Clime International Fund

Quarterly Investment Report - September 2017

Clime Asset Management Pty Limited
Level 7, 1 Market Street Sydney NSW 2000

PO Box Q1286, QVB
Sydney NSW 1230

Phone 1300 788 568
www.clime.com.au

Investment Objective

The Clime International Fund (the Fund) aims to achieve a 10% annualised return in Australian dollars after all fees and expenses measured over a rolling 5 year period.

The Fund seeks attractive returns, through investing in a portfolio of International listed securities. The Fund's goal is to select high quality individual investments that allow the creation of a best ideas global portfolio. The Fund follows a value based methodology and will only invest in equities when an appropriate margin of safety against value is perceived.

Investment Strategy

The Fund is based on absolute return seeking attractive capital growth and good capital preservation over the long term, from a portfolio of International listed securities.

Sanlam Private Investments (SPI), the Fund's sub-investment manager, believes that by constantly monitoring investment markets, SPI will eventually find assets that it percieves to be incorrectly priced. For SPI, this is the best opportunity to invest. Through rigorous and disciplined research, a sensible approach to risk control and conviction, the Fund seeks to add real value to its investors in a world of low returns punctuated by periods of volatility.

Fund Profile

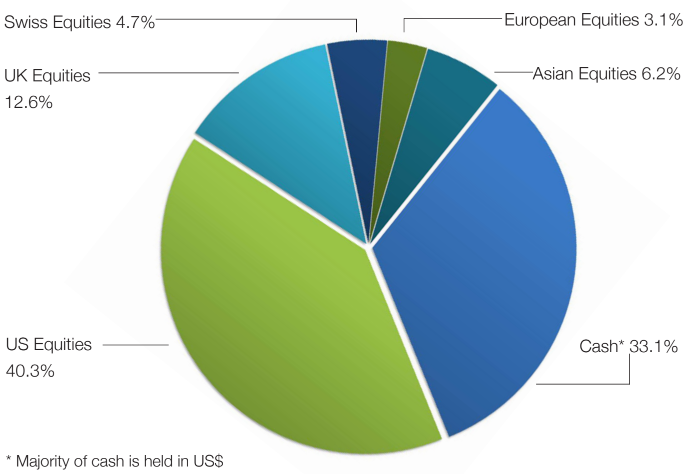
Investment Manager	Clime Asset Management Pty Limited
Sub Investment Manager	Sanlam Private Investments (UK) Ltd
Fund Size - Wholesale Inception Date	A$93.30 million 4 March 2014
Fund Size - Retail Inception Date	A$4.78 million 11 March 2015
Distributions	Annual
Management Fee	1.54% p.a. for Wholesale Units. 1.69% p.a. for Retail Units. Calculated and paid monthly in arrears on the last business day of the month.
Entry Fee	Nil
Contribution Fee	Nil
Expenses	0.21% p.a.
Withdrawal Fee	Nil
Performance Fee	20% of any amount by which the Fund outperforms the rate of 10% per annum
Buy / Sell Spread	0.25% / 0.25%
Investment Horizon	5 years

Fund Performance (30/09/17)

	Wholesale (AUD Portfolio Return)	Retail (AUD Portfolio Return)	Hurdle
1 month	1.25%	1.24%	0.81%
3 months	0.32%	0.27%	2.48%
6 months	5.36%	5.31%	4.92%
1 year	10.31%	10.15%	10.00%
2 years*	4.27%	4.01%	10.00%
3 years*	9.00%	-	10.00%
Inception*	8.06%	4.53%	10.00%

Inception: Wholesale Units: 4 March 2014. Retail Units: 11 March 2015.
*Performance figures for more than 1 year are annualised, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price forthe given period.

