Clime Capital Limited

14 October 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 September 2022.

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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.

Benefits

CAM offers a number of key advantages to investors:

- Quarterly fully franked dividends
- Dividend Reinvestment Plan is on offer at a 1% discount to market
- 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

The risks associated with investing in CAM 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.

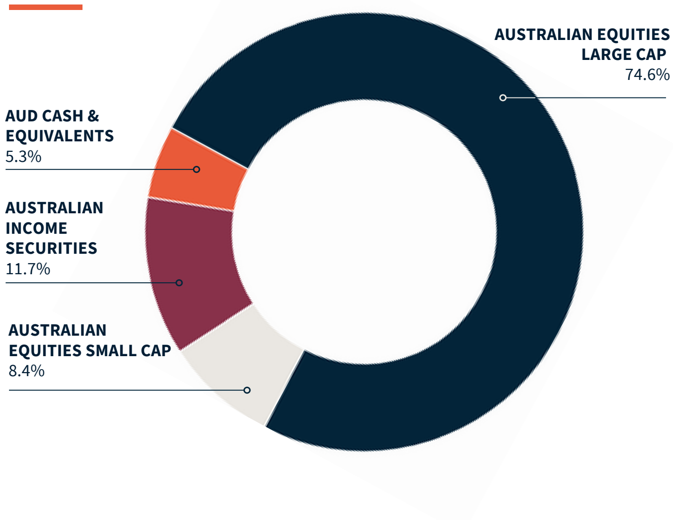
NTA before tax (CUM Dividend)	NTA after tax (CUM Dividend)	Total Portfolio Including Cash	Cash Dividend (1.28 cents * 4 quarters)	Running Yield	Grossed up Running Yield - Pre Tax
$0.790 **as at 30 September 2022**	$0.810 **as at 30 September 2022**	$111m	5.12 cents **fully franked**	6.4% **fully franked**	9.1%

Share price as at 13 October 2022: $0.800

Portfolio Asset Allocation

Assets	$M
Australian Equities	122.0
Australian Income Securities	17.2
AUD Cash & Equivalents	7.9
Gross Portfolio Valuation	147.1
Convertible Notes (CAMG)*	-36.1
Net Tangible Assets Before Tax	111.0

Gross Asset Allocation



Top 20 Holdings

(in alphabetical order)

Company	ASX Code
Australia & New Zealand Banking Group	ANZ
APA Group	APA
Aurizon Holdings	AZJ
BHP Group	BHP
Brickworks	BKW
Coles Group	COL
Computershare	CPU
IPH	IPH
Incitec Pivot	IPL
Lycopodium	LYL
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	Sept [2]	Aug [2]	Jul [1]
NTA before tax (CUM Dividend)	$0.790	$0.830	$0.810
NTA after tax (CUM Dividend)	$0.810	$0.845	$0.830

[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 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 and September 2022 was before the effect of this dividend payment.

Market Commentary

September was marked by sharply lower share markets, rising bond yields, extreme volatility in currency markets, and slowing growth data across the global economy. With greater certainty that central banks are committed to confronting inflation, the Chicago Board Options Exchange's (CBOE) Volatility Index VIX rose over the month from 25.56 to 31.62 by month end. The so called safe haven during this period has been the US dollar, which has spiked. US Treasuries fell in price and yields on benchmark bonds rose. Similar moves occurred across other bond markets, including Australia. The Australian dollar was sharply weaker over the course of the month.

Fed raises rates again

During September, the US Federal Research (Fed) voted unanimously to hike its policy rates by another 75 basis points (bps), the third hike of this magnitude in a row. This brought the target for the federal funds rate to 3.25%. Notably, the median projection by Federal Open Market Committee (FOMC) members for the Fed funds rate jumped by a full percentage point from the last projections, to 4.4% by the end of 2022. From a macroeconomic viewpoint, this is not an outlook conducive to rising asset prices. Fortunately, the outlook for Australia remains more positive than for the US, but these are times which call for prudence and patience.

Inflation outlook

It is how inflation plays out in the US that will dictate the direction of global financial markets. Disinflation will lead to higher stock and bond prices and a better economy, but if inflation turns out to be sticky and stubbornly high, both stocks and bonds are likely to suffer more, along with the economy.

During September, US core CPI inflation came in hotter than expected, causing stocks and bonds to plummet as markets began to price higher rates for longer. The fear of a much more hawkish Fed is rampant, and the Fed funds forward curve is now predicting rates above 4.4% by year end, and somewhat higher by the end of 2023.

