Clime Capital Limited

14 September 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 August 2021.

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Clime Capital Limited
(ASX: CAM)

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NTA Report August 2021

NTA before tax (CUM Dividend)	NTA after tax (CUM Dividend)	Total Portfolio Including Cash	Rolling 12 Month Dividend	Historical 12 Month Dividend Yield	Historical 12 Month Dividend Yield Including Franking
$0.995	$0.970	$160.9m	5.15cps	5.4%	7.7%

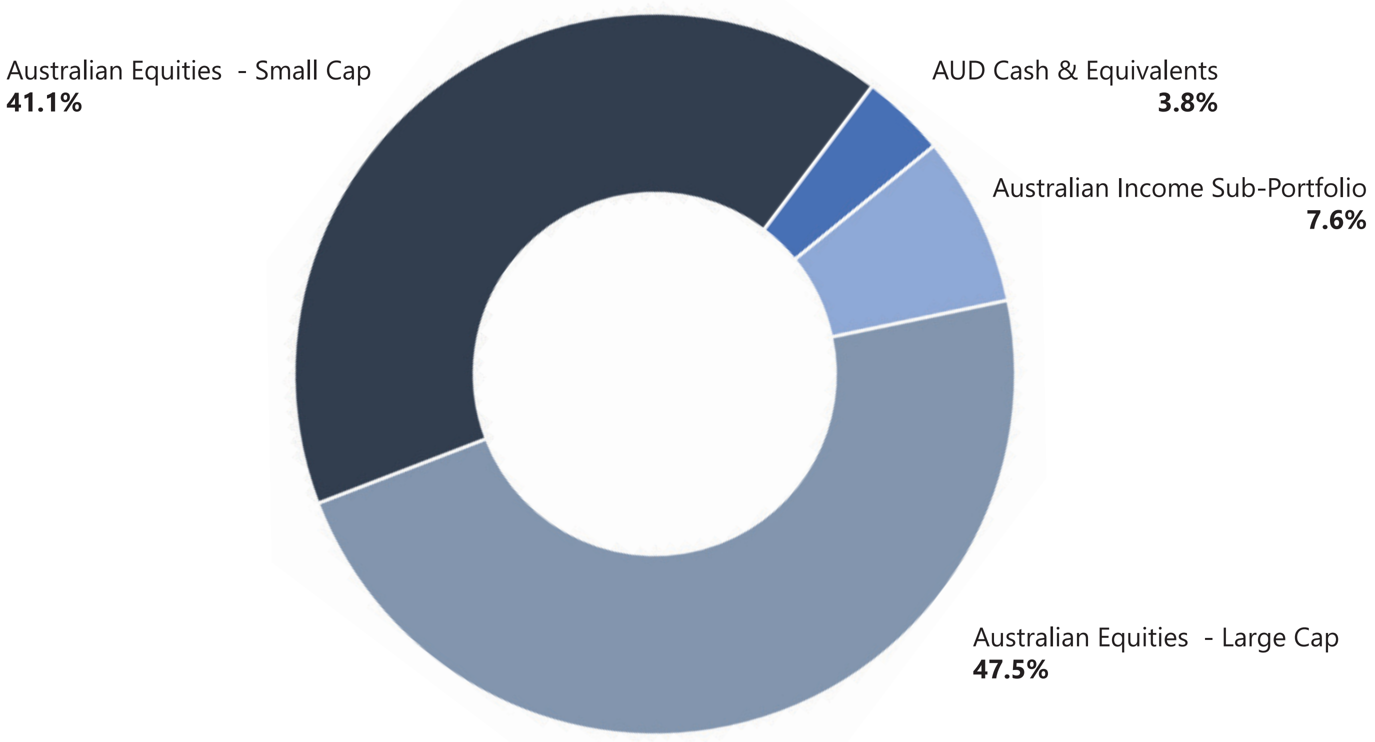
Share price as at 13 September 2021: $0.96

Net Tangible Assets (NTA)

	August[1]	July[2]	June[2]
NTA before tax (CUM Dividend)	$0.995	$1.005	$0.995
NTA after tax (CUM Dividend)	$0.970	$0.970	$0.961

