Clime International Fund

Monthly Investment Report - June 2014

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 an absolute return fund which seeks attractive capital growth over the long term from a portfolio of International listed securities, with a view to capital preservation.

Sanlam Private Investments (SPI), the Fund's sub-investment manager, believes investment markets continually offer opportunities for it to exploit. Markets are inefficient, driven by human emotion as well as logic. In the end, logic wins. However, in the periods where emotion rules, assets can become incorrectly priced. This provides the opportunity to invest.

SPI is an active investment manager and monitors markets constantly. SPI invests with conviction, backed up by rigorous and disciplined research and a sensible approach to risk control. In this way the Fund seeks to add real value to its investors in a world of low returns punctuated by periods of volatility.

Fund Performance to 30 June 2014

	AUD Portfolio Return	Hurdle
1 month	-1.70%	0.79%
3 month	-0.95%	2.40%
Inception	-3.04%	3.13%

Inception: Wholesale Units: 4 March 2014 .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.

Portfolio Attribution to 30 June 2014

	Underlying Portfolio Return	Currency Effect	AUD Portfolio Return
1 month	-0.47%	-1.23%	-1.70%
3 month	0.65%	-1.60%	-0.95%
Inception	1.54%	-4.58%	-3.04%

Fund Profile

Investment Manager	Clime Asset Management Pty Limited
Sub Investment Manager	Sanlam Private Investments (UK) Ltd
Fund Size - Wholesale Inception Date	A$37.78 million 4 March 2014
Distributions	Annual
Management Fee	1.54% p.a. Wholesale 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
Benchmark / Hurdle	10%
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

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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%

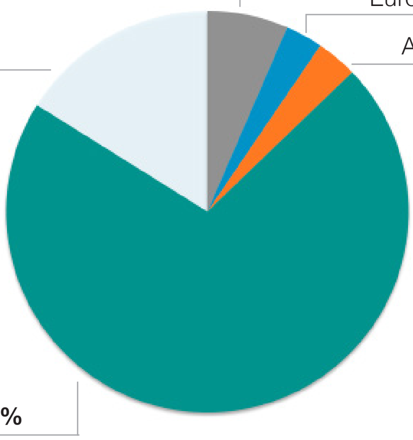
#Hurdle represents the 10% per annum benchmark returns. FYTD represents net return for the given financial year, calculated after all applicable fees and taxes. Performance figures compare unit price to unit price for the given period.

* Inception date as at 4 March 2014, at which point the wholesale unit's NAV was struck at an inception price of AUD 1.00.

Top Holdings

Stock	Market	Ticker
Mastercard Inc	US	MA US
Burberry Group	UK	BRBY LN
Samsung Electronics	South Korea (GDR)	SMSN LI
Anheuser-Busch InBev	Europe	ABI BB
Diageo	UK	DGE LN
Microsoft Corp	US	MSFT US
Oracle Corporation	US	ORCL US
Accenture PLC	US	ACN US
Yum! Brands Inc	US	YUM US
McDonald's Corp	US	MCD US
The Coca-Cola Company	US	KO US

Asset Allocation



Summary

While the fund produced positive absolute returns in the first two months of the quarter, June proved a challenging period as geopolitical tensions tested investors' reserve, while a persistently strengthening Australian dollar, throughout the quarter, muffled local currency returns. Indeed, the stocks in the portfolio returned 0.65% on average against a quarterly target return of 2.4%. This number falls to -0.95% exacerbated by the Fund's large allocation to US dollar cash, as we patiently await the right entry points.

The Fund's stock allocation in consumer staples and information technology and limited exposure to financials contributed to underperformance relative to the MSCI World. The energy and utility sectors have performed strongly this year and the fund has no exposure to any companies in these sectors.

Outlook

Global equity markets continue to perform robustly this year, amid low volatility and Central Bank action. This year has not gone quite according to script as sterling has been stronger than we expected versus the US dollar. Emerging markets have rebounded strongly, yet the market seems unphased by underlying risks.

Economic momentum continues along a slightly more positive path than at the outset of the year. Revisions of weather-hit US Q1 GDP estimates were very poor and have probably served to downgrade expectations for 2014 as a whole. Overall, the outlook for equities remains constructive over the longer term; albeit the question of whether financial markets are prepared for the Fed tightening from the middle 2015 is open to debate. With stronger-than-expected reported earnings, forward earnings estimates have been revised upwards, supporting equities.

That said, our return expectations over the short-term are muted, as last year's “taper tantrum” faded from memory. The backdrop of easy money and low inflation has contributed to valuations moving up to uneasy levels. Ominously, volatility remains very low yet investors have been rotating into energy and utilities stocks which seem an unlikely strategy if interest rates are set to increase. We continue to focus on companies that typically have strong balance sheets enabling comfortable debt servicing, high cash returns on assets, and relatively low capital requirements.

For our companies, free cash flows are growing at a decent pace and balance sheets are in good shape. An example of an attractively priced business is Oracle. During its recent results announcement management highlighted the $10bn recurring cloud software revenue growth opportunity which is barely 5% penetrated by the company. Oracle, with its large installed customer base trades at only 13 times earnings for next year, has a significant buy back program and maintains a 25% return on equity.

