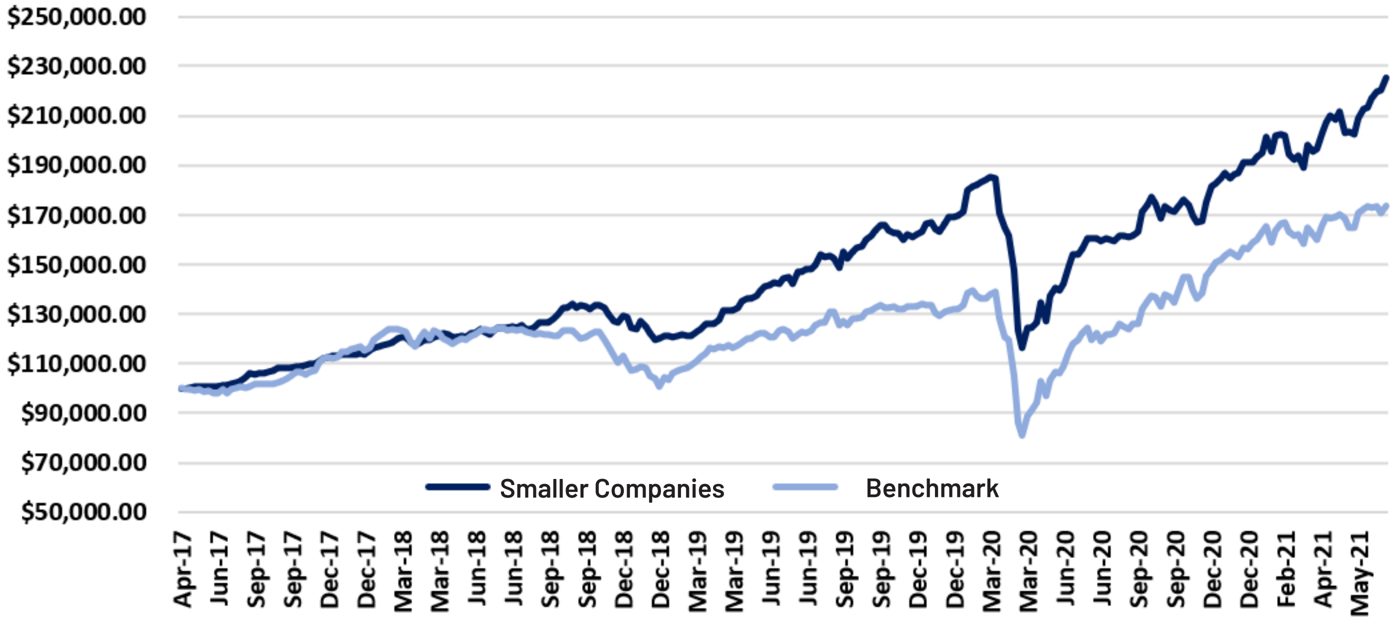
Clime Smaller Companies Fund (Wholesale)

Fund Performance | June 2021

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.

Quarter Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)*	Inception Total Net Return (Wholesale)*	Total Fund Size
14.6%	21.4%	125.5%	$91.3m



	1 month	3 months	6 months	1 year	2 years	3 years	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	5.9%	14.6%	17.9%	41.3%	23.3%	21.6%	21.4%	125.5%
ASX Small Ords Accumulation	3.1%	8.5%	10.8%	33.2%	12.1%	8.6%	11.8%	59.4%
Benchmark	0.9%	8.4%	11.4%	45.9%	18.7%	15.7%	14.0%	72.9%

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

Fund Facts

Portfolio Managers	Jonathan Wilson & Adrian Ezquerro
Fund Inception	April 2017
Fund Size	$91.3m
Number of Stocks	15-40
Cash Distributions	Annually
Eligibility	Wholesale

