Clime International Fund

Quarterly Investment Report - June 2015

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$84.36 million 4 March 2014
Fund Size - Retail Inception Date	A$1.87 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
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 30 June 2015

	AUD Portfolio Return		
	Wholesale	Retail	Hurdle
1 month	-0.83%	-1.21%	0.79%
3 months	0.12%	-0.59%	2.40%
6 months	6.07%	-	4.84%
1 year	19.58%	-	10.00%
Inception	15.94%	-1.11%	

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.

Distributions

Period Ending	Wholesale Units (cents per unit)	Retail Units (cents per unit)
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%

Retail 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%	2.00%	-1.21%	**-1.11%**	2.43%

#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 (Wholesale), 11 March 2015 (Retail), at which point the Fund's units NAV was struck at an inception price of AUD 1.00.

Summary

June proved to be a tough month for most markets, with a lot of the gains throughout the year being partially handed back. Equities suffered the largest pull back with the MSCI UK All Cap down 5.8% and the MSCI UK Mid Cap down 5.7%. The story was very similar with overseas equity markets as MSCI North America lost 4.8%. The markets were no better across the pond or in the East, as MSCI Europe excluding UK and MSCI Asia excluding Japan were down 5.6% and 6.5% respectively. MSCI Japan fell 4.6%, which left the MSCI TR Net World down 5.1% for the month. In terms of currencies, the pound strengthened against the dollar, the yen and the euro.

In many ways the month ended in unsurprising circumstances with the Southern Europeans missing their required €1.6 billion payment to the International Monetary Fund (IMF). Indeed, it was the sixth time that Greece has defaulted since 1825. However what came as more of a shock was the decision of Prime Minister Alex Tsipras to call a referendum on the Greek bailout negotiations. The ECB, which is keeping the Greek banking system afloat through the Emergency Liquidity Assistance (ELA) as long as negotiations are continuing, had no idea this development would take place.

The oil price remained fairly stable throughout the month before ending down. Indeed Brent Crude was down 3%, ending the month on $63.

This month we bought Baidu.com, Intertek and Burberry, as well as topping up positions in Amgen, Samsung, Procter & Gamble and Johnson & Johnson. We sold our position in Bureau Veritas and, having initially trimmed our position in Diageo, topped up the position on weakness.

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.

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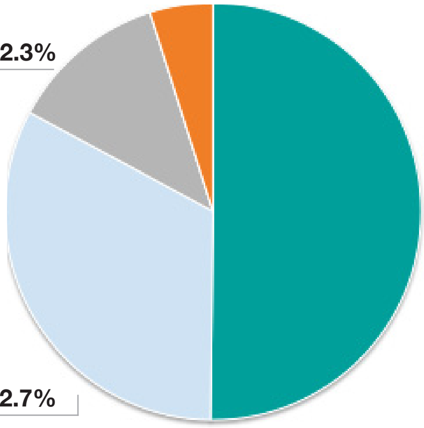
Fund Analysis to 30 June 2015

Asset Allocation



* Majority of cash is held in US$

Top Holdings

Stock	Market	Ticker
Diageo PLC	UK	DGE LN
American Express Company	US	AXP US
Johnson & Johnson	US	JNJ US
Amgen Inc	US	AMGN US
Samsung Electronics	South Korea (GDR)	SMSN LI
Proctor & Gamble	US	PG US
Google Inc	US	GOOGL US
The Coca Cola Company	US	KO US
Microsoft Corporation	US	MSFT US
Yum! Brands Inc	US	YUM US

Performance Summary

The portfolio returns were 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
Yum! Brands	13.69%
Microsoft Corp	8.03%
Citigroup	6.07%
Intertek	4.00%

* Returns from 1 April - June 30, 2015

Some noticeable weak performers during the quarter include:

Stock	Total % returns in AUD
Samsung Electronics	-13.73%
Oracle	-7.39%

* Returns from 1 April - June 30, 2015

Positions Held on 30 June 2015

American Express (AXP.US) is a global payment and travel company. Their principal products and services are charge and credit payment card products and trade-related services offered to consumers and businesses around the world.

Amgen (AMGN.US) is an independent biotechnology medicines company that discovers, develops, manufactures and markets medicines for grievous illnesses. They focus solely on human therapeutics and concentrates on innovating novel medicines based on advances in cellular and molecular biology.

Known as the "Google of China", **Baidu (BIDU.US)** operates an internet search engine. They offer algorithmic search, enterprise search, news, mp3, image searches, voice searches, online storage and navigation services. Baidu serves clients globally.

BP PLC (BP.L) is an oil and petrochemicals company. They explore for and produce oil and natural gas, refine, market and supply petroleum products, generate solar energy, and manufacture and market chemicals. Their chemicals include acetic acid, acrylonitrile, ethylene and polyethylene.

Burberry (BRBY.L) is a global luxury brand with British heritage, core outerwear and large leather good base. They designs and sources apparel and accessories, selling through a diversified network of retail, digital, wholesale and licensing channels worldwide.

