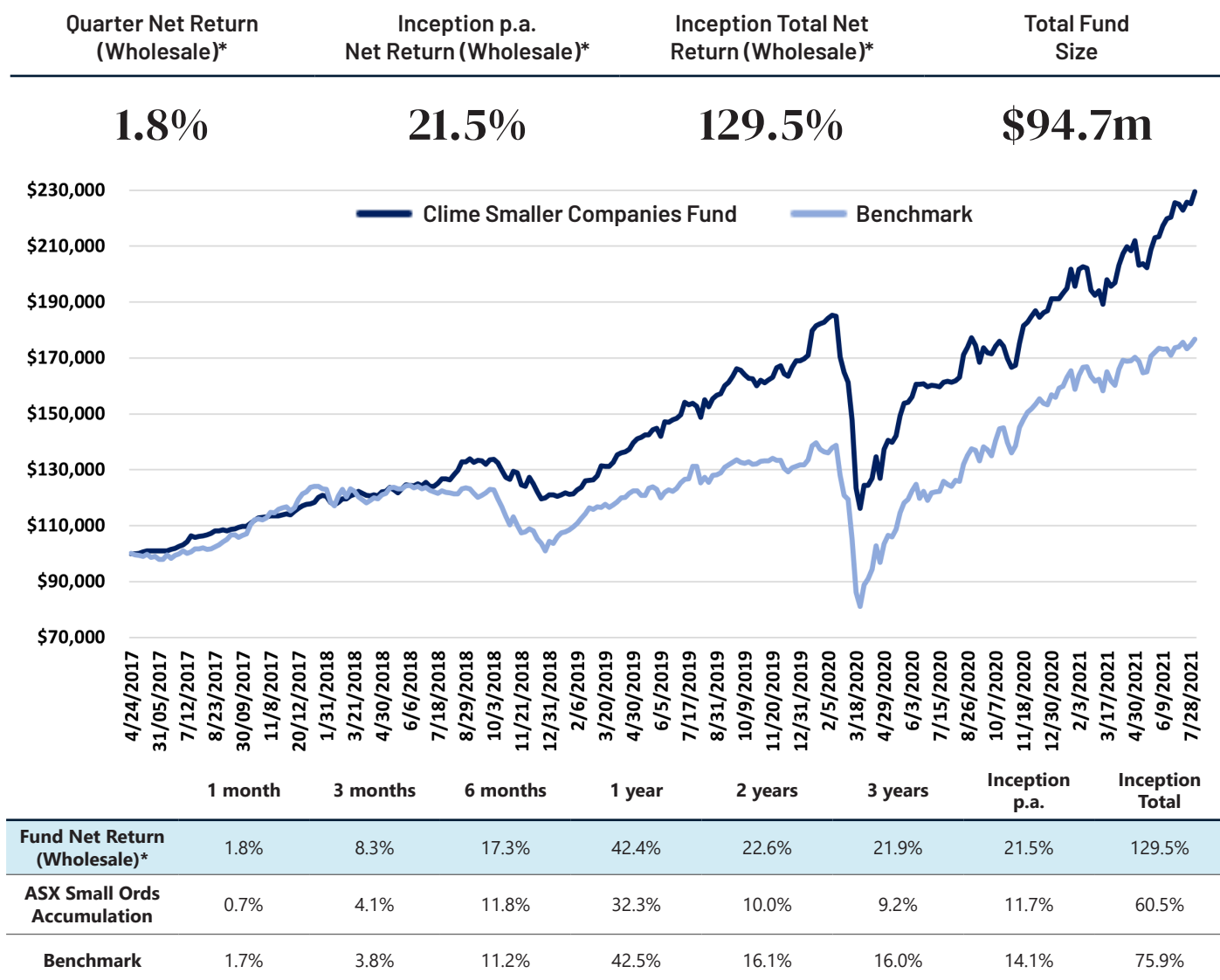


# Clime Smaller Companies Fund (Wholesale)



## Fund Performance | July 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.



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

### Fund Facts

|                           |                                   |
|---------------------------|-----------------------------------|
| <b>Portfolio Managers</b> | Jonathan Wilson & Adrian Ezquerro |
| <b>Fund Inception</b>     | April 2017                        |
| <b>Fund Size</b>          | \$94.7m                           |
| <b>Number of Stocks</b>   | 15-40                             |
| <b>Cash Distributions</b> | Annually                          |
| <b>Eligibility</b>        | Wholesale                         |

