# Net Tangible Assets Report

## March 2019

# Market Commentary

While the rate of growth moderated during the month of March, with the S&P/ASX200 Accumulation Index up 0.7%, the first quarter of 2019 has come as a welcome relief for growth asset investors. Following the sharp pullback last November and December, global investor sentiment and market prices have recovered some of their optimism, largely off the back of a more dovish US Federal Reserve.

The reversal of fortunes in risk assets has come despite generally disappointing macro data across Europe, the US and China and the tempering of corporate earnings forecasts globally. The rally in global equities to date in 2019 has not been driven by expectations for better growth and rising corporate profits, but by reassurance that global central banks would temper their inflation-fighting objective and seek instead to sustain the post-GFC recovery.

Another factor supporting the equity market recovery has been the sense that the sell-off late last year was overdone. The near 30% de-rating in global equity PE ratios from end-January 2018 to end-December 2018 was both brutal and unexpected, given that the world's largest economy, the US, was growing strongly and experiencing a buoyant year for corporate earnings. But of course, markets are forward-looking, and fears of "peak earnings", a Sino-American trade war, a hard landing in China and a Federal Reserve determined to "normalise" rates sapped confidence and soured the mood. The fact that many of these fears have proved either unfounded or exaggerated has supported the rebound.

Now that the first quarter is over, we must assess whether that rebound is either warranted or sustainable. Over the course of the first 3 months of 2019, the S&P/ASX200 has risen 10.9% while global markets have enjoyed similarly impressive quarterly returns. A good part of those figures may be making up the losses from the quarter before that, but it remains for the market to be tested for the most critical factor, which is value.

The likelihood of material further upside for equity markets in the short term is, in our view, now dependent on central banks allowing financial conditions to remain loose, policymakers stimulating activity through prudent infrastructure spending and fiscal relief for households, the successful conclusion to trade talks, the US economy remaining reasonably strong and some sparking of growth in the European and Chinese economies.

In particular, we highlight the effectiveness or otherwise of the broad range of measures implemented by the Chinese authorities to cushion their growth slowdown. The Chinese consumer is the "single most important (factor) in the world economy", said Jim O'Neill, former Goldman Sachs chief economist. "The next 40 years of global growth might be about the Chinese consumer. It is very unlikely that any other country could step in to drive global consumption," he said. China has contributed around 30% of the global economy's growth since 2013, compared to 11-13% from each of India, the European Union, and the United States. The strength of China's economy is critical.

A key support to developed economies (the US, the Eurozone and Japan) remains consumption growth backed by solid labour markets and continued wage growth. To date, the absence of wage growth has been the disappointing factor in the recovery that we saw during last year, and this has been a spur to the growth of populism in many countries. A pause in the central banks' rate rising program and a well-targeted stimulus from China should provide the basis for global growth a little below trend. Resolution of trade conflicts would no doubt also reduce uncertainty and support global growth.

In an environment where economic risks are building and global growth is slowing, careful assessment of investment opportunities is required. The change in tone from the US Fed, and its increased sensitivity to growth and the financial cycle, has led to a fundamental reassessment of risks and opportunities in many financial markets, as the "lower for longer" thesis on interest rates reasserts itself. At the same time, while trade talks between the US and China seem to be progressing, the Brexit imbroglio and many other political risks remain heightened. However, these risks and changes in economic growth expectations present opportunities and an argument for active management and active asset allocation.

Clime's base case is that overall global equity returns in the medium term are likely to be positive but more muted than investors have been used to for most of the post-global financial crisis period. Nonetheless, we expect that late cycle volatility and macro-thematic market drivers combined with company-specific opportunities will provide a satisfactory set of portfolio alternatives for patient investors.

## Clime Capital International Sub-Portfolio

Since March 2014, Clime Capital has had a mandate to invest up to 30% of the Company's assets in internationally listed securities. The background and details of this mandate amendment were included in an announcement made to the ASX on 14 March 2014.

The high conviction Clime investment house view of the time was that the AUD was particularly vulnerable and as such, was highly likely to depreciate in value over the medium term. The AUD/USD exchange rate at that time approximated 0.93, which contrasts to the spot rate of approximately 0.71 (at the time of writing).

It is the view of the investment Manager that this thesis has largely played out, with the Australian dollar now more fairly valued. Shareholders may already be aware that the company's exposure to international assets, inclusive of equity and currency, has diminished substantially in recent months. This stance largely reflects the reduced conviction associated with the once strong view on the currency.

Given the above, it was deemed prudent to exit all international holdings and convert USD holdings back to AUD currency. With this process largely complete, Clime Capital has returned to having an exclusive portfolio focus on high quality Australian securities and select income opportunities.

Thank you for your continued support of Clime.

