Clime Capital Limited

14 July 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 30 June 2022.

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About Clime Capital Limited

Will Riggall
Chief Investment Officer

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

Ronni Chalmers
Portfolio Manager
All Cap Australian Equities

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.

Vincent Cook
Portfolio Manager
Large Caps

NTA before tax (CUM Dividend)	NTA after tax (CUM Dividend)	Total Portfolio Including Cash	Cash Dividend (1.28 cents * 4 quarters)	Running Yield	Grossed up Running Yield - Pre Tax
$0.770 **as at 30 June 2022**	$0.785 **as at 30 June 2022**	$144.9 m	5.12 **fully franked**	6.3% **fully franked**	9.0%

Top 20 Holdings

(in alphabetical order)

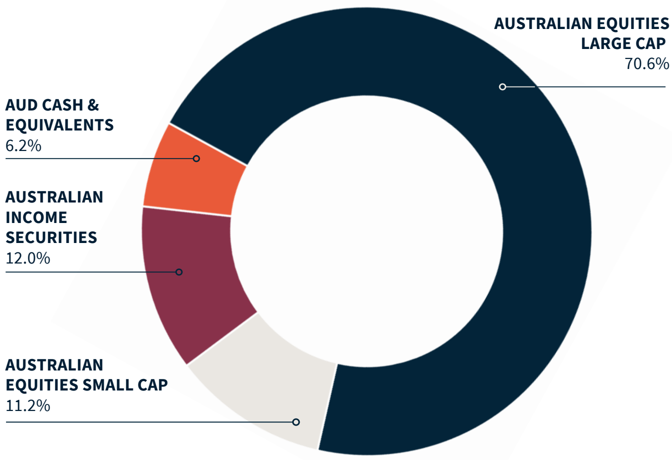
Company	ASX Code
Amcor	AMC
Australia & New Zealand Banking Group	ANZ
APA Group	APA
Aurizon Holdings	AZJ
BHP Billiton	BHP
Brickworks	BKW
Coles Group	COL
Incitec Pivot	IPL
Jumbo Interactive	JIN
Lycopodium	LYL
Mineral Resources	MIN
Macquarie Group	MQG
National Australia Bank	NAB
Navigator Global Investments	NGI
Northern Star Resources	NST
Sonic Healthcare	SHL
Seven Group Holdings	SVW
Westpac Banking Corporation	WBC
Woodside Energy Group	WDS
Worley	WOR

Portfolio Asset Allocation

Assets	$M
Australian Equities	118.5
Australian Income Securities	17.4
AUD Cash & Equivalents	9.0
Gross Portfolio Valuation	144.9
Convertible Notes (CAMG)*	-36.5
Net Tangible Assets Before Tax	108.4

Share price as at 13 July 2022: $0.810

Gross Asset Allocation



CAMG are unsecured, convertible notes in CAM which, if redeemed, would need to be paid out at face value of $1.

Net Tangible Assets (NTA)

2022	Jun [1]	May [1]	Apr [2]
NTA before tax (CUM Dividend)	$0.770	$0.865	$0.890
NTA after tax (CUM Dividend)	$0.785	$0.880	$0.900

[1] On 19 May 2022, 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 April to 30 June 2022, payable on 28 July 2022. NTA before and after tax disclosed above for June and May 2022 is before the effect of this dividend payment.

[2] On 10 February 2022, 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 January to 31 March 2022, was paid on 28 April 2022. NTA before and after tax disclosed above for April 2022 was after the effect of this dividend payment.

Market Commentary

The pace of global economic growth is clearly slowing. The International Monetary Fund (IMF) downgraded its forecast for US 2022 growth from 3.7% to 2.9% and reduced its 2023 growth estimate from 2.3% to 1.7%. It noted "material risk" that current headwinds will prove more persistent than expected. However, the IMF sees the US narrowly avoiding recession, arguing that "front-loaded" US Federal Reserve (Fed) tightening will help reduce inflation and protect real incomes, sustaining economic growth. This is one view; other strategists have dialed up recession probabilities in the wake of increasingly hawkish central bank rhetoric.

In June, Reserve Bank of Australia (RBA) Governor Philip Lowe delivered a speech indicating faster monetary policy tightening is expected in the near term to curb inflation. He spoke about monetary policy intervention to tackle inflation in the evolving environment, and noted worsening business conditions:

- 31% of businesses are having difficulty finding suitable staff.
- 46% of businesses have and continue to experience increased operating expenses.
- 41% of businesses have faced supply chain disruptions.

The broad-based tightening in global monetary and financial conditions is acting to slow spending growth, accentuated by high costs of basic foods and energy. European geopolitical uncertainty has also weighed heavily on business confidence and investment intentions worldwide. Likewise, COVID-19 restrictions in regions of China continue to cause supply chain disruptions adding cost and complexity to global trade.

Inflation is the highest we have seen in many years and so far, shows little sign of moderating. At the same time, the Australian economy and a few other economies such as the US, are still growing at a moderate pace. In the US, the labour market is extremely tight, as indicated by a variety of measures including reports of many employers unable to find workers despite significantly raising wages. That tightness is contributing to inflation because labour is the largest input cost for producing goods and providing services.

After arguably waiting too long, the Fed and other central banks, including the RBA, are now acting decisively to get inflation under control. The US Federal Open Market Committee (FOMC) raised the federal funds rate by 75 basis points (bp) at its most recent meeting and indicated that further increases will be appropriate in the months ahead. The RBA raised the official cash rate by 50bp in early June from 0.35% to 0.85%.