### Top 5 Holdings (Alphabetical)

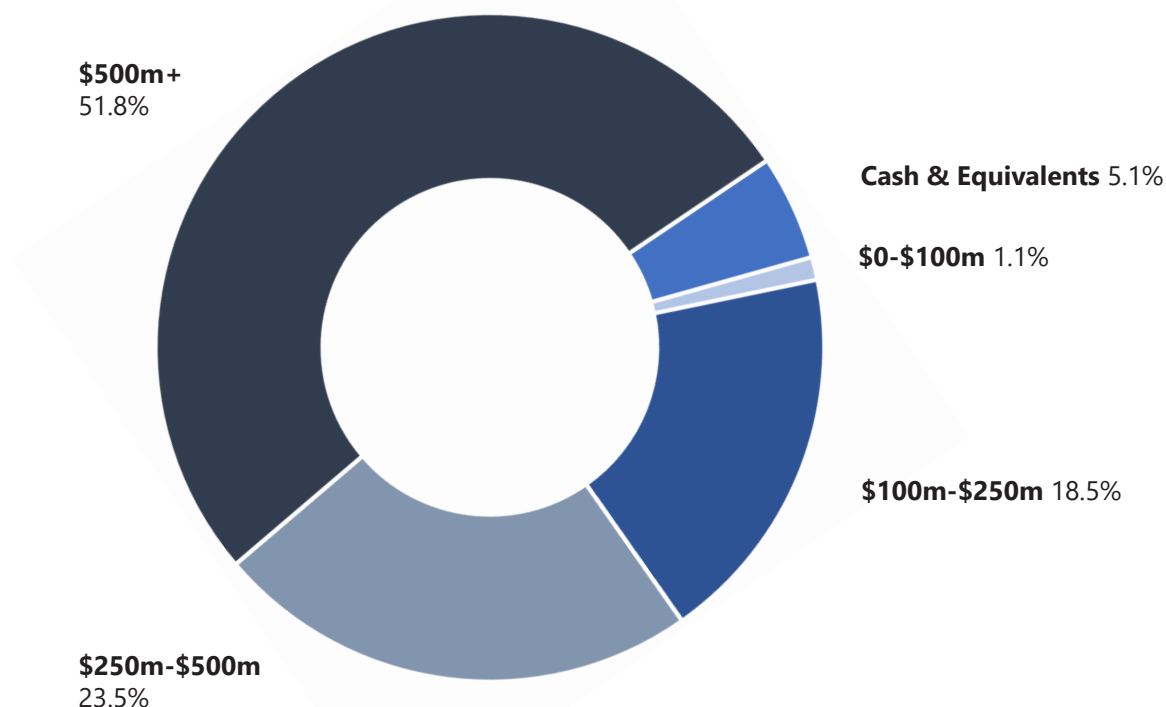
| Company               | ASX Code |
|-----------------------|----------|
| Electro Optic Systems | EOS      |
| EROAD                 | ERD      |
| Jumbo Interactive     | JIN      |
| Mach7 Technologies    | M7T      |
| RPM Global            | RUL      |



## Unit Price

| Date       | Wholesale Unit (exit) |
|------------|-----------------------|
| 30/07/2021 | \$1.9048              |

## Asset Allocation by Market Capitalisation



## Asset Allocation by Sector

| Industry                                 | Weighting |
|--|-----------|
| Software & Services                      | 26.8%     |
| Retailing                                | 14.1%     |
| Technology Hardware & Equipment          | 10.8%     |
| Health Care Equipment & Services         | 8.9%      |
| Capital Goods                            | 8.2%      |
| Media & Entertainment                    | 7.7%      |
| Diversified Financials                   | 6.4%      |
| Consumer Services                        | 6.3%      |
| Semiconductors & Semiconductor Equipment | 3.9%      |
| Communication Services                   | 1.9%      |
| Cash                                     | 5.1%      |