[1]On 17 August 2021, the Board declared a fully franked dividend of 1.27 cents per share and a special dividend of 0.25 cents per share in respect of the Company's ordinary shares for the period 1 July to 30 September 2021, payable on 28 October 2021. NTA before and after tax disclosed above for August 2021 are before the effect of this dividend payment.
[2]On 12 May 2021, the Board declared a fully franked dividend of 1.25 cents per share in respect of the Company's ordinary shares for the period 1 April 2021 to 30 June 2021, payable on 28 July 2021. NTA before and after tax disclosed above for July 2021 is after the effect of this dividend payment, whereas for June 2021 is before the effect of this dividend payment.

Gross Asset Allocation



Company Overview ($m) Cum - Dividend

Assets	$M
Australian Equities	142.5
Australian Income Sub-Portfolio	12.3
AUD Cash & Equivalents	6.1
Total Portfolio Including Cash	160.9
Convertible Notes (CAMG)	-26.7
Net Tangible Assets Before Tax	134.2

Top 20 Holdings

Company	ASX
Adairs	ADH
Australia & New Zealand Banking Group	ANZ
BHP Group	BHP
Electro Optic System Holding	EOS
Family Zone Cyber Safety LTD	FZO
Hansen Technologies	HSN
Jumbo Interactive	JIN
Mach7 Technologies	M7T
Macquarie Group	MQG
Mineral Resources	MIN
National Australia Bank	NAB
Navigator Global Investments	NGI
Nick Scali	NCK
Oz Minerals	OZL
Resmed Inc CDI's	RMD
Rhipe	RHP
RPM Global Holdings	RUL
Seven Group Holdings	SVW
Sonic Healthcare	SHL
Westpac Banking Corporation	WBC

Portfolio Commentary

The portfolio returned -0.4% (pre-tax net of fees) in August, compared to a 2.5% return for the S&P/ASX200 Accumulation Index. While the ASX delivered another strong monthly return, it still lagged the S&P 500 and Nasdaq by 50bps and 160bps respectively.

Technology (+17%) had an extraordinary month, driven by Square's takeover of Afterpay (APT, not held) and Wisetech's (WTC, not held) powerful post results rally. Beyond tech, the more defensive Staples (+6.9%) and Health (+6.8%) sectors outperformed, while Mining (-9.1%) underperformed.

Key contributors and detractors to the portfolio return for the month were:

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors ResMed (RMD), Sonic Healthcare (SHL), National Australia Bank (NAB) and Westpac (WBC), key detractors BHP Group (BHP), Mineral Resources (MIN) & Fortescue Metals Group (FMG).
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors Macquarie Telecom (MAQ), Navigator Global Investments (NGI) & City Chic Collective (CCX), key detractors Electro Optic Systems (EOS), Integral Diagnostics (IDX) & Jumbo Interactive (JIN).

ResMed (RMD) returned 11.4% following a strong 4th quarter FY2021 result and guidance for at least a US$300-350 million revenue benefit in FY2022 from the Philips recall of their sleep apnea devices. The limiting factor on this upside is component supply and Clime expects ResMed to secure additional supply on the basis of medical need. There is likely to be a material further benefit from masks and accessories sold with devices.

Sonic Healthcare (SHL) returned 8.4% as forecasts were revised upwards due to strong ongoing COVID testing activity globally. Clime expects SHL to approach a net cash position this financial year, with significant potential for accretive acquisition activity.

National Australia Bank (NAB) +6.9% and Westpac Banking Corporation (WBC) +5.3% gained after NAB announced a $2.5 billion buyback and Westpac confirmed that they are likely to announce capital management with the full year result in early November.

BHP Group (BHP) -14.7%, Mineral Resources (MIN) -10.1% and Fortescue Metals Group (FMG) -15.7% declined with a 20.6% fall in the iron ore price over the month. The spot price at month end was approximately in line with the average for FY2021, implying strong free cash flow continues to be earned by these companies. BHP and Mineral Resources also have exposure to copper and lithium, which have attractive long term supply / demand fundamentals.

