Integrity Transparency Conviction

Clime International Fund

Quarterly Investment Report - June 2018

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Investment Objective

The objective of the Clime International Fund is to generate sustainable long-term capital growth. The Fund seeks to achieve an annual total return of 10%, measured in Australian dollars, over rolling five to seven year investment periods after management fees.

Investment Strategy

The Clime International Fund seeks to deliver strong risk-adjusted total returns by investing in a portfolio of high quality International listed companies that are attractively priced. The Fund's sub-investment manager Sanlam Private Wealth, is a value-based active fund manager who seeks out compelling investment opportunities where risk taken is appropriately

Fund Performance (30/06/18)

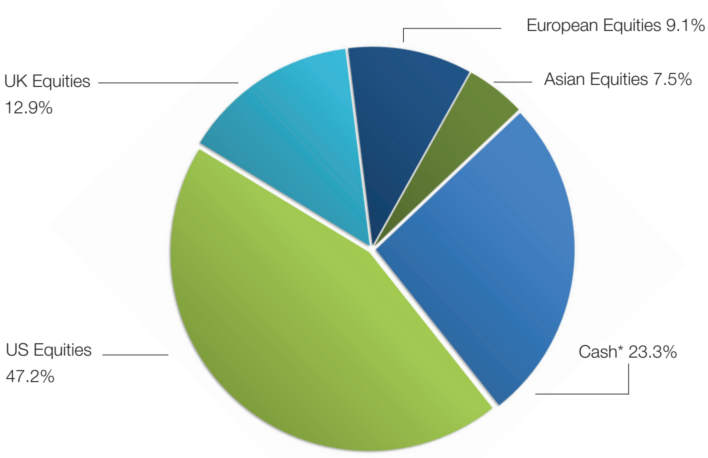
	Wholesale (AUD Portfolio Return)	Retail (AUD Portfolio Return)	Hurdle
1 month	2.27%	2.25%	0.81%
3 months	3.63%	3.59%	2.45%
6 months	4.81%	4.73%	4.96%
1 year	9.56%	9.37%	10.00%
2 years*	9.72%	9.55%	10.00%
3 years*	7.53%	7.30%	10.00%
Inception*	8.82%	6.24%	10.00%

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.

Fund Profile

Investment Manager	Clime Asset Management Pty Limited
Sub Investment Manager	Sanlam Private Investments (UK) Ltd
Fund Size - Wholesale Inception Date	A$90.08 million 4 March 2014
Fund Size - Retail Inception Date	A$5.25 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

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

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%	3.88%	2.07%	-1.71%	-0.18%	0.64%	0.68%	2.21%	-0.86%	2.27%	**9.56%**	10.00%

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%	3.86%	2.06%	-1.74%	-0.20%	0.63%	0.66%	2.20%	-0.88%	2.25%	**9.37%**	10.00%

#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	Ticker
Microsoft Corporation	MSFT US
Alphabet Inc	GOOG US
Oracle Corp	ORCL US
Cognizant Tech Solutions	CTSH US
Medtronic Plc	MDT US
Roche Holding AG-Genusschein	ROG SW
Yum! Brands Inc	YUM US
Bookings Holdings Inc	BKNG US
Fresenius Medical Care	FME US
Reckitt Benckiser	RB LN

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 dept; and
- Strong track record of dividend and earnings growth

After a bumpy start to the year, markets settled down in the second quarter, seemingly coming to terms with the global uncertainties ahead. While some volatility remains thanks to the outlook of rising bond yields, interest rates and inflation, the US and China are countering this with a strong growth story.

At the start of this quarter, analysts predicted that US Government bond yields could reach 4% – levels not seen since 2010 – and equity investors were nervous of a flight from equities to less riskier assets. Those fears have yet to be realised and, as we predicted, the underlying global economy has so far been able to withstand these changes.

Global growth continues to be driven mainly from the US and China. In the US, we're seeing evidence of an increase in investment spending thanks to President Donald Trump's recent tax cuts, and we're also seeing strong investment by the energy sector, especially by oil companies who are looking to increase supply lines.

Meanwhile, China continues to grow at a healthy rate despite the ongoing trade negotiations with the US. This growth is fuelled by continued urbanisation, as well as a growing demand for products and services as the population benefits from increased wealth across society.

Growth in these two major economies is beneficial for the global economy, although the UK continues to falter as investment spending remains subdued as consumers ease back on spending. The Bank of England was forced to hold off increasing interest rates, which ironically resulted in the UK equity market recovering strongly in April. Sterling depreciated sharply, giving up most of the gains it made last year. A weaker pound and a stronger oil price helped drive up UK equity prices in sterling.

