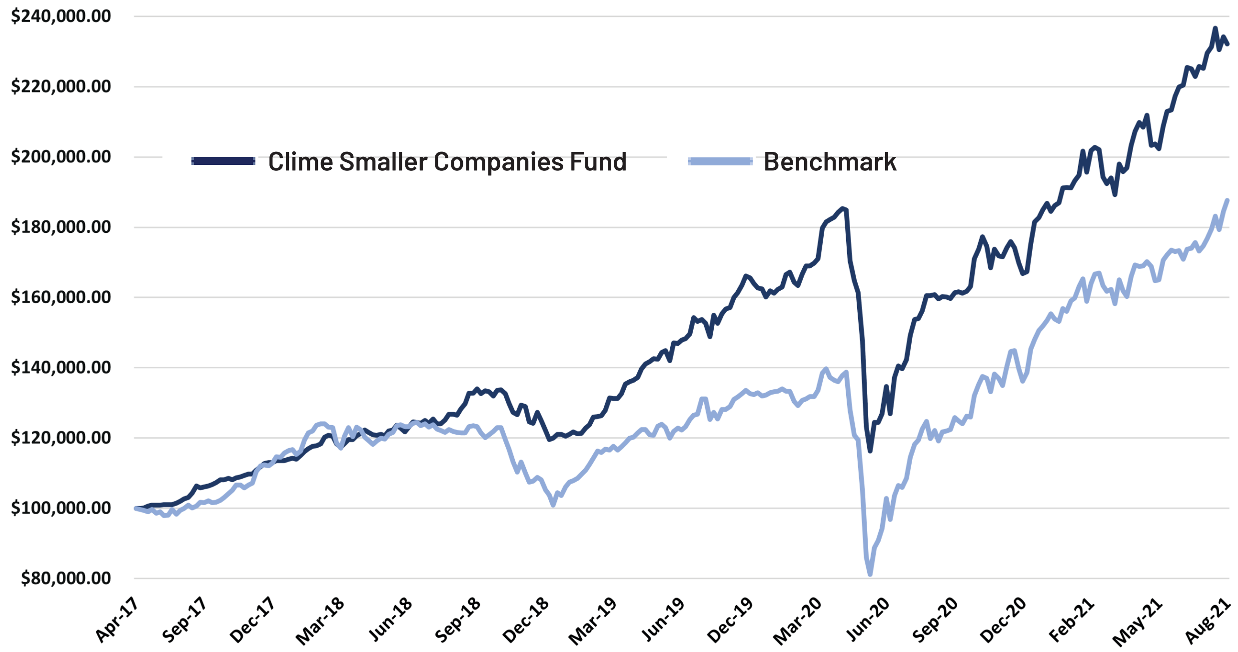
Clime Smaller Companies Fund (Wholesale)

Fund Performance | August 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.

Month Net Return (Wholesale)*	Inception p.a. Net Return (Wholesale)*	Inception Total Net Return (Wholesale)*	Total Fund Size
1.1%	21.3%	132.1%	$98.3m



	1 month	3 months	6 months	1 year	2 years p.a.	3 years p.a.	Inception p.a.	Inception Total
Fund Net Return (Wholesale)*	1.1%	9.0%	20.7%	30.9%	21.7%	20.1%	21.3%	132.1%
ASX Small Ords Accumulation	5.0%	8.9%	15.6%	29.5%	15.0%	10.1%	12.7%	68.5%
Benchmark	6.1%	9.0%	16.0%	36.4%	21.0%	18.0%	15.4%	86.7%

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

Fund Facts

Portfolio Managers	Jonathan Wilson & Adrian Ezquerro
Fund Inception	April 2017
Fund Size	$98.3m
Number of Stocks	15-40
Cash Distributions	Annually
Eligibility	Wholesale

