Integrity Transparency Conviction

Monthly Investment Reports

October 2018

Funds Update

At the start of calendar 2018, investors were filled with optimism. This was driven by an investing backdrop of synchronized global growth, accommodative interest rates, and at the time two years of strong share market advances with barely a blip or a stumble. Most of the world's supportive economic and financial news came from the United States, including robust growth, a buoyant job market and inflation still very much contained. While disconcerting to many, political dramas in Washington DC proved little more than distracting noise, and trade conflicts had yet to meaningfully surface. The S&P 500 Index reached new highs and corporate earnings rose on vigorous business conditions and tax cuts.

As is inevitably the case, good times do not last forever, and since the end of September, global investment markets have tossed and turned violently. Equity investors were figuratively 'smacked in the face' over the month of October, with waves of selling hitting sharemarkets across the globe. Most equity markets recorded their worst one month returns in nine years – since the depths of the GFC in 2009. Unlike the financial crisis, we don't see contagion across currency, credit (fixed interest) and commodity markets. Rather the October selloff was largely driven by US equities. Tighter financial conditions, trade wars, geopolitical concerns, high valuations and general uncertainty have challenged investor confidence and erased year to date returns. Notwithstanding the recent selloff, valuations in many market segments remain elevated.

The central question for many investors through to the end of this year will be the extent of tightening financial conditions and the path for US interest rates in 2019. Most expect the Federal Reserve (the Fed) under Chair Jerome Powell to continue gradually tightening policy. Complaints from the President ("Tightening now hurts all that we have done"), falling sharemarkets and rising trade tensions seem unlikely to slow the Fed's current pace and considered path forward. Other concerns for Australian investors include the slowdown in China, falling residential property markets and a likely change of Government at the next Federal Election and the uncertainty that will entail.

While there are many developments to keep a keen eye on, we remain disciplined in the application of our investment processes. We are utilising more volatile market conditions to invest in high quality investments trading at attractive prices, where we believe risk taken is appropriately compensated.

We maintain our view that longer-term bond yields will gradually move higher (and bond prices lower), notwithstanding oscillation driven by increased volatility and investor uncertainty, and amplified by reduced central bank buying support.

Our view is that the market environment remains supportive of steady but not spectacular growth. We've used opportunities created by market volatility in October (and over calendar 2018 to date) to selectively build out exposures across quality investments.

Thank you

Anthony Golowenko
Chief Investment Officer

Integrity Transparency Conviction

Clime Australian Value Fund

The Clime Australian Value Fund delivered a return of -7.7% (Wholesale Units, net of fees) for the month of October. This has moderated the strong start to the 2019 financial year. The return for the 12 months to end October was 5.7% (Wholesale Units, net of fees).

The following changes were made to the portfolio for the month of October:

- **Australian Equity Large Cap Sub-Portfolio**: Added to BHP Billiton (BHP), Amcor Ltd (AMC) and CSL Ltd (CSL).
- **Australian Equity Mid Cap Sub-Portfolio**: no significant portfolio changes.
- **Australian Equity Small Cap Sub-Portfolio**: no significant portfolio changes.

The strongest contributors within the portfolio for the month were Collins Foods (+3.4%), Citadel Group (+5.1%) and Elanor Investors Group (+1.3%). Detractors included Afterpay Touch Group (-30.4%), Bingo Industries (-23.9%) and Webjet (-15.4%).

Snapshot

Portfolio Annual Return (Retail)	Portfolio Annual Return (Wholesale)	Fund Size (Retail)	Fund Size (Wholesale)
5.56%	5.74%	$9.2m	$1.5m

Fund Performance (31/10/18)

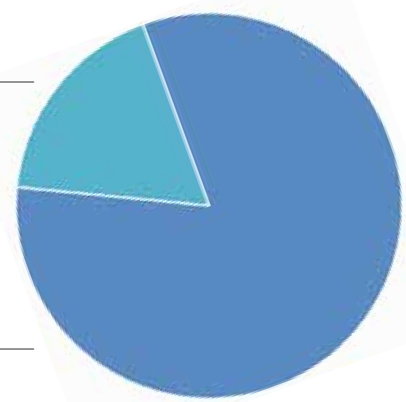
	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception*
Retail (AUD Portfolio Return)	-7.66%	-3.81%	2.17%	5.56%	5.45%	1.25%	5.77%
Wholesale (AUD Portfolio Return)	-7.65%	-3.77%	2.26%	5.74%	5.60%	1.46%	4.32%

Inception: Retail Units: 28 August 2006; Wholesale Units: 15 April 2011.
*Performance figures for more than 1 year are annualised, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period. The returns exclude the impact of imputation.

