



Clime Asset Management Discrete Share Portfolio Service



A message from the Chief Investment Officer



Clime is all about delivering value to our clients and this is reflected in our corporate values of conviction, communication and integrity.

Our strong beliefs and investment approach guide all our investment decisions. We act with conviction, taking the right action at the right time to protect and grow the wealth of our clients.

Communication is important to us, as is being transparent about the way we invest. We will openly discuss with you how we manage your portfolio. The way we relate to our clients is no-nonsense and personal. We have an open style – and we say what we think.

Integrity, to us, means doing what we say and remaining true to our beliefs. In a marketplace that is sometimes characterised by irrational exuberance, short-term greed, uncertainty and apprehension, we aim to be a voice of reason.

In recent years, we have seen wild swings in equity markets. These have been challenging times for both private and professional investors. We are proud to say that our value based approach to investing has produced positive returns for our clients over this period.

I invite you to take a look at our Discrete Share Portfolio Service and discover the benefits of direct share ownership combined with professional investment management. I look forward to the opportunity to meet with you and to welcome you as a client.

A handwritten signature in black ink, appearing to be 'J Abernethy', with a long horizontal line extending to the right.

John Abernethy
Chief Investment Officer

An introduction to Clime

Established in 1996, Clime Investment Management Limited is listed on the Australian Securities Exchange (ASX:CIW) and has two operating divisions, Clime Asset Management and MyClime.

Clime Asset Management is an independent Australian fund manager specialising in value investing. We invest in companies that are trading at a discount to what we believe they are worth. This investment philosophy has stood the test of time and is used by some of the world's most successful investors.

Clime Asset Management provides discrete share portfolio management services to institutional and private high net wealth investors. Our investment expertise can also be accessed by investing in Clime's managed funds.

MyClime is an online company research and valuation service that is used by both professional fund managers and individual investors.



Engaging Clime as your Fund Manager

“All intelligent investing is value investing - acquiring more than you are paying for. You must value the business in order to value the stock” - Charlie Munger

Clime’s Discrete Share Portfolio Service

Clime offers successful, high net worth individuals and families a proven and transparent investment solution in Australian equities. Our focus is on building a lasting relationship with you in order to meet your long term investment aspirations.

Your investment will consist of a concentrated portfolio of ASX listed companies that can generate high rates of return on equity, are run by capable management and can be purchased at prices below value. Where we cannot find companies that are capable of generating the required gains, we will preserve your capital and invest in cash.

Managing your share portfolio

Clime’s Discrete Share Portfolio is an individually managed account service that allows you to retain ownership of your shares. This means greater tax and investment flexibility and complete transparency, combined with the benefits of proven, professional portfolio management.

Initial investments in a DSP can be by cash, shares transferred in specie or a combination of the two.

