



Clime Capital Limited

12 August 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 July 2022.

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**Clime Capital Limited**

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# About Clime Capital Limited

## 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.

## 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

## 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

## 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.



**Will Riggall**  
Chief Investment Officer



**Ronni Chalmers**  
Portfolio Manager  
All Cap Australian Equities



**Vincent Cook**  
Portfolio Manager  
Large Caps

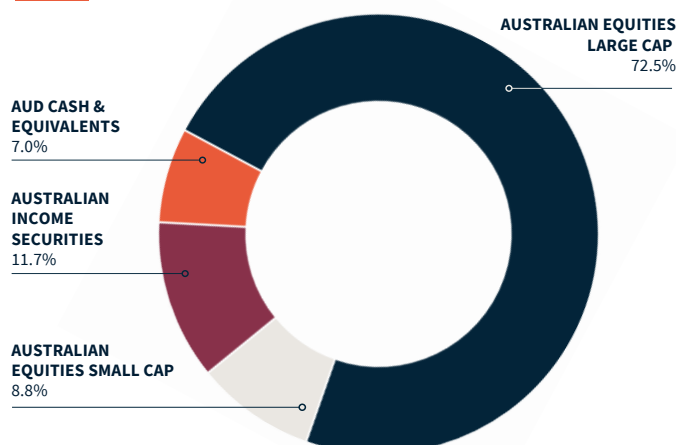
NTA before tax	NTA after tax	Total Portfolio Including Cash	Cash Dividend (1.28 cents * 4 quarters)	Running Yield	Grossed up Running Yield - Pre Tax
\$0.810	\$0.830	\$150.6m	5.12	6.0%	8.6%
as at 31 July 2022	as at 31 July 2022		fully franked	fully franked	

## Portfolio Asset Allocation

Assets	\$M
Australian Equities	122.4
Australian Income Securities	17.7
AUD Cash & Equivalents	10.5
Gross Portfolio Valuation	150.6
Convertible Notes (CAMG)*	-36.2
Net Tangible Assets Before Tax	114.4

Share price as at  
11 August 2022: **\$0.850**

## Gross Asset Allocation



## 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
Lycopodium	LYL
Mach7 Technologies	M7T
Mineral Resources	MIN
Macquarie Group	MQG
National Australia Bank	NAB
New Hope Corporation	NHC
Northern Star Resources	NST
Sonic Healthcare	SHL
Seven Group Holdings	SVW
Westpac Banking Corporation	WBC
Woodside Energy Group	WDS
Worley	WOR

\*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	Jul <sup>1</sup>	Jun <sup>1</sup>	May <sup>1</sup>
NTA before tax	\$0.810	\$0.770	\$0.865
NTA after tax	\$0.830	\$0.785	\$0.880

<sup>1</sup> 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, was paid on 28 July 2022. NTA before and after tax disclosed above for May 2022 and June 2022 are before the effect of this dividend payment, and for July 2022 was after the effect of this dividend payment.

## Market Commentary

While share markets were volatile during July, most generally rose strongly as markets considered the implications of a slowing world economy and rising interest rates. The MSCI World Index was up by 6.4% during the month.

The ASX 200 Accumulation Index rose by 5.7% in July, with the speculative end of the market recovering some of its previous losses. Technology, Financials, Australian Real Estate Investment Trusts (AREITs) and Healthcare sectors all performed well, whereas Materials were weaker. Most European markets were likewise in the black, and government bond markets recorded strong price increases despite inflation pressures intensifying. As we noted in a previous report, 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.

The International Monetary Fund (IMF) has again lowered its global growth forecasts, with emphasis on falling rates of growth in the US and China. Growth in global gross domestic product (GDP) is expected to slow to 3.2% in 2022, half the pace of last year's expansion. In 2023, global growth is set to weaken further to 2.9%. The downgraded estimates, released during the last week of July, come as the world grapples with the fallout from Russia's invasion of Ukraine, prolonged disruptions caused by the pandemic and rapidly tightening financial conditions.