Will inflation prove to be sticky as feared, or will it soon peak and quickly decline? Turning points in inflation are always veiled in great uncertainty, as some sectors of the economy begin to disinflate while others remain overheated. Mixed signals confuse financial markets, stoking volatility, as has been the case lately. The US bond market is anticipating inflation to fall to a range of 2% to 3% one year out, which may be overly optimistic – but the bond market has a history of being more accurate in its forecasts than the equity market.

Why is the US dollar (USD) so strong?

It is not just strong against the Australian dollar (AUD), which looks weak at USD 0.64 (as of 30 September 2022) versus a long term average of USD 0.75. The USD versus a basket of other currencies on a trade-weighted basis, after adjusting for inflation, is extraordinarily strong.

Currencies measure their value against other currencies, so the strength of the USD is partly a reflection of the weakness of alternatives. Capital flows into USD will reflect a myriad of factors, some of the most obvious being the availability of higher interest rates, political and legal stability and certainty, market liquidity and transparency but also momentum and speculation. At a time of energy crisis in Europe, a slowing and troubled China, a war in Ukraine, and a political unknown at the helm in Britain, it is not surprising that the USD is viewed as a safe haven.

The AUD and investment implications

In the last 6 months, the AUD has declined from USD0.75 to USD0.638 (as of 30 September 2022), a fall of almost 16%. This is largely a reflection of the strength of the USD. Certainly, the fall in the AUD is not a reflection of our national accounts; our credit rating remains unchallenged at AAA by Standard & Poor's, and nor is it a reflection of our terms of trade, which are exceptionally strong.

The investment implications are many and varied, but will include a boost to our export earnings, more expensive imports, some additional inflationary pressures from import costs, and a potential boost to tourism and the overseas education sector. The lower AUD could provide some support to certain categories of real estate, which will look more attractive to foreign buyers. Market analysts will have to recalibrate their earnings forecasts for companies based on their exposures.

The GBP

The GBP hit an all-time low against the USD in late September after the UK's new Chancellor Kwasi Kwarteng announced massive tax cuts and said more are coming to boost the country's sagging economy. The moves, which include business incentives and subsidies to help with soaring energy costs, are raising concerns about their impact on inflation (which is around 10%), and government debt levels.

Some are calling on the BoE to respond to the new fiscal stimulus by taking emergency action to control prices. Late in August, the BoE boosted its key lending rate by 50 bps to 2.25%, the highest since November 2008. The government stimulus measures have sent yields on government bonds rising to levels not seen since the 2008 global financial crisis. After falling as low as USD1.03, the pound has recovered somewhat and is trading around USD1.1165 as of 30 September 2022. Severe volatility in currency markets are adding to investor nervousness as we face a global economic slowdown.

Will the June lows hold?

First, market sentiment is extremely bearish, while most portfolio managers have already cut their risk exposure to a minimum. The so-called bull-bear spread is at a bearish extreme, which in recent history has represented a major market bottom. Professional equity investors are underweight stocks. In fact, the extent of underweight positions far exceeds that in 2008-2009. From a contrarian viewpoint, this is bullish.

Second, there are some indications of waning speculation and diminishing financial excesses. Meme stocks have melted, along with a bursting of the crypto bubble. Margin debt has also fallen along with stock prices.

Therefore, the equity bear market has already unwound much of the financial excesses, which is usually a bullish sign.

Third, stocks have been de-rated, with multiples having come way down from the market top. We believe the equity market is now sufficiently deflated to account for a mild recession.

Regardless, the key point here is that bear market bottoms are a process that often involves many re-tests and price rotations. In this regard, what we are going through is normal. Of course, if inflation continues to move higher, while stocks and bonds break to new lows, we will have to reassess the overall macro backdrop.

Investors should always keep in mind that bear market bottoms come in all different shapes and forms, but since 1970 most major bear markets have experienced major re-tests with significant retracements of the first rallies off bear market bottoms.

That is where a suitably diversified asset allocation and a longer term perspective becomes an essential part of any investor's strategy.

China's challenges

As China's Communist Party Congress draws closer, the country faces three critical challenges:

- The property sector is in its worst slump in years, as potential homebuyers fret about their economic prospects and the failure of highly leveraged property developers.
- The economic impact of persistent COVID-19 lockdowns caused by outbreaks from more transmissible virus variants and the lack of vaccines as effective as in the west.
- The catastrophic drought which has now persisted for more than 2 months.

China has experienced a record-setting drought and 3-month heat wave, causing broad disruption and affecting hundreds of millions of people – all in a region that depends on dams for more than 75% of its electricity generation. With dams drying up, factories, car assembly plants, and electronics hubs are suspending operations due to a lack of power. The heat wave and drought are driving food prices higher, especially fruit and vegetables. The Chinese economy is expected to grow by around 4.5% during 2023 and will not achieve its growth target of 5.5% in 2022.