Thorough investigation, methodical research

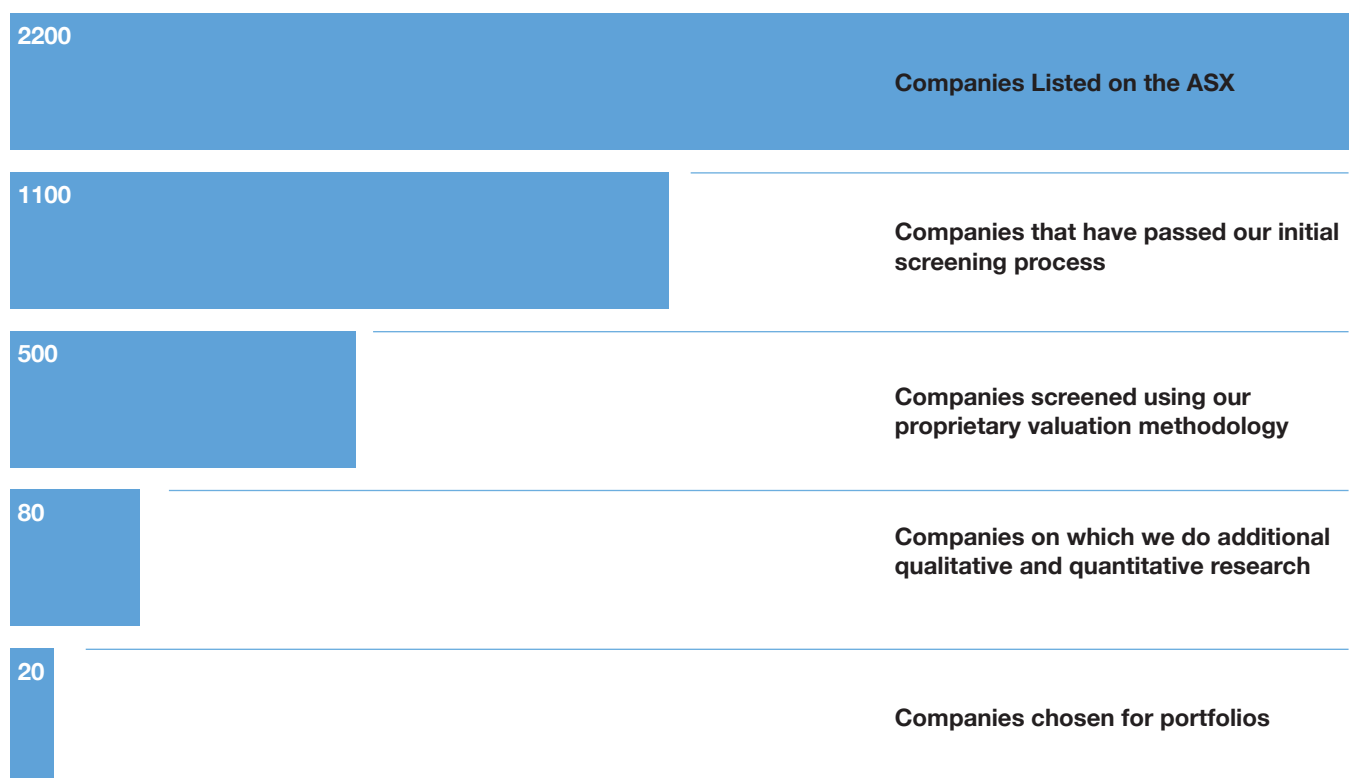
Clime's key point of difference is the demonstrated discipline we bring to the investment process.

We take a great deal of care in choosing the companies that make up our investment universe.

Companies do not exist in isolation, and the macro environment is likely to be a major factor in the success of a business. Assessing the global, national, regional and local macro influences is essential when valuing individual companies.

Our investment team has broad experience in managing business and financial risk, encompassing both the equity and debt capital markets. They have a deep understanding of the economic influences that affect the environment within which companies operate.

The following schematic illustrates our portfolio selection process.



Investing in quality companies

Before we invest, we assess each company against our 'attractive investment' criteria.

Business Model

We choose companies with business models that are easy to understand. We must be able to identify the critical elements of how a company generates its revenue.

Profitability

Distinguishing between profit and profitability is fundamental to our investment process. Understanding the financial resources required to generate the profit is essential to valuing the company.

Profit

We look for companies that can increase their profit year after year. Ideally, they operate in growth industries, are able to grow their market share and can improve their operating efficiency.

Cash Flow

We like companies whose earnings come from operating activities and where the dividend is franked. We view with caution companies where earnings are generated largely by financing or investing activities.

