14 April 2021

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 March 2021.

For further information contact:

John Abernethy

Chairman
Clime Capital Limited

(02) 8917 2107

Clime Capital Limited
(ASX: CAM)

NTA Report March 2021

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
$0.90	$0.90	$148.4m	4.55cps	5.2%	7.4%

Share price as at 14 April 2021: $0.88

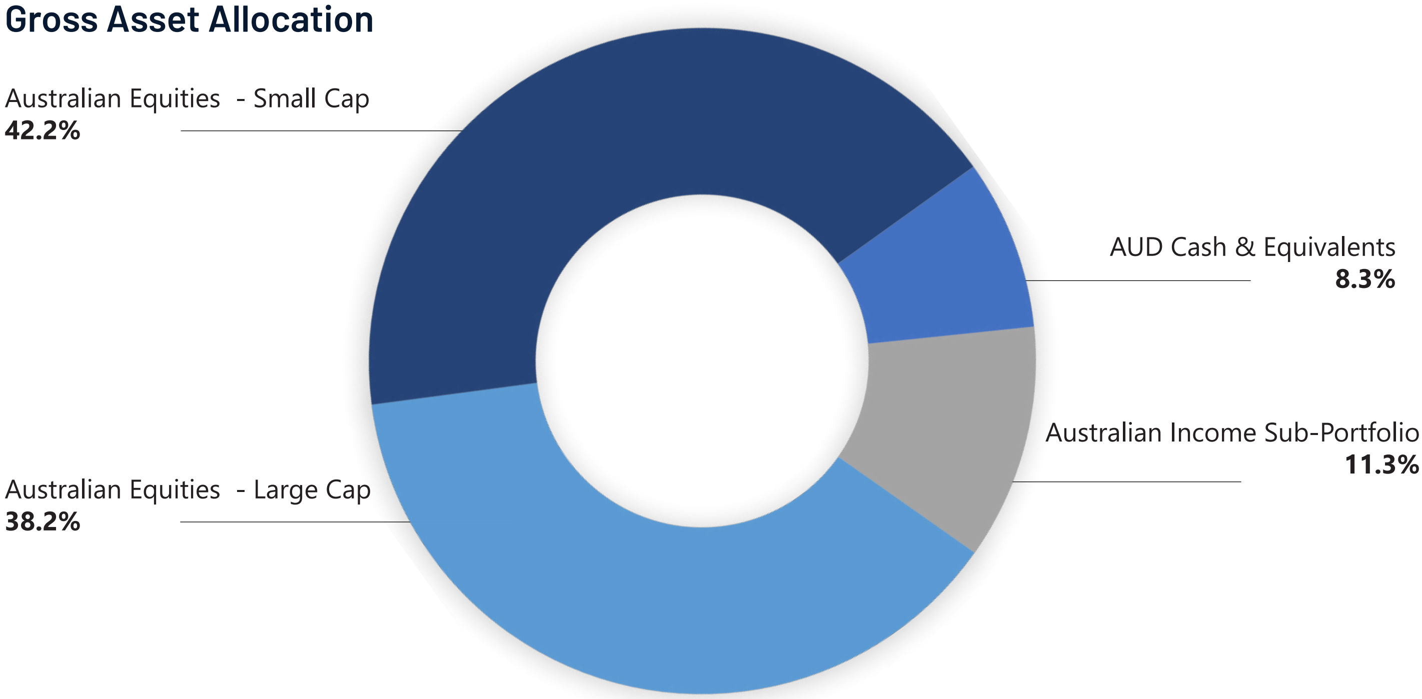
Net Tangible Assets (NTA)

	March[1]	February[1]	January[2]
NTA before tax	$0.90	$0.90	$0.88
NTA after tax	$0.90	$0.90	$0.88

[1] On 2 February 2021, the Board declared a fully franked dividend of 1.20 cents per share in respect of the Company's ordinary shares for the period 1 January 2021 to 31 March 2021, payable on 29 April 2021, . NTA before and after tax disclosed above for February and March 2021 is before the effect of this dividend payment.

[2] On 9 November 2020, the Board declared a fully franked dividend of 1.175 cents per share in respect of the Company's ordinary shares for the period 1 October to 31 December 2020, paid on 29 January 2021. NTA before and after tax disclosed above for January is after the effect of this dividend payment.