Distributions

Period Ending	Retail Units (cents per unit)	Wholesale Units (cents per unit)
30 June 2018	1.3075	1.2652
31 December 2017	1.6705	1.2670
30 June 2017	1.7233	0.9930
31 December 2016	1.5745	1.1744

Asset Allocation



Top 5 Holdings

Security	Code	Weight%
Commonwealth Bank of Australia	CBA	5.1%
Rio Tinto Limtied	RIO	4.2%
Bravura Solutions Limited	BVS	4.1%
Janus Henderson Group PLC	JHG	4.0%
Hansen Technologies Ltd	HSN	3.9%

Clime CBG Australian Equities Fund (Wholesale)

The Clime CBG Australian Equities Fund returned -10.3% net of fees in October, compared to a -6.1% return for the S&P/ASX 200 Accumulation Index. Market and Fund performance has started to rebound in the early days of November. Over the twelve months to October, the Fund returned +5.2% net of all fees, +2.3% ahead of the Index return of +2.9%.

October often seems to be the month for a market correction and this year that was clearly the case as the US market fell sharply taking global equity markets down with it. Our analysis of the technical and fundamental reasons for the decline suggest that while global growth rates have slowed somewhat, only the US market is seeing substantial interest rate rises. Consequently, we feel that the economic outlook in Australia remains relatively benign.

The strongest contributors within the portfolio for the month were:

- Lynas Corp (+17.1%) as market fears eased regarding a Malaysian regulatory review.
- Reliance Worldwide (+0.8%) after reporting continued growth and promising integration progress.
- National Australia Bank (-5.7%) out-performed the market due to its relatively stable income sources in an uncertain period.

The largest detractors were:

- Bingo Industries (-23.3%) due to concern regarding Bingo's exposure to residential building.
- Lovisa Holdings (-24.5%) because of concerns around consumer spending.
- Afterpay Touch (-26.6%) on fears about a Senate review of the pay-day lending sector.

Distributions

Period Ending	Wholesale Units (cents per unit)
30 June 2018	3.0026
30 June 2017	5.0863

Snapshot

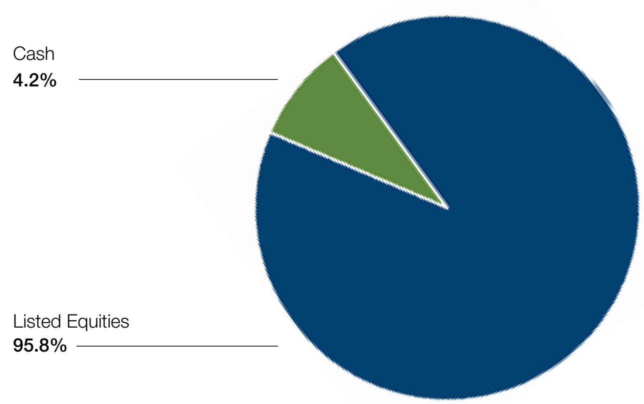
Portfolio Return (Month)	Portfolio Return (1 year)	Fund size
-10.3%	5.2%	$57m

Fund Performance (31/10/18)

	1 month	3 months	6 months	1 year	3 years*	5 years*	Inception
Fund Return	-10.3%	-8.1%	-0.8%	5.2%	4.2%	5.2%	8.9%
S&P/ASX200 Accumulation Index	-6.1%	-5.9%	-0.4%	2.9%	8.2%	6.0%	8.0%

Inception: 9 April 2002.
*Performance figures for more than 1 year are annualised, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period. The returns exclude the impact of imputation.

Asset Allocation



Top 5 Holdings

Security	Code	Weight%
BHP Billiton Ltd	BHP	8.4%
CSL Ltd	CSL	7.0%
Bravura Solutions Ltd	BVS	6.0%
Afterpay Touch Group Ltd	APT	5.4%
Webjet Ltd	WEB	4.9%

Clime Smaller Companies Fund

October was a difficult month for domestic and global markets. To provide some context for smaller ASX listed businesses, the Small Ordinaries Accumulation Index returned -9.6% for October and is now -8.6% for the Financial Year to Date (FYTD). This was the worst single month for this index since May 2012 (-10.2%). The Emerging Companies Index delivered -10.9% for the month and is now -13.1% for the FYTD.

The Clime Smaller Companies Fund returned -5.2% for October but remains positive for the FYTD at +0.9%.

Many of the macro risks that exist today certainly existed a few months ago. This includes the recent surge in long bond yields, ongoing trade tensions and broader geopolitical risks. The pricing of these risks has simply changed. With this change has come a window of opportunity.

The following was noted in recent CSCF monthly reports: *"we remain measured in our portfolio positioning and have access to significant cash reserves should we see volatility re-emerge in the coming months."* This commentary reflects our cash weighting as at 30 September of 21.2% and the focus on high quality companies with strong balance sheets.

