Clime Capital Limited

14 January 2022

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 December 2021.

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About Clime Capital Limited

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Facts

Clime Capital Limited (ASX: CAM) is an actively managed, Listed Investment Company (LIC) providing exposure to high quality large caps, small caps and income securities. CAM's core objective is to provide investors with a dividend yield and franking rate that is consistently higher than that achieved by the S&P/ASX 200 Index. CAM has paid a quarterly fully franked dividend to shareholders every quarter since 2009.

Investor Suitability

CAM is designed for investors who are seeking:

- Long-term capital preservation when measured against inflation
- Access to quarterly income with the added benefit of franking credits
- The expertise of a professional Investment Manager, focused on quality and value
- Have a minimum of 5 years to invest

Benefits

CAM offers a number of key advantages to investors:

- Quarterly fully franked dividends
- A disciplined investment process with a bespoke focus on quality and value
- Daily liquidity provided by the Listed Investment Company (LIC) structure
- Professional portfolio management services from a dedicated investment team

Risk Management

Although a diversified portfolio, investing in CAM is considered high risk. The risks associated with investing in a LIC that should be considered include liquidity risks, regulatory and tax risk, and manager risk. Risk management and capital preservation has long been a cornerstone of the Clime Asset Management Pty Ltd (Clime) investment philosophy. The Clime investment team applies a rigorous valuation methodology, coupled with sound portfolio construction principles, to identify upside whilst mitigating downside risk.

NTA before tax (CUM Dividend)	NTA after tax (CUM Dividend)	Gross Portfolio Value	Rolling 12 Month Dividend	Historical 12 Month Dividend Yield	Historical 12 Month Dividend Yield including Franking credits
$0.945 as at 31 Dec 2021	$0.935 as at 31 Dec 2021	$169.2 m	5.25 cents per share	5.9%	8.4%

Top 20 Holdings

(in alphabetical order)

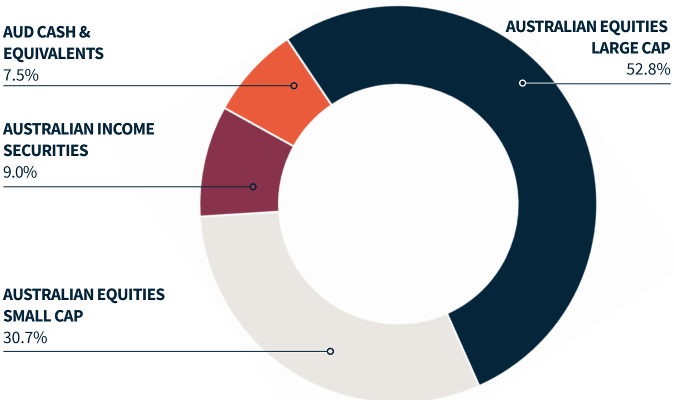
Company	ASX Code
Adairs	ADH
Australia & New Zealand Banking Group	ANZ
APA Group	APA
BHP Group	BHP
Coles Group	COL
Hansen Technologies	HSN
Insurance Australia Group	IAG
Integral Diagnostics	IDX
Jumbo Interactive	JIN
Mach7 Technologies	M7T
Mineral Resources	MIN
Macquarie Group	MQG
National Australia Bank	NAB
Navigator Global Investments	NGI
Oz Minerals	OZL
Resmed	RMD
RPM Global	RUL
Sonic Healthcare	SHL
Seven Group	SVW
Westpac Banking Corporation	WBC

Portfolio Asset Allocation

Assets	$M
Australian Equities	141.2
Australian Income Securities	15.3
AUD Cash & Equivalents	12.7
Gross Portfolio Valuation	169.2
Convertible Notes (CAMG)*	-36.5
Net Tangible Assets Before Tax	132.7

Share price as at 13 January 2022: $0.895

Gross Asset Allocation



**CAMG are unsecured, convertible notes in CAM which, if redeemed, would need to be paid out at face value.*

Net Tangible Assets (NTA)

