



# Net Tangible Assets Report

November 2018



## Portfolio Update

Equity investors have been subjected to a difficult two months. Global share markets since the end of September have turned bearish, and have given up their gains for the year. It would have been preferable if the transition from quantitative easing and ultra-low interest rates to a more “normal” environment was unfolding against a backdrop of solid global economic growth. Instead, the world economy is losing momentum and the “synchronicity” heralded at the start of 2018 seems to have disappeared. With many forward-looking indicators weak, there appears to be little chance of an imminent reacceleration. As a result, financial market volatility has re-emerged. Analysts are recalibrating forecasts for corporate profits and security valuations. The recent correction could extend further.

The world’s largest economy, the United States, continues to outshine its developed market peers. US growth has been running above trend for a while and we expect that global growth will lag the US over the near term. The unemployment rate in the US has been below its average rate for the past 2 years; after a long period of little movement, wage growth has begun to rise, reaching a post-GFC high of 2.9%, but remains moderate. Inflation has stayed at target; private non-residential investment growth momentum is strong and productivity growth has picked up in the last six months. Households are saving around 6% of their income, and household debt-to-income ratios have remained low and stable. Apart from some weakness in housing and autos, the economic expansion is looking solid, and we are unlikely to see a recession in the US in the next 12 months.

Recent growth data have weakened in Germany and Japan, while there are concerns about the outlook for China and emerging markets in general. For Germany and Japan, there was outright contraction in economic activity in the third quarter, although largely due to one-off factors – the imposition of new emission standards impacting car production in Germany and natural disasters in Japan. Germany’s third-quarter economic growth showed a drop of 0.2%, surprising to the downside and its first negative quarter of economic growth since 2015. This contraction will serve as a warning to the European Central Bank to act slowly on interest rate policy normalisation.

In China, easing measures should help to stabilize growth albeit at somewhat lower levels. Chinese policymakers’ efforts to protect the economy from a potential (tariff-induced) export shock may disappoint relative to expectations. Slowing consumption and bank lending have forced Beijing to revert to policies whose effectiveness has been declining as the economy matures; evidence of more effective reflationary Chinese policy would be a positive surprise for markets.

Regarding US-Sino trade tensions, we think that there are geo-political factors at play that mean lasting solutions to the “trade war” may not be on the table. Trade tensions between the US and China surfaced at the Asia-Pacific Economic Cooperation summit when leaders failed to agree a joint statement; it remains to be seen whether there is much agreement at the G20 meeting in Buenos Aires. The US foreign policy establishment is increasingly

determined to contain China rather than embrace it, and is focused on the national security risks posed by interdependence. We seem to be entering a new geo-political/economic world order, characterized by super power rivalry between the United States and China and the use of economic tools to achieve strategic goals. The focus has shifted to economic competition and its implications for national security, rather than on growth for the sake of mutual financial benefit.

Emerging markets are struggling in this environment: profit growth and share prices are more leveraged to the business cycle in China than in developed economies. To the extent that China’s stimulus underwhelms expectations in the context of trade policy risk, emerging markets will probably underperform, given high debt levels, weak productivity, and negative earnings revisions.

The path of least resistance for the US dollar is higher as the US economy continues to outperform the rest of the world, sustaining wide interest rate differentials. The rising US dollar is a problem for many emerging market countries with significant asset-liability currency mismatches. If it were not for the sharp fall in the oil price, several emerging economies would probably already be suffering severe financial instability.

In total, global growth slowed to around 3.4% in the third quarter from a strong 4.1% in the second quarter. Euro area growth slowed due to a lack of credit growth, Brexit concerns, Italian fiscal uncertainty and vulnerabilities in European banks. It remains to be seen the extent to which Brexit results in structurally lower growth and thus lower interest rates in the UK. Though valuations in the eurozone are not expensive, and financial conditions across the region have eased with weakness in the euro, most investors will remain cautious until global growth stabilizes. The OECD expects growth to settle at around 3.7% over 2018 and maintain a similar rate in 2019.

