Chairman's address
Annual General Meeting

The accounts and financial report for the year 2017/18 have been distributed to shareholders before this meeting.

Therefore, in this Chairman's address I plan to briefly comment on these results and update you on the performance of the company for the first three months of the current financial year.

In summary the FY18 was a good one with Clime Capital Limited (CAM) reporting solid profits.

CAM paid 5 cents fully franked on its ordinary shares via 4 quarterly dividends of 1.25 cents each. The total payment of dividends was $4.5 million and the ordinary dividend per share increased 4% over the FY17 ordinary dividend.

CAM also declared a one for forty bonus share issue on finalisation of its 2018 full year results.

The Board declared its intention to at least maintain dividends on the bonus increased ordinary capital. Subject to market conditions and portfolio performance it means that ordinary dividends paid out per share will increase by at least 2.5% in FY 19 over FY18.

The current yield on the company's shares is approximately 5.2% franked or 7.5% on gross yield basis.

In December 2017, CAM completed a $21 million convertible note raising from existing shareholders and a range of private wholesale investors. This increased the investable funds of CAM. Today the investable funds approximate $111 million and this is well above the $107 million of investable funds (pre the July dividend) reported as at 30 June.

Shareholders will note that CAM paid very little tax in FY18. This was because of the utilization of carried forward realized losses that were recorded in FY 16 as tax assets.

Finally, on reviewing the 30 June 2018 balance sheet and portfolio it is important to note the following:

1. Net Cash was approximately $11 million representing 11% of the portfolio and included both $A and USD balances. This cash balance has decreased since 30 June and was $8.1 million as at 30 September;

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2. International equity holdings (ex $US cash) were A$3 million representing 3.4% of the invested portfolio. This level was well below the previous year and the manager is currently of the view that there is limited value in our preferred US stock universe and the AUD-USD outlook is difficult to determine;

3. At 30 June the investment in unlisted securities (debt and property securities) was $6.6 million and this has increased to $10.1 million at the end of September. The manager intends to build out this portion of the portfolio, if opportunity presents at attractive entry points.

Year to date performance

I trust that shareholders continue to monitor the company's performance through our monthly interim gross asset announcements and our monthly Net Tangible Assets (NTA) announcements.

As at the close of business 28th September 2018, the gross value of Company's investment portfolio was $112.0 million (pre-Sept dividend). This compares to the $107.4 million (pre-July dividend) reported as at 30 June 2018.

The increase in gross assets (at market prices) is due to improvement in the portfolios since 30 June. Gross assets have increased from 30 June after payment of $0.94 million in cash dividends paid (ex DRP) to shareholders in July and $0.34 million in interest paid on CAM convertible notes in September.

The directors are pleased to report an unaudited pretax profit of $5.2 million for the 3 months ending 30 September 2018. This profit result will allow directors to add to the profit reserves of the Company to secure ongoing quarterly dividends.

Convertible Notes

During the year CAM issued $20.75 million of unsecured convertible notes (ASX:CAMG). The notes were issued at 96 cents, have a term of 4 years and pay quarterly interest at the rate of 6.25% per annum. The notes will accrue the 1 for 40 bonus issue until and if they are converted by the holder into ordinary shares.

It is important for shareholders to understand that the interest paid on the convertible notes is tax deductible for CAM. This is because the notes have a redemption term at the issue price.

The Board believed the notes provided an attractive investment opportunity for subscribers and positively increased the investable capital for the company's shareholders. The convertible debt introduced leverage into the company's portfolio. At 30 September convertible debt represented less than 19.19% of total assets.

Buyback of shares

The Company's on-market buyback remains active. Historically, the buyback operates at a minimum 10% discount to underlying pretax NTA and the intention is to at least buy back the shares issued under the Dividend Reinvestment Plan (DRP). By undertaking the buyback, we believe that the company should be able to steadily and prudently grow franked dividends for shareholders.

Therefore, over FY18 issued ordinary capital marginally declined as shares issued under CAM's DRP were offset by buybacks. Over the financial year there were 845,941 DRP shares issued at an average of 86.8 cents apiece. Over the year 1,009,641 shares were bought back at an average of 85.5 cents. The buybacks were done at a 10% average discount to spot NTA.

The company's net assets grew over the financial year from $79.8 million to $83.4 million. This growth was after payment of dividends (note above) and reflected the growth in retained earnings of approximately $3.5 million.

Since 30 June the company has bought back 456,528 shares at an average price of 91.14 cents.

Class action against UGL

CAM has previously announced that on 18 December 2017 it commenced a class action proceeding against UGL Pty Limited (formerly UGL Ltd) (UGL) on its own behalf (as representative applicant) and on behalf of group members who acquired an interest in shares in UGL during the period 8 August 2014 to 5 November 2014 inclusive (claim period).

