

## NTA Report - February 2020

NTA before tax	Total Portfolio Including Cash	Rolling 12 Month Dividend	Historical Dividend Yield
<b>\$0.91</b>	<b>\$131.7m</b>	<b>5.0cps</b>	<b>5.5%</b>

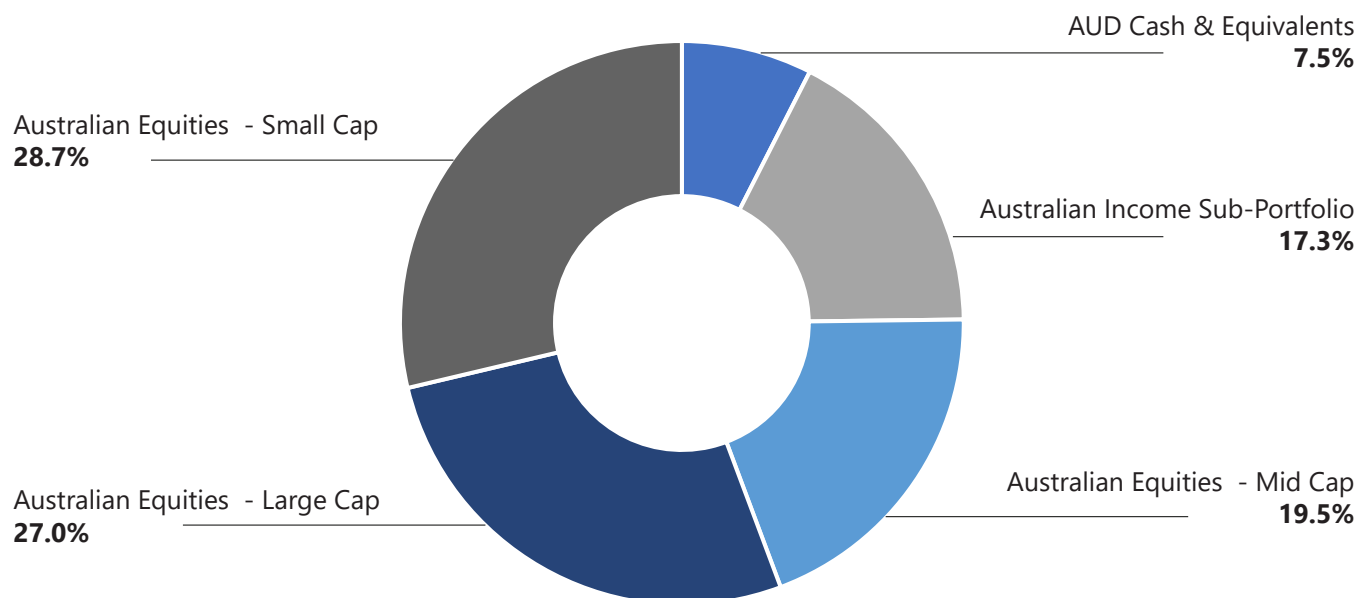
### Net Tangible Assets (NTA)

	February <sup>1</sup>	January <sup>2</sup>	December <sup>2</sup>
<b>NTA before tax</b>	\$0.91	\$1.03	\$0.99
<b>NTA after tax</b>	\$0.90	\$0.99	\$0.96
<b>CAM Share Price</b>	\$0.91	\$0.97	\$0.98
<b>Yield excl. Franking</b>	5.5%	5.2%	5.1%
<b>Yield Incl. Franking</b>	7.9%	7.4%	7.3%

<sup>1</sup> On 20 February 2020, 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 January to 31 March 2020, payable on 24 April 2020. NTA before and after tax disclosed above for February 2020 is before the effect of this dividend payment.

<sup>2</sup> On 22 November 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 October to 31 December 2019, paid on 24 January 2020. NTA before and after tax disclosed above for January 2020 is after, and for November & December 2019 is before, the effect of this dividend payment.

### Gross Asset Allocation



### Company Overview (\$m) (Cum Dividend)

Assets	\$M
Australian Equities	\$99.0
Australian Income Sub-Portfolio	\$22.9
AUD Cash & Equivalents	\$9.8
Total Portfolio including cash	\$131.7
Notes Payable at face value of \$0.96	(\$28.2)
Net Tangible Assets Before Tax	\$103.5

### Top 5 Holdings

Company	ASX Code	% of Assets
<b>CSL</b>	CSL	5.1%
<b>BHP Group</b>	BHP	4.7%
<b>Westpac</b>	WBC	4.2%
<b>Bravura</b>	BVS	3.1%
<b>Appen</b>	APX	3.1%



## Portfolio Commentary

Before reviewing the portfolio for the month, we are pleased to reiterate the increase in quarterly dividend announced by the CAM Board on 20 February 2020. As announced on that date, the March Quarter dividend will rise from 1.25 cents to 1.3 cents (fully franked) per share.