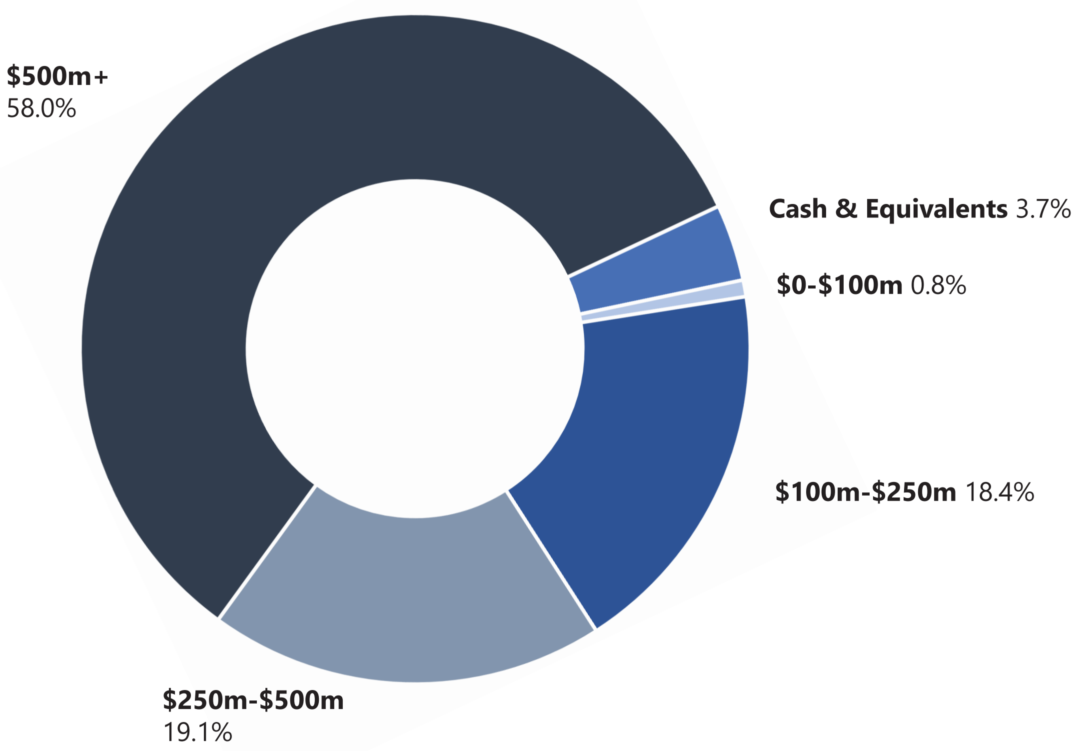
Top 5 Holdings (Alphabetical)

Company	ASX Code
Electro Optic Systems	EOS
Family Zone Cyber Safety	FZO
Jumbo Interactive	JIN
Mach7 Technologies	M7T
RPM Global	RUL

Unit Price

Date	Wholesale Unit (exit)
31/08/2021	$1.9267

Asset Allocation by Market Capitalisation



Asset Allocation by Sector

Industry	Weighting
Software & Services	29.0%
Retailing	14.8%
Technology Hardware & Equipment	10.6%
Health Care Equipment & Services	8.3%
Media & Entertainment	7.7%
Capital Goods	7.0%
Diversified Financials	6.9%
Consumer Services	6.0%
Semiconductors & Semiconductor Equipment	3.8%
Communication Services	2.2%
Cash	3.7%

Portfolio Commentary

The Clime Smaller Companies Fund returned 1.15% for the month, versus respective Small Ordinaries Accumulation Index and Benchmark returns of 5.0% and 6.1%. Since inception, the Clime Smaller Companies Fund has returned 21.3% per annum after all fees, ahead of the respective Small Ordinaries Accumulation Index and Benchmark returns of 12.7% and 15.4% per annum.

Over the past year the Emerging Companies Index (XEC), Australia's premier microcap index and 50% of the Fund's benchmark, has particularly benefitted from the heightened risk appetite increasingly apparent in the more speculative end of the Australian market. This was certainly the case in August, with dozens of companies that we deem to be outside our investable universe delivering strong investor returns.

Despite this near term relative headwind, we remain focused on the implementation of a process based on fundamentals, and as such will continue to avoid companies that are very high risk in nature. In general terms, this means we screen out those micro and small cap companies that generate little to no revenue, are exclusively exposed to a single commodity, and/or have high risk binary outcomes. We believe the recent returns of the XEC to be an exuberant aberration that is unlikely to be sustained in the years to come, and as a result, see greater risk in these parts of the Australian market.

Key contributors for the month were Family Zone (FZO), Dubber (DUB), Macquarie Telecom (MAQ), Navigator Global Investments (NGI) & City Chic Collective (CCX).

Family Zone Cyber Safety (FZO) returned 36.0% reflecting the transformational acquisition of Smoothwall (UK) for $146m. Post-acquisition, the school and parent community cyber security company will have a customer base of 18,000 schools encompassing 9 million students, supporting annualised recurring revenue of $44m. FZO is capitalised at $500m at the time of writing. We see significant upside lying in FZO's Parent Controls product, which is set to be launched in the US and UK markets during 2021 and 2022.