Debt

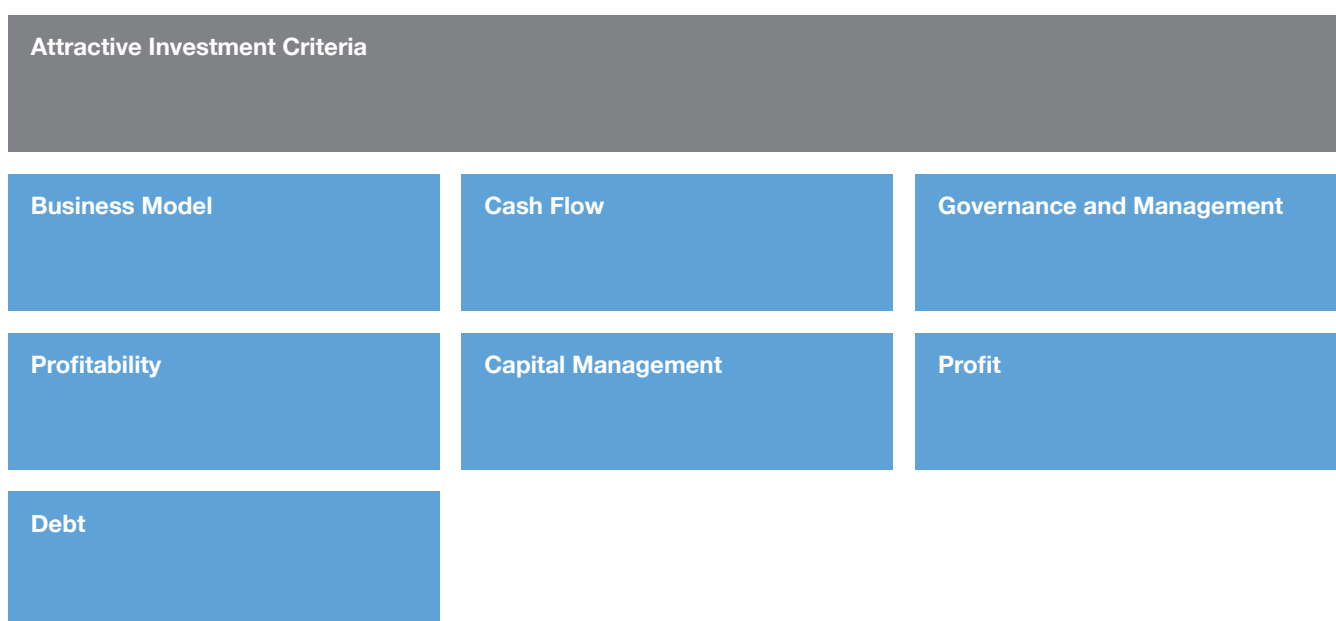
We like companies that have a sound balance sheet with debt levels consistent with their business model and market position.

Capital Management

We seek to invest in companies that have a history of sensible capital management of both debt and equity.

Governance and Management

We look for companies that have strong governance structures and management teams that have a track record of operating with transparency and integrity.



A successful investment philosophy

Our consistently applied and disciplined investment approach has provided superior returns for our clients in good times and bad.

As value investors, we are firmly of the opinion that price and value are entirely different. Price is what we pay but value is what we receive. As your portfolio manager, our role is to pay a lower price for a business than the value we receive. But, while the share price is freely observable, the value of a company is not.

Our investment process is underpinned by three fundamental beliefs:

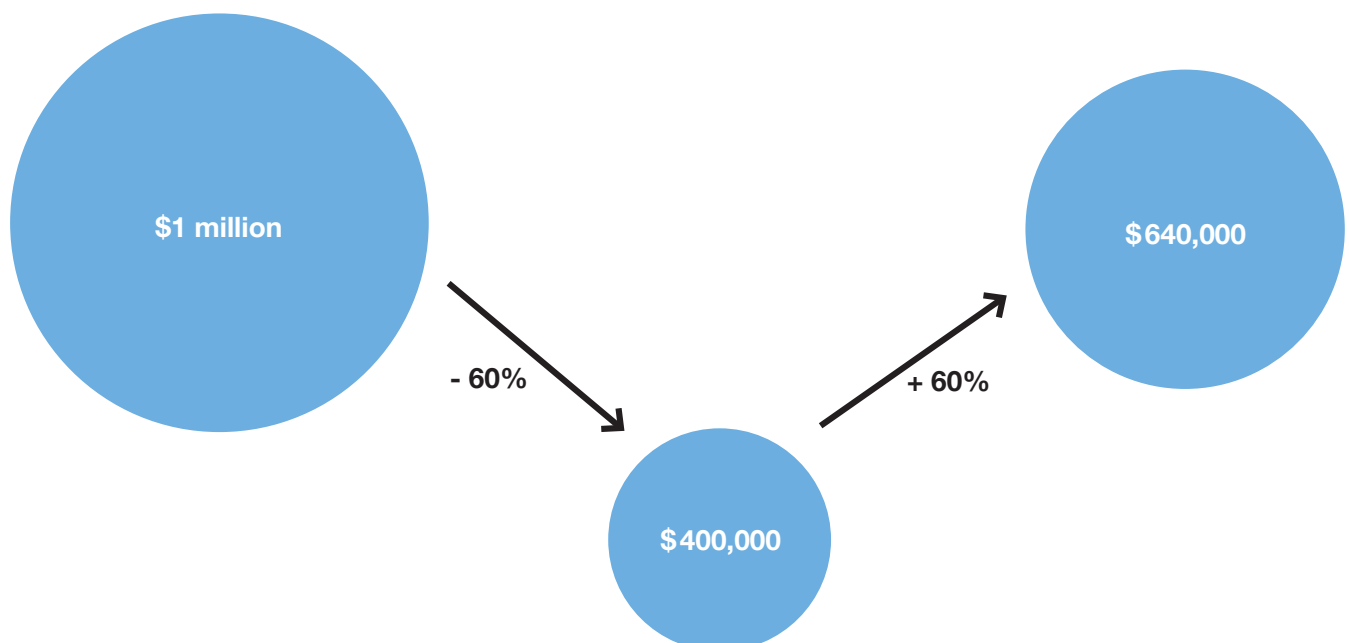
1. The preservation of capital is critical to maximise the investment return.
2. The sustainable return on equity of a company determines the value of the company.
3. The value of a company will be reflected in the company's share price in the medium term.

1. Capital Preservation

At Clime, we preserved our clients' capital during the worst financial downturn in over 70 years.

The importance of capital preservation has never been more apparent than during the Global Financial Crisis, as demonstrated by the following example:

You invested \$1 million in November 2007. By March 2009, the market index had fallen by approximately 60%, leaving you with just \$400,000. Even though the market rose by 60% by the end of 2009, your investment would only be worth \$640,000. You would have lost 36% of your original \$1 million investment. Once you have lost capital, it is very difficult to recoup.



2. Sustainable Return on Equity

The profit of a company can be easily manipulated. The long term profitability, as measured by Return on Equity, is far more important.

We distinguish between profit and profitability. While the profit of a company is important, the profitability, as measured by Return on Equity, is absolutely critical.

Return on Equity allows us to understand the financial resources that have been applied to create the company's profit.

Put simply, it makes a difference to a company's value if a profit of \$100,000 was generated from a capital base of \$1 million or \$10 million – that is, a Return on Equity of either 10% or 1%.

3. Value and share price convergence

The share price of a company is not the value of the company, and the share market is not an efficient mechanism for valuing companies.

In the short term, share price swings are driven by many factors unrelated to value. Over time, a company's share price will ultimately be guided by its economic performance.

The movements in a company's share price create opportunities for us to purchase a concentrated portfolio of attractive companies at prices below our assessment of their real value.

Safeguarding your investment portfolio

We believe that portfolio risk increases exponentially when a wide range of investments are held but no account is made of the value of each individual investment.