Macquarie Telecom (MAQ) returned 21.1% in August reflecting a solid full year result and rising sector multiples. Fresh from announcing a planned expansion of its Macquarie Park data centre campus in Sydney, MAQ reported $74m EBITDA for FY21 versus guidance of $72-75m. MAQ is benefitting from surging demand for data centre capacity and cyber security. However, following a strong rally, we believe MAQ's market valuation now better reflects its intrinsic value.

Navigator Global Investments (NGI) returned 8.9% after reporting a stronger than expected EBITDA result and issuing upbeat guidance for FY22. Strong performance drove higher revenues within NGI's US$13.9bn funds management division, Lighthouse Partners. Lighthouse is therefore well-positioned to attract inflows in FY22. The result also featured the first fiscal year contribution from the new and growing NGI Strategic Holdings division, which is currently a portfolio of 6 minority stakes in US funds management business totalling US$7.0bn in effective funds under management. NGI trades on a free cash flow yield of 10% and has approximately A$100m of net cash and cash equivalents.

City Chic Collective (CCX) returned 15.0% on the back of a strong FY21 result with revenue up 33% to $258m and EBITDA up 60% to $42m. CCX is a global online plus-size ladies fashion retailer with a growing presence in the US, UK, and Europe. Management did not issue guidance however they noted Avenue (US) and Evans (UK) have traded above pre-acquisition levels for the first 8 weeks of FY22, with healthy momentum heading into the Christmas trading period.

Electro Optic Systems (EOS) declined by 14.6% on a weaker than expected 1H21 result, due to further delays in contract execution and cash collection, and reduced FY21 EBIT guidance due as a result of COVID restrictions. We believe these issues will be resolved and normal contracting activity will resume when restrictions ease. On the near term horizon, management indicated that over $100m of contract assets should be monetised during the December half. Finalisation of manufacturing and associated funding for the SpaceLink satellite constellation also looms as a significant near term catalyst.

Integral Diagnostics (IDX) fell 12.8% on a weaker than expected FY21 result with organic growth behind other listed providers of imaging services. The outlook is challenging with COVID restrictions impacting revenues in New Zealand (-75%) and Australia (-5%). Despite these set-backs, we maintain long-term conviction in IDX and see a strong recovery in volumes once lockdowns are lifted. IDX focuses on higher margin, high end modalities (MRI, PET, CT) and has executed well in developing local 'hub and spoke' networks in each of its areas of operation. Over the long term IDX should benefit from increasing utilisation of medical imaging in Australia, which lags OECD peers.

Jumbo Interactive (JIN) declined by 7.7% after announcing a what in our view was a sound FY21 result. JIN's revenues are positively leveraged to the size and frequency of large jackpots, so it was pleasing that the business still delivered revenue growth of 17% during a relatively weak period of jackpot activity. The growth in FY21 largely reflects the ongoing shift in lottery ticket sales to the online channel. Only 32% of sales are made online so there is still plenty of opportunity with JIN's lottery retailing business.

In future years, we see significant valuation upside should JIN successfully scale its lotteries SaaS and Managed Services divisions, particularly in offshore markets. The negative share price reaction was in response to higher than expected increases to operating expenses to fund the offshore strategy. Whilst this may impact margins in the short term, over the medium term JIN should once again deliver strong operating leverage.

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Market Commentary

The Covid pandemic and its management continues to be the defining factor on the path to economic normalisation. As high vaccination rates allow North America and Europe to return to something approaching normality, economies with low vaccination rates such as Australia and across emerging Asia are tightening their restrictions on activity once again. Over the past month, many high density centres in Australia and in countries such as South Korea, Malaysia, Indonesia, the Philippines, and Thailand have imposed new public health controls in an attempt to dampen rising infection rates of the Delta variant.

So far, the economic and financial impact of the latest cycle of restrictions has been cushioned by buoyant export sectors and government measures to support domestic economies. Nevertheless, domestic demand in many countries remains depressed, private sector balance sheets have sustained damage, and bank asset quality is deteriorating. This will slow recovery, place greater burdens on stretched fiscal balances and weigh on equity market returns.