Gross Asset Allocation



Company Overview ($m) Cum – Dividend

Assets	$M
Australian equities	$119.3m
Australian Income Sub Portfolio	$16.9m
AUD Cash & Equivalents	$12.2m
Total Portfolio Including cash	$148.4m
Convertible Notes(CAMG)	$(28.5) m
Net Tangible Assets Before Tax	$119.7m

Top 20 Holdings (in alphabetical order)

Amcor	AMC	**Mach7 Technologies**	M7T
APN Property Group	APD	**Mineral Resources**	MIN
BHP Billiton	BHP	**Macquarie Group**	MQG
City Chic Collective	CCX	**National Australia Bank**	NAB
Codan	CDA	**Nick Scali**	NCK
Electro Optic System Holding	EOS	**Navigator Global Investments**	NGI
Goodman Group	GMG	**RPM Global Holdings**	RUL
Hansen Technologies	HSN	**Sonic Healthcare**	SHL
Integral Diagnostics	IDX	**Westpac Banking Corporation**	WBC
Jumbo Interactive	JIN	**Wesfarmers**	WES

Portfolio Commentary

For the quarter, the portfolio delivered a return of 4.5% pre-tax net of fees, compared to a 3.6% return for the S&P/ASX200 Accumulation Index.

Whilst the Australian market delivered a solid return for the month, it again lagged major international indices. In local currency terms, the S&P 500, FTSE 100, and DJ Euro Stoxx 50 indices delivered returns of 4.4%, 4.2% and 7.9% respectively.

Domestically, we again observed material divergence in return outcomes by market cap segment and by sector. Large caps materially outperformed small caps during March, a contrast replicated in the US market. This factor mildly impacted relative returns for the Australian Equity All Cap strategy during the period. Utilities (+6.8%), Discretionary (+6.7%), Communications (+5.9%) and Real Estate (+5.6%) were all solid outperformers in March, while Materials (-3.1%) and Information Technology (-2.8%) lagged.

Key contributors to the portfolio return for the March quarter were:

· **Australian Equity Large Cap Sub-Portfolio:** Key contributors Westpac (WBC), BHP Group (BHP) & National Australia Bank (NAB), only detractors of note Altium (ALU) & Fortescue Metals Group (FMG).
· **Australian Equity Small Cap Sub-Portfolio:** Key contributors Hansen Technologies (HSN), Codan (CDA), Technology One (TNE) & Adairs (ADH), key detractors Electro Optic Systems (EOS) & Omni Bridgeway (OBL).

We explore a number a number of these positions, while also introducing two new positions, in the commentary to follow.

Large Caps

OZ Minerals (OZL) was a new addition to the portfolio during the quarter. OZL is a copper focused miner based in South Australia, which was formed in 2008 from the merger of Oxiana and Zinifex. The company has a strong management team and operational track record, and both of its principal assets are very long life and low-cost mines. Further, OZ is expected to achieve significant production growth over the next two years.

The supply and demand story for copper is also positive. Copper demand is leveraged to global GDP, which is set to strongly recover this calendar year. The IMF upgraded its global growth forecast in April by 0.5% to 6.0%, which follows a -3.5% contraction in 2020. At the same time, global copper supply is facing issues with declining grades at ageing mines, while new discoveries and developments have been few and far between.

Mineral Resources (MIN) was another new addition during the quarter. MIN operates as a provider of mining services to Australia's major iron ore producers, while also mining iron ore and lithium in its own right. MIN has a number of iron ore projects in development which are expected to result in an increase in production from approximately 20Mt in FY2021 to 50Mt per annum over the next 5 years.

MIN's lithium operations are conducted in a joint venture with global leader Albermarle. Lithium demand is increasingly tied to electric vehicle production, which is forecast to grow at 35% per annum over the next five years according to a recent Deloitte research paper. This is expected to result in approximately 10% per annum growth in consumption of battery related minerals, including lithium. The lithium price has recovered strongly in 2021 from a preceding period of oversupply, with prices up over 90% year to date.

Finally, MIN is a founder led business, which creates a strong alignment of management and shareholder interests and usually means a passionate, highly motivated leadership team. Chris Ellison, CEO, started the company in 2006 and currently owns 11.8% of shares on issue.

Westpac Banking Corporation (WBC) was a leading positive contributor in the quarter, returning 26.0%. This followed a 16.9% return in the December 2020 quarter, which was noted in our last quarterly report. The drivers are largely consistent with that earlier performance, with an accelerating economy improving the outlook for bad debts and capital, the latter due to lower risk weights on loan assets.

Westpac provided a quarterly update during the period, which exceeded expectations on the capital position and maintenance of the net interest margin. Clime estimates that Westpac's surplus capital position could fund a buyback of approximately 5% of shares on issue. On the net interest margin, Westpac and peers have been able to offset the impact of a lower RBA cash rate with reductions in term deposit rates, given strong flows into low cost at-call deposits.

BHP Group (BHP) returned 9.6% for the quarter, which also followed a strong December quarter performance. Commodity prices have continued to exceed market expectations, with the iron ore price rising 4% during the quarter, the copper price gaining 13% and the Brent crude price up 31%. These price changes are in US dollar terms and were assisted by a further 1% appreciation of the USDAUD. Clime expects the price for iron ore in particular to moderate from the current level, while we note that current prices would imply a 16% free cash flow yield. It remains our view that near term consensus expectations are likely to continue to be upgraded.

