

CLIME'S INVESTMENT PHILOSOPHY

Clime has a quality focus with strong valuation discipline. Clime believes that attractive long-term investment returns can be achieved through the implementation of a disciplined investment process, using bottom-up fundamental analysis and with a focus on high quality companies.

Clime invests with conviction and does not subscribe to the Efficient Market Hypothesis (EMH). Driven by a disciplined, unique investment process, Clime seeks to exploit significant market inefficiencies more apparent in the most informationally inefficient, greatest alpha potential segments of the market which are typically more prevalent outside the ASX50.

Clime's competitive edge and value add encompasses the following:

- **A bespoke focus on quality and valuation:** Clime has developed a proprietary quality filter that is embedded in the group investment process.
- **A disciplined, unique investment process:** Distills an investment universe of over 2000 companies to a short list of potential investments. This ultimately builds a high conviction portfolio.
- **A dedicated and highly aligned investment team:** Co-investors in the Funds we manage, with the investment process implemented by a team of 10 investment professionals with aggregate investment experience of about 150 years.
- **Due diligence:** Going beyond the ordinary to gain unique insights that assist in driving outperformance. Primary research with companies, their clients and competitors and where possible, road testing the product or service.
- **Investing in the highest quality companies on the ASX:** Applying Clime's proprietary Quality framework, the Fund invests in niche leaders that are positioned for long term success.
- **Risk management:** The Clime investment team applies a rigorous valuation methodology, coupled with sound portfolio construction principles, to identify upside while mitigating downside risks.
- **Structurally inefficient market segments:** The small and mid-cap segments of the market typically have limited research coverage, providing fertile grounds for finding opportunities.
- **We can be nimble:** As a boutique specialist investment manager, Clime can invest in dynamic, high quality emerging businesses without moving markets.
- **Diversification:** The ASX is dominated by financials and miners. The 'All Cap' approach provides exposure to dynamic businesses with deep pools of growth opportunity.
- **'All Cap' focus: Accessing the most informationally inefficient, greatest alpha potential segments of the market.**

INVESTMENT CHARACTERISTICS

Investments are characterised by:

- 1. A competitive advantage, leadership within a specific niche and a sound track record**
 - Focus on companies with demonstrated track records of earnings and dividend consistency & stability: At least three years, preference for greater than five years
 - Assessment of pricing power & barriers to entry
 - Assessment of industry structure & competitive intensity
 - Assessment of addressable market, market growth rate and market share
- 2. Strong financial strength, high levels of profitability and margin**, historic and forecast, as measured by:
 - Financial strength: Piotroski F Score: 1 – 9, Higher preferred
 - Profitability: Return on Equity (ROE): Higher preferred, reviewed with gearing
 - Profitability: Return on Invested Capital (ROIC): Higher preferred
 - Margin: Gross Profit Margin, Higher preferred
 - Margin: EBIT Margin, Higher preferred
- 3. Low financial leverage**
 - Strong balance sheet, either net cash or low levels of gearing relative to equity, earnings, and cash flow
- 4. Relatively low capital requirements allowing a business to generate cash while growing**
 - Strong free cash flow with an ability to reinvest at high rates of incremental return
 - Operating cash flow exceeding investing cash flow over rolling 3-year periods
 - Cash flow from operations exceeding reported profit over rolling 5-year periods
- 5. Highly capable management team aligned with creating shareholder value**
 - Management tenure and track record
 - Board and senior management equity ownership
- 6. Companies that can deliver genuine sustainable long-term growth**
 - Forecast earnings growth, when aggregated with estimated income returns, exceed targeted rates of return over at least a 3-year period
 - Assessment of revenue profile; 'lumpy' vs recurring
- 7. Investments that can be purchased at appropriate prices**
 - 'Margin of Safety' Principle: We seek to acquire a part share of high-quality businesses at meaningful discounts to assessed value

Quality & Value

'It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.'

Warren Buffett

'Owning companies that are both high-quality and inexpensively valued has delivered the most consistent long-term outperformance for investors' (Mead, Sage & Citro. May 2015. Quality & Value: The essence of long-term equity returns).

So, while we are focused on building a portfolio full of high-quality companies, we seek to do so with a firm eye on sustainable growth and value.