According to the IMF, global inflation is likely to intensify this year and next by nearly a full percentage point to 8.3% and 5.7%, respectively. Australian Bureau of Statistics data revealed that the local consumer price index (CPI) rose by 1.8% in the June quarter, with the annual inflation rate increasing to 6.1%.

This is substantially higher than the RBA's inflation target of 2-3%, increasing the pressure to hike rates again.

Three themes appear to be dominating market thinking:

1. Equity performance will remain choppy before stocks find a durable bottom.
2. There are reasons to be optimistic for an eventual moderation in inflation, but it could take time.
3. The Fed, the RBA, and other central banks will need to be cautious on how far and how fast they move on rates if recession is to be avoided.

Share market valuations have corrected substantially from earlier highs. From a price-earnings (P/E) perspective, the FactSet World Index P/E multiple has declined from 21x in Dec 2021 (and a peak of 35x in Feb 2021) to around 14x at present. This shows that most of the valuation excesses of recent years have been unwound and are near long term averages. As such, there is the potential for stocks to rebound should global economic growth conditions remain resilient, and assuming interest rate expectations and bond yields do not rise much into late 2022 and early 2023.

Under the current monetary tightening environment, we expect equities to trade in a volatile fashion over the next 12 months, with modest gains on average. We believe equity markets will struggle to sustain gains until recession concerns ebb on the back of less hawkish central banks once global inflationary pressures peak.

With valuations reset lower, the outlook for equities will largely hinge on the performance of earnings. Corporate profits in most markets have remained resilient. As growth decelerates and some profit downgrades play out, investors could become more nervous about the earnings outlook, especially given the elevated nature of profit margins. This could place selling pressure on equities. These dynamics underpin our view that equity performance will remain volatile. While there have been some notable disappointments during the recent Q2 earnings reporting season, overall results are yet to be fully revealed, and downgrades by analysts in coming months are likely.

The combined impact of significantly higher interest rates coupled with much higher energy prices, produces a less favourable economic outlook, particularly for interest rate sensitive sectors (housing, cars) and related durable goods demand and discretionary spending. An offset to these forces should be provided by a pick-up in wages due to tight labour markets, but the intentions of central banks seem likely to outpace this positive for household cash flows in the near term.

Inflation will be hard to solve without recession, although governments and central banks claim a soft landing is possible. An inverted yield curve – which happens when short-term interest rates exceed long-term rates – has been a useful predictor of recessions historically, as it shows that bond investors expect economic growth to slow. The yield curve most analysts watch for inversion as a potential sign of recession is the US 2-year versus US 10-year Treasuries.

At month end, the 2-year notes were yielding 2.9% and the 10-year 2.6%, indicating inversion. However, as is the nature of economic and financial models, definitive answers are rarely forthcoming. Currently in the US, only 7% of all yield curves are inverted versus the typical scenario of more than 50% before previous recessions.

Despite the uncertainties, there are reasons to be reasonably positive with the outlook at present:

- Whilst interest rates will rise further, they are not likely to go much above 3.0% or perhaps 3.5%, and central banks will be careful not to upset markets too much.
- Following the recent adjustment in share prices, many quality companies are once again offering sound long-term value.
- Even with growth slowing across the world, and risks of recession in various regions, the slowdown is likely to be relatively mild, by historical standards.

For now, though, the focus is firmly on the central banks, which want to ensure that inflation comes down in an orderly way. On balance, we expect the global economic recovery will continue, but at a slower pace.

Broad diversification across asset classes and sectors in this period of heightened volatility makes a lot of sense. The correlation across markets has fallen to low levels, and when countries, sectors and industries are demonstrating low correlations, this can help to manage overall portfolio volatility.

