



**Clime Capital Limited**

14 March 2023

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 28 February 2023.

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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



**Will Riggall**  
Chief Investment Officer

## 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.



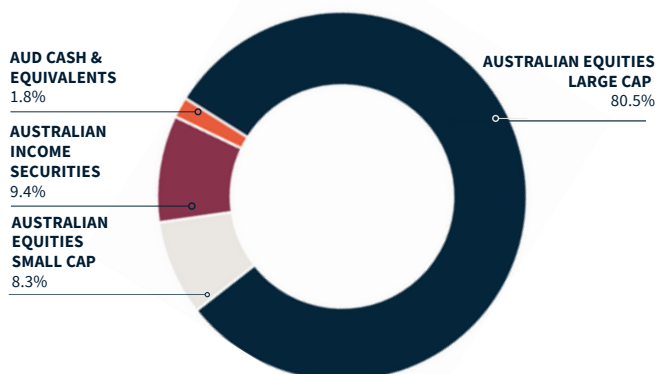
**Ronni Chalmers**  
Portfolio Manager  
All Cap Australian Equities

NTA before tax	NTA after tax	Total Portfolio Including Cash	Cash Dividend**	Running Yield	Grossed up Running Yield - Pre Tax
\$0.865	\$0.870	\$121.6m	5.14 cents	6.0%	8.6%
as at 28 February 2023	as at 28 February 2023		fully franked	fully franked	

## Portfolio Asset Allocation

Assets	\$M
Australian Equities	139.8
Australian Income Securities	14.8
AUD Cash & Equivalents	2.9
Gross Portfolio Valuation	157.4
Convertible Notes (CAMG)*	-35.8
Net Tangible Assets Before Tax	121.6

## Gross Asset Allocation



## Performance

	1 month	3 months	6 months	1 year	2 years p.a.	5 years p.a.	10 years p.a.	ITD p.a.
<b>Gross Return</b>	-3.1%	-0.4%	9.4%	11.2%	9.2%	7.7%	6.3%	11.0%
<b>Benchmark Return</b>	-2.5%	0.4%	5.7%	6.0%	8.0%	8.1%	8.1%	10.4%
<b>Active Return (Gross)</b>	-0.7%	-0.8%	3.7%	5.3%	1.2%	-0.4%	-1.8%	0.6%

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

\*\* Cash dividend includes: March-22: 1.28 cents; June-22: 1.28 cents; Sept-22: 1.28 cents; Dec-22: 1.30 cents.

## 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
CSL	CSL
Incitec Pivot	IPL
Lycopodium	LYL
Mach7 Technologies	M7T
Mineral Resources	MIN
Macquarie Group	MQG
National Australia Bank	NAB
Northern Star Resources	NST
Sonic Healthcare	SHL
Stanmore Resources	SMR
Telstra Group	TLS
Westpac Banking Corporation	WBC
Woodside Energy Group	WDS
Worley	WOR



## Net Tangible Assets (NTA)

2023/2022	Feb <sup>1</sup>	Jan <sup>2</sup>	Dec <sup>2</sup>
NTA before tax	\$0.865	\$0.895	\$0.860
NTA after tax	\$0.870	\$0.895	\$0.870

1 On 23 February 2023, the Board declared a fully franked dividend of 1.32 cents per share in respect of the Company's ordinary shares for the period 1 January 2023 to 31 March 2023, payable on 28 April 2023. NTA before and after tax disclosed above for February 2023 is before the effect of this dividend payment.

2 On 17 November 2022, the Board declared a fully franked dividend of 1.30 cents per share in respect of the Company's ordinary shares for the period 1 October to 31 December 2022, and was paid on 25 January 2023. NTA before and after tax disclosed above for November 2022 and December 2022 is before the effect of this dividend payment and for January 2023 is after the effect of this dividend payment.

## Market Commentary

Global markets have been volatile so far this year. In January, stocks rose strongly, and bond yields fell as expectations for further rate increases abated. In February, we saw these trends reverse, as data again raised expectations of prolonged inflationary pressures and further rate hikes. This serves as a reminder that markets are inherently unpredictable.

The ASX 200 Accumulation Index fell by –2.45% in February. In the US, all major indexes fell, with the S&P 500 down by –2.44%, the Nasdaq by –1.01%, and the Dow Jones by –3.94%. European markets bucked the trend on optimism that recession would be avoided, and that the energy crisis had become a less serious impediment to growth. The German DAX was up 1.57%, the French CAC was up 2.63%, and the British FTSE was up 1.76%.