Volatility and the impacts of company and/or sector specific adversity are amplified by gearing. As at today, approximately 82% of the portfolio is invested in either (i) companies that have net cash balance sheets, or (ii) cash. Although this is a smaller companies fund, it is not a fund that speculates on high risk ventures.

We closed the month with a cash weighting of 16.8%. We therefore put a meaningful amount of cash reserves to work during October. Looking ahead, we have no decisive view on whether the selloff continues or abates. The expectation is that volatility will likely remain in the near term. With that noted, we remain well positioned to sensibly invest should any further indiscriminate falls materialise – albeit on a measured basis and with the long-term firmly front of mind.

Distributions

Period Ending	Wholesale Units (cents per unit)
30 June 2018	4.3495
30 June 2017 (Inception 24/4/2017)	0.1372

Snapshot

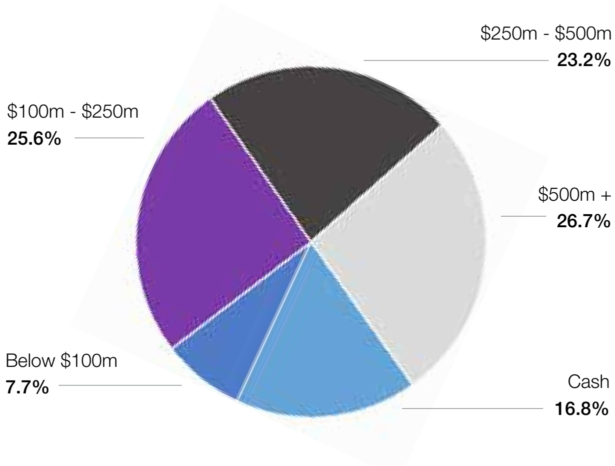
Portfolio Return (FYTD)	Portfolio Return (1 year)	Portfolio Return (Since Inception)	Fund Size
0.9%	12.0%	16.8% p.a.	$24.3m

Performance (31/10/18)

	1 month	3 months	6 months	FYTD	1 year	Inception*	Inception (Total)
Portfolio Return	-5.19%	-0.1%	3.72%	0.91%	11.98%	16.83%	26.58%
Fund Objective ^	0.78%	2.41%	4.85%	2.41%	9.91%	9.88%	14.48%

* Inception: Wholesale Units: 24 April 2017. Performance figures for more than 1 year are annualised, calculated after all applicable fees and taxes. Returns have been calculated based on starting and ending unit prices after taking into account all ongoing fees, and assuming reinvestment of distributions. ^ CPI + 8% p.a. including GST.

Asset Allocation by Market Capitalisation



Prominent Fund Holdings *(alphabetical order)*

Bravura Solutions Ltd (ASX: BVS)

Citadel Group Ltd (ASX: CGL)

Hansen Technologies Ltd (ASX: HSN)

Jumbo Interactive Ltd (ASX: JIN)

Macquarie Telecom Group Ltd (ASX: MAQ)

Clime Australian Income Fund

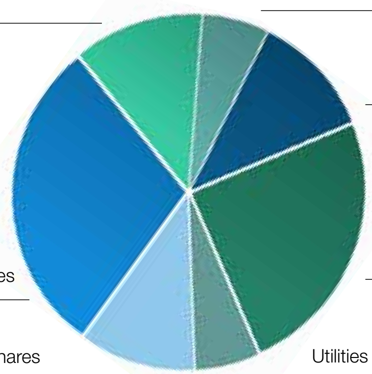
The Fund seeks to deliver strong risk-adjusted total returns and has the dual objective of generating a level of income of 2% to 3% beyond the RBA cash rate p.a. and over time keeping pace with inflation. It aims to achieve these objectives with strong capital stability.

The Fund participated in Series II of the Centuria senior secured 4.5 year bond, with a mixture of fixed and floaters to optimise income for future distributions. The Fund also took up the Centuria Metro REITs (CMA) share entitlements. Australian Unity Office Trust (AOF), which the Fund holds, received a takeover offer by Starwood Capital Asia as all cash bid of $2.95. This is currently under due diligence.

The US 10 year Treasury yield finished higher at 3.16% while the Australian 10y bond yield tightened 2bp to 2.65%. In these uncertain times where the US 10 year Treasury is most likely to consolidate over 3% with 3.25% to 3.50% in short term, the Fund's strategy is to focus on gradual accumulation of the best yield assets across the entire capital structure (debt and equity) in a negative interest environment to balance income with price stability.

Consistent with the Fund's objective of providing capital stability while generating regular quarterly income, the Fund's actual 1-year volatility of 2.63% p.a. remains markedly below that of the headline ASX200 (equity) Index (8.40% p.a.).