Altium (ALU) detracted from performance in the quarter, returning -14.1%. Management marginally downgraded full year guidance with their half year result in February, while guidance now implies a greater than normal skew to second half earnings. Clime remains confident in the long-term industry outlook and market position of Altium, but given short term earnings risk and an elevated earnings multiple implied in the current price, we exited this position during the quarter.

Fortescue Metals Group (FMG) detracted from performance in the quarter in contrast to BHP, returning -9.2%. The company delivered record earnings and dividends in the half year result reported in February, while this was overshadowed by a $400m increase in the budgeted cost for the Iron Bridge project and the accompanying resignation of the Chief Operating Officer, Director of Projects and Director of Iron Bridge. Clime does not view these events as materially altering the valuation of Fortescue, which has a current market capitalisation of $62.8 billion. We also note that the underperformance in the quarter followed a period of outperformance relative to BHP in the second half of 2020.

Small Caps

Hansen Technologies (HSN) was one of the highlights of the March quarter, delivering a total return of 47.0%. After announcing a strong 1H21 result and upbeat outlook in February, in March HSN upgraded FY21 guidance on the back of a material $25m 5-year contract with German telco Telefonica. HSN increased its FY21 revenue range from $295-305m to $316-326m, a 7% upgrade at the midpoint. The increase amounts to $21m incremental revenue, reflecting license revenue to be recognised in 2H21 (under IFRS accounting rules). As most of this revenue will fall straight to the bottom line, the underlying FY21 EBITDA margin range increased to 37-39%, above management’s expected long-term margins of 32-35%.

We substantially added to our position in HSN last year at $2.80 per share or a $560m market capitalisation. Based on guidance, we expect HSN will generate $75m in free cash flow for FY21, representing a 13% free cash flow yield at the $2.80 share price. Although the stock has doubled since then, HSN still trades at a reasonable valuation. We remain positive on the stock given its strong track record of EPS growth (albeit via a highly successful M&A program), extremely high customer retention, high recurring revenues, balance sheet capacity and long-term growth afforded by a fragmented global market.

Codan (CDA) returned 39.1% during the quarter, reflecting a strong first half result, the announcement of two acquisitions and the effective upgrade to its full year earnings outlook. Coming into FY21, CDA had delivered compound annual growth in earnings of 32% over the past 5 years. Incredibly, this trajectory looks set to improve in FY21, with the company delivering profit growth of 36% in the first half.

CDA also announced the acquisition of both Domo Tactical Communications and Zetron during the quarter. Both are US based businesses that will materially build out CDA’s Communications division, with each acquisition largely funded from existing cash reserves. As highlighted in recent reports, we remain upbeat about the future prospects for the business. Record levels of metal detection sales have continued, while communications will have a materially stronger second half.

Adairs (ADH) was another solid contributor, returning 19.0% for the quarter. The home furnishings omni-channel retailer posted a pleasing half year result, beating the top end of December earnings guidance. The result was impressive on several fronts, with sales and underlying EBIT up 35% and 166%, respectively, and online share of sales hitting 37% of the total, up from 22%. Sales momentum carried through the month of January, signalling another strong half to finish FY21.

However, a share price below $4 reflects scepticism around the sustainability of recent performance. ADH is currently capitalised at $650m and is set to substantially add to its $22m net cash position by the end of the financial year. For further context, first half FY21 EBIT was $60m. ADH certainly rode strong COVID tailwinds in 1H21, but we believe conditions remain favourable in the near term, further supported by a surging housing market.

Household savings rates are elevated, and the Australian consumer remains largely landlocked with outbound travel down 97% in January, meaning $65bn of annual international travel spend continues to be diverted to sectors like household goods. ADH is well positioned having expanded its loyalty program to 900k Linen Lovers, up from 800k in June last year.

Rhipe (RHP) was a detractor for the March quarter, returning -14.5%. The SME cloud software wholesaler delivered sound 1H21 results with revenues and operating profit up 15% and 35% on the prior corresponding period. RHP guided to FY21 operating profit of $17.5m, reflecting 27% growth on FY20. Given solid execution and the maintenance of a positive outlook, we view the sell-off as unwarranted.

Post quarter-end, RHP announced the acquisition of cyber security software distributor, EMT for $11m cash with a $2m earnout. The acquisition was at a 5.5 times multiple of EMT's FY22 forecast operating profit of $2m. Including EMT, we expect RHP to generate approximately $22m EBITDA in FY22. RHP occupies a leading market position, has a long runway to grow recurring revenue from increasing cloud adoption in its markets across South East Asia, and over $55m net cash for further M&A. Shares are attractively priced at a FY22 an ex-cash free cash flow (FCF) yield of 8.0%.