While slower global growth and strain in emerging markets could see a short-term rally in bonds, over the medium to longer term we expect government bond yields to grind higher. Global central banks remain committed to withdrawing from extremely stimulative monetary policy. Bonds will only experience sustained outperformance compared with equities if the yield curve inverts signalling that policy is restrictive, and a recession becomes more likely. We think that is some way off.

Will the Federal Reserve keep raising rates despite market volatility?

Persistent volatility tends to focus market attention on the central banks. Investors become anxious, looking for indications that central banks are either prepared to hold off raising rates until markets steady, or are determined to press on with rate normalisation regardless. The latest message from the Federal Reserve’s Jerome Powell is that the policy rate was “just below” neutral, hinting at a potential moderation in the pace of policy tightening. Stocks

responded positively at month end, while Treasuries and the USD fell. Powell said rates were still low by historical standards, there was “no preset policy path” for rates ahead, and that the central bank would be watching new economic data very closely as it decides what to do next. He also noted that there is a lag for how long it takes for rates to have an impact — a “year or more” in his estimation, an important point that goes to the importance of getting ahead of an overheating economy.

Analysts will be watching for any subtle shifts in Fed signalling regarding the drive towards “neutral” rates. If the Fed continues its current path, we would expect it to continue raising rates in a measured way until it reaches “neutral territory” in mid to late 2019, following perhaps two or three more 0.25% rate increases. Investors are only slowly coming to terms with the less pleasant reality of a world of tighter liquidity. They must accept that the two most important central banks, the Fed and the European Central Bank, intend to tighten monetary policy despite mounting evidence of delicate economic and market conditions. As central banks stay on a tightening path, the ride will likely be bumpy. Asset markets will hit pockets of stress from time to time. We remain cautious and think that market weakness will continue for a while longer: asset markets must depart the era of ultra-cheap money that central banks have provided since the GFC and navigate a more normal economic environment.

Equity markets are a discounting mechanism for prospects of economic growth and the company earnings that flow from that. Are equity markets warning investors that we face a slowdown in economic activity globally? Perhaps.

Investors should remain comfortable with an elevated liquidity position given the likelihood that global interest rates will move up over the coming 12 months, leading to a continuation of market volatility. Outperforming in the year ahead is likely to require resilience as well as a sharp focus on liquidity and quality. To help mitigate risk, a diversified portfolio needs to be designed with a thorough and disciplined approach to asset allocation and a great deal of patience.

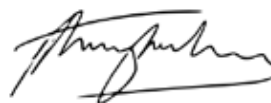
The following changes were made to the portfolio for the month of November:

- **Australian Equity Large Cap Sub-Portfolio:** Added to existing positions in BHP (BHP) & CSL (CSL).
- **Australian Equity Mid Cap Sub-Portfolio:** Added to existing positions in Afterpay Touch (APT) and Webjet (WEB), reduced exposure to Bingo Industries (BIN) and exited positions in Boral (BLD) & Eclix (ECX).
- **Australian Equity Small Cap Sub-Portfolio:** Added to existing position in HUB24 (HUB), reduced exposure to Collins Foods (CKF), introduced new positions in Audinate (AD8), Austal (ASB), Lycopodium (LYL) & Macquarie Telecom (MAQ), and exited positions in Folkestone (FLK, takeover), Kangaroo Island Plantation Timbers (KPT) & Veris (VRS).
- **International Equity Sub-Portfolio:** Introduced new positions in Alphabet (GOOGL) & Samsung (SMSN), and exited position in Reckitt Benckiser (RBGLY).

Key contributors and detractors to the CAM return for the month were:

- **Australian Equity Large Cap Sub-Portfolio:** Positive contributors ANZ Banking Group (+6.5%) and Commonwealth Bank of Australia (+2.9%), detractors CSL (-5.6%), BHP (-4.7%) & Rio Tinto (-4.1%).
- **Australian Equity Mid Cap Sub-Portfolio:** Positive contributors Afterpay Touch (+15.5%), Eclix (+9.1%) & Seek (+3.5%), detractors Bravura Solutions (-11.2%), Speedcast (-8.9%) & Janus Henderson (-8.4%).
- **Australian Equity Small Cap Sub-Portfolio:** Positive contributors Hub24 (+21.2%), Collins Foods (+14.7%) & Jumbo Interactive (+14.6%), detractors Veris (-26.7%), Citadel Group (-9.2%) & Kangaroo Island Plantation Timbers (-8.0%).
- **International Equity Sub-Portfolio:** Positive contributor Alphabet (+6.6%), detractors Facebook (-10.1%) & Baidu (-3.9%).