Asset Allocation



Snapshot

Portfolio Return (FYTD)	Recent Distribution	Income (Annual)	Fund Size
0.3%	0.8045 (cents per unit)	3.8%	$19.3m

Performance and Volatility of Return (31/10/18)

	1 month	3 months	6 months	1 year	2 years	3 years	Inception
Portfolio Return^	-1.44%	-0.42%	1.38%	1.79%	5.98%	6.24%	6.31%
Income	0.00%	0.73%	2.41%	3.81%	3.96%	3.76%	3.55%
Capital Growth	-1.44%	-1.14%	-1.01%	-1.94%	1.94%	2.39%	2.67%
Volatility	-	-	-	2.63%	2.65%	3.30%	3.35%

Note: Compound (geometric) returns are used in the above table's segmentation of Income and Capital Growth. This may result in small differences when compared with a simple addition of Income and Capital Growth components.

^Portfolio return is based on the change of the unit price including distributions but excluding franking credits. Franking credits will enhance this portfolio return, and historically this has added about 0.30% pa to the return of the Fund.

*Inception: Wholesale Units: 1 July 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 for the given period. The returns do not include the benefit of franking credits.

** Volatility is based on the annualised standard deviation of weekly price movements.

Distributions

Period Ending	Wholesale Units (cents per unit)
30 September 2018	0.8045
30 June 2018	1.8352 (+0.2025 franking credits)
31 March 2018	0.7455
31 December 2017	0.7602

Top 5 Holdings

Security	Weight%
National Bank NABHA FRN 08/49	3.1%
MBLHB Perp Notes	3.1%
Elanor 7.1% 171022 FRN	3.0%
Multiplex Convertible Note 31/12/2049	2.9%
CBA Convertible Note VII	2.3%

Clime International Fund

Traditionally, when bond yields rise equity markets fall as investors take advantage of higher returns for less risk - in the last few weeks, we've seen just that. US interest rates increased, bond yields followed suit and equity markets became agitated. This made way for the biggest market correction we've seen since February.

The Federal Reserve stated that there could be several interest-rate rises in 2019, and that this higher-rate environment could be with us for the long-term. These increases in interest rates have been driven by economic growth, rather than inflation, and they are not at levels to threaten company earnings—yet. The equity market however is forward looking, and investors are starting to question how corporate earnings will hold up when interest rates are no longer stimulative.

Some positive domestic news out of the UK as their PMI score now sits above other G20 countries, reflecting improved optimism among UK manufacturers. Unemployment has fallen to 4%, while at the same time, wage growth is on the increase and the strongest it has been for 10 years. All of this is good news for the UK economy.

During the month we trimmed our positions in Alphabet, Yum! Brands, Microsoft, Oracle and Cognizant.

Snapshot

Portfolio Annual Return (Wholesale)	Porftolio Annual Return (Retail)	Fund Size (Wholesale)	Fund size (Retail)
7.14%	6.52%	$89.9m	$4.7m

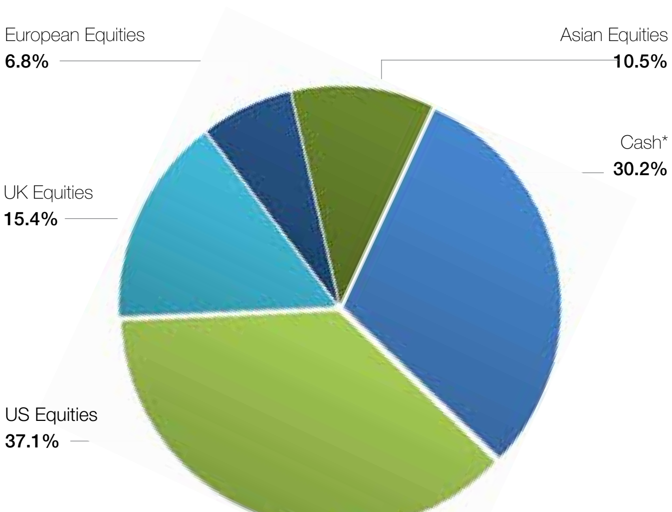
Performance (31/10/18)

	1 month	3 months	6 months	1 year	2 years*	3 years*	Inception*
Wholesale (AUD Portfolio Return)	-3.08%	-0.16%	3.30%	7.14%	11.30%	5.59%	8.59%
Retail (AUD Portfolio Return)	-3.18%	-0.61%	2.80%	6.52%	10.39%	5.21%	6.06%
Hurdle	0.83%	2.50%	5.00%	10.00%	10.00%	10.00%	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 for the 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 2018	5.5659	4.5878
30 June 2017	3.9597	3.3798
30 June 2016	9.0831	7.5602

Top 5 Holdings

Stock	Ticker	Weight
Roche Holding AG-Genusschein	ROG SW	5.1%
Booking Holdings Inc	BKNG US	4.1%
Microsoft Corporation	MSFT US	3.8%
Alphabet Inc Class C	GOOG US	3.8%
Reckitt Benckiser Group Plc	RB/ LN	3.5%