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

Stock	Total % returns* in AUD
Sabre	19.9%
Alphabet	13.0%
Microsoft	12.6%

*Returns from 31 March 2018 - 30 June 2018

Weaker performers during the quarter were:

Stock	Total % returns* in AUD
Pandora	-32.7%
Standard Life Aberdeen	-8.1%

*Returns from 31 March 2018 - 30 June 2018

Positions Purchased

Bought Sage

Sage has a long history of working with small businesses and decades of investing in its proposition allow it to deliver a valuable service to clients for which they are rewarded with healthy operating margins.

In the short run Sage has seen an acceleration of revenue growth which we expect to continue. This growth spurt is driven by the move to cloud based products and the ability to add new services and products such as SagePay. Based on the trends that they see in their business and the products that have been developed, Sage expects recurring revenue (78% of the business) to grow faster than 10%. This is a step change in growth and is happening mainly because the transition to cloud services has reached an inflection point.

We have conviction that Sage will be able to achieve its margin targets, and should they deliver on their expected revenue growth acceleration then this would provide around 20% upside to our target price.

Bought Sabre

Sabre's travel distribution business (GDS) (~70% of revenue) is part of an oligopoly that services airlines and hotels which are highly fragmented. Sabre earns revenue based on volume of transactions rather than value, thus leaving it directly exposed to an underlying industry which has experienced growth in excess of world GDP since the 1970's. The GDS market is relatively mature and does face risk of disintermediation if GDS providers do not provide adequate technology improvements to airlines. We believe the GDS providers are well aware of this risk and have increased capital spend. Overall, we believe airlines get a fair deal for global distribution, they pay a low single-digit percentage for this service. The time and cost to replicate the GDS is underappreciated in our view.

Bought PepsiCo

PepsiCo has a powerful portfolio with 22 brands that generate more than a $1 billion a year in retail sales. We believe PepsiCo will continue to face headwinds with its carbonated soft drinks (CSD) due to health concerns; however they should continue to bring more new products on-stream which will offset the declining carbonated soft drink volumes. Growth in Emerging Markets will also offset CSD volumes. With the snack business being PepsiCo's most profitable segment we think this division will continue to drive future growth on the back of volume and price increases.

Dividends should continue to grow very steadily in the near future, although earnings momentum will remain under pressure with negative foreign exchange impacts from the regions in which PepsiCo operates. Management have proven themselves over the last few years in a tough environment by focusing on cost control and productivity.

Bought Yum China
Yum China is a name we have owned before and we are comfortable with its long-term fundamentals. Yum China's growth will continue to be supported by menu innovation, strong momentum in loyalty members, mobile orders, and delivery, as well as store roll-out. Short-term results in Pizza-Hut were below expectations due to long-term investments into the brand thus giving us an opportunity to buy this share.

Bought Allergan
Allergan's competitive advantage remains in the brands it owns, Botox is a brand name as opposed to the anti-wrinkle treatment itself. Allergan also owns other durable premier brands in the aesthetics space. We believe the durability of these franchises is being overlooked after a few disappointing years of performance. The disappointing performance largely relates to missed expectations for various reasons rather than poor operational performance, thus we believe the franchises owned by Allergan remain attractive.

Added to NetEase
NetEase fits comfortably into our investment style with a dominant market position (the number two player behind Tencent in a Chinese online gaming duopoly), a strong management team (CEO and founder William Ding considered a thought leader in the industry), high cash generation, and low leverage and capex. We used the opportunity to add to the position after the pullback in technology stocks.

Positions Sold

Sold American Express
Having now delivered significantly for us and the stock exceeding our fair value we are turning incrementally more negative due to:

- the valuation which means absolute upside is now limited; and
- the ongoing fear that competition from the banks are always a threat (and they often act irrationally due to a short-term mentality).

Sold Sage
We were unable to build a meaningful position in the stock as it bounced aggressively after we purchased our first tranche. We have exited the position as it has closed its gap to fair value.

Sold Sabre
Sabre is up 30% since we bought in May. Whilst we still like the business we believe it is now priced for better prospects and thus exited the position.

Trimmed Pandora
Pandora sold off significantly in 2017 over concerns of a slowdown in their largest markets, namely the US and the UK. Uber-bears on the stock hypothesise that Pandora's primary product, the charm bracelet, is a fashion fad and point to the company's poor investor communication as another reason not to own the stock. We believe this outlook is punitive. Yes, the US retail environment is weak, but this is baked into estimates in our view. The above firmly ignores Pandora's growth potential, both geographically, with China, France and LatAm leading the way, and in terms of product, with the company successfully diversifying into rings, earrings, necklaces and pendants. As the share price closed the gap to fair value we have trimmed the position.

Trimmed Diageo
We have owned this share for a long time because it has many of the features that we look for in a business. That said, one of our criteria is valuation and this share has outperformed global markets by ~20% over the last three years. We are trimming the position based on its absolute and relative valuation.