Clime Capital Limited

13 November 2020

Company Announcements
Australian Securities Exchange

Net Tangible Asset Backing

Please find attached Net Tangible Assets report of Clime Capital Limited (ASX: CAM) as at the close of business on 31 October 2020.

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Clime Capital Limited (ASX: CAM)

climecapital

NTA Report October 2020

NTA before tax	NTA after tax	Total Portfolio Including Cash	Rolling 12 Month Dividend	Historical 12 Month Dividend Yield	Historical 12 Month Dividend Yield Including Franking
$0.79	$0.80	$116.8m	4.65cps	6.0%	8.6%

Net Tangible Assets (NTA)

	October[1]	September[1]	August[1]
NTA before tax	$0.79	$0.82	$0.85
NTA after tax	$0.80	$0.83	$0.86
CAM Share Price	$0.78	$0.80	$0.78
Historical 12 Month Yield Excl. Franking	6.0%	5.9%	6.1%
Historical 12 Month Yield Incl. Franking	8.6%	8.4%	8.7%

1 On 25 August 2020, the Board declared a fully franked dividend of 1.125 cents per share in respect of the Company's ordinary shares for the period 1 July to 30 September 2020, paid on 30 October 2020. NTA before and after tax disclosed above for October is after, and for September and August is before, the effect of this dividend payment.
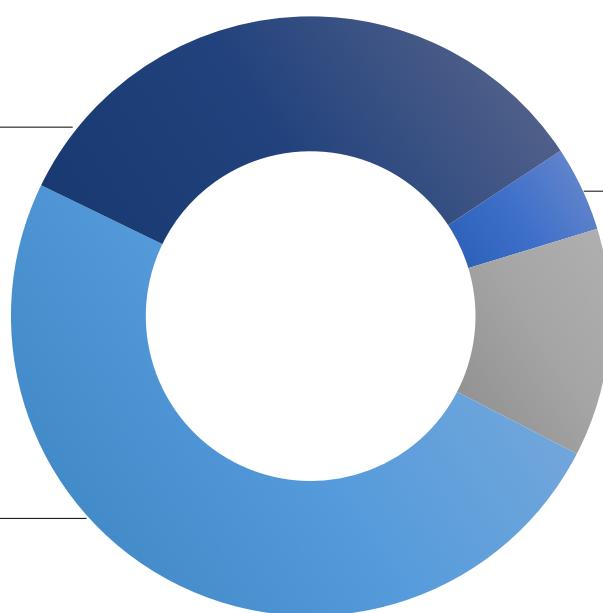
Gross Asset Allocation

Australian Equities - Large Cap
33.5%

AUD Cash & Equivalents
4.6%

Australian Income Sub-Portfolio
12.3%

Australian Equities - Small Cap
49.6%

Company Overview ($m)

Assets	$M
Australian Equities	$97.0
Australian Income Sub-Portfolio	$14.4
AUD Cash & Equivalents	$5.4
Total Portfolio including cash	$116.8
Notes Payable	($27.7)
Net Tangible Assets Before Tax	$89.1

Top 20 Holdings (in alphabetical order)

A2 Milk Company	A2M	Hansen Technologies	HSN
Altium	ALU	InvoCare	IVC
Amcor	AMC	Jumbo Interactive	JIN
APN Property Group	APD	Mach7 Technologies	M7T
Austal	ASB	Macquarie Telecom	MAQ
BHP Group	BHP	Macquarie Group	MQG
Bravura Solutions	BVS	Nick Scali	NCK
City Chic Collective	CCX	RPM Global Holdings	RUL
CSL	CSL	Sonic Healthcare	SHL
Electro Optic Systems	EOS	Westpac Banking Corporation	WBC

Portfolio Commentary

The portfolio returned -1.7% (pre-tax, net of fees) in October, compared to a 1.9% return for the S&P/ASX200 Accumulation Index. In a reversal of recent trends, the ASX performed strongly Developed World's return of -3.0% and the S&P500's return of -2.7%. Key drivers included the supportive Federal Budget released in early October, the RBA's commencement of monetary easing, and an improving COVID outlook for Victoria.

Domestically, Technology (+9.0%), Financials (+6.3%) and Consumer Staples (+4.8%) outperformed the most, while Industrials (-3.9%), Utilities (-1.5%) and Materials (-1.2%) underperformed.

Markets face a period of increasing volatility in the coming weeks with the US election outcomes to be determined, as well as potential new data relating to late-stage vaccine trials.

