Clime International Fund

Quarterly Investment Report - September 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$99.28 million 4 March 2014
Fund Size - Retail Inception Date	A$3.16 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 September 2015

	AUD Portfolio Return		
	Wholesale	Retail	Hurdle
1 month	0.18%	0.18%	0.79%
3 months	4.69%	4.69%	2.43%
6 months	4.82%	4.07%	4.89%
1 year	19.12%	-	10.00%
Inception*	13.09%	3.52%	-

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

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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%	3.68%	1.23%	0.95%	-0.88%	1.86%	-0.83%	**19.58%**	10.00%
2015 - 16	4.05%	0.43%	0.18%	-	-	-	-	-	-	-	-	-	**4.69%**	1.63%

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%	2.0%	-1.21%	**-1.11%**	2.43%
2015 - 16	4.05%	0.43%	0.18%	-	-	-	-	-	-	-	-	-	**4.69%**	1.63%

#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

The main event for the month was the September Reserve meeting which was one of the most anticipated meetings this year. While some market participants expected the Federal Reserve to raise rates, the markets had priced in a probability of 30% of this actually happening.

Unsurprising to us, the Federal Reserve held interest rates at 0% - 0.25%, but the surprise was more in the dovish statement and press conference from Federal Reserve Chairman Janet Yellen. The dovish statement did not help risk markets that saw the US equity market fall 2.3% on the day, post the announcement.

The current stock market turbulence, concerns over China and its impact on the US economy, as well as lower energy prices dampening inflation were seen as headwinds to any rate rise. We expect market turbulence to still be a vital factor that the Federal Reserve will be watching in the next few weeks, and developments in China a key concern that will be on the minds of Federal Reserve members as they head to the final two meetings of the year.

In Emerging Markets, India's central bank cut its key interest rates more than the markets expected over fears of deflation from weakness in commodity prices and concerns that Asia's third largest economy is slowing down. The central bank cut its repurchase-agreement rate by 0.5% to 6.75%. This is an example of another emerging market country struggling to boost its growth and we are seeing investors flee to richer economies.

Throughout the month we bought new positions in Lloyds Banking Group and Medtronic, as well as selling our positions in Apple and NetEase after strong moves in each name. We also topped up in Coca-Cola, McDonald's Johnson & Johnson, Amgen, Proctor & Gamble and Roche.

Indeed, Roche is a name we have been following for a while and are very attracted by its drug pipeline and 50 per cent return on equity.

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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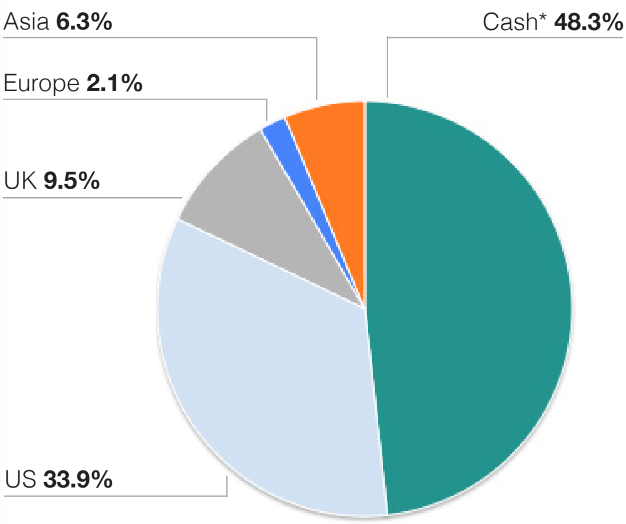
Fund Analysis to 30 September 2015

Asset Allocation



* Majority of cash is held in US$

Top Holdings

Stock	Market	Ticker
Diageo PLC	UK	DGE LN
Johnson & Johnson	US	JNJ US
Amgen Inc	US	AMGN US
Proctor & Gamble	US	PG US
Oracle Group	US	ORCL US
Yum! Brands Inc	US	YUM US
American Express Company	US	AMP US
The Coca Cola Company	US	KO US
Microsoft Corporation	US	MSFT US
Baidu Inc	US	BIDU US

Performance Summary

The fund's substantial U.S. dollar cash position was very beneficial to the fund in the first quarter. The fund returned a positive 5.95%, helped by a weak Australian dollar.

