Clime International Fund

Quarterly Investment Report - December 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 Profile

Investment Manager	Clime Asset Management Pty Limited
Sub Investment Manager	Sanlam Private Investments (UK) Ltd
Fund Size - Wholesale Inception Date	A$53.43 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

Fund Performance to 31 December 2014

	AUD Portfolio Return	Hurdle
1 month	3.50%	0.81%
3 months	7.27%	2.43%
6 months	12.73%	4.92%
Inception	9.30%	8.20%

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 31 December 2014

	Underlying Portfolio Return	Currency Effect	AUD Portfolio Return
1 month	-0.69%	4.19%	3.50%
3 months	0.78%	6.49%	7.27%
6 months	-1.20%	13.93%	12.73%
Inception	0.38%	8.92%	9.30%

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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%
2014 - 15	0.48%	-0.36%	4.97%	0.45%	3.17%	3.50%							**12.73%**	4.92%

#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.

Summary

Equities saw a great deal of volatility intra-month, in a period generally characterised by low trading volumes draws closer. As the oil price continued to drop (-18.3% in December), so too did confidence in Russia's ability to weather the storm.

Accordingly the Russian rouble entered what can only be described as a tailspin, devaluing 37.3% against the US dollar by the middle of the month. The Russian Central Bank's drastic tightening of monetary policy and sale of US dollar reserves failed to stabilise the currency. However, towards the end of the period China offered a helping hand in the form of an extension of the currency swap agreement brokered two months beforehand. The launch of direct FX trade between the rouble and the Chinese yuan managed to shore up the rouble's devaluation, and equity markets bounced firmly into the month-end.

Bond markets continued to respond well to speculation that the ECB is moving ever-closer to a full QE programme, as Draghi once again slashed GDP growth and inflation forecasts for 2015. The strong downward parallel shift in the yield curve in core government bonds is indicative of the market's expectations of both a euro QE programme and a continuation of ongoing disinflation. Concerns over tightening of monetary policy in the Eurozone seem to have moved to the back of investors' minds, for the time-being at least. The expansion of the Targeted Long-Term Refinancing Operation, which extends cheap credit to European banks, by EUR 130bn came in below market expectations. Amid these market conditions the euro fell by 2.8% to 2012 levels against the dollar; UK gilts rallied by 1.8% over period; and UK corporate bonds by 1.3%.

In Japan, Shinzō Abe's ruling coalition won a landslide majority in the mid-month snap elections. The incumbent Prime Minister's prodigious reflation programme, the cornerstone of his so-called 'Abenomics', looks set to continue. The promise of large and steady injections of liquidity sent the 10 year Japanese government bond yield to a fresh record low of just 0.31%.

The continued weak oil price provided an opportunity to top up the positions in Exxon Mobil and BP. We also added a position in British American Tobacco, where its high exposure to emerging markets weighed on the share price, providing us with an attractive entry opportunity.

Over the course of December, the Fund achieved a net return of 3.50% against the Fund's monthly target return of +0.8% (AUD). 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.

Performance Summary

The fund's substantial US dollar cash position was very beneficial to the fund in the fourth quarter. The fund returned a positive 7.27% return, helped by a weak Australian dollar which lost 6.5% against the US$ over the reporting period.

The portfolio returns were also helped by strong returns from some of the larger positions in the fund, which is highlighted in the table below.

Stock	Total returns in AUD incl. dividends
Oracle Corporation	26.0
Samsung Electronics Co Ltd	15.4
Mastercard Inc	11.7
ExxonMobil Corporation	10.1
LVMH Moet Hennessy Louis Vuitton SE	9.8

* Returns from Sept 30 - Dec 31, 2014

Some noticeable weak performers during the quarter include:

Stock	Total returns in AUD incl. dividends
Rolls-Royce Holding PLC	-6.2
BP plc	-5.4

* Returns from Sept 30 - Dec 31, 2014

Positions Bought

Bought **Exxon Mobil (XOM.N)** - With an apparent imbalance between supply and demand, oil price weakness provided us with an opportunity to buy this high quality oil major in two trances of US$90 and $87 respectively. The shares have held up well in relative terms despite significant subsequent downside to the crude oil price. We are confident that Exxon Mobil's industry-leading low cost of production and high remaining reserve life will support the shares relative to the sector. The company has historically demonstrated that during periods of oil market dislocations they are able to snap up assets at favourable levels as weaker competitors become forced sellers of oil assets. We may well be entering a period of distress for some weaker competitors in the global oil industry which will be an opportunity for XOM.

Bought **British American Tobacco (BATS.L)** - Pressure on emerging market exposure caused the stock to sell off from £38 to £33.60, where we initiated a position in this high quality company. We anticipate no stock buy backs for the next two years due to the recapitalisation exercise next year of their subsidiary Reynolds America who in turn will acquire a smaller competitor Lorillard subject to regulatory approval in the US. The secular headwinds are well-flagged, and the valuation is more supportive at these newly depressed levels offering a dividend yield of 4.5% and a sustainable ROE of close to 50%.

Positions Sold

Sold **MasterCard Inc (MA.N)** - Following an excellent set of Q3 results and a 6.5% rally on the day of their quarterly profit announcement, we sold the position in MA (4.1% position as of close of business the prior day). MA is trading currently at 2.5% above our fair value and created a total holding period return of 10.4% in AUD. We remain confident in the strong fundamentals of the business – valuation permitting. We look forward to re-initiating a position when the opportunity presents itself.