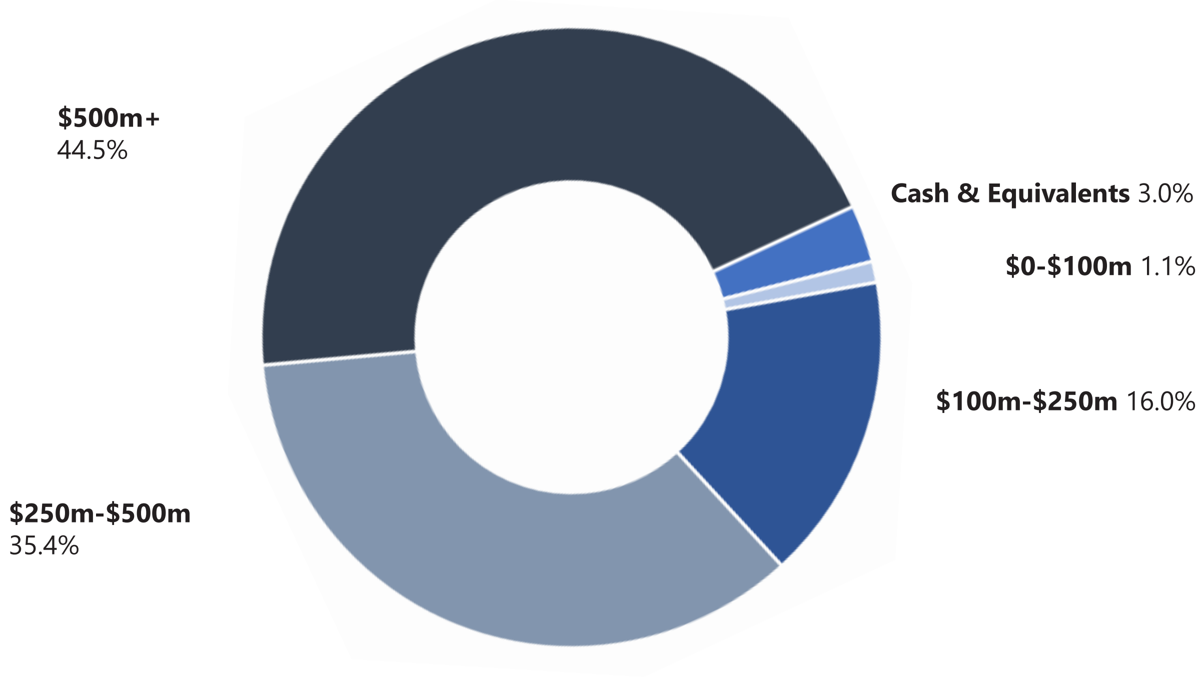
Top 5 Holdings (Alphabetical)

Company	ASX Code
Electro Optic Systems	EOS
Jumbo Interactive	JIN
Mach7 Technologies	M7T
RPMGlobal	RUL
Straker Translations	STG

Unit Price

Date	Wholesale Unit (exit)
30/06/2021	$2.0418

Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Software & Services	26.3%
Retailing	14.4%
Health Care Equipment & Services	9.7%
Diversified Financials	9.1%
Technology Hardware & Equipment	8.9%
Capital Goods	8.8%
Media & Entertainment	8.0%
Consumer Services	7.0%
Semiconductors & Semiconductor Equipment	2.8%
Communication Services	1.9%
Cash	3.0%

Portfolio Commentary

The Clime Smaller Companies Fund returned 5.9% and 14.6% for the month and June quarter respectively, ahead of the respective Benchmark returns of 0.9% and 8.4%. Since inception, the Clime Smaller Companies Fund has returned 21.4% per annum after all fees, ahead of the respective Small Ordinaries Accumulation Index and Benchmark returns of 11.8% and 14.0% per annum.

Although the effects of the global pandemic have further to run, the worst of the crisis has now passed, and 2021 is shaping up to be a significantly better year for the global economy than 2020 was. Risks remain, but distress in financial and investment markets has been avoided, reflecting a concerted global policy effort. Firmer growth is expected in the second half of 2021 and beyond, although inflation remains a concern and low interest rates are supporting asset pricing.

Key contributors to the portfolio return for the June quarter were RPMGlobal (RUL), Jumbo Interactive (JIN), City Chic Collective (CCX), APN Property (APD), Rhipe (RHP), and EROAD (ERD). Key detractors for the quarter were Electro Optic Systems (EOS) and Mach7 Technologies (M7T). We explore a number a number of these positions in the commentary to follow.

APN Property Group (APD) returned +69.1% for the quarter, having received a strong bid from property heavyweight Dexus (DXS) in May. The proposed acquisition is for a cash consideration of $320 million at 91.5 cents (less any distributions), a 50% premium over APD's previous closing price of 61.0 cents.

We have owned APD for a number of years (since fund inception), with our thesis largely focused on the significant implied undervaluation of APD's funds management platform. This cash takeover finally realises this value appropriately and likely means our long and successful association with APD (as an investor) will come to an end.

