Clime Capital Limited

14 September 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 August 2022.

For further information contact:

John Abernethy

Chairman
Clime Capital Limited

Phone : 1300 788 568
Email : info@clime.com.au

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.

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

Will Riggall
Chief Investment Officer

Ronni Chalmers
Portfolio Manager
All Cap Australian Equities

Vincent Cook
Portfolio Manager
Large Caps

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	NTA after tax	Total Portfolio Including Cash	Cash Dividend (1.28 cents * 4 quarters)	Running Yield	Grossed up Running Yield - Pre Tax
$0.830 **as at 31 August 2022**	$0.845 **as at 31 August 2022**	$116.5m	5.12 cents **fully franked**	6.2% **fully franked**	8.9%

Top 20 Holdings
(in alphabetical order)

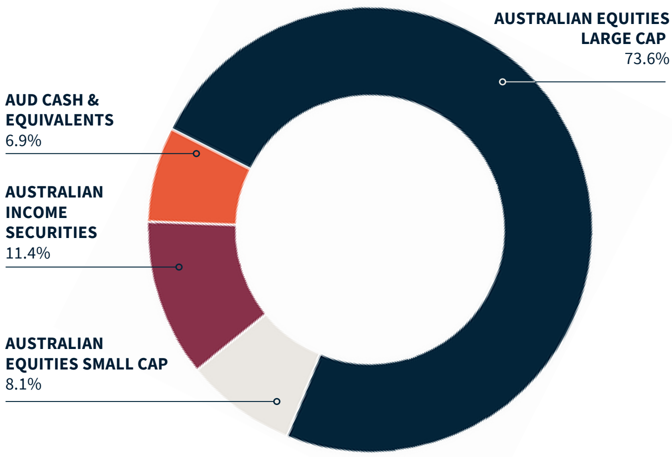
Company	ASX Code
Australia & New Zealand Banking Group	ANZ
APA Group	APA
Aurizon Holdings	AZJ
BHP Group	BHP
Coles Group	COL
Computershare	CPU
IPH	IPH
Incitec Pivot	IPL
Lycopodium	LYL
Mach7 Technologies	M7T
Mineral Resources	MIN
Macquarie Group	MQG
National Australia Bank	NAB
New Hope Corporation	NHC
Northern Star Resources	NST
Sonic Healthcare	SHL
Seven Group Holdings	SVW
Westpac Banking Corporation	WBC
Woodside Energy Group	WDS
Worley	WOR

Portfolio Asset Allocation

Assets	$M
Australian Equities	124.8
Australian Income Securities	17.4
AUD Cash & Equivalents	10.5
Gross Portfolio Valuation	152.7
Convertible Notes (CAMG)*	-36.2
Net Tangible Assets Before Tax	116.5

Share price as at 13 September 2022: $0.825

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	Aug [2]	Jul [1]	Jun [1]
NTA before tax	$0.830	$0.810	$0.780
NTA after tax	$0.845	$0.830	$0.800

[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, was paid on 28 July 2022. NTA before and after tax disclosed above for June 2022 was before the effect of this dividend payment, and for July 2022 was after the effect of this dividend payment.

[2] On 22 August 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 July to 30 September 2022, payable on 27 October 2022. NTA before and after tax disclosed above for August 2022 was before the effect of this dividend payment.

Market Commentary

While share markets were volatile during August, most generally rose for the first half of the month as markets continued to rally post the mid-June lows, but then sold off late in the month as monetary tightening concerns increased. The net result was that most markets ended August close to where they began.

In the last days of August, US Federal Reserve (Fed) Chair Jerome Powell's speech at Jackson Hole roiled US markets and reverberated across the rest of the developed world in the days that followed. Powell said we should expect more tightening and emphasized the necessity of a "sustained period of below-trend growth" in order to combat inflation and prevent the risks of high inflation becoming entrenched. Powell was as emphatic as he could be, and made it clear the Fed was determined to ensure markets understood that inflation is going to be crushed, even if it means recession.