Global bonds had a weak February, with bond traders realising that central banks were holding the line on continuing rate rises until inflation data showed convincing signs of easing. US Treasuries fell in price, with yields on benchmark 10-year Treasuries rising from 3.52% at the end of January to close February around 3.92%. Australian 10-year bond yields rose from 3.37% to end the month around 3.7%. The Australian dollar (AUD) fell from USD0.6952 to USD0.6885.

### Australian economic data

For the December quarter, GDP in Australia demonstrated a slight fall from the last read, equating to 2.7% through the year. Whilst this is the fifth consecutive rise in quarterly GDP, growth has slowed in both of the last two quarters. Also noteworthy was the decline in the household saving ratio, which fell to the lowest level since September 2017.

The significant drop in the savings ratio from 7.1% to 4.5% suggests we are now seeing Australian households tap into their savings to afford the everyday rising cost of living—and for many—increased mortgage repayments.

The AUD dropped in February as weak domestic jobs data, coupled with robust US economic data that supported the case for further Federal Reserve tightening, weighed on the currency. The Reserve Bank of Australia delivered a widely expected 25 basis point increase last month, lifting the cash rate by an aggregate of 3.25% since May 2022 and bringing borrowing costs to a 10-year high of 3.35%. It pledged further interest rate increases as inflation remained elevated. The move surprised investors, who were betting on a more dovish tone or any sign of a possible break in tightening. Money markets now see a peak rate around 4.0% by mid-2023. Inflation in Australia reached 7.8% in the last quarter of 2022, the highest level since 1990.

The Australian corporate reporting season concluded with company results generally meeting rather than either exceeding or missing consensus expectations across earnings and dividends per share. Although revenues did slightly beat expectations. Reflecting prevailing nervousness and uncertainty, the price reaction to a results miss was far greater than for a results beat, with misses generally punished severely. Guidance commentaries that did not meet analyst expectations were likewise punished heavily. It's fair to conclude that investor confidence appears somewhat fragile.

### The US

In the US, various members of the Federal Reserve (Fed) called for continued rate hikes to above 5% to make sure inflation does not pick up again while noting that the central bank's rate hikes were not having much of an impact on the services sector.

The yield on US 10-year Treasury notes, seen as a proxy for global borrowing costs, approached 4%, nearing a 14-year high of 4.3% (reached last October), as a batch of hot economic data strengthened expectations that the Fed will raise interest rates to a higher level and keep them restrictive for longer. Data from the US Department of Labor showed that the number of Americans filing new claims for unemployment benefits unexpectedly fell last week, pointing to a still-tight labour market and opening the door for further interest rate increases.

Market volatility continues unabated, with investors lurching from recession worries to overheating worries in a single month. This has challenged many of the trends that prevailed in January. We expected improving growth to come with these challenges, but as often with markets, the moves have been faster than many anticipated.

Market pricing so far still seems consistent with the notion that we are correcting an excessive shift towards pricing disinflation, a Fed pause, and a US recession, as both sentiment and data overshot and then reversed.

The big question is whether the recent shifts are:

- (a) a correction to a rate market that got too optimistic about the speed of US disinflation and too pessimistic about US recession risks in January; or
- (b) a shift back to a sustained period of hawkish policy and tightening as we saw through much of 2022.

Our view is still more consistent with slow disinflation amid some further improvements to global growth. That mix should maintain the upward pressure on yields but ultimately limit the damage to equities and provide a tailwind to commodities. The next few months will probably be dominated by this kind of back and forth. Between strong data that raises concerns about a longer policy cycle and some softening that brings back recession risks; and between geographies, as focus shifts between the cyclical and policy pictures in the US, Europe, China, and Australia.



## Portfolio Commentary

The portfolio returned -2.87% for the month of February, underperforming its benchmark which returned -2.45%. The key drivers of portfolio performance and major portfolio changes are outlined in the tables below.