Sold **American International Group Inc (AIG.N)** - We bought an initial position in AIG during the October sell off in the markets and after a very significant bounce of 9% over the subsequent few weeks we exited the position having failed to build a meaningful position for the fund. Our conservative assumptions include an 8.2% sustainable ROE and $1.5bn in stock buybacks going forward. Even though this is a deeply discounted stock (price to book of 0.7) given the complexities of the business it is unlikely that management will be able to achieve their targeted ROE of 10% on a sustainable basis, a target which management set a few years ago. We doubt whether they will achieve this ROE anytime soon (hence our more conservative assumptions) given the low yields on their investment book and the very competitive nature of the underwriting market at this point in the underwriting cycle. If the stock approaches the lower end of the $50-$53 price range we may initiate a position in this name again.

Sold **Microsoft Corporation (MSFT.OQ)** - The stock moved above our assessment of fair value and hence we decided to exit the position at $49 per share. Over the holding period the stock returned 23.3% in AUD terms. If the stock moves back to below $43 we will look to build a position for the fund again.

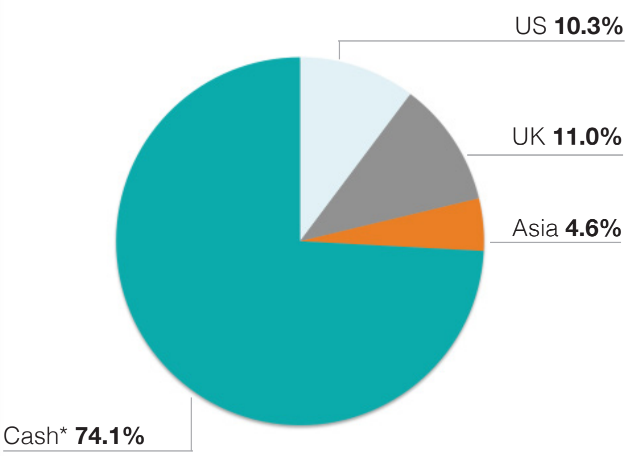
Sold **LVMH Moet Hennessy Louis Vuitton SE (LVMH.PA)** - Our total return since inception of the LVMH position is 11.3% in AUD. Both tranches in LMVH were bought at attractive levels including the market lows on October 16.

Sold **Accenture plc (ACN.N)** - Over the holding period we locked in gains of 17.3% in AUD having bought the biggest single tranche of the stock at the market lows on October 16. Their most recent results were impressive and management remains on track to achieve their long term stated ROE of 54% - should the stock drift lower towards the $80 level we may initiate a position in the name again.

Sold **Burberry Group plc (BRBY.L)** - The stock moved aggressively through our assessment of fair value at the end of November and we were forced to sell, booking a return on investment of 15.3% over the holding period. The biggest single purchase was made in mid March soon after the fund was launched at a time when the market was fretting about its Japanese strategy but this period turned out to be a good buying opportunity. Again we will have to exercise patience and wait for a better entry point in this exciting consumer growth company.

Fund Analysis to 31 December 2014

Asset Allocation



* Majority of cash is held in US$

Top Holdings

Stock	Market	Ticker
Samsung Electronics	South Korea (GDR)	SMSN LI
BP PLC	UK	BP LN
Diageo PLC	UK	DGE LN
Oracle Corporation	US	ORCL US
Yum! Brands Inc	US	YUM US
McDonald's Corp	US	MCD US
British American Tobacco	UK	BATS LN
Rolls-Royce	UK	RR LN
Exxon Mobil	US	XOM US

Fund Outlook

After deteriorating short term global economic data, particularly in Europe, and worryingly weak inflation data from across developed economies, there have been some indications more recently that the pace of the downturn may be reducing and even in some cases, beginning to pick up steam again. US Q3 GDP growth saw a significant upward revision from the previous estimate of 3.9% to 5.0%. US employment remains robust and real consumption has benefitted from lower gasoline prices. Corporate earnings in aggregate continue to grow, even if currency headwinds and weakness in Europe and Asia have been persistent themes of recent company reports.

The US Fed has chosen to complete the tapering of QE into this stabilising, but still fragile environment. However, in marked contrast, Japan has now officially ramped up its own QE programme to Y80trn (US$710bn) per year from around Y70trn (US$620bn), nearly cancelling out the effect of the Fed's most recent actions at a global liquidity level. Combined with the ECB's covered bond purchases, and despite the US and UK QE programmes both now being in stasis, the net effect is still stimulatory for risk assets. Furthermore, speculation that the ECB is moving ever-closer to a full QE programme has increased, as President of the European Central Bank Mario Draghi once again slashed GDP growth and inflation forecasts for 2015.

The notable news in November was the fall in oil prices. During the Organisation of the Petroleum Exporting Countries (OPEC) meeting, OPEC announced that the current production quotas would not be cut, and prices would be left to market supply and demand dynamics, causing the oil price to decline 39.4% in USD terms during Q4. Along with Western sanctions, this was more keenly felt in Russia with market confidence in Putin's ability to weather present geopolitical storm taking a hit.

We note that should economic data emanating from the US remain robust, then there is the possibility that the Fed may tighten monetary policy earlier and more aggressively than expected. Should this come to pass, then we would anticipate a negative reaction from US equities, especially in the context of valuations. This would likely result in further US dollar strength, in turn putting pressure on US multi-nationals' revenue growth. Moreover rising interest rates would translate into higher risk free rate and borrowing costs for institutions (banks) to take on risk.

Moving into the end of last year volatility increased, a trend we see as persisting over the first quarter, as markets become increasingly focused on rates rising. Moreover, heightened geopolitical tensions, a stronger US dollar and the increasingly weaker conditions in emerging markets could all play their part in de-stabilising risk assets.

The cornerstone of our approach is to focus on owning high quality companies (sustainable, durable businesses, significant free cash flow after capital expenditure, solid balance sheets and strong management teams). We believe these stocks should produce sustainable growth, above average returns over the longer term and prove to be attractive alpha generating investments.