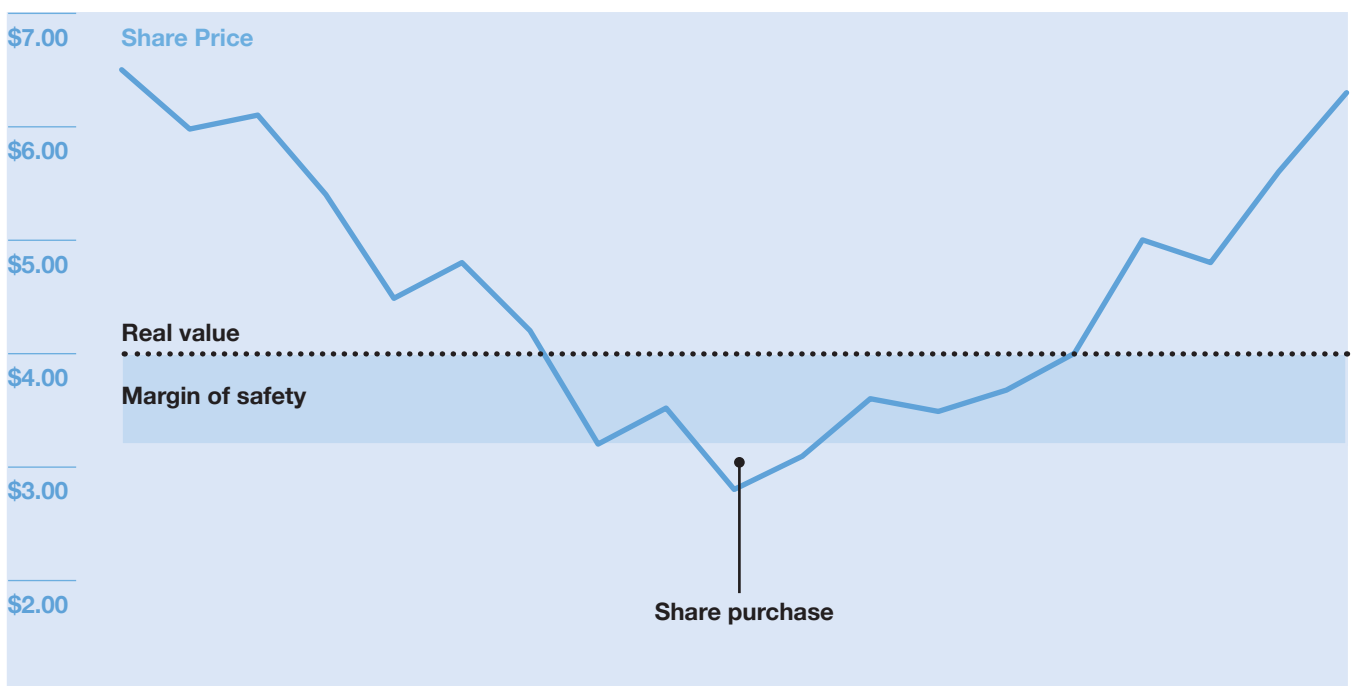
The risk in our Discrete Share Portfolios is managed by:

- Strict adherence to our fundamental beliefs and investment philosophy
- Disciplined application of our investment approach
- Our robust portfolio management systems
- An experienced investment team

Margin of Safety

We will only make an investment if there is a sufficient margin of safety between the current share price and our valuation of the business. We aim to purchase shares when the margin of safety is 20% or greater.

In the example below, a company's shares have been valued at \$4.00. Typically, we will begin to purchase shares on your behalf when the share price falls below \$3.20.



Experienced management, seasoned professionals

Clime Asset Management's team consists of highly trained and experienced professionals who have an outstanding reputation in Australia's financial services industry. The investment team is led by John Abernethy and Neil Scafer.

John Abernethy, B Com (Econ) LLB Executive Director & Chief Investment Officer

As Clime's Chief Investment Officer, John Abernethy has overall responsibility for funds management. John has over 25 years experience in funds management and corporate advisory services. Prior to establishing Clime, John's roles included ten years at NRMA Investments as the head of equities, where he successfully managed investment portfolios of \$2 billion.

John founded Clime (formerly Loftus Capital Partners) in 1996. Through Loftus Capital Partners, he advised high net wealth Australians on their investments and managed portfolios on their behalf.

Paul Zwi, BA (Econ & Hist) LLB Chairman, Investment Committee

Paul Zwi has more than 20 years varied experience in the investment and financial services industry, with the focus having been on equity research and wealth management opportunities for high net worth clients.