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.

Are we there yet?

When markets are in turmoil, investor patience and discipline become more important than usual. Central banks are committed to raise rates far higher and for longer than previously anticipated, even at the expense of recession, in their battle against inflation. Economic data reflects a slowing global economy.

However, it is important to remember that bad news does not last forever. Australia still looks to be in good shape for a soft-landing scenario even as a fragile US economy and darkening Chinese growth prospects weigh heavily worldwide. A point will be reached when the mood in investment markets will turn. Inflation will be seen as having peaked, central banks will pause, and green shoots will start to appear. Seasoned investors know that it is better to be a buyer than a seller at the point of maximum bearishness.

Experience tells us that when all is gloom and doom, it is time to begin looking for high quality opportunities. We advise patience, and the time for a market-bottoming process will come.

Portfolio Commentary

The -1.45% move in the ASX200 over the September quarter masks the volatility and change in narrative over the period.

The Australian market made a very strong start to the FY23 financial year led by the Resources, Energy and IT sectors as the market took the view that the Fed may begin to ease its tightening cycle. As has been the case, the bond market gave context with the 10-year US and Australian yield moving lower. However, as we were cheering an August result period that showed consumers continuing to spend and general resilience in economic and corporate health, bonds moved aggressively higher as this same strong economic data and stubborn inflation forced the Fed's hand.

For a period now we have taken the view that we are best served seeking out strong businesses, with low debt levels that are less sensitive to economic headwinds and higher interest rates. A strong balance sheet is a material competitive advantage.

Reporting season brings an opportunity to review and test our assumptions and identify mispricing opportunities where short term earnings mask long term structural growth. We seek to buy and sell with conviction, with changes to the portfolio and rationale set out in the table below.

We expect the final quarter of the year to be marked by falling EPS expectations, weaker economic data with politics and policy taking centre stage as global and country leaders meet at a range of roundtables. Ever watchful of systematic risk showing itself in the functioning of credit markets, we believe we are closer to the bottom, with valuations well below decade long averages and the market to deliver a 4.50% yield in the next 12 months. History show that markets generally bottom 6 months before earnings do and we are positioning the portfolio to benefit from upside ahead.

Portfolio Commentary (cont.)

Contributors	Portfolio Return	Comment
Lycopodium Ltd (LYL)	9.5%	LYL is a high quality business with an experienced management team that have operated through various market cycles. The energy crisis and decarbonisation themes are both tailwinds that should sustain performance for the business. In September LYL announced a contract win with the Sabodala-Massawa Expansion Project worth +$26m to turn the operations into a top-tier gold asset.
Brickworks Ltd (BKW)	5.5%	BKW announced a strong set of FY22 results in September with underlying net profit after tax up 159%. The company achieved earnings growth across all divisions, but especially the property segment which increased earnings before income tax by 155%. We expect BKW to grow earnings given its strong pipeline of work domestically and overseas.
Mineral Resources Ltd (MIN)	4.5%	MIN performed well over September due to its strong position for the demands of the battery industry, as well as rumours of a potential NYSE listing that emerged, which we view as a positive catalyst for the stock.
Detractors	**Portfolio Return**	**Comment**
Mach7 Technologies Ltd (M7T)	-18.9%	M7T was caught up in the September sell-off, with weakness exacerbated by low trading volumes. There was no news over the month, nor any change to our conviction in M7T's future prospects which is underpinned by a strong sales pipeline. M7T has excellent operating leverage coupled with strong operating momentum as it continues to shift from capital to subscription contracts. We think current levels present excellent value for investors.
Macquarie Group Ltd (MQG)	-13.8%	MQG is somewhat leveraged to markets, hence a poor stock price performance over September. We believe MQG's current valuation is not demanding and we have confidence that management can deliver earnings growth through the cycle.
APA Group (APA)	-13.5%	Utilities were hit hard over September, and APA was no exception. The stock price was also been impacted by uncertainty surrounding the CEO departure announced in August. Despite this, we believe APA will continue to generate an attractive income stream, underpinned by high quality earnings, and pricing that is CPI linked. The company has a strong balance sheet and is forecast to pay a dividend of 5.5% over the year.

Portfolio Activity

BUY	Comment
Telstra Corporation Ltd (TLS)	We were initially attracted to TLS for its defensive earnings and dividend yield, which increased in the recent result, underlying management's confidence of increasing earnings. The Optus cybersecurity breach presents an enormous opportunity for TLS to gain dissatisfied Optus clients. Market weakness presented a good opportunity to initiate.
SELL	**Comment**
Navigator Global Investments (NGI)	NGI reported its financial year results to market 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.