Asset Allocation



* Majority of cash is held in US$

Distributions

Period Ending	Wholesale Units (cents per unit)	Retail Units (cents per unit)
30 June 2017	3.9597	3.3798
30 June 2016	9.0831	7.5602
30 June 2015	4.9010	5.9905

Wholesale Units - Monthly Returns (since inception)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	CIF FYTD	Hurdle# FYTD
2013 - 14	-	-	-	-	-	-	-	-	-2.11%*	0.45%	0.30%	-1.70%	**-3.04%**	3.13%
2014 - 15	0.48%	-0.36%	4.97%	0.45%	3.17%	3.50%	3.68%	1.23%	0.95%	-0.88%	1.86%	-0.83%	**19.58%**	10.00%
2015 - 16	4.05%	0.43%	0.18%	2.78%	-1.19%	-1.35%	0.71%	-0.74%	-4.18%	0.89%	6.01%	-3.89%	**3.28%**	10.00%
2016 - 17	0.51%	1.20%	-1.77%	-0.90%	2.63%	2.29%	-2.07%	1.34%	1.41%	4.53%	2.30%	-1.77%	**9.87%**	10.00%
2017 - 18	-1.49%	0.57%	1.25%										**0.32%**	2.48%

Retails Units - Monthly Returns (since inception)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	CIF FYTD	Hurdle# FYTD
2014 - 15	-	-	-	-	-	-	-	-	-0.52%	-1.35%	2.0%	-1.21%	**-1.11%**	2.43%
2015 - 16	4.05%	0.43%	0.18%	2.77%	-1.19%	-1.57%	0.69%	-0.75%	-4.19%	0.88%	6.00%	-3.90%	**2.95%**	10.0%
2016 - 17	0.51%	1.20%	-1.80%	-0.91%	2.61%	2.27%	-2.09%	1.33%	1.38%	4.55%	2.28%	-1.78%	**9.72%**	10.0%
2017 - 18	-1.50%	0.56%	1.24%										**0.27%**	2.48%

#Hurdle represents the 10% per annum benchmark returns. FYTD represents net return for the given financial year, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period. Performance figures for more than 1 year are annualised.
* Inception date as at 4 March 2014 (Wholesale), 11 March 2015 (Retail), at which point the Fund's units NAV was struck at an inception price of AUD 1.00.

Top 10 Holdings

Stock	Market	Ticker
Microsoft Corporation	US	MSFT US
Oracle Corp	US	ORCL US
Cognizant Tech Solutions	US	CTSH US
Roche Holding AG-Genusschein	EU	ROG VX
Diageo Plc	UK	DGE LN
American Express Company	US	AXP US
Alphabet Inc	US	GOOG US
Proshares Short S&P 500	US	SH US
Yum! Brands Inc	US	YUM US
Medtronic Plc	US	MDT US

Quarterly Performance Summary

For our International Fund, Clime has an objective of holding a diversified portfolio of approximately 25 to 30 listed companies displaying characteristics including:

- High returns on equity or the potential to achieve this;
- An easily understood and sustainable business model;
- Competent and experienced management whose interests are aligned with shareholders;
- A well-funded balance sheet not overly burdened with debt; and
- Strong track record of dividend and earnings growth.

A roller-coaster news agenda has failed to destabilise markets this year. Investors have started to lose interest in the Brexit and Trump soap operas, and are paying closer attention to the normalisation of monetary policy and how that will play out over the coming months.

Global growth has remained strong, and asset prices have been driven even higher. While this is good for positive sentiment, it also means increased risk for investors, as the possibility of a negative economic surprise is largely being ignored by the investment community.

The US Federal Reserve (Fed) is now reversing its quantitative easing program. This is a responsible move that will provide a roadmap for the European Central Bank (ECB) and Bank of Japan, who are some way behind the Fed when it comes to their monetary policy. Indeed, the ECB is still buying bonds, so they still need to taper off their current quantitative easing program, then begin raising rates, before they can consider reversing this policy. Nevertheless, improving data in Europe means we think this process will have begun by the end of the year.

In the UK, Brexit fears are delaying investment, government expenditure remains higher than tax receipts, and wages have been falling in real terms, leaving the consumer with reduced spending power. These negative developments put the Bank of England (BofE) in a tough spot, as rising inflation argues for higher interest rates. Keeping inflation close to its 2% target is the focus of the BofE and the government.

During the September quarter, the following stocks brought strong returns to the portfolio:
returns to the portfolio:

Stock	Total % returns* in AUD
Hengan	24.8%
Standard Life Aberdeen	11.4%

*Returns from 30 June - 30 September 2017

Some noticeable weak performers during the quarter are highlighted in the table below.