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
Google Inc	29.9%
McDonald's Corporation	14.9%
British American Tobacco	14.1%
Coca-Cola	12.6%

* Returns from July 1 - September 30, 2015

Some noticeable weak performers during the quarter include:

Stock	Total % returns in AUD
Baidu Inc	-24.1%
Samsung Electronics	-9.0%

* Returns from July 1 - September 30, 2015

Positions Purchased

Our investment case is based on the premise that **Roche Holding (ROG.VX)** is one of the most innovative pharmaceutical companies in the world, enabling it to develop and spearhead many new and exciting therapies. This is a business that has a wide economic moat driven by its impressive portfolio of biologics and leading position in diagnostics. Roche has converted at least 85% of net income into free cash flow over the past ten years, providing management with the ability to invest in R&D and return excess cash to shareholder. We originally entered the name at around CHF 251 and have continued to top up at those levels and below.

Berkshire Hathaway (BRKa.N), we have modelled a return on equity of 12 per cent providing reasonably attractive potential upside to this name. We opportunistically purchased this stock when the market pulled back significantly on the 24th August.

NetEase Inc (NTES.OQ) operate one of China's most popular Internet portals, and is a leading online game operator with strong research and execution capabilities.

Since being founded by William Ding in 1997 they have launched a series of highly successful multi-player online games that have been developed in house. They also offer games licensed from external developers, such as Activision Blizzard. Indeed, through Blizzard they operate the highly successful World of Warcraft franchise. Online gaming is a hugely cash generative sector and looks set to profit from an excellent R&D division and the transition to mobile. We initiated a position in the name on 24th August, before taking profits in late September, locking in a 13.7% return.

Apple Inc (AAPL.OQ). With significant volatility in markets on the 24th August, and our belief that concerns over Apple's growth were sufficiently priced into this name, we managed to pick up Apple below $100. However, as markets bounced the shares recovered quickly and we were able to sell out of the name, locking in profits, at $116.

Medtronic Inc (MDT.N) is a global leader in medical technology, developing therapeutic and diagnostic medical products. We believe Medtronic is competitively well placed; holding the number one position in almost every product category it's in, a leading distribution footprint, deep clinical expertise and a strong pipeline program. We initially opened a small position for $68 and were able double our exposure just below $64.

Positions Sold

We sold **Intertek Group PLC (ITRK.L)** at levels above £27, which was reached off the back of good, but not brilliant, results. However with continued fears over commodities Intertek had a pull back which we were able to take advantage of. As such we re-initiated a position at the end of the quarter at £23.24.

Rolls-Royce Holding PLC (RR.L), With the difficult trading environment being no longer confined to the marine and energy systems divisions, we feel as though the sell case was far stronger than the hold case in this name. Indeed, weak trading in the Civil Aerospace division was explained by weak demand which impacted both volumes and pricing. We got out of the position unfortunately after a period of weakness, which is clearly unpalatable. However we feel as though this is better than the alternative.

Investment Environment (September Quarter)

There were many reasons for the extreme volatility and negative market returns during the quarter. We had Alexis Tsipras, the Greek Prime Minister, calling for a referendum to decide whether the country should accept the Eurozone's austerity measures. The result returned a resounding "no" which seemed to increase the likelihood of a "Grexit". However, Tsipras went back to the negotiation table and ended up agreeing to an adjusted austerity deal. We saw China devaluing the yuan in a move that rippled through global markets as policy makers stepped up efforts to support exporters. China lowered interest rates again in an attempt to stimulate the economy as fears of an imminent bear market spooked investors as the world's second-largest economy was starting to slow down.

In the US, the quarter was dominated by conjecture as to when a rate hike will take place. Whereas the Federal Reserve previously said it would raise rates when it had seen "further improvements" in jobs, it now only needs to see "some further improvements". The surprise was the dovish statement and press conference from Federal Reserve Chairman Janet Yellen. The current stock market turbulence, concerns over China and its impact on the US economy, as well as lower energy prices dampening inflation were seen as headwinds to any rate rise. On the back of all the Fed meetings the bond markets experienced big moves during the quarter with the US 10 year government bond yield spiking to 2.45% during July and ended the quarter at 2.05%. The UK 10 year gilts also ended the quarter down sharply ending at 1.76%. The low bond yields however had a positive impact on property with the MSCI World REITs Index ending the quarter up 5%.

One of the reasons for the severe emerging markets underperformance is the continuous fall in commodity prices and continued dollar strength, with the Bloomberg Commodity Index ending the quarter down 11.1%. Brent, the international oil benchmark, traded on levels last seen during the financial crisis touching $42.23 a barrel and a broad index of commodity prices slid to the lowest point of this century. This quarter alone has been the worst performance for commodities since 2008. On the currency front the pound sterling lost ground against the U.S. dollar and the euro, losing 3.8% and 5.7% during the quarter respectively.

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.

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