During August, US and international data releases missed forecasts, highlighting rising investor angst that the spread of the Delta variant will slow the pace of the global economic recovery. Several closely watched US economic measures, such as consumer confidence, new home construction, business activity and retail sales, have been weaker than projected.

The situation in China was also weaker than prior expectations, with industrial production and retail sales figures disappointing analysts. In addition, China is experiencing a heavy-handed regulatory crackdown on tech companies, the property sector and inequality aimed at supporting its middle class. Elsewhere, European purchasing managers' index data - broad gauges of corporate health - painted a mixed picture across markets. In the UK, the manufacturing and service sectors faced a sharp deceleration in growth, falling to the lowest level in six months.

The good news is that in regions where the vaccine roll-out has been effective, the economic normalization process is well under way. And while inflation numbers and expectations have risen sharply, causing market consternation, we expect this to be largely transitory. During the past month, the US Federal Reserve has signalled that it will consider tapering Quantitative Easing as growth in the American economy consolidates. In the medium term, the sustainability of the recovery will depend on virus developments, policymakers' willingness to continue providing stimulus, the spending of pent-up savings, and private investment.

The outlook for the second half of 2021 depends on how the Federal Reserve and markets deal with those high inflation prints in the US. It will take a few months before we see signs that inflation is in fact transitory, and that the Fed is moving towards tapering. This should create an environment in which equities have some moderate upside left, even as rates gradually start to rise. While this overall trend might be gradual, markets might be volatile along the way, due to the strong macroeconomic dynamics and the nervousness attached to monetary tightening.

Investor sentiment has been dented by the recent figures and continued reports of supply chain bottlenecks. Economists have dialled back their US growth forecasts, from a 6.6% rise forecast at the end of July down to a still very strong 6.2% more recently. Over the balance of the calendar year, US economic growth rate will ease from great to good. At the same time, the two big drivers that pushed up corporate profits in the first half - massive stimulus checks and economic reopening - will not be repeated.

Future spending packages, including the infrastructure and family support bills, will be spread out over time and as a result, the boost to corporate profits will be less powerful. The tone of investor focus has shifted from reopening momentum, strong fiscal and monetary support, and earnings strength to tapering talk, China slowdown and geopolitical tensions.

While Australia has its own issues to deal with, market sentiment and direction will still largely be driven by the US. Australia data showed that the private sector lost steam in August, largely because of the lockdowns. Low unemployment figures, while welcomed, were largely achieved through depressed participation rates, and commodity prices eased sharply over the month.

As we have noted in previous reports, Australia’s dependence on iron ore is enormous; by end August, the price of iron ore had fallen around 40% from its peak of US$233 a tonne in early May. Iron ore added close to 2.5% to nominal GDP over the past year. It aided fiscal repair, and provided shareholders of the big miners with bumper dividends. In the second quarter, iron ore comprised 42% of merchandise exports, up from 32% the previous year. Australia’s next-largest merchandise exports (coal, natural gas, gold and beef) collectively made up only 23%.

Iron ore thus plays an outsized role in our economic health: further major falls in the iron ore price (not our base case) could cause a negative Terms of Trade shock. That said, we anticipate that China’s slowdown will stabilise, and that iron ore prices will likewise level out. Fortunately, the last budget conservatively assumed that spot prices would fall back to US$55 a tonne by March 2022.

We anticipate that developed economies will focus on rolling out their various vaccines throughout the year to reach or exceed so-called herd immunity of about 70-80%. We do, however, recognize that the question of how many people want to be vaccinated will be important in coming months. At the moment, we do not expect that new virus variants will have a major impact on the global economy, but acknowledge there may be more mutations and more lockdowns. Moreover, developing countries will continue to struggle with the health crisis until their populations are at least partly vaccinated.

Investors fully embraced the reflation story in the first half of 2021. Economic support, improving macro data, the rollout of vaccines, and strong earnings in the most recent reporting seasons in both the US and Australia have driven equity markets to record highs. The cyclical commodity markets have, in the main, also benefited from these trends. While we expect market strength to continue over the coming months, we anticipate that as the economy moves from recovery to mid-cycle, a more cautious and more selective portfolio approach is warranted.

Adrian Ezquerro
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