As we have previously noted, the outlook is challenging for highly priced growth assets and companies without current profitability; their values will be tested by higher bond yields. However, solid businesses that benefit from inflation and moderate economic growth will continue to do well. With markets having pulled back quite considerably, these investments now exhibit attractive yields and sound prospects. Similarly, well-tenanted properties occupied by solid businesses will do well for their owners, particularly now that long bond rates have declined from their peaks.



## Portfolio Commentary

The sharp recovery in share markets in July was largely led by the Banks and a rebound in interest rate sensitive sectors, namely consumer discretionary and information technology. With the sell off in late June, valuations hit recession lows, moreover, the usual "confession season" in the month leading into results season gave scarce indication of material downgrades ahead as the Australian economy remains robust and consumers continue to spend their savings while the cost of living increase.

Our belief is that forward looking indicators such as consumer confidence show that the consumer will slow, as will economic growth and portfolio positioning in high quality franchises will deliver above market returns.

We have recently repositioned the portfolio by reducing cyclical exposures and increasing our positions in long-term structural growth sectors and companies with non-cyclical growth drivers, inclusive of healthcare and future facing materials.

We enter the August reporting season with cash available to deploy into sectors and stocks that prove themselves to be strong in the face of the upcoming volatile environment. We see the short-term lift in interest rate sensitive sectors as a great opportunity to position the portfolio for the period ahead, one that we see as an attractive environment for alpha generation through high conviction investing.

Contributors	Comment
<b>National Australia Bank (NAB)</b> 11.7%	NAB is our preferred banking exposure given the strong turnaround underway led by Ross McEwan and its attractive exposure to a well capitalised corporate Australia.
<b>Mach7 Technologies (M7T)</b> 38.8%	M7T rebounded over month, with both the broader tech rally and fourth quarter update providing a positive catalyst. The business update revealed a record year for sales, great cash conversion and importantly a strong outlook statement which suggested operational momentum is continuing for the company. This is underpinned by upgrades to contracts from existing customers and a solid pipeline of new opportunities.
<b>Navigator Global Investments (NGI)</b> 23.5%	NGI was among many small cap names that were aggressively oversold in the last few months. The share price recovered some of the lost ground thanks to a positive June 2022 asset under management update in which Lighthouse recorded positive performance and stable flows, which is welcome news given the challenging market.
Detractors	Comment
<b>BHP Group (BHP)</b> -6.2%	Pulled down by a lowering price of copper and iron ore, the latter falling below \$100/t in response to a stalling Chinese steel industry. BHP broadly met production and cost guidance in its June quarter results. We look forward to the full year results release.
<b>South32 Ltd (S32)</b> -3.3%	Macro headwinds to base metal prices pulled the stock lower in July. S32 reported good June quarter results despite a challenging cost and labour environment noting that production ramp up at their recently acquired Sierra Gorda copper mine is now underway.

## Portfolio Activity

BUY	Comment
<b>Sonic Healthcare (SHL)</b>	SHL offers exposure to the defensive health care sector along with a meaningful dividend yield. The recent 1H21 result indicated the company is strongly positioned to continue to grow post the COVID period with underlying volumes recovering. Additionally, its strong balance sheet supports the company's stated objective of M&A which has historically strengthened its competitive position and delivered earnings uplift. The valuation is attractive, trading at discount to Healthcare peers and similar defensive growth names.
SELL	Comment
<b>Jumbo Interactive (JIN)</b>	JIN has held up better than small cap peers in a period where the liquidity withdrawal charged by higher interest rates has seen the small ordinaries underperform large. This is due to the company's largely defensive lottery revenues. We have exited the position to rotate into options we see as having a greater risk/reward.
<b>Navigator Global Investments (NGI)</b>	NGI was among many small cap names that were aggressively oversold in the last few months. The share price recovered some of the lost ground thanks to a positive June 2022 asset under management update. We trimmed the holding to rotate into stocks with greater risk/reward.
<b>Corporate Travel Management (CTD)</b>	We exited the position to increase portfolio liquidity and dividend yield.