The CAM portfolio pre-tax net return was -11.3% in February, compared to a -8.1% return for the S&P/ASX All Ordinaries Accumulation Index, while the CBC portfolio pre-tax net return was -10.2%, compared to a -7.7% return for the S&P/ASX200 Accumulation Index.

Given the All Cap portfolio's exposure to select mid and small caps, it's worthwhile noting the Emerging Companies Accumulation Index delivered a return of -14.1% for the month. Thus, a relative flight to liquidity has been observed, almost irrespective of business specific financial strength and quality. All sectors delivered negative returns during the month, though the more defensive healthcare and utility sectors were relatively more resilient.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key detractors BHP Group (BHP), Woodside (WPL) and Westpac (WBC).
- **Australian Equity Mid Cap Sub-Portfolio:** Contributor Collins Foods (CKF), key detractors Webjet (WEB), Appen (APX), Bravura Solutions (BVS) and Afterpay (APT).
- **Australian Equity Small Cap Sub-Portfolio:** Contributor APN Property Group (APD), key detractors Lovisa (LOV), Hansen Technologies (HSN), Audinate (AD8) and Electro Optic Systems (EOS).

While we maintain a focus on long term horizons, portfolio repositioning in the face of elevated risk remains prudent. In turn, this affords scope to perhaps better deploy capital into superior risk-adjusted opportunities in the months to come. In line with this view, we have reduced aggregate weightings to companies we feel are acutely exposed to less favourable near term operational trends, notably Seek (SEK) and Webjet (WEB). We rate both businesses and respective management teams highly, though suspect deeper discounts to value may transpire in the weeks and months to come.

On the flipside, we have been provided with a small window of opportunity to initiate starter positions in two high quality large cap stocks with defensive qualities; GPT Group (GPT) & Sonic Healthcare (SHL).

GPT is one of Australia's largest diversified property groups, managing a \$25.3 billion portfolio of retail, office and logistics property assets across Australia. Income growth in 2019 across the portfolio of 3.5% was underpinned by high occupancy, fixed rental growth and positive leasing outcomes achieved in its office, logistics and retail portfolios.

Portfolio metrics across GPT's office, logistics and retail portfolios remain sound, with high occupancy and sound weighted average lease expiry (WALE) profiles. Looking ahead, management provided solid guidance for earnings and distribution growth of 3.5% in 2020. We initiated a small position at a discount to the group's net tangible asset (NTA) backing, reflecting a running yield of 4.9%, and may build on this position in the months to come.

SHL is an international healthcare company providing laboratory, imaging and primary care services. An ASX50 constituent, SHL is today the third largest medical laboratory company in the world. SHL has a remarkably consistent track record of revenue and earnings growth over the past three decades, which has ultimately driven one of the ASX's most impressive long term dividend payment track records.



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Portfolio Manager - Small Caps



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Portfolio Manager - Mid Caps



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Portfolio Manager - Large Caps



## Market Commentary

With February 2020 came the first half reporting season and a significant equity market correction, reflecting growing global fears pertaining to the spread of the coronavirus (COVID-19). When coupled with a somewhat elevated level of equity pricing, the scene was set for a swift reassessment of risk asset exposure. Key indices delivered the following returns for the month:

- S&P/ASX200 Accumulation Index: -7.7%
- All Ordinaries Accumulation Index: -8.1%
- S&P 500 Index (US): -8.2%
- Small Ordinaries Accumulation Index: -8.7%
- FTSE 100 Index (UK): -9.0%
- Emerging Companies Accumulation Index: -14.1%

Many global indices, including those in Australia and the US, corrected in the space of just five days in the final week of February (a correction being a greater than 10% fall). This was the first such occurrence since October 2008 during the depths of the Global Financial Crisis (GFC). It has been an unusual time to say the least!

With the rolling news cycle omnipresent these days, you would be hard pressed to go a day without hearing anything of COVID-19. News of the virus' spread well beyond Chinese borders saw global markets sell off sharply and bond yields collapse, in turn reflecting expectations for a significant slowdown in global growth. While yet to flow through in many datasets, the first insight was provided via China's PMI (Purchasing Managers' Index, a measure of manufacturing trends) release. China's official PMI fell to a record low of 35.7 in February, from 50 in January. Incredibly this was the fastest pace of contraction on record for the survey, surpassing the decline registered during the GFC. Non-manufacturing PMI came in at 29.6, versus the prior reading of 54.1, also the lowest on record. We note that 50 is the level that separates expansion from contraction.

