22 November 2024
ASX: CAM

Chairman's Address
2024 Annual General Meeting

The accounts and financial report of Clime Capital Limited (CAM or the Company) for Financial Year 2024 have been distributed to shareholders before this meeting.

Therefore, in this Chairman's address, I plan to briefly comment on the following:

1. An update on portfolio performance in the year to date;
2. Some background on the Company's profit reserves and franking account;
3. Declaration of the December quarter dividend; and
4. Reiteration of the CAM offer that is focussed on income generation and payment.

Portfolio Performance FY24

Regarding the portfolio, I can inform shareholders that as of 21 November 2024, the pre-tax or gross portfolio value of CAM is approximately $154 million.

The gross portfolio has moved from about $152 million as of 30 June with the company undertaking the following:

1. A SPP that raised approximately $4.3 million.
2. Dividend income received from the investment portfolio approximately $1.6 million.
3. Payments of 2 quarterly dividends totalling $4.1 million (approximately $2.05 million each quarter).
4. Payments of note interest of $0.45 million.
5. Payment of tax of $0.5 million.
6. Share and note buybacks of $0.27 million.

Following a volatile period in the Australian equity market during the June half, markets have continued with the same volatile trend over the last four months. The Australian index is mildly up since 30 June but driven by the bank index that has benefitted by PE expansion whilst their earnings and dividends have been flat compared to previous year results.

CAM portfolio since 30 June

The CAM portfolio performance has been disappointing relative to the market index, because of our portfolio’s underweight bank holding level. However, as I will reiterate below our primary focus is on generating income for shareholders without exposing the portfolio to excessive capital risk.

Our value-based investment and a focus on yield has led to this underweight bank position which our manager believes is appropriate given the excesses seen toady in bank share prices when compared to historic norms – these being both high PERS and multiples of equity combined with low dividend yields.

To generate this sustainable portfolio yield, the manager has been exploring different opportunities outside listed equities. Indeed, it is notable that as at 30 October the yield on the All-Ordinaries index was reported as just 3.2% of which only 70% was franked. By comparison, the CAM yield was 6.5% fully franked.

Unlisted yield portfolio

Direct unlisted investments represent about 10% of the total portfolio. Over the last 12 months the portfolio suffered from disappointing returns from some of our direct property investments. In particular, the property funds managed by Elanor Group (some $6 million at cost). These investments have been marked down (at 30 June) and will require stronger management. Whilst a recovery is expected, we will not be allocating to direct property assets unless there is a clearly superior offering.

Rather, we are noting significant yields being available in direct credit and first mortgage securities. We have allocated to these opportunities in recent months with yields of about 9% being accessed.

Economic and market outlook

The recent US Presidential election result, reasonable economic data and lower inflation readings from the US, suggest that equity markets should gather support into 2025. Mild and declining inflation readings suggest that current interest rate settings in the US remain too high and will decline through 2025.

The combination of proposed US tax rate reductions and the certainty surrounding lower cash rates in 2025, provide tailwinds for the US equity market. How much is already factored into equity prices is the stabilising issue. The risk of an equity bubble in the US is regarded as high and so too is the possibility of a reflection by bond investors on the burgeoning debt of the US government.

The investment manager forecasts the following for the Australian economy in 2025:

1. Economic growth will be solid but in the low 2% range.
2. Inflation will subside to about 2.5% subject AUD movements.
3. Cash rates will decline to about 3.5% over the next 12 months; and
4. The AUD: USD exchange rate remains problematic (i.e. weak) with continued large investment outflows from our outsized superannuation industry.

This suggests a mild tailwind for the Australian equity market. However, like the US market, there are elevated readings seen in the PER ratios of our largest companies – notably the banks. Those PE ratings require a significant improvement in company earnings that is not immediately apparent from either the banking or the resource indices. Indeed, company analysts are forecasting little if any earnings growth for our largest companies in FY25.

The above analysis suggests that a significant portion of Australian equity market returns in 2025 will come from income rather than capital gain.

This outlook supported the directors view that September presented a good time to offer shareholders the opportunity to invest further capital to support CAM in searching out attractive income solutions.

CAM retained earnings and franking

Over the 4 months to 31 October the company produced an unaudited pre-tax profit of $0.73 million.

Further, as at 31 October, your Company has over $39.3 million in profit reserves, representing 5 years of dividend capacity at current rates of dividend payment. Of course, the Company will add to the profit reserves each year when it trades profitably and therefore, the Board regards the level of profit reserves as very comfortable.

The Company's franking account as 23 November was $1.1 million. The franking account is expected to be bolstered by further dividend receipts through to and including the March quarter 2025.

December Quarter dividend declaration

Following the company's announcement on 13 November 2024, the Board is pleased to declare a December quarter dividend of 1.35 cents per share fully franked.

The record date is 6 January 2025, and the dividend is payable on 24 January 2025.

Convertible Notes – CAMG

Shareholders and note holders will be aware that our listed convertible notes are due for redemption or conversion in November 2025.

The directors are reviewing options for these notes and will report to noteholders early in calendar 2025.

Marketing, NTA information and Year to date performance

I trust that shareholders continue to monitor the Company's performance through our monthly Net Tangible Assets (NTA) announcements.

Further, the Investment Manager produces a weekly pre-tax NTA estimate on the ASX and distributes this information to shareholders and investors.

The CAM monthly ASX NTA announcement includes the top portfolio holdings.

All these initiatives have been undertaken to ensure that CAM shares and convertible notes trade in a market that has an abundance of up-to-date information. In particular, the Board is pleased to see that the CAM share price trades close to its NTA.

The CAM investment proposition

Recently Clime published our end of year “Letter to Investors” and it will be sent to shareholders next week.

This letter outlines our view of investment markets in 2025 and provides more background on the headwinds and tailwinds for the Australian equity market.

We at Clime are strongly of the view that investors will benefit from the elevated levels of income available from debt, hybrid and private securities. If appropriately accessed by the manager this will support the ability of CAM to maintain dividends to shareholders in the medium term.

Following well attended Clime Investor updates in Perth and Adelaide, we anticipate meeting with shareholders in other cities in late February. Please watch out for our email notifications about these presentations and register as soon as possible to attend.

I would like to reiterate that CAM is purposely managed as an income LIC.

Its portfolio design is to create income flows that can be distributed quarterly to shareholders.

Whilst total return is important our focus is more towards income generation than chasing growth.

Importantly shareholders on receipt of this income have choices. They can utilise the dividend as a source of pension payments in their SMSF portfolio. They can reinvest the dividend (and utilise the attached franking credit) back into CAM or back into the market to generate compounded returns.

With this understanding I can restate the benefits to CAM shareholders that we have presented in previous years. These benefits are:

1. A dividend “payment yield” that has been consistently higher than that achieved by the ASX All Ordinaries index;
2. A dividend “franking rate” that is consistently higher than the ASX All Ordinaries index; and
3. Total investor returns that are tilted towards franked income cash generation and are superior to alternative listed high yielding securities.

This analysis is important for shareholders to note because the outperformance of market dividend yield is our focus rather than trying to outperform a share market, which is driven by sentiment shifts that leads to short term swings in market prices of shares which is disconnected with the underlying performance of those companies.

CAM's focus is on capital maintenance, a steady growth in dividends and the capturing of capital growth without exposing the portfolio to excessive risk.

In conclusion I would like to acknowledge the support of our shareholders and thank the members of the CAM board for their continued counsel and guidance.

John Abernethy – Chairman
Email: info@clime.com.au.
Approved for release by the Board of Clime Capital Limited