RPMGlobal (RUL) returned +29.5% in the June quarter on the back of solid software sales momentum. RUL added $19.9m of Total Contract Value (TCV) for Subscription Software sales for the quarter, bringing the total for FY21 to over $47.7m. Management have exceeded expectations in delivering on the strategy since 2018 to transition from a software license sales model to subscription software sales.

Annualised recurring revenue from subscriptions increased 70% on FY20. We believe RUL is early in a long term trend as miners increase IT adoption from current low levels. We estimate the software business is priced at a modest 7 times total FY22 software recurring revenues (subscriptions and maintenance fees), after adjusting for RUL's net cash balance and consulting division valuation.

Jumbo Interactive (JIN) gained +40.1% over the quarter, reflecting higher jackpot activity over 2H21, which should support domestic lotteries retail volumes, as well as rising optimism around the global growth prospects for JIN's lotteries management SaaS division. With digital share of Australian official lotteries at around 30%, growth opportunity remains for JIN's lotteries domestic retail business. The next growth leg comes from lotteries SaaS.

After attracting some of Australia's largest charity lotteries, JIN is looking to export its leading lotteries management capabilities to the UK, US, and Canadian markets, targeting both charities and official government sectors. Execution on this strategy carries significant valuation upside, and we could see some initial traction during FY22.

City Chic Collective (CCX) returned +37.9% for the quarter, benefiting from rising ecommerce in its key Australia, UK, and US markets. CCX summer dress sales should also benefit from reopening in the US and UK jurisdictions, which total over 55% of sales. Based on web traffic data, CCX's acquired ecommerce businesses, Avenue (US, 2019) and Evans (UK, 2020), are trading at close to Christmas levels.

Rhipe (RHP) returned 34.2% after upgrading operating profit guidance for FY21 from $17.5m to over $18m in April, representing annual growth of +30%. RHP traded at healthy forward free cash flow yields throughout FY20, despite long term growth underwritten by rising demand for RHP's cloud software wholesaling services across APAC, more recently including Japan. On 1 July RHP received a non-binding indicative proposal from Norwegian peer Crayon to acquire the business for $2.50 per share, a 20% premium to previous close.

EROAD (ERD) rose +43.4% after announcing a solid FY20 result for the year ended 31 March, with revenue and EBITDA up 13% despite COVID headwinds. ERD reiterated Nov 2020 FY22 guidance of higher revenue growth for FY22 whilst maintaining EBITDA margins.

ERD is a technology leader in regulatory telematics for vehicle fleet operators, with cash generated in its dominant home NZ market used to fund its growth initiatives in the US and Australia. ERD implemented NZ's world-first electronic Road User Charging system and also developed the current number one Electronic Logging Device (ELD) in the US. ERD's Dashcam product is a potential catalyst for US growth in FY22. The stock is currently trading at a modest 5 times FY22 Annualised Recurring Revenue.

Electro Optic Systems (EOS) returned -17.1% for the June quarter on persisting concerns around cash collection from a Middle East customer contract. An initial $30m of the $130m contract was received in May, with the remainder to be paid upon product testing and acceptance by the customer. Short interest increased to over 8% by quarter's end.

We believe concerns are overstated and we took advantage of the resulting share price weakness to increase our holding. EOS houses technology and IP that is relevant to the Australian and allied governments. The company has a near term contract pipeline of over $1 billion for its defence systems, and the EOS SpaceLink business looms as a potentially significant value catalyst in the September quarter.

Mach7 Technologies (M7T) returned -18.9%, reflecting a quiet quarter on the contracting front, with shares pulling back from recent highs after rallying throughout 2020. We expect contract flow for its innovative enterprise and diagnostic imaging software to pick up once again in 1H22.

Management recently highlighted in June easing COVID disruptions in the US allowing accelerating pipeline conversion as in-person sale activities recommence and hospital systems normalise their budgeting cycles. Positively, M7T's base of annuity revenue now funds over 60% of operating expenditures, so we should see strong operating leverage at the bottom line in future periods.

As another financial year comes to a close, we remain pleased with portfolio outcomes to date. We now look to the future with optimism, and are excited about the vast array of growth opportunities that lie in wait for our investee companies. Thank you for your ongoing support.

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.

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	**Platform Availablity**	Praemium, BT Panorama, OneVue, Netwealth, Hub24
Stock Limit	15% at cost	**APIR Code**	Wholesale: CLA1557AU

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