Key contributors and detractors to the portfolio return for the month were:
- **Australian Equity Large Cap Sub-Portfolio (ASX100):** Key contributors Macquarie Group (MQG) and Sonic Healthcare (SHL); key detractor BHP Group (BHP).
- **Australian Equity Small Cap Sub-Portfolio (Ex ASX100)**: Key contributor Audinate (AD8); key detractors Jumbo Interactive (JIN) and Mach7 Technologies (M7T).

Large Cap (ASX100)

Macquarie Group (MQG) returned 6.0% in the month as a highly stimulatory Australian Federal Budget and declining COVID-19 case numbers improved the outlook for credit impairment charges and the domestic economy in general. This spurred a broad rally for the domestic financials sector. Macquarie Group generated 67% of group net operating income from international markets last financial year and so is more geared to global outcomes but also benefited from the 1.9% reduction in the AUDUSD exchange rate in the month. Clime continues to be attracted to the relatively high returns on capital this business generates and the multiple avenues for long term growth, including recurring asset management income.

Sonic Healthcare (SHL) returned 5.0% in the month following a very strong trading update. In the September quarter, Sonic achieved positive growth in base laboratory business revenues compared to the same period last year, with the exception of the USA and UK. This was then bolstered by high levels of COVID-19 testing volumes, resulting in total revenues being up 29% on the prior corresponding period. Combined with the benefit of cost savings put through at the start of the pandemic, Sonic achieved EBITDA growth of 71% for the quarter. Given the current waves of cases in Europe and the US, testing volumes are expected to be particularly strong through the northern winter.

BHP Group (BHP) detracted from performance in the month, returning -5.1% after Chinese import restrictions impacted BHP's coal exports from Queensland. The CEO noted at the AGM on 14 October that a number of Chinese customers had asked to defer shipments. Coal accounted for 9% of BHP's group EBITDA last financial year. The iron ore price also took a breather from its recent strength in the month, declining by 1.7% in USD terms. Iron ore accounted for a much more significant 64% of group EBITDA last financial year. Lastly, the Brent oil price declined by 9.8% in USD terms during the month, while it has recovered this fall in November at the time of writing. Petroleum accounted for 10% of group EBITDA last financial year.

Small Cap (ex-ASX 100)

Audinate (AD8) returned 24% for the month. AD8 held its AGM in October, including a positive 1Q21 trading update. Monthly revenues trended upward over the quarter, reaching pre-COVID levels by September. This was better than expected against a forecast 38% decline in unit volumes in 2020 included in AD8's FY20 result presentation in August. Recent sales resilience reflects AD8's diverse customer base, with stronger demand from corporate and higher education customers offsetting weakness from live music. Industry unit volumes are expected to rise significantly in coming years. AD8 set to capture much of this demand, with an 8 times adoption lead over its nearest competitor, and next-gen software defined networking products (supplanting electronic chips) to potentially accelerate end market acceptance.

Jumbo Interactive (JIN) returned -13% for the month, despite a positive AGM update for the digital lotteries provider. 1Q21 jackpot activity was soft with 8 jackpots versus 13 during the prior corresponding period, a 38% decline. However JIN's revenues declined only 2% due to improved per-jackpot performance for the core lotteries business, with like-for-like sales up between 26% and 64%. Jackpot activity is a statistical outcome, and JIN is well positioned should it improve over the remainder of FY21. JIN has over $60m net cash and trades at 24 times our FY21 earnings forecast. This is modest for a business with ongoing growth supported by the continued shift in Australian lottery ticket sales to online from 28% currently, and an international growth option from its early-stage lotteries management SaaS business, Powered by Jumbo.

Mach7 Technologies (M7T) returned 15% on the back of a softer than expected 1Q21 update. After a strong 4Q20, cash flow reversed with a $1.8m outflow for the quarter. Cash flow is significantly affected by the size and timing of contract payments, which include one-off license and professional services fees and recurring maintenance fees. We remain positive about M7T's prospects due to its market-leading product and adoption from leading hospital systems in the US and Hong Kong. Although deal flow has slowed due to COVID, the company has approximately $40m in active tenders including two significant hospital systems in the US. M7T has approximately $18m and is guiding to a cash flow positive FY21.