### The Current Situation in Context and the Outlook for 2020

Clime's investment strategist Paul Zwi recently noted 'As investors, we are required to deal with probabilities rather than certainties.' While evergreen in nature, this is particularly the case when assessing the degree of social and economic dislocation to be felt in 2020.

We are obviously not epidemiologists, but what happens in the near term will likely depend on several factors, including the tenure of the pandemic, its geographic spread, when a vaccine is prepared for human use and whether the arrival of the northern hemisphere summer provides a degree of abatement. We can observe that all major outbreaks to date (Wuhan, South Korea, northern Italy and Iran) have occurred in geographies with an average maximum February temperature of no more than 11 degrees Celsius.

### Travel

In terms of first order effects, we expect the near-term restrictions imposed on travel to adversely impact all travel and tourism related businesses. In the past week alone, leading Australian companies including Lendlease, Telstra, the major banks, and IAG (to name a few) have all banned staff from international travel for work.

Our recent investment management meetings with travel focused businesses suggest a significant curtailment of forward bookings, with employees being requested to use all annual leave and/or cut back to part time for the next few months. We also perceive some risk to the collection of receivables, so balance sheet strength in this sector will never be more important for those exposed.

### Education

The education sector forms a significant backbone of Australia's services sector and still represents a fantastic long term opportunity for our country and its plethora of well-respected tertiary institutions. With the imposition of travel bans and a general reluctance to travel, we expect this sector to also be directly impacted.

### Manufacturing & Retail

From various recent management meetings and company outlook statements, it is clear that manufacturing and broader supply chains are being directly impacted. Even if goods are not being manufactured in China, significant amounts of componentry are sourced from within China. Some retailers and hardware technology businesses that we have spoken to added inventory prior to the Chinese New Year, so are fortuitously better placed to ride out short term impacts to supply chains. We expect retail more broadly to be impacted by soft consumer sentiment, itself already under pressure from Australia's tragic bushfire season.

### Commodities

While the outlook for commodities appears to wax and wane on an almost daily basis, with ongoing monetary support soon to be coupled with significant fiscal stimulation, we remain constructive on exposures to dominant low cost producers with strong balance sheets and healthy cash flows, most notably BHP Group (BHP) and Rio Tinto (RIO).

### Concluding Thoughts

The maintenance of focus on investing in quality companies with strong valuation discipline, which when given time allows the wonders of compounding to take place, has to remain the cornerstone of successful long term investment (as opposed to speculation).

We are not seeking to downplay COVID-19 and the likely flow on effects for the global economy in the near term. This will be an especially difficult period for economies and markets. Some counterbalance may be provided by further central bank support (globally co-ordinated) and fiscal stimulus.



Borrowing from Clime Director John Abernethy's recent note in 'The View' (available to Clime Direct subscribers), in Australia, we note that the Government has relented on its promise to produce a budget surplus in FY20. We predict that the coronavirus will continue to affect the Australian economy into the June quarter, and as such substantial tax payment relief will be given to small and mid-sized businesses. This will help business cashflows at a time when stock levels are falling, and consumer sentiment is challenged.

There is much that can be done by sensible fiscal governance and there is little that the RBA through monetary policy can do other than ensure liquidity is plentiful in financial market and that banks do not restrict essential credit. It will be an interesting few weeks and possibly months for markets. The coronavirus, the US election and the US China trade deal are amongst many other unknowns, but the likely behaviour or responses of central banks and governments is more predictable.

Is that a reason to be bullish in the short term? No. But it is a reason to remain calm, not panic and invest logically at a time when markets are being driven by wild speculation. The long term outlook for world growth looks good and that is what investors (not speculators) need to focus upon.

Specific to asset allocation, we remind investors that tilting asset allocation both across and inside of asset classes will act to build portfolio resilience. Further strategies to bolster resilience include diversifying across asset classes, including cash (even if the return from cash is only marginal); ensuring asset allocations are fit for purpose; focusing on high quality companies; and maintaining a focus on sustainable yield. These strategies have stood the test of time and will continue to do so in the future.

We look across our portfolio and are excited about the long term opportunity sets for each of these businesses, many of which are executing well on a global scale. When coupled with strong balance sheets and capable management, we anticipate that in aggregate, earnings, dividends and ultimately valuations will be far higher in five to ten years' time. Of course, we remain vigilant and aware of new information but are determined to stay the course, remaining focused on long term objectives.

Thank you for your ongoing support of Clime Capital.

**Adrian Ezquerro**  
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