2021	Dec [1]	Nov [1]	Oct [2]
NTA before tax (CUM Dividend)	$0.945	$0.920	$0.940
NTA after tax- (CUM Dividend)	$0.935	$0.915	$0.930

[1] On 22 November 2021, the Board declared a fully franked dividend of 1.28 cents per share in respect of the Company's ordinary shares for the period 1 October to 31 December 2021, payable on 28 January 2022. NTA before and after tax disclosed above for December 2021 and November 2021 are before the effect of this dividend payment.

[2] 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 2021 to 30 September 2021, payable on 28 October 2021. NTA before and after tax disclosed above for October 2021 is after the effect of this dividend payment.

Market Commentary

Share markets were volatile during December but rallied towards month end with solid gains. The ASX 200 Accumulation Index rose by 2.8% to finish the calendar year with a gain of 17.2%, as investors pondered whether 2022 would continue to deliver positive returns. In the US, calendar year gains across the major indices were exceptionally strong: the S&P 500 was up 28.7%, the Nasdaq rose by 22.2%, and the Dow Jones lifted by 21.0%. Leading contributors to the S&P 500's performance were Microsoft and Apple, the world's two largest companies by market capitalisation.

European and Japanese market returns were likewise robust over the last 12 months, whereas Chinese stocks performed poorly. Over the course of 2021, bond yields rose, energy prices and agricultural commodities maintained high levels, and the Australian dollar fell from US$0.77 to US$0.73.

Early in the new year, the pall of COVID-19 still hangs over us. Omicron has proved a less lethal variant than Delta, though it spreads faster. COVID-19 cases have surged around the world amid concerns over how far the new strain could affect supply chains, the cost of goods, and economic performance. Volatility underscores how confidence can be shaken by unexpected pandemic twists.

Heading into the new year, we remain cautiously optimistic about the potential for stocks to continue their upwards trajectory even as the pandemic continues.

At the same time, tightening monetary policy presents a headwind for the year to come. The inflationary consequences of the last two years of binge borrowing by governments, and currency printing by central banks (Quantitative Easing - QE), is catching up with us.

However, QE has further to go before peaking and tapering begins. Central banks are expected to gently raise interest rates as they shift from earlier predictions that inflation would prove limited and short lived. QE was designed to push down long-term interest rates, and it did the job. However, it also triggered asset bubbles, including segments of the equity and property markets.

Global politics remain a concern. President Biden is struggling with low poll ratings and is finding it difficult to get his spending and tax measures through the Senate. The Democrats are likely to lose their slim majority in the November mid-term elections. The democratic West is having to adjust to the new China, one that is more autocratic and nationalistic, as Xi Jinping asserts himself and expands China's sphere of influence. Energy price rises have in part been brought on by Russia's manipulation of gas supply for Europe, while supply chains have had problems with goods deliveries from China. Australia will face a federal election before the end of May.

Meanwhile, two profound themes continue to attract attention and capital: the digital transformation and the green energy revolution. In Europe, 2022 began with governments struggling to combat the surge in energy prices, which are damaging incomes and output. A further emerging theme is that investors are taking a stronger interest in the environmental, governance, and social issues around their investments.

Inflation

After earlier dismissing the threat of inflation, the Fed's pivot on the issue is part of a general shift. Assurances from major central banks, including the Reserve Bank of Australia (RBA), that inflation would be transitory and monetary policy would continue to remain in stimulus mode, are now being reversed. Markets will no longer benefit from massive liquidity injections to power them through choppy economic waters, and investors will have to assess the impact of the inflation surge.

It is our view that the rise in interest rates will produce a significant test for markets over the coming year. However, it is well anticipated, and markets are already adjusting.