**Adrian Ezquerro**
Head of Investments

climecapital

# Portfolio Update

The Clime Capital portfolio delivered a return of 2.3% (net of fees) for the month, in advance of the All Ordinaries Accumulation Index return of 0.7%.

At a portfolio level, we have been particularly active during the quarter. The portfolio continues to be carefully reshaped to best capture a sensible balance of growth and sustainable income. As a result, we expect the running yield of the portfolio to continue incrementally improving, albeit off a moderate base.

Given the strong rally experienced over the quarter, particularly in mid and small caps, we have selectively reduced exposure to those securities that have appreciated beyond value.

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

- Australian Equity Large Cap Sub-Portfolio: Positive contributors BHP Group (+5.5%) Wesfarmers (+4.4%) & Amcor (+4.3%). Only detractor of note ANZ Banking Group Ltd (-7.0%).
- Australian Equity Mid Cap Sub-Portfolio: Positive contributors Hub24 Ltd (+19.2%), Afterpay Touch (+13.6%) & Bravura Solutions (+7.9%). Detractors included Webjet Ltd (-6.5%), GUD Holdings (-5.7%) & Orora (-5.1%).
- Australian Equity Small Cap Sub-Portfolio: Positive contributors Jumbo Interactive (+24.9%), Audinate Group (+17.8%) & Citadel Group (+8.8%). Only detractor of note Hansen Technologies Limited (-7.9%).
- International Equity Sub-Portfolio: No significant contributors or detractors.

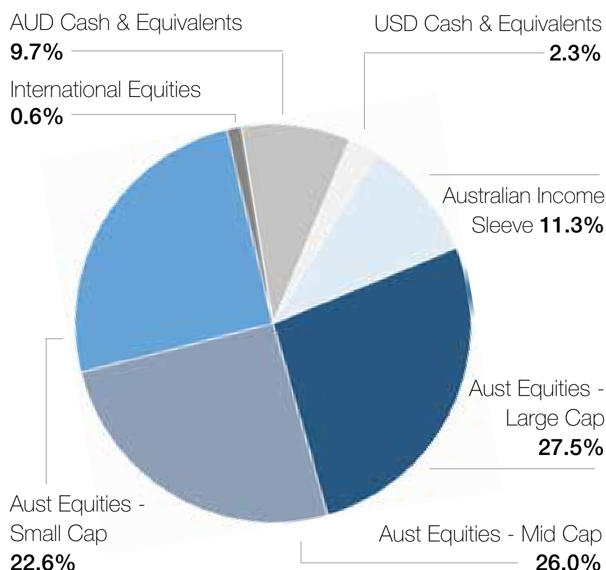
The portfolio retains its strong focus on quality and value, while also capturing the sound blend of growth and income targeted by the purposeful 'all cap' strategy. Cash levels remain reasonable and allows your Manager to move swiftly, though selectively, as and when sensibly priced opportunity appears.

| NTA before Tax | Total Portfolio Including Cash | Rolling 12 Month Dividend | Historical Dividend Yield |
|---|---|---|---|
| $0.92 | $105.3m | 5.0cps | 5.7% |

## Top Holdings (% of Gross Assets)

| | |
|---|---|
| Amcor Limited | 4.7 |
| Wesfarmers Limited | 4.2 |
| National Australia Bank Limited | 3.5 |
| Webjet Limited | 3.4 |
| Credit Corp Limited | 3.3 |
| *AUD Cash* | *9.7* |
| *USD Cash* | *2.3* |

## Gross Asset Allocation




## Net Tangible Assets (NTA)

| | *March* | *February* | *January* |
|---|---|---|---|
| NTA before tax | $0.92[2] | $0.90 | $0.84[1] |
| NTA after tax | $0.90 | $0.89 | $0.85 |
| CAM Share Price | $0.88 | $0.86 | $0.85 |
| Yield Excl. Franking | 5.7% | 5.8% | 5.9% |
| Yield Incl. Franking | 8.2% | 8.3% | 8.5% |

[1] On 19 December 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 October 2018 to 31 December 2018. This dividend was paid on 24 January 2019. NTA before and after tax disclosed above for January 2019 is after the effect of this dividend payment.

[2] On 21 February 2019, 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 January 2019 to 31 March 2019, payable on 26 April 2019. NTA before and after tax disclosed above for March 2019 is before the effect of this dividend payment.

## Company Overview ($m)

| | |
|---|---|
| Australian Equities | $80.16 |
| Australian Income Sleeve | $11.89 |
| International Securities | $0.63 |
| AUD Cash & Equivalents | $10.23 |
| USD Cash & Equivalents | $2.41 |
| Total Portfolio including Cash | $105.32 |
| Notes Payable at face value of $0.96 | ($21.39) |
| Net Tangible Assets | $83.93 |

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