Dubber Corp (DUB) returned 28.0% after announcing an outstanding FY21 result with annualised recurring revenue (ARR) up 142% to $39m, and subscribers up 118% to 420k. Dubber provides cloud unified call recording software to telcos and digital communications providers globally. In June DUB contracted Cisco Webex as its first 'foundation partner', with Dubber to be included in all Webex subscriptions. This and other channel partners provide DUB with substantial opportunity to scale its subscriber base.

Macquarie Telecom (MAQ) returned 21.1% in August reflecting a solid full year result and rising sector multiples. Fresh from announcing a planned expansion of its Macquarie Park data centre campus in Sydney, MAQ reported $74m EBITDA for FY21 versus guidance of $72-75m. MAQ is benefitting from surging demand for data centre capacity and cyber security. However, following a strong rally, we believe MAQ's market valuation now better reflects its intrinsic value.

Navigator Global Investments (NGI) returned 8.9% after reporting a stronger than expected EBITDA result and issuing upbeat guidance for FY22. Strong performance drove higher revenues within NGI's US$13.9bn funds management division, Lighthouse Partners. Lighthouse is therefore well-positioned to attract inflows in FY22. The result also featured the first fiscal year contribution from the new and growing NGI Strategic Holdings division, which is currently a portfolio of 6 minority stakes in US funds management business totalling US$7.0bn in effective funds under management. NGI trades on a free cash flow yield of 10% and has approximately A$100m of net cash and investments.

City Chic Collective (CCX) returned 15.0% on the back of a strong FY21 result with revenue up 33% to $258m and EBITDA up 60% to $42m. CCX is a global online plus-size ladies fashion retailer with a growing presence in the US, UK, and Europe. Management did not issue guidance however they noted Avenue (US) and Evans (UK) have traded above pre-acquisition levels for the first 8 weeks of FY22, with healthy momentum heading into the Christmas trading period.

Key detractors for the month were Electro Optic Systems (EOS), Integral Diagnostics (IDX) & Jumbo Interactive (JIN).

Electro Optic Systems (EOS) declined by 14.6% on a weaker than expected 1H21 result, due to further delays in contract execution and cash collection, and reduced FY21 EBIT guidance due as a result of COVID restrictions. We believe these issues will be resolved and normal contracting activity will resume when restrictions ease. On the near term horizon, management indicated that over $100m of contract assets should be monetised during the December half. Finalisation of manufacturing and associated funding for the SpaceLink satellite constellation also looms as a significant near term catalyst.

Integral Diagnostics (IDX) fell 12.8% on a weaker than expected FY21 result with organic growth behind other listed providers of imaging services. The outlook is challenging with COVID restrictions impacting revenues in New Zealand (-75%) and Australia (-5%). Despite these set-backs, we maintain long-term conviction in IDX and see a strong recovery in volumes once lockdowns are lifted. IDX focuses on higher margin, high end modalities (MRI, PET, CT) and has executed well in developing local 'hub and spoke' networks in each of its areas of operation. Over the long term IDX should benefit from increasing utilisation of medical imaging in Australia, which lags OECD peers.

Jumbo Interactive (JIN) declined by 7.7% after announcing a what in our view was a sound FY21 result. JIN's revenues are positively leveraged to the size and frequency of large jackpots, so it was pleasing that the business still delivered revenue growth of 17% during a relatively weak period of jackpot activity. The growth in FY21 largely reflects the ongoing shift in lottery ticket sales to the online channel. Only 32% of sales are made online so there is still plenty of opportunity with JIN's lottery retailing business.

In future years, we see significant valuation upside should JIN successfully scale its lotteries SaaS and Managed Services divisions, particularly in offshore markets. The negative share price reaction was in response to higher than expected increases to operating expenses to fund the offshore strategy. Whilst this may impact margins in the short term, over the medium term JIN should once again deliver strong operating leverage.

Closing Thoughts

The Covid pandemic and its management continues to be the defining factor on the path to economic normalisation. As high vaccination rates allow North America and Europe to return to something approaching normality, economies with low vaccination rates such as Australia and across emerging Asia are tightening their restrictions on activity once again. Over the past month, many high-density centres in Australia and in countries such as South Korea, Malaysia, Indonesia, the Philippines, and Thailand have imposed new public health controls in an attempt to dampen rising infection rates of the Delta variant.

Investors fully embraced the reflation story in the first half of 2021. Economic support, improving macro data, the rollout of vaccines, and strong earnings in the most recent reporting seasons in both the US and Australia have driven equity markets to record highs. The cyclical commodity markets have, in the main, also benefited from these trends. While we expect market strength to continue over the coming months, we anticipate that as the economy moves from recovery to mid-cycle, a more cautious and more selective portfolio approach is warranted.

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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