



**Clime Capital Limited**

14 November 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 October 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
- 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.



**Will Riggall**  
Chief Investment Officer



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



**Vincent Cook**  
Portfolio Manager  
Large Caps

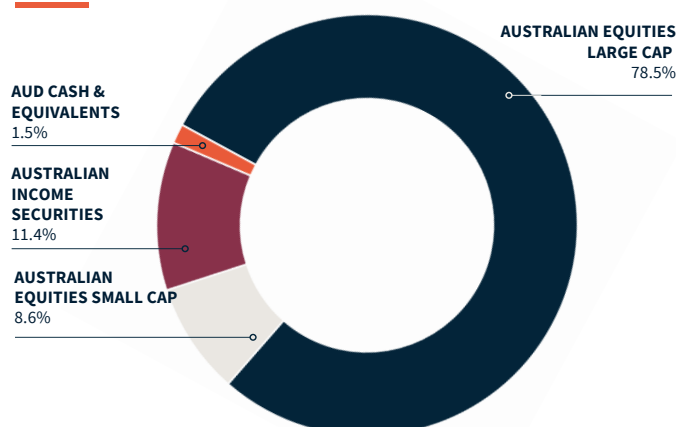
NTA before tax	NTA after tax	Total Portfolio Including Cash	Cash Dividend (1.28 cents * 4 quarters)	Running Yield	Grossed up Running Yield - Pre Tax
\$0.835	\$0.850	\$117.5m	5.12 cents	6.2%	8.8%
as at 31 October 2022	as at 31 October 2022		fully franked	fully franked	

## Portfolio Asset Allocation

Assets	\$M
Australian Equities	133.8
Australian Income Securities	17.5
AUD Cash & Equivalents	2.3
Gross Portfolio Valuation	153.6
Convertible Notes (CAMG)*	-36.1
Net Tangible Assets Before Tax	117.5

Share price as at  
11 November 2022: **\$0.83**

## 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
Coles Group	COL
Computershare	CPU
CSL	CSL
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
Stanmore Resources	SMR
Telstra Group	TLSDA
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	Oct <sup>1</sup>	Sept <sup>1</sup>	Aug <sup>1</sup>
NTA before tax	\$0.835	\$0.790	\$0.830
NTA after tax	\$0.850	\$0.810	\$0.845

<sup>1</sup> 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, and was paid on 27 October 2022. NTA before and after tax disclosed above for August and September 2022 was before the effect of this dividend payment and for October was after the effect of this dividend payment.

## Market Commentary

The deteriorating global economic outlook has driven warnings about a damaging stagflationary environment. The broad-based tightening in global conditions is acting to slow spending growth, accentuated by the high costs of basic foods and energy. European geopolitical uncertainty is also weighing on business confidence. Likewise, COVID-19 restrictions and lockdowns in China continue to cause supply chain disruptions and add costs and complexity to global trade. Despite all these concerns, markets rebounded during October following a sense that most of the correction may be behind us.

With greater certainty that central banks are committed to confronting inflation, the VIX volatility index fell to 25.88 from 31.62 by month end. US Treasuries fell in price, with yields on benchmark 10-year bonds rising from 3.8% to 4.07%. After trading in a wide range, the Australian dollar ended the month virtually unchanged at USD 0.64.

### Peak central bank hawkishness

Of course, central banks have made it very clear that they will continue raising rates to combat inflation, but the pace of increases may soon begin to decelerate. Following the most recent 75 basis point (bps) US rate rise, Fed Chair Powell was keen to emphasise that any pause in rate increases would be premature. While we anticipated a 75 bps increase in early November, that may well prove the last of the outsized rate increases as central banks decide to wait and see how data unfolds.

### US consumers

The Biden administration's response to the pandemic left household and business finances in unusually strong shape, with higher savings buffers and lower interest expenses. According to the Fed's estimates, since late last year, households have decumulated about one-quarter of these excess savings. Broadly similar circumstances pertain in Australia.

Central banks combat inflation by slowing the economy through tighter financial conditions which curb spending, reducing employment and income. In 2020, however, developed country governments' response to the pandemic interrupted the usual recessionary dynamics of rising joblessness that amplifies declines in income and spending. It means private-sector balance sheets are in a historically strong position. State and local governments are also flush with cash, leaving them in a far better position than after the recession of 2007 to 2009.