Paul's most recent position was with Centric Wealth, where he spent 5 years as Head of Equity Research and Senior Research Analyst. In that capacity, his responsibilities included equity research, and participation in various investment-related committees. Centric Wealth has funds under advice in excess of \$5 billion and is a large independent wealth management group.

Prior to joining Centric, Paul was head of BT's Private Client business for 5 years, being responsible for a team of Portfolio Managers managing discretionary portfolios totalling \$1.5 billion for 500 clients. Paul has a BA majoring in Economic History and an LLB (Wits, SA).

Richard Proctor, BA (Hons) ACA Chief Operating Officer

Richard has expertise in managing all operational functions of a business, and in ensuring that the requirements of clients are met. He has extensive experience in managing operational teams in large international companies.

Richard started his career in Sydney with PricewaterhouseCoopers after qualifying as a chartered accountant in the UK. He is an operations and finance executive with over 25 years experience and has held senior roles with Readers Digest, Time Warner, Barton Shipping, Heinz Food and Rothmans Tobacco in Australia and Europe.

Darren Katz, B Com (Econ) CFA Head of Distribution

Darren is responsible for business development and client service at Clime. He is an investments specialist with a financial markets career spanning over 15 years. Prior to joining Clime, Darren worked with the offshore Fund Manager Infiniti Capital to assist in the set up of their Australian Funds Management operations. He also spent 6 years in an executive role with HFA Asset Management in Sydney where he had investment, distribution and operational responsibilities. Darren previously held senior trading positions with Nedcor Investment Bank in South Africa and Macquarie Bank in Australia, where he was responsible for managing portfolios in excess of US \$12 billion.

Transparent fee structure

Discrete Portfolio Service fees are subject to GST.

Management fee

The management fee for the Discrete Share Portfolio Service is 1.5% per annum, based on a minimum investment of \$500,000. This fee is charged monthly in arrears and covers Clime's overhead expenses including brokerage, transaction and administration.

Administration fee

Perpetual Trustees Company Limited charges 0.3% per annum for portfolio administration services including statements, transaction settlements, funds clearance, custodial services and online portfolio access. This fee is charged monthly in arrears.

Performance fee

Clime's share of outperformance is equal to 20% of the gains in the value of the portfolio above the S&P ASX 200 Price Index. We only charge a performance fee where (1) there is outperformance to the index and (2) there is a positive gain in the portfolio at the anniversary date.

The following worked example of Clime's performance fee is based on a \$500,000 initial investment.

Performance ASX 200	Performance Clime DSP	Outperformance	Fee Charged
-10%	12%	22%	20% of the 12% <i>positive</i> performance
-\$50,000	\$60,000	\$110,000	\$12,000 (20% of the <i>positive</i> outperformance)

Early exit fee

An early exit fee of 1% is payable if you terminate the agreement in the first 12 months.

Transfer fee

A transfer fee of 1% of the value of all shares in the portfolio applies if you terminate the agreement but retain the shares Clime has purchased and managed. No transfer fee is payable if the holdings are liquidated prior to the termination of the agreement and the cash is transferred or withdrawn.

Key Points

About the company

- Our corporate values guide all our actions on a daily basis:
 1. *Conviction* - taking the right action at the right time
 2. *Communication* - saying what we think
 3. *Integrity* - doing what we say
- We are an independent company and make our own investment decisions. We answer only to our investors.
- Our proven value based philosophy is backed by scientific processes.
- We do not have a mandate to be fully invested. We will revert to cash to protect your investments.
- Your portfolio is professionally managed by a top quartile manager.

About the company

- The DSP is an individually managed share portfolio – it's yours.
- You own the underlying asset rather than units in a pool, providing optimal tax and investment flexibility.
- You have online access to your portfolio. You can see what shares are held in your portfolio and the transactions that have been made.
- You have total investment privacy. With Perpetual as custodian, your details are not revealed on the share register.
- All investment compliance requirements are managed for you by Clime and Perpetual's Portfolio Administration Service.

Contact us

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