Adrian Ezquerro
Head of Investments

Ronni Chalmers
Portfolio Manager - Australian Equity

Jonathan Wilson
Portfolio Manager - Ex ASX 100

Vincent Cook
Portfolio Manager - ASX 100

Market Commentary

We have reported with growing confidence of a return to strong growth following the pandemic recession, supported by extraordinary fiscal and monetary programs on a global scale. This has been borne out by both economic data and the performance of financial markets over the first three months of the calendar year. A corollary of this reflation narrative has been the surge in yields of government bonds as economic growth accelerates and normalisation approaches.

The bond market has been in a strong bull trend for 40 years, driven by factors including low inflation, globalisation, technology, demographics, monetary and fiscal policy, commodity prices and "secular stagnation". It now appears that this four-decade trend may finally be ending. Growing economic optimism and increasing inflation expectations are reducing demand for government bonds at a time when the supply of bonds is rising as governments borrow more. The unwinding of the extreme valuation distortions in US and G7 government bond markets due to QE programs has probably only just begun and will likely be an ongoing investment theme for years to come.

Nevertheless, at present the cost of capital remains historically low and is unlikely to derail the recovery in the global economy (or corporate profits) over the next year or two. Therefore, investors are encouraged to maintain a pro-growth bias in portfolios, but favour equities that are less vulnerable to a rising bond yield environment. And prudent investors should ensure that all bond exposures in portfolios are carefully monitored and limited to an appropriate weighting.

Supporting the current favourable environment for risk assets, the US Federal Reserve reiterated its dovish policy of ultra-easy monetary conditions, while noting that a full economic recovery still remained distant. The Fed stated that no rate changes were planned until 2023 at the earliest, and that bonds and mortgage-backed securities would continue to be purchased until further notice.

Fed officials sharply upgraded their US growth forecasts due to the massive fiscal stimulus passed by the Biden administration and an accelerating vaccine rollout. The upgrades to the forecasts were significant: whereas in December they predicted 4.2% GDP growth this year for the US, that estimate was increased to 6.5%, which would be the fastest economic expansion since 1984.

Of course, risks remain in markets which have rallied sharply since the emergence of covid vaccines in early November last year. Nevertheless, with ultra-easy monetary conditions and massive fiscal support in the world's largest economy, the road towards rising asset prices appears to be the path of least resistance.

Whether or not inflation is returning has been one of the most debated topics in financial markets over the last few months. As expected, we are seeing pricing pressures on food, energy, and commodities as economies re-open following lockdowns. Yet despite these trends, absolute core inflation levels remain generally subdued.

Some further inflationary pressures are expected in coming months (on base effects); however, the problem is less a short-term rebound of inflation, but the possibility of change in the inflation paradigm ahead. In other words, are we heading towards a prolonged period of higher inflation? The "return of inflation" narrative is gaining traction, propelled by the $1.9 trillion US fiscal package as well as anticipated multi-trillion dollar infrastructure programs and the recovery in demand expected as vaccination programs accelerate.

While there is a great deal of uncertainty, an important factor is the labour market, which we do not see fully recovering to pre-crisis levels for at least another year if not longer. There are divergences, in terms of unemployment in different sectors and industries and across markets, but our view is that the labour market recovery will be uneven and take some time, thereby dampening inflation pressures at least in 2021 and for most of 2022.

Against this backdrop, our key convictions are that as the reflation trade continues, investors should favour equities and property to cash and bonds. Investors should monitor the impact of inflation on interest rates and corporate earnings. As there is a rising consensus on cyclical securities with the reopening of economies, selection in equities is increasingly relevant. The focus should be on sound businesses with a preference for quality and value.

Markets are looking beyond the near-term headwinds of Covid-19 and a sluggish vaccine rollout across some countries in Europe and in Australia. Positive sentiment has been driven by hopes of continued policy support combined with an increasingly clear path to reopening. Substantial fiscal stimulus, progress on the vaccination front, and strong corporate earnings make economic rebound, profit recovery and reflation the main themes in the near term.

Investors should rely on fundamental analysis and process discipline to unearth businesses with sustainable income streams and sound balance sheets. We are constructive on cyclical sectors (such as materials) as they gradually price in the economic recovery. From a sector perspective, a steeper yield curve should support financials, and this marks a switch from 2020, when yields were very low and asset write-offs expected. Importantly, investors should explore sectors where recovery is not yet priced-in by the market. Overall, while many uncertainties persist and market volatility is anticipated, we remain cautiously optimistic that the favourable environment for risk assets such as equities and property should endure for the rest of the calendar year.

Adrian Ezquerro
Head of Investments