Thank you for your continued support of Clime.



**Anthony Golowenko**  
Chief Investment Officer

## Net Tangible Assets (NTA)

	November	October	September
NTA before tax	\$0.87	\$0.88 <sup>1</sup>	\$0.98 <sup>1,2</sup>
NTA after tax	\$0.87	\$0.88	\$0.95
CAM Share Price	\$0.88	\$0.88	\$0.95
Yield Excl. Franking	5.7%	5.7%	5.3%
Yield Incl. Franking	8.2%	8.1%	7.5%

<sup>1</sup> On 5 September 2018, the Board declared a fully franked dividend of 1.25 cents per share in respect of the Company's ordinary shares for the period 1 July 2018 to 30 September 2018. This dividend was paid on 26 October 2018. NTA before and after tax disclosed above for October 2018 is after, and September is before, the effect of this dividend payment.

<sup>2</sup> On 17 July 2018, the Company declared a bonus issue of ordinary shares on a 1 for 40 basis. These shares were issued on 24th September 2018 and were entitled to the September quarter dividend. CAMG Notes accrued the bonus issue and upon conversion will receive 1.025 Ordinary shares for every Convertible Note.

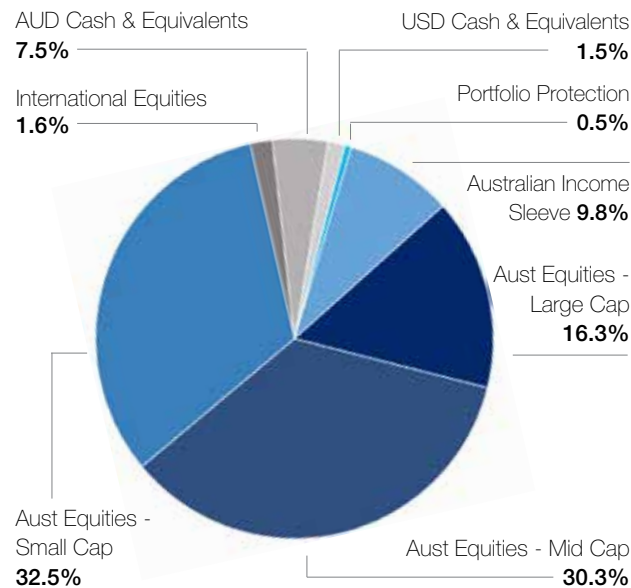
**"We continue to selectively adjust portfolio positionings to deliver strong risk-adjusted total returns for our shareholders."**



## Company Overview (\$m)

Australian Equities	\$80.07
Australian Income Sleeve	\$9.96
International Securities	\$2.11
AUD Cash & Equivalents	\$7.54
USD Cash & Equivalents	\$1.47
Total Portfolio including Cash	\$101.15
Notes Payable at face value of \$0.96	(\$21.39)
Net Tangible Assets	\$79.76

## Gross Asset Allocation



## Top Holdings (% of Gross Assets)

### Australian Equities - Large Cap

Rio Tinto Limited	3.50
Amcor Limited	2.97
BHP Limited	2.74

### Australian Equities - Mid Cap

Afterpay Touch Group	4.29
Webjet Limited	3.86
Credit Corp Limited	3.63
Janus Henderson Group	3.09

### Australian Equities - Small Cap

Jumbo Interactive Limited	3.91
Hansen Technologies Limited	3.37
Navigator Global Investments Limited	3.28

### International Equities

Facebook Inc-A	0.61
Samsung	0.40
Baidu	0.31

### AUD Cash

<b>7.46</b>
-------------

### USD Cash

<b>1.45</b>
-------------