Although both the US and Australian reporting seasons ended better than expected, with markets generally reassured that revenue and margin worries were in many cases overblown, we remain wary. In Australia the winning sectors for the ASX 200 over the last 6 months included Energy (+22.7%), Utilities (+11.0%) and Health Care (+8.7%) whilst the losing sectors were REITs (–10.0%), Materials (–5.3%), IT (–5.0%).

Markets are generally factoring in only mild declines in forecast corporate earnings, whereas we anticipate that further downgrades are ahead of us. For the rest of the year, we expect volatility to continue as corporate earnings forecasts are recalibrated to account for tighter monetary conditions and weaker growth.

Commodity prices have been particularly volatile over the last few months. The standout performer has been natural gas in Europe, which has risen spectacularly, creating an energy crisis for Germany in particular.

Russia has used its exports of natural gas to pressure North Atlantic Treaty Organization (NATO) members to destabilise Western Europe's support for Ukraine. We anticipate recession in many European countries as a consequence of the energy crisis.

In Australia, the RBA raised rates for the fourth consecutive meeting with a view to combat the soaring rate of inflation. The RBA is likely to follow the Fed's lead and will not shy away from introducing additional rate rises moving forward. The most recent headline inflation (CPI) came in at 6.1%, well above the 2%–3% target range.

Wage growth and its potential impact on inflation remains a concern, even though it is yet to manifest itself in the data. The public sector wage index recorded growth, rising 2.4% over the year off the back of State and Federal wage policies that were enforced in response to the pandemic. This is the fourth consecutive quarter of growth for the public sector.

We will observe the new Government's jobs summit with interest and analyse the potential impact on markets, sectors, and individual companies. The unemployment rate of 3.4% is at its lowest level since August 1974. The continued fall in unemployment reflects an increasingly tight labour market with high job vacancies, ongoing labour shortages, and wage-price pressure. As interest rates continue to rise as central banks attempt to combat inflation, households will face increasing pricing pressure. Businesses are facing similar issues with the cost of borrowing increasing and the operating costs of doing business rising due to inflation. Most of these increases are being passed on in the form of higher prices.

Australian retail sales for July were surprisingly robust, with ABS data showing Australians spent a record $34.7 billion during the month – up 1.3% and above forecasts of 0.3%. More impressive is that the retail figures are 16.5% up year on year. Perhaps not surprisingly, clothing was up 52.6% over last year, as people started venturing out from lockdowns and bought new clothes. The figures will reassure both Government and the RBA that the consumer remains alive and well despite rising interest rates – at least so far.

Although the current macro backdrop is broadly unfriendly for markets, that does not mean one should avoid equities – it means one should be selective in choosing companies that are likely to be:

- resilient during a slowdown
- have moderate or little debt
- sustainable margins
- are attractively priced using conservative forecasts.

The best companies emerge from economic slowdowns with greater strength as they take market share from faltering competitors.

Portfolio Commentary

August shaped up as a test case for whether the recent decline in market valuations was to be the harbinger of earnings downgrades, as increasing interest rates look to slow global activity. Much like the US reporting season which comes directly before the Australian reporting season, company results failed to give the bears the evidence they needed for a further fall in markets.

The better than feared results season was reflected in the ASX200 increasing 1.2% for the month, with more companies beating estimates than missing. The beats were largely driven by revenues, reflecting the effect of inflation on the price of goods, while margins came in lower than expected as companies struggled to pass on higher input costs and wages. Looking into 2023 the market is forecasting 5.7% earnings per share growth.

Evidence that developed economies are holding up better than feared supported resource and energy sectors in August, with Financials, Real Estate, and Staples lagging. Evidence of economic resilience, combined with Jerome Powell confirming the US Fed's intention the squash inflation saw rates move higher again, weighing on the interest rate sensitive parts of the market.

The investment team incorporates a top-down and bottom-up approach to investing and as such is cognisant of economic themes. We utilise these insights to understand the impact at a company level. Within the Energy and Materials sectors, portfolios benefited from higher oil prices and surging Lithium exposures. Conversely, given our view that market will remain volatile we have looked for companies that can deliver sustainable growth in the event of a slowdown as well as hold strong market positions to pass on prices. Additionally, our exposures in the Healthcare and Staples delivered high quality results.