Stock	Total % returns* in AUD
NetEase	-13.8%
Medtronic	-13.2%

*Returns from 30 June - 30 September 2017

Positions Purchased

Reckitt Benckiser (RB) has historically rewarded shareholders with phenomenal returns and has a well-earned reputation for its strong cash generation. RB has a free cash flow yield of 4.5% and a free cash flow conversion ratio in excess of 90% over the last 5 years. They have been able to deliver a decade of superior earnings growth with best-in-class working capital and margins. Adjusted operating margins increased over 600bps over the last seven years to 28.1%. The fundamental strengths of the Health and Hygiene segments, the strong track record in innovation and a recovery in the emerging markets could drive further margin expansion, but we don't model this to be the case going forward. With no clear structural decline in their core segments and main market, we believe RB can maintain the earnings growth they achieved in the past. The Mead Johnson (MJN) deal will increase their exposure to Health, as well as add to their emerging market presence.

We added to our position in Fresenius Medical Care this quarter. Diabetes is a leading contributor to end-stage renal disease (ESRD) failure and has been steadily increasing driven by lifestyle changes and aging population. The rapid growth in the ESRD population points toward massive latent demand for dialysis services and additionally evolving health care systems within emerging economies support long-term demand. Fresenius is the global leader in the dialysis industry (which is many respects is akin to a regulated utility) and is the only vertically integrated business. We estimate that Fresenius will grow its revenue by a 7.2% CAGR over the next five years, driven by its dialysis services business and the Care Coordination initiatives. Therefore we expect this will translate into operating profit and free cash flow growth compounding around 10% over the longer term. The company is transitioning from a reliance on in-organic growth to drive its top line, resulting in an improving return on invested capital profile. This should contribute to improving free cash flow growth, providing additional capacity to return cash to shareholders.

We added to our position in Alphabet.Inc, and continue to recommend Google as a long-term core holding as the dominant global search engine with over 65% of search budgets in the U.S. alone. The sub-industry is growing by more than 14%+ year on year for the foreseeable future and Google as the undisputed leader in this segment is well positioned to capture a disproportionate share of this growth, fuelled by mobile and international, at a time when competitors are languishing. Growth in advertising revenue is impressive over the next 5 years and should ensure a strong growing free cash flow stream for Google even as the year on year growth rates are set to drop to more normalised levels.

We increased our position in The Priceline Group, an online travel agency (OTA) that are perfectly positioned to take advantage of the migration of travel bookings from offline to online. Online bookings currently account for less than 40% of total bookings. We believe that online bookings will begin to moderate at the 60% mark. The travel market is currently $1.3 trillion and growing at 5% per year. With only mid-single digit market share, Priceline has a large runway for growth. Add to this that Priceline are significantly more exposed to the more profitable sub-segment of accommodation than their only global rival Expedia, then we can see that the picture for Priceline is a positive one.

NetEase is the second largest developer of online video games in China, behind Tencent. They are known for their world-class

R&D department that are able to consistently produce hit games. They took full advantage of gamers transitioning from PC to mobile, and their stable of games looks set to drive growth for the foreseeable future.

The Clime International Fund is a long-term admirer of NetEase and is therefore pleased to take advantage of a recent pull-back in the name.

Positions Sold

When we re-initiated on Baidu last year, the business faced some challenges due to regulatory changes that would impact the kind of adverts they were allowed to show alongside the search results. The market became very bearish on Baidu as the impact of tightened internet advertising regulations suppressed revenues and the regulatory risk overhang kept investors on the side-lines. We were of the opinion that Baidu was well placed to overcome these short-term challenges and that advertisers would return to the platform and margins would recover. This overhang meant the shares initially lagged in our portfolios, as the market took the view that this is a broken business and that Tencent and Alibaba would command the larger slice of the advertising pie. While we agreed with the latter point, the former was not our view and our valuation suggested an attractive risk reward scenario. While we had to be patient, this has been rewarded as this year the share has returned 37% vs the market's 12% (both US). Today we are of the opinion that the attractive risk reward dynamics have changed and are now skewed to the downside, hence the sell.