In many respects, the usual indicators that economists have used in the past to forecast a slowdown or recession might not be particularly useful in the present post-pandemic circumstances, creating a high degree of uncertainty.

### Euro inflation

Inflationary pressures in Europe remain particularly worrying. Europe faces a large problem as the European Central Bank (ECB) is forced into action to tame inflation, just as the war in Ukraine and the attendant sanctions aimed at Russia have exposed the continent to further supply shocks. Our view is that Europe is at greater risk of stagflation (high inflation, low growth) than either the US or Australia.

### China

In contrast to the US and Australia where economic indicators are holding up reasonably well, China has been in an economic slide since its property clampdown 12 months ago, aggravated by renewed lockdowns. Unemployment is rising and could reach levels not seen in many years.

Chinese export growth has slowed and is expected to decelerate further on weakening external demand. China may still outperform other export-oriented economies due to its diversified export products and trading partners as well as less vulnerability to global energy shortages.

A safe and orderly exit from its zero-COVID policy in the near term is difficult for China as the government has yet to sufficiently vaccinate its elderly population. But continuing the zero-COVID policy indefinitely also seems unpractical as local outbreaks have become more frequent, more widespread, and more costly to the economy.

### Australian Federal Budget

The Albanese government's first mini-Budget was framed as "hard decisions for hard times," stressing the need to stabilise national finances in an inflationary environment with soaring energy prices, a weak economic outlook, and spiking costs of the poorly designed NDIS.

Treasurer Chalmers was keen to portray himself and the government as "a safe pair of hands". The Budget contained \$7.5 billion in cost of living measures in the form of cheaper childcare, medicines, and paid parental leave.

The Budget assumptions are worth noting:

- Annual consumer price inflation is expected to hit 7.75% by the end of the year.
- Local economic growth is forecast to fall to 3.25% this year and slow to only 1.5% next fiscal year
- Unemployment is forecast to rise from 3.5% to 4.5%.
- Expectations are for the Reserve Bank of Australia (RBA) to raise rates three more times, in 25bps increments, taking the cash rate from 2.6% to a terminal rate of 3.35%.

### Australia's prospects

We do not expect rate rises in Australia to unduly stifle growth, and therefore do not anticipate a recession. Australian export income should continue to be buoyed by sustained commodity prices and agricultural exports. There are solid reasons to expect that Australian corporate earnings will remain relatively robust and outperform the rest of the world. The return of tourists and students, boosted by a low AUD, will provide welcome growth.

This does not mean there are no earnings risks in the Australian economy. Some slowdown is inevitable, particularly in those sectors most vulnerable to rising interest rates (such as discretionary consumption and housing). However, the impact on overall earnings should be mitigated.

### Gold

In Q3, retail investors bought gold as a store of value amid surging global inflation, while central banks are interested in diversifying their holdings amidst currency and geopolitical uncertainty.

The big move in the price of gold was down to global central bank purchases that leaped to almost 400 tonnes in Q3 marking the eighth consecutive quarter of net purchases and lifts.

### Seasonality

With October behind us, we are now in what has historically been the strongest month of the year for the US stock market. Prospective Price Earnings (PE) ratios ended October at long term averages in the US (at 16x), whereas in Australia the prospective PE is some 8% below its long term average of 14x, indicating the market is somewhat cheap.



We remain confident that solid profitable businesses that benefit from inflation and moderate economic growth will continue to do well. Similarly, premium real estate continues to provide attractive returns.

## Portfolio Commentary

October witnessed a strong rebound in global share markets with the ASX200 delivering a 6.15% increase, investors are again looking for signs of easing inflation and bond markets are starting to reflect expectations with the US 10 year moving lower 30bps.

So far, the US reporting season is supporting markets with the Industrial sector showing strength, while clouds gather around the US Information Technology sector as companies show the strain of higher costs and slowing top lines. In Australia to date, the mini-Bank reporting season has delivered strong outcomes for the sector, with NIM expansion to date outpacing the slowing property market. AGM updates were also a feature with Woodside delivering a standout production update sending the stock to new highs.