Looking ahead, we believe that current valuations are reflecting a slowing outlook with the risk of a sharp downturn in growth and value unlikely. Markets should stabilise in the fourth quarter as inflation continues to ease to long term levels, allowing the Fed to become less aggressive. We are selectively taking advantage of mis-priced opportunities we are seeing in the market which are a result of the current volatility and. With a focus on companies with competitive positions and strong management teams with the ability to maintain or improve returns on capital.

Portfolio Commentary (cont.)

Contributors	Comment
Mineral Resources Ltd (MIN) 19.1%	The stock performed well in August as strong lithium prices aided earnings expectations for MIN's rapidly growing vertically integrated lithium mining and processing business. MIN's FY22 results were pleasing with its sizable growth project pipeline reinforced by the approval of the Onslow Red Hill JV iron ore project.
BHP Group (BHP) 5.0%	BHP reported a strong FY22 result, including a record full year dividend of US$3.25 per share, noting impressive free cash flow and prudent cost control. BHP reaffirmed its plans to expand its future facing metals portfolio, including a $8.4 billion offer for copper miner Oz Minerals (ASX: OZL) during the month which was rejected by OZL's board.
Woodside Energy Group Ltd (WDS) 23.5%	WDS rose in August as Energy prices again strengthened and the group delivered a better than expected result. Earnings and dividend were higher, driven by strong production and high realised pricing. WDS remains our preferred oil and gas exposure with an upcoming strategic asset review of the post-merger entity the next catalyst.
Detractors	**Comment**
Coles Group Ltd (COL) -6.4%	COL result showed strong top line growth however market performance was impacted by concerns over the impact of rising inflation on the groups cost base. Peer results showed this as a sector wide issue. Subdued margins and elevated capex spend, near term higher costs will be soon overtaken by the strong outlook with Ocado supply chain benefits to be realised in FY24 and 25.
Aurizon Holdings Ltd (AZJ) -4.6%	AZJ has performed strongly over the last year as commodity price increases delivered an improved outlook. The FY22 result reflected this with strong FY22 coal volumes, however the offset in the result was the weaker bulk (Iron Ore) result with Coal earnings set to slow. We believe the rail assets hold strategic value however given the weaker outlook the stock is under review.
APA Group (APA) -4.8%	APA delivered an inline result however increasing bond rates impacted defensive names, while the lower than expected payout ratio disappointed. We welcome the groups announcement that it will no longer seek an acquisition in the US and see the group as the default utility exposure in a market where peers are quickly being taken private.

Portfolio Activity

BUY	Comment
Computershare Limited (CPU)	CPU is the world's largest share registry business and only provider with a global footprint. CPU is a play on higher interest rates as it generates income on cash held on behalf of its customers. We view CPU's price relative to its growth forecasts as attractive, supported by earnings which are defensive, recurring and enjoying a strong tailwind over the next 12-18 months.
IPH Limited (IPH)	IPH is the leading intellectual property firm in the APAC region with a 25-35% market share in both Australia and Singapore. It is an investment-grade growth opportunity with solid balance sheet management and excellent cash conversion generated from recurring revenues. As a leader in a structurally rising but highly fragmented industry, IPH is ideally placed to grow through consolidation. IPH's growth outlook is very attractive with acquisition synergies, structural growth, and efficiency gains expected to drive double-digit, low-risk EPS growth. The company trades at a 20% discount to our intrinsic valuation with a robust yield.
SELL	**Comment**
Goodman Group (GMG)	GMG was exited to make way for other names that will deliver a higher yield. Cap rate expansion across the industrial sector poses a headwind, but the outlook for GMG remains broadly positive with its pent up performance fees, potential for rental escalations, as well as a huge 'work in progress' book. Each of these drivers remain underpinned by strong industry tailwinds that should drive industrial property demand long into the future.
Navigator Global Investments (NGI)	NGI reported its financial year results late in August, with earnings coming ahead of the company's guidance. NGI has made a number of significant transactions in recent years, most recently in Invictus Capital, and the successful integration of these should see shareholder returns markedly improve.