Citigroup Inc (C.US) is a diversified financial services holding company that provides a broad range of financial services to consumer and corporate customers. Their services include investment banking, retail brokerage, corporate banking, and cash management products and services.

Coca-Cola (KO.US) manufacture, market and distribute soft drink concentrates and syrups. They also distribute and market juices and juice-drink products. They distribute their products to retailers and wholesalers in the US and internationally.

Diageo (DGE.L) produces, distils and markets alcoholic beverages. They offer a wide range of branded beverages, including vodkas, whiskeys, tequilas, gins and beer.

Exxon Mobil Corporation (XOM.US) operates petroleum and petrochemicals businesses on a worldwide basis. Their operations include exploration and production of oil and gas, electric power generation, and coal and minerals operations. Exxon Mobil also manufactures and markets fuels, lubricants, and chemicals.

Google (GOOGL.US) is a global technology company that designs and offers various products and services. They are primarily focused on web-based search and display advertising and tools, desktop and mobile operating systems, consumer content, enterprise solutions, commerce, and hardware products.

Intertek Group (ITRK.L) offers product inspection services. They test textiles, toys, petroleum products, chemicals, electronic products, building materials, and agricultural products. Intertek inspects and certifies products for safety to governments, exporters and importers, and certifies that import duties are declared and paid.

Johnson & Johnson (JNJ.L) manufactures health care products and provides related services for the consumer, pharmaceutical, and medical devices and diagnostics markets. They sell products such as skin and hair care products, acetaminophen products, pharmaceuticals, diagnostic equipment, and surgical equipment in countries located around the world.

McDonald's Corporation (MCD.US) franchises and operates fast-food restaurants in the global restaurant industry. Their restaurants serve a variety of value-priced menu products in countries around the world.

Microsoft Corporation (MSFT.US) develops, manufactures, licenses, sells, and supports software products. They offer operating system software, server application software, business and consumer applications software, software development tools, and Internet and intranet software. Microsoft also develops video game consoles and digital music entertainment devices.

Oracle (ORCL.US) supplies software for enterprise information management. They offer databases and relational servers, application development and decision support tools, and enterprise business applications. Oracle's software runs on network computers, personal digital assistants, set-top devices, PC's, workstations, minicomputers, mainframes, and massively parallel computers.

Procter & Gamble (PG.US) manufactures and markets consumer products in countries throughout the world. They provide products in the laundry and cleaning, paper, beauty care, food and beverage, and health care segments. Procter & Gamble's products are sold primarily through mass merchandisers, grocery stores, membership club stores, drug stores, and neighbourhood stores.

Rolls-Royce Holdings (RR.L) manufactures aero, marine and industrial gas turbines for civil and military aircraft. The Group designs, constructs and installs power generation systems, transmission and distribution systems, and equipment for the marine propulsion, oil and gas pumping, and defence markets.

Stryker (SYK.US) develops, manufactures, and markets specialty surgical and medical products. Their products include implants, biologics; surgical, neurologic, ear, nose & throat and interventional pain equipment; endoscopic, surgical navigation, communications and digital imaging systems; as well as patient handling and emergency medical equipment.

Twenty-First Century Fox (FOXA.US) is a diversified media company. Their media and entertainment operations include the production and distribution of motion pictures and television programming, music, radio broadcasting, and sports.

Yum! Brands (YUM.US) own and franchise quick-service restaurants worldwide. They develop, operate, franchise and license a worldwide system of restaurants which prepare, package and sell a menu of food items.

Best Performers (30 June '14 - 30 June '15)

The following names are a selection of businesses where we have rotated in and out of based on our assessment of intrinsic valuation. How we invest in these names gives a good indication of our philosophy and approach.

Accenture (ACN.US) is a name we like for its strong balance sheet and highly cash generative model. They have strong visibility of earnings with 32% of revenues on fixed price long term contracts. Furthermore they have returned approximately $24 billion to shareholders over the last 7 years, a trend that looks set to continue. As such we bought into the name in mid-October 2014 for $75. However, since then we saw a noticeable re-rating and quit the position towards the end of November at a price of over $85. The company has continued to execute well over the last few quarters and then stock has moved higher, but at current levels of $97 we are not tempted to invest just yet as the required return of 10% can't be met at these valuation levels.

Burberry (BRBY.L), having held the name for some time (we bought at levels close to £14.75) we decided to exit towards the end of November with the name trading near £16.50. However with recent weakness in the name we have invested again into the position at a price of £15.73, as the macro picture in Asia has weakened and investors sold off luxury goods companies as a result.

Burberry is trading at 16 times net operating profits to enterprise value based on March 2016 estimates and should be able to grow earnings per shares at double digits for the foreseeable future. Long term investors should be excited by the prospects of a 3% dividend yield and a £1.2bn cash pile by March 2018 whilst the company generates a 20% return on equity over the period. Some recent significant operational developments included the opening of a warehouse in China that allows countrywide visibility for online shoppers and stores. In theory this should mean fewer missed sales, a working capital improvement opportunity and fewer markdowns, allowing the company to roll out this model in the UK and the US as well.

