of the ASX Small Ordanairies Accumulation Index & 50% of the ASX Emerging Companies Accumulation Index	**Fees**	Wholesale: 1.03% p.a. management and 20% performance (against benchmark)
Stock Holdings	15-40	**Admin**	Mainstream Fund Services Pty Ltd
Stock Limit	15% at cost	**APIR Code**	Wholesale: CLA1557AU
Fund Size	$82.1m	**Platform Availablity**	BT Panorama, Onevue, Praemium, Netwealth, HUB24

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