Reflective of the changing external environment, we have looked to gain exposure to the Australian economy as households appear to weather higher interest rates well. In a global context, we continue to believe structural shortages in commodities when met with increasing demand are delivering pockets of opportunity. Reflective of this, we have remained overweight in Energy and Lithium while being cautious of Iron Ore due to the clouded outlook for China demand as COVID cases surge again. At a portfolio level we are seeing the benefits of active positioning through strong portfolio performance.

In October, key drivers included exposure to the Banking sector which led the market up +14.5%, with key exposure Westpac (+16.8%) and NAB (+12.5%) supporting returns. Within the Energy sector (+9.5%), core holding Woodside lifted 13.6% and Qantas (+16.3%) followed on from a strong September.

Quite often in funds management it is more about what you don't own and while extremely hard to predict, we avoided the significant decline in Medibank as the company reported a large hack by international actors.

We are of the belief that the current rally in markets can continue with the likelihood that the elevated concern around the fed pace of tightening will continue to ease.

Key risk to the outlook remain a sharper slowing economic activity in China and Europe as well as irrational action from the Fed.

Contributors	Portfolio Return	Comment
<b>Stanmore Resources Ltd (SMR)</b>	33.3%	SMR continues to re-rate in the market, which we think is overdue given the quality of asset it purchased from BHP. The company's most recent update revealed an impressive ramp up in production and solid cost control. We continue to see substantial upside as the stock moves closer to historical, sector multiples.
<b>National Australia Bank Limited (NAB)</b>	12.5%	NAB rallied in the month as the entire banking sector benefitted from increased positive investor sentiment as a 'higher rates for longer' scenario took centre stage. The bank is showing great progress in terms of rolling out its digital infrastructure translating to increasing market share particularly in its strong segment of business and institutional banking. It is improving Net Promoter Scores across most of its segments and is focusing on continued digital investment with an eye on cost control.
<b>Northern Star Resources Ltd (NST)</b>	11.6%	Australian gold mining companies have faced a challenging period of labor related mine disruption amid a weaker gold price. However, the 1Q23 NST sales announcement pleasingly indicated an improvement in operations with production to return to growth and costs starting to move lower. NST is our preferred exposure with tier 1 assets and a quality management team. Any gold price upside will see the stock move quickly higher.
Detractors	Portfolio Return	Comment
<b>New Hope Corporation Limited (NHC)</b>	-3.1%	Energy names, in particular those benefitting from a tight European energy market, saw profit taking after a huge run in share prices during the month. We see misallocations in supply and demand for energy continuing in the short/medium term and see further upside from the undemanding multiple NHC continues to trade on.
<b>Coles Group Ltd (COL)</b>	-0.6%	COL failed to keep up with the broader strength in the market as 1Q23 sales growth illustrated slowing sales amid flood induced cost inflation muting the opportunity for margin expansion. Supply chain induced inflation is expected to remain a sector wide headwind, however, post the pullback we see value in the sector.
<b>Straker Translations Ltd (STG)</b>	-7.5%	STG saw its share price slide on relatively low volumes of trading. We remain confident in the company's strategy of offering new work-flow solutions and productivity tools to its customer's workforces. We believe that further deals akin to the IBM agreement will be signed as the company continues to prove the benefits of its solutions.



## Portfolio Activity

BUY	Comment
<b>CSL Limited (CSL)</b>	CSL holds an unparalleled position in the collection, manufacture and sale of plasma derived therapies. CSL's strong competitive advantage, enables the investment of capital to drive sustainable returns. The recent FY22 result showed an improving outlook for the company with opening economies driving increased plasma collections and higher earnings growth. Moreover, the stock as de-rated from over 40x PE to a more reasonable 30x with potential catalysts evident from its R&D pipeline in the near term.
SELL	Comment
<b>Seven Group Holdings Ltd (SVW)</b>	We exited Seven Group (SVW) from the portfolio in October as we look to reduce exposure to companies that face headwinds from a slowing economy and rising input costs. SVW recent acquisition of Boral was well executed however the company has traditionally struggled to pass on costs in its domestic materials business. We look to revisit with more evidence of input cost pass through.