Stock Analysis

Structural Growth

Mastercard Inc

MasterCard is a well-positioned business exposed to a structural growth market, with electronic payments set to materially expand over the coming years. The business enjoys the rare combination of a dominant position in a market with a clear path to growth. This is a fundamentally robust business with cash flow from operations increasing by 36% per annum, and net income by 28% since listing in 2006. We believe this trend will continue for the foreseeable future backed by its very low capital expenditure requirements and cash generative business model.

Accenture PLC

We view Accenture as an attractive name with its highly cash generative model and well diversified business in the IT industry, making it relatively defensive in the event of macro deterioration. Expertise and customer relationships are key contributors to setting Accenture apart from its peers, with more than a 100 clients contributing greater than $100m in annual revenue each. Accenture has a well-entrenched industry position and solid long term growth opportunities, enabling it to produce a return on equity of around 55%, which we believe it can maintain for the foreseeable future.

Anheuser-Busch InBev

Driven by its world-leading portfolio of beer brands spanning developed and emerging markets, dividend growth is a key objective for Anheuser-Busch InBev; consensus expects compound dividend growth of 13.5% per annum over the next three fiscal years. Although 2013 proved a difficult year for volumes, management have re-affirmed that the solution to the problem is sensible capital allocation. Growth potential in China is underpinned by attractive pricing power; ABI has positioned its brands as aspirational, and is accordingly able to sell its brands at four times the local equivalents’ prices.

Diageo

Diageo has built a leading brand portfolio of spirits brands, with an unmatched span of the so-called ‘price piano’, meaning that Diageo is unrivalled in its access to entry-level, premium and super-premium spirits. A strong pound sterling has presented headwinds, as has China's crackdown on governmental gifting. However, with the valuation sitting at a discount to its global peer group and more recently rumours of M&A in the beverages sector, we are comfortable that now is a good time to access this structural growth story.

Yum! Brand Inc

While investors continue to regain confidence following the quality control issues in China, the market is re-focussing on the sector-leading same store sales growth that Yum! delivers via its enviable emerging market exposure. The firm's Taco Bell brand, which contributes 20% of EBIT, is driving to enhance same/new store sales through the launch of a new breakfast menu. With return on equity in excess of 50% and an efficiently run balance sheet, we feel that the residual malaise surrounding China offers an attractive entry point.

McDonald's Corp

As long term investors, we believe that McDonald's can deliver a sustained recovery in US sales in particular whilst improving margins through a combination of adding debt, refranchising, and reducing admin expenses. With solid free cash flow generation, a growing dividend (6% p.a. over 3 years) and a return of equity north of 30%, we remain attracted to McDonald's ability to deliver decent returns in the low double digit range.

The Coca-Cola Company

Coca-Cola continues to grow its portfolio of non-carbonated soft drinks brands to diversify, as consumers' diets shift. Worldwide still beverage volumes increased by 8% last quarter, with solid volume growth across multiple beverage categories, including juices, ready-to-drink teas, packaged water, sports drinks and energy drinks, Coca-Cola continues to deliver value share and volume gains in this category. With a highly-reputed, shareholder-friendly management team delivering consistently high returns on capital, we remain confident buyers for the long term.

Self-help and Growth

Burberry Group

The long term growth drivers of rising wealth in emerging markets and the ensuing appetite for luxury goods is well-flagged, but perhaps less understood is the value Burberry can unlock through its ongoing business reorganisation. The insourcing of Burberry's previously outsourced Beauty business and the movement away from a license model in Japan appears to be gaining traction, and should deliver growth and margin accretion over the medium term. The valuation is attractive on a relative basis, and the stock will be well-supported in the event of sterling depreciation.

Microsoft Corp

We continue to see Microsoft growing its revenue at close to a 8% and earnings by just over 9% per annum for the medium term. Earnings are supported by excellent cash flow generation (operating cash flow +6.2% CAGR over the past ten years) and a very strong balance sheet. Although Microsoft's high margin software business is up against secular headwinds, its Azure and Office365 enterprise solutions are materially undervalued by the market in our view.

Unloved and undervalued

Samsung Electronics

Samsung Electronics will show almost flat year on year 2014 EPS growth due to operating margin contraction in its handset business. However, we look past this short term deceleration to the book value per share, which will increase by over 20% this year due to the company's attractive return on equity of 18% (or close to 28% excluding the healthy cash balance). The growth in book value this year translates into a price to book value of less than 1.2 times based on 2014 estimates. We see this as highly attractive for a business with stable, albeit moderating, growth prospects driven by product innovation at his mobile division and the ongoing strength of its semiconductor division.

Oracle Corp

We continue to believe that Oracle is nearing an inflection point of a positive secular growth trend associated with its database line as well as its core license sales growth. We suspect that traditional applications software will continue to struggle with secular pressures, but equally all but the worst of these fears appear to be discounted, with shares trading at the lowest valuation relative to the S&P 500 we have seen since before the tech boom. Considering the free cash flow yield of 7.6%, we see good long term value in this name.