## Portfolio Commentary

The Clime Smaller Companies Fund returned 1.8% for the month, versus respective Small Ordinaries Accumulation Index and Benchmark returns of 0.7% and 1.7%. Since inception, the Clime Smaller Companies Fund has returned 21.5% per annum after all fees, ahead of the respective Small Ordinaries Accumulation Index and Benchmark returns of 11.7% and 14.1% per annum.

The global economy has come a long way since the shock of the pandemic recession in March 2020, and yet the recovery of 2021 has so far been volatile and difficult to navigate. The remainder of the year could be even more difficult with the added stresses of increasing numbers of Delta-variant covid cases and potential central bank actions, which themselves are dependent on changing economic data signals.

As investors look for opportunities, the divergent performance of various parts of the global economy means that some sectors, such as international travel, education, and hospitality, will remain weak. Other sectors, such as technology services, housing, and construction, have been buoyed by both government support and household demand. And yet other sectors, such as resource exports, have been sustained by extraordinary demand emanating from China, Japan, and other Asian countries.

There remain reasons to be optimistic about the potential for high quality listed companies to grow values in line with the economic recovery. In our view, the current trajectory of bond markets, equity markets and property assets will probably continue along their current paths, despite some angst about the risks of further pandemic pain, inflation, QE tapering, tax increases, and other perils. We therefore remain constructive about exposure to high quality Australian smaller companies.

**Key contributors for the month were** RPMGlobal (RUL), Rhipe (RHP) and Macquarie Telecom (MAQ).

**RPMGlobal (RUL) returned 13%** for the month of July on the back of a 2 July update that highlighted 72% growth in software subscription revenue for FY2021. On our estimates, RUL's software division is valued at 7 times recurring revenue, which is modest compared to what is a significant growth runway. RUL remains the Fund's largest position.

**Rhipe (RHP) returned 21%** after agreeing on 6 July to a Scheme Implementation Deed with Norwegian software distributor Crayon Group at \$2.50 per share.

**Macquarie Telecom (MAQ)** returned 28% with the company announcing on 14 July a 7MW or 16% expansion to its datacentre campus at Macquarie Park in Sydney, bringing total planned capacity at the campus to 50MW. In our view MAQ is fairly priced, however shares trade at a material discount to listed peers.

**The key detractor for the month was** Mach7 Technologies (M7T).

**Mach7 Technologies (M7T) returned -8%** reflecting subdued contract activity over the June quarter. FY21 started well, however, with existing customer Advocate Aurora Health (AAH, 28 hospitals) agreeing to a \$4.3m 5-year licence for M7T's eUnity medical imaging viewer software on 19 July.

Following a solid start to the new financial year, we now enter reporting season with relatively high expectations. Consensus estimates currently reflect expectations for earnings growth of about 25% for FY2021, slowing to 10% growth in FY2022. Given the raft of lockdowns currently impacting the domestic economy, and despite the solid health of corporate Australia, we expect outlook statements to remain circumspect.

**Jonathan Wilson**  
Portfolio Manager

**Adrian Ezquerro**  
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.



|                            |   |                              |  |
|----------------------------|---|------------------------------|--|
| <b>Name</b>                | Clime Smaller Companies Fund  | <b>Investor Eligibility</b>  | Wholesale  |
| <b>Structure</b>           | Managed Investment Scheme   | <b>Minimum Investment</b>    | 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>                  | Wholesale: 1.03% p.a. management and 20% performance (against benchmark) |
| <b>Stock Holdings</b>      | 15-40   | <b>Platform Availability</b> | Praemium, BT Panorama, OneVue, Netwealth, Hub24                          |
| <b>Stock Limit</b>         | 15% at cost   | <b>APIR Code</b>             | Wholesale: CLA1557AU   |

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