MasterCard (MA.US), with a return on equity of over 43% coupled with double digit earnings and revenue growth, MasterCard is a name we are fundamentally attracted to. Total electronic payments in the US are forecast by McKinsey to reach $7 trillion by 2018. As such we were buyers of the name at levels below $72. However by the end of October 2014 the name had significantly re-rated and we took profits in the position, selling for just under $81.

Notwithstanding we are still positive on the secular growth story in the global payments sector. The substantial infrastructure investment already in place for the current incumbents has created high barriers to entry and durable franchises. For this reason we have been investing in **American Express (AXP.US)** anywhere between $77 and $81. Amex is a fundamentally attractive name, with very appealing earnings per share growth, which has compounded at 13% during the past three years. Their policy of returning cash to shareholders through buy backs and dividends is attractive for investors, as is its 25% return on equity.

We exited our position in full in **Microsoft (MSFT.US)** during the fourth quarter of 2014 at $49. We were able to take advantage of share price weakness in Microsoft in the early part of 2015 by buying the name in January and topping up consistently throughout the quarter at levels between $41 and $43. Microsoft offers a 7.3% free cash flow yield for 2015, a very attractive level for a business with an increasing percentage of their revenues being recurring. During Q2 2015 they returned $4.5 billion to shareholders and announced that they intend to accelerate share repurchases, with $31 billion to be returned over the next 2 years. We model a sustainable return on equity of 28% with an intrinsic value of $51 by June 2016 offering good upside from current levels.

We are very positive on **Samsung's (SMSN.LI)** long-term position. They hold a leading position in hardware and have a broad product portfolio. This culminates in the company benefitting from substantial cost competitiveness compared to other mobile manufactures and they operate with the lowest cost base in the industry. As such over the last year we have been buyers of Samsung at anywhere below $600 (and as low as $557). We trimmed the position at $670. However, we look to invest further on weakness. The name has a return on equity of 12% and is trading close to its book value.

Yum! Brands (YUM.US), back in July 2014 we saw this name as fundamentally undervalued and were buyers around the $74 mark. Indeed in late July through to October we saw further price weakness in the name and increased our position at levels of $67. However, consistent mid-teen margins, double digit dividend growth and a 13% reduction in outstanding shares over the last five years via a share repurchase program, lead us to believe that the business is worth north of $100. The stabilisation in KFC's same store sales growth in China combined with exciting long term opportunities in Asia and Africa for both Pizza Hut and Taco Bell (other parts of the group) makes us comfortable that their high operating margins and attractive return on equity (70%+) can maintained for many years to come.

Fund Outlook

It seems as though there is only one place to start this quarter and that is of course in Greece. In many ways the quarter ended in unsurprising circumstances with the Southern Europeans missing their required €1.6 billion payment to the International Monetary Fund (IMF). Indeed, it was the sixth time that Greece has defaulted since 1825. However what came as more of a shock was the decision of Prime Minister Alex Tsipras to call a referendum on the Greek bailout negotiations (which the Greek people would vote a resounding "No"). The ECB, which is keeping the Greek banking system afloat through the Emergency Liquidity Assistance (ELA) as long as negotiations are continuing, had no idea this development would take place.

In the UK we had the lead up and result from the General Election, with the Conservatives winning a minor majority. Markets remained surprisingly indifferent to the General Election which was held on 7th May. With the consensus view being that a Labour led government would be bad for markets but a Conservative market would create uncertainty due to their promise of an EU referendum, April saw remarkably small levels of volatility.

In the US we had the Federal Reserve release a more dovish than expected statement in June, with the committee expecting that "with appropriate policy accommodation, economic activity will expand at a moderate pace". It has become something of a game deciphering exactly what is meant by the Fed's statements; however the market has priced in a September rate hike, albeit a gradual one.

In China, we continued to see a slowdown in the growth of the economy with the government expanding their monetary stimulus programme in response. Over the first part of the quarter we witnessed alarming growth in the Chinese equity market. However in the latter part of the quarter we saw a reversal, with $2 trillion being knocked off the value of the Shanghai Composite Index since the middle of June.

Having started the quarter at around $55, the price of Brent oil rose and stabilised before ending closing slightly below the $65 mark.

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.

Over the last few months the equity markets have become more volatile and we were able to invest a significant part of the fund's cash positions as the equity markets pulled back. New positions include the likes of Google, Amgen, American Express and Baidu. These businesses generates collective returns on equity of well in excess of 20%, generate very healthy free cash flows after all capital expenditures and command dominant positions in growing industries ranging from search engines to biotechnology.

It is important to note that we are staying true to label by only deploying cash when our long term required return of 10% is met. With current equity valuations still relatively stretched due to excessively loose global monetary policies we are confident that a prudent approach is best and a combination of lower earnings expectations and increased macro risk will present further opportunities to deploy cash if and when equity markets have short term set-backs.