2022 Outlook

As the new year unfolds, central banks, governments, and markets have a huge stake in inflation coming down in an orderly way. Much will depend on the course of the pandemic. We expect the global economic recovery will continue but at a slower pace. Amongst the major economies, we continue to monitor China. Slower growth in China will impact the prices of Australia's major commodity exports.

There appears limited room for the global economy to surprise on the upside, with the outlook for highly priced growth assets to be tested by moderately higher bond yields. However, solid businesses that benefit from inflation and moderate economic growth will continue to do well.

The key risks include:

- further adverse developments with the pandemic;
- a sustained outburst of higher inflation; or
- policy error caused by central bank or government misjudgement.

Increased volatility in markets during the year ahead appears to be a likelihood and will be utilised to acquire appropriate investments.

Portfolio Commentary

Key contributors to the portfolio return for the quarter were:

- **Australian Equity Large Cap contributors:** BHP Group (BHP), OZ Minerals (OZL) and Mineral Resources (MIN) **detractors**: Westpac Banking Corporation (WBC), Pendal Group (PDL).
- **Australian Equity Small Cap contributors:** Jumbo Interactive (JIN), and Nick Scali (NCK) **detractors:** Electro Optic Systems (EOS), Mach7 Technologies (M7T).

BHP returned 10.3% over the quarter, reflecting strengthening iron ore (+5.5%) and copper (+8.9%) prices. We retain a positive view on the long-term outlook for copper supply/demand, resulting from the energy transition and constraints on production growth. The iron ore price outlook in the near term has also improved with a more supportive regulatory backdrop for the property market in China.

OZL returned 25.4%, reflecting the strength in the copper price (+8.9%). The copper price increased by 25.7% over the calendar year in USD terms, which was further supported by a 5.6% depreciation of the AUDUSD exchange rate.

MIN returned 25.0%, reflecting the improved iron ore price, and continued strengthening in lithium prices. The spodumene price rose a further 65.2% for the quarter, bringing the **full** year gain to 486.0% in USD**.**

JIN returned 20.4% on the back of a strong run of large jackpots in the December quarter, with 15 jackpots in 2Q22 versus 7 in 2Q21. Regulatory approval JIN's acquisition of Canadian lotteries manager provider, Stride, was delayed from 2Q22 to 4Q22.

NCK returned 38.1% for the quarter following a positive October Annual General Meeting (AGM), as well as finalisation of the Plush acquisition in November. Per AGM commentary, despite COVID disruptions, NCK has experienced 'buoyant' trading, while gross margins improved slightly to 63.5%. With a net cash balance sheet, a strong order book and planned doubling of the Plush network, NCK is well positioned.

WBC returned -15.6% in the quarter, reflecting a 5% miss relative to consensus earnings expectations at the pre-provision operating profit line for the 2021 financial year and further downgrades to forward expectations. The key driver was a rebasing of net interest margins as WBC seeks to return mortgage credit growth back to system.

PDL returned -29.7% as positive momentum in inflows turned to outflows in the latter part of the year. The majority of outflows were specific to one large institutional client who withdrew mandates from several managers as a result of an internal rebalancing directive. PDL's investment performance across its fund range remains strong and Clime expects inflows momentum to improve in coming quarters.

EOS declined 31.8% during the quarter on delayed completion of SpaceLink Tranche 1 funding totalling ~$100m, after contracting OHB Systems to manufacture 4 satellites for the initial constellation. OHB has cornerstoned the funding round with a $25m investment. We expect an update to be provided shortly. The market is frustrated with delays; however, we believe these issues will be largely resolved in 1H22.

M7T fell 21.9% after the business experienced operating cash outflows in 1Q22. In November M7T announced AI Visualize, a company with no operations, had brought a patent infringement litigation against Nuance and M7T. Nuance was recently acquired by Microsoft for $19bn. We believe the litigation is likely without merit and that M7T will report a much stronger 2Q22.

All statistics and information referenced are sourced from the named Company's ASX announcements, share prices, website, or discussions with Clime unless otherwise stated.