Positive Attributors	Portfolio Return	Comment
<b>Lycopodium Limited (LYL)</b>	22.0%	LYL is one of our top picks following the Feb reporting season. The mining engineering and advisory company has an excellent reputation in the industry. Historically gold focused, their reputation has their services in high demand for 'new metal' projects, a well-orchestrated strategy pivot by an experienced LYL management team. We are very positive about the demand/supply outlook for such metals used in the electrification of the global economy. LYL earnings are tightly linked to mining capital expenditure. Given the positive outlook, the group was able provide FY23 guidance of \$320 million in revenue and \$40 million net profit after tax. LYL has \$94.7 million cash, with an enterprise value of \$238 million. LYL presents excellent value despite a rally in the share price post its 1H23 result.
<b>Coles Group Ltd (COL)</b>	2.4%	COL reported a revenue gain of +3.9% compared to the prior comparable period despite cycling elevated COVID-19 availability and challenges from floods and major rail outages. Similarly underlying earnings before income tax increased 9.9% and gross margins expanded by 0.43% from a reduction in elevated covid related costs and continued benefits from smarter selling initiatives. COL is on track to deliver its planned distribution centres from mid 2024 with its first, Witron in QLD, beginning to receive inbound inventory deliveries in January. The stock was up 2.4% for the month.
<b>Stanmore Resources Ltd (SMR)</b>	3.2%	Hard coking coal producer SMR provided a very strong result for FY2022 with earnings of USD1.46 billion on revenue of USD2.7 billion. The company finished the year with net debt of USD183 million which we expect will be repaid shortly allowing the company to commence paying dividends post their June half year results. For 2023 we are expecting similar sales volumes of around 12.2 million tonnes but with a full year of higher QLD royalties. Positively the hard coking price has risen sharply in the last two months. BHP has flagged it is looking to divest its stake in the Daunia hard coking coal mine. SMR is favourably placed to acquire this asset and we expect the market will reward the company if they buy it on an accretive valuation.

Negative Attributors	Portfolio Return	Comment
<b>Northern Star Resources Ltd (NST)</b>	-17.4%	NST released its first half results which showed earnings before income tax and amortisation of \$622.9 million with an 11 cents per share fully franked dividend. However, the company flagged the next three dividends will be unfranked on account of nil tax payments in this period. Costs per ounce of gold came in \$1,766 which was a little higher than expected due to industry wide inflationary pressures. This is expected to fall in the second half to around \$1,660. Cashflow was weak on the \$157 million of stamp duty that NST paid. The company will decide later this year if it will proceed with the expansion of the Kalgoorlie Consolidated Gold Mines which would raise output substantially. Even without this expansion the company reiterated it is still on track to organically raise output to 2 million ounces per annum by 2026.
<b>Mach7 Technologies Ltd (M7T)</b>	-9.9%	M7T is gaining market share in the electronic medical record keeping industry, where a need for interoperability amongst service providers is becoming a requirement. We regard this shift to e-records a megatrend. M7T has a class leading software suite (as recognised by industry KLAS awards) and is an alternative to larger less agile suppliers like IBM or GE. M7T is cash flow positive, with \$20 million cash on balance sheet. We believe upside exists from market share growth which is showing good traction with their improving pipeline. The 1H23 result did not give much additional information beyond what was flagged in the recent quarterly update. The numbers were in line with consensus, and importantly the group is 72% of the way through their FY23 reaffirmed FY23 guidance.
<b>National Australia Bank Limited (NAB)</b>	-5.6%	NAB posted results in line with consensus and along with the other major banks showed improvement in credit quality given the lagged effects of rate rises. Under its retail business it is continuing to lose market share due to no growth in the investor segment as it appears to be focused on margin management. Its leading business banking segment continues to grow but is facing a slowdown from tighter economic conditions, as companies delay investments, along with intense competition from its peers in an attempt to gain a bigger share of this lucrative segment. NAB was down -5.6% for the month vs -3.9% for the banking subsector.



## Portfolio Activity

BUY	Comment
<b>Mineral Resources Limited (MIN)</b>	The market was disappointed with MIN's H1 results on account of higher operating costs, higher D & A, weaker cashflow & higher interest costs. On the positive the dividend of \$1.20 was comfortably above consensus expectations. Looking forward into H2, cashflow will improve with higher volumes forecast. The weak cashflow reflected a \$410 million rise in receivables and a buildup in inventory which will unwind over the next month or so. Capex guidance for FY23 has been raised. Looking into FY24 cashflow is expected to improve considerably when the Wodgina tolling and processing of spodumene to hydroxide rises to nameplate production. We used the recent fall to increase our position size in MIN.
SELL	Comment
<b>Computershare Limited (CPU)</b>	We entered CPU as a play on higher interest rates, which occurred at the fastest rate in history throughout 2022. Our analysis shows CPU's high earnings as being sensitive to long duration US Government bonds and whilst the outlook for interest rates remains volatile, we view the tightening cycle as closer to the end, than the middle, thus limiting the potential for further earnings upgrades. We exit the position to take advantage of alternative opportunities and offering greater upside potential.
<b>Stanmore Resources Ltd (SMR)</b>	Hard coking coal producer SMR provided a very strong result for FY2022 with earnings of USD1.46 billion on revenue of USD2.7 billion. The company finished the year with net debt of USD183 million which we expect will be repaid shortly allowing the company to commence paying dividends post their June half year results. For 2023 we are expecting similar sales volumes of around 12.2 million tonnes but with increased revenue due to higher royalties. We decided to take profit on the back of share price strength.