Depending on how the economy evolves, further increases in official cash rates will be needed, with the case for further rate hikes made stronger by the current level of real rates[1]. With inflation much higher than official cash rates, the real rate in most developed economies is negative, even after the rate increases recorded this year. Since inflation is unacceptably high, it does not make sense to have nominal rates well below near-term inflation expectations.

Actions to tighten monetary policy do not come without risk. But in the view of central banks, their primary responsibility is now to reduce inflation. Maintaining the commitment to restore price stability is, in their opinion, the best course to support a sustainably strong economy. Valuations on global share markets have become more attractive as share prices have declined and we remain wary of potential downgrades to corporate earnings expectations.

[1] A real interest rate is an interest rate that has been adjusted to remove the effects of inflation. Once adjusted, it reflects the real cost of funds to a borrower and the real yield to a lender or to an investor.

Portfolio Commentary

As an eventful FY22 came to a close, the bear market that has impacted global markets finally caught up with the Australian market. The ASX200 Accumulation Index fell -11.90% over the quarter, led by declines in interest rate sensitive sectors REITS, IT and Consumer Discretionary. In the June month it was the turn of the Australian banks and resources to turn down as inflationary and interest rate concerns moved to an increasing risk of recession.

In the US and Europe, a recession is a near certainty however valuations appear to now factor in this outcome with the ASX200 trading at 12.5x price to earnings (PE), 2x below long-term averages. With the valuation de-rate done, it appears we are entering the second phase of a bear stock market downturn when earning falls to reset PE's back to normal levels.

With ASX earnings up 25% this year, we now wait to see a move lower in forecast EPS. We are of the view any earnings downturn will be shallow given the strength in the resources and banking sectors in Australia. As such, we are closing in on the share market bottom and are selectively buying a range of companies that have long screened well through the Clime quality process, however, over the last five years have carried elevated valuation risk.

We have recently been taking profits in our cyclical exposed names in the resources and commodity activity related sectors, allowing ash to build up for this specific opportunity. At the same time, we have markedly increased the yield of the portfolio so that as investors you are able to extract income while allowing the normal cycle of market to play out and look to our team of experts to rotate the portfolio to positions that will see excess returns in the recovery.

The key drivers of portfolio performance and major portfolio changes are outlined in the tables on the next page.

Portfolio Commentary (continued)

The below table indicates the key stock **contributors** and **detractors** for the quarter.

Contributors	Comment
Amcor (AMC) 19.0%	Off the back of a strong update in May, AMC's share price proved resilient against a weaker market. AMC volumes are exposed to less cyclical components of the economy with the experienced management team continues to show skill in managing the inflationary environment.
Worley (WOR) 10.9%	Worley is set to benefit from strengthening traditional commodity markets as well as accelerating growth from a strong pipeline of sustainability capex. With additional earnings growth from the acquisition of Jacobs Engineering we see a strong outlook for the WOR business. Despite recent strength we see further upside as the company delivers on the opportunity.
APA Group (APA) 7.6%	APA performed strongly in the June quarter as a market uncertainty and a domestic gas crisis focused investor attention on the strategic importance of APA's assets. APA remains a strongly positioned monopoly gas business with M&A appeal as super funds target long term sustainable cash flow businesses.
Detractors	**Comment**
National Australia Bank (NAB) -13.4%	NAB pulled back in the June quarter as the near term benefits of higher rates on bank margins was overshadowed by the potential for a slow down in domestic economic activity in Australia. We see the fear of a sharp increase in non performing loans as over done and are selectively adding to bank exposures.
Northern Star Resources (NST) -36.1%	NST's stock price suffered as the wider gold sector sold off to reflect cautious gold price assumptions and elevated cost pressures which were cemented by guidance downgrades by NST’s competitors. NST is a high-quality gold miner, and its strategic self-funded long-term growth strategy was reinforced during the quarter by the release of its KCGM mill expansion study.
BHP Group (BHP) -8.8%	BHP returned -8.80% for the June quarter, as both the price of iron ore and copper moved lower, causing large diversified miners to retreat. BHP is strongly positioned to maintain its resilient earnings profile, and return to investors a healthy dividend yield close to 10% per annum.

Portfolio Activity

BUY	Comment
Aurizon Holdings (AZJ)	AZJ is Australia's largest rail freight operator. AZJ has strong defensive characteristics as contracts are primarily capacity payments known as "take or pay", with minimal volume exposure. We are of the view that China will look to support a rebound in its economy, as such we see AZJ's depressed share price, strong dividend and undergeared balance sheet as very attractive in the current volatile environment.
Navigator Global Investments (NGI)	We supported NGI's capital raise over the quarter as the company continues to diversify its funds management base into the alternative property sector. Operational performance remains strong as confirmed in the update.
Northern Star Resources (NST)	We topped up our NST holding as the underperformance seen in the broader gold sector. Given the higher dollar opens up a strong opportunity to acquire NSTs asset at a discount to book value with free cash flow yield now above 10%.
SELL	**Comment**
Oz Minerals (OZL)	OZL was exited from the portfolio at the beginning of the June quarter given the price of copper historically underperforms during economic contractions. In line with CAM’s strategy, this exposure will be replaced with a superior dividend yielding holding.
RPMGlobal (RUL)	RUL has been a core holding for Clime funds and has delivered strong value. We are attracted to the companies technological advantage in its mining related businesses however see technology valuations under pressure, together with a portfolio bias towards liquidity and dividend yield.
Hansen Technologies (HSN)	Whilst we continue to have conviction in the company’s successful acquisition strategy, the opportunity to invest in equities more aligned with CAM’s yield objectives was taken using the proceeds of the HSN sale.