Adrian Ezquerro	**Ronni Chalmers**	**Jonathan Wilson**	**Vincent Cook**
Head of Investments	Portfolio Manager - Australian Equity	Portfolio Manager - Ex ASX 100	Portfolio Manager - ASX 100

Market Commentary

Global markets continue to be supported by record low interest rates, fiscal and monetary stimulus on an unprecedented scale, and the accelerated digitalisation of the global economy. In the last week of October, global markets suffered their worst week since March (MSCI index down 5.3%), as virus-related lockdowns across Europe and the last days of the highly-contested US election pushed up volatility and sent investors to the sidelines. Over the month of October, the Australian sharemarket outperformed global peers and rose +1.9%, buoyed by a market-friendly Federal Budget, effective suppression of the pandemic in Victoria, and the promise of further monetary stimulus.

The Covid-19 pandemic has been the defining event of our time and yet, so little is definitively known about it. The extent and duration of the economic dislocations that the pandemic is causing are unknown, but the effects on the global economy are likely to be prolonged. A deep recession is likely to have significant economic and political effects and estimates of the timing of economic revival are complicated by the dependence of economies on effectiveness in controlling the virus. Unlike previous recessions, this economic downturn and recovery differs in that the downturn was driven by government shutdowns; fiscal and monetary support has been faster and bigger; forced asset sales have been avoided; it is dependent on containing the pandemic; and it is accelerating structural change.

Within the Covid environment, businesses capable of adapting quickly to an online milieu have thrived, whereas many caught up in sectors such as bricks and mortar retailing, international travel, live entertainment, and so on, have struggled. All these changes have meant big winners and losers in financial markets. In this report, we touch upon the state of the Australian economy and prospects for next year, and on one of the issues that at present is impacting upon financial markets, namely the US Elections.

Australian households received the Federal Budget with enthusiasm, despite the promise of rising debt and deficits: consumer sentiment surging 11.9% in October. Employment dropped back a little less than expected in September, with the unemployment rate edging down to 6.9%. Despite this, the big news in October was the speech by RBA Governor Phil Lowe in which he signalled a further policy easing in early November. As expected, the cash rate and 3-year bond yield target were cut from 0.25% to 0.1%. The RBA will also start buying up both 3-year and longer term government bonds. Governor Lowe said that the RBA wants "to see a return to labour market conditions that are consistent with inflation being sustainably within the 2% to 3% target range." We interpret this to mean that the RBA will not be increasing the cash rate until actual inflation is sustainably within that range. We do not expect the cash rate to be increased for the next two to three years, making assets such as shares and real property comparatively more attractive.

Australia is a mid-sized open economy in an interconnected world, so what happens abroad has a large impact on both our exchange rate and our yield curve. In the past, the interest rate differentials provided a reasonable gauge to the relative stance of monetary policy across countries. We anticipate further QE and yield curve management. The RBA will be tolerant of some rise in inflation and will be led by the global monetary policy context.

Welcome to Bidenomics

While we still await an official declaration that Joe Biden will be the next President of the USA - we hope that it is not significantly longer before the result becomes crystal clear. A clear reading of the indicators, though, suggests that we ought to be thinking about a change in US administrations on 20 January 2021, and with it the advent of a significant shift in both style and policy.

Joe Biden is a lifelong centrist who does not appear to be captive to any strongly-held ideology other than his admiration for ordinary working and middle class Americans. If Biden enters the White House in January 2021, he will confront an extraordinary set of circumstances: the US economy is clawing its way back from the sharpest slump in living memory; the legacy of the pandemic will include millions of long-term unemployed; public debts will soon exceed the all-time high of 106% of GDP; and America faces a wave of bankruptcies and accelerated digital disruption in many industries.

President-elect Biden has pledged to "build back better" – a stimulus that could be worth $2trn-3trn, part of a boost to annual spending of about 3% of GDP. His tax rises on firms and the wealthy would be significant, rather than punitive. He would seek to rebuild America's decrepit infrastructure, give more to health and education and allow more immigration. His climate-change policy would invest in research and job-boosting technology. Of course, much will depend upon the ability to obtain support from a Senate which may be controlled by the Republicans. Run-off elections for two Senate seats in Georgia will be held on 5 January next year.

Because of the challenging backdrop and Biden's lack of a fixed economic doctrine, the range of outcomes attributable to a Biden presidency is still open. Biden says his goals are to tilt the balance of American capitalism in favour of workers, not the rich. Hopefully, he will offer competent administration. He is not expected to reverse America's new protectionism, or significantly alter the relationship with China, and nor does he have a plan to resolve the country's long-term fiscal problems.

Adrian Ezquerro
Head of Investments