On 13 September 2018, CAM filed an interlocutory application in which it, amongst other things, sought leave from the Court to file an Amended Statement of Claim which expands the claim period to between 16 April 2014 and 5 November 2014 inclusive (amended claim period). All acquisitions of UGL shares by CAM were made during the amended claim period. CAM expects the Court to make orders in relation to its 13 September 2018 interlocutory application shortly.

The class action is funded by IMF Bentham Limited. Phi Finney McDonald is representing CAM and class members in the class action. Executives of Clime Investment Management Limited will be involved in pursuing the claim.

The class action currently alleges that during the claim period, UGL failed to keep the market informed about problems relating to a major joint venture construction contract that it was undertaking. These problems were not disclosed by UGL until 6 November 2014, when it told the market that the forecast costs of the Ichthys project had increased and the joint venture had recognized a provision. The UGL share price subsequently declined by more than 25% by close of trade on 11 November 2014.

The class action currently alleges that UGL's conduct caused CAM and persons who acquired an interest in ordinary shares in UGL during the claim period to suffer loss.

Portfolio Management – the reason to consider a new performance fee arrangement

Shareholders have observed that over the last 15 months the portfolio manager has steadily restructured the company's portfolio so that the following characteristics are seen:

a. The Australian listed equity component is structured across large, midcap and small companies to generate consistent returns from active management of equity tilts;
b. The International equity portfolio has been managed with an eye to value and currency exposure. In the final quarter, as the AUD devalued the manager reduced the international exposure. Re-entry into international markets requires a strong view on returns and will not be driven by speculation; and
c. The introduction of an unlisted portfolio focused on high yielding property and agriculture-based securities. Today approximately 9% of the portfolio is in high yielding unlisted property trusts and 1% in a high yielding agricultural trust. Importantly, the yields generated exceed the cost of the convertible debt and therefore creates a positive yield spread from these assets.

The portfolio style and management has therefore created a unique style (compared to other listed LICs) for our investment company. The diversity of equity assets and introduction of direct property and operating assets present a diversity for investors that has the attributes of a properly constructed pension asset portfolio.

The active and dynamic management style means the portfolio manager can and will adjust the asset allocations with the aim of generating a consistent absolute return. The average targeted rate of return for the portfolio is approximately 6% above inflation and after portfolio costs. The introduction of unlisted assets, the ability to utilize offshore markets and the absolute discretion to protect capital by increasing cash allocations, should create returns which are more consistent and less volatile.

Because of the new strategy for the CAM portfolio, the CAM board and the portfolio manager have reviewed and agreed a new "absolute return" performance fee agreement.

The proposed new "performance fee" is subject to a vote of shareholders at today's AGM.

The CAM Board recommends that shareholders vote in favor of this resolution and the reasons are contained in the notice of meeting.

Outlook

Following this meeting the Head of Investments at Clime Asset Management, Anthony Golowenko, and two investment analysts (David Walker and Adrian Ezquerro) will present a detailed portfolio review. This review will cover the structure of the portfolio that now encapsulates five purposeful sub portfolios across large, developing and international portfolios. A new sub portfolio will be grown out of the Notes issue through high yielding direct investments. Anthony will outline some of the investments already made in this segment.

However, before closing these remarks I feel compelled to address the risk that the benefits of franking credits will be dramatically changed by a Labor Government and therefore to the detriment of many CAM shareholders whom currently claim a cash franked refund on CAM franked dividends.

My comments are these.

The proposed changes are heavily biased and unfair. This is because the proposal does not end franking credits but terminates cash rebates.

The proposed maintenance of the benefits of franking to reduce tax payable – particularly in pooled superannuation funds between pension and accumulation members – clearly shows that the Labor Party has designed a tax policy that favors some Australians over other Australians. Industry Fund members over self-funded retirees. Those whom have saved for their retirement are dismissed as being wealthy rather than worthy of support.

That is an appalling policy change. It shows no integrity and is clearly not designed to raise the maximum revenue from franking as Labor claims. If that was the intention, then franking would go and as Labor states - “Australia would join the overwhelming number of nations that do not have franking”.

Further it is galling to remember that Labor – when in government for 6 years – made no mention or suggestion that franking or indeed cash rebates needed to be reviewed.

Arguably, under that Labor Government, the budget outlook position was worse than it is now!

If there is a problem with the budget it is simply not caused by franking.

Rather it is partly caused by a bloated national superannuation and pension scheme, based on contributed account balances, rather than a national pool that could be created now from $2.7 trillion of savings and push the budget into surplus.

In Conclusion

I wish to thank you for your ongoing support of Clime Capital. I also wish to thank the staff at Clime for their hard work and acknowledge the support of your Directors.

Looking forward, I see the company as being well placed to purposefully deploy your capital as opportunities present while maintaining a sound level of dividend distributions to all shareholders.

John Abernethy
Chairman