



Clime Capital Limited

14 April 2020

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 31 March 2020.

For further information contact:

John Abernethy

Chairman
Clime Capital Limited

(02) 8917 2107

Clime Capital Limited

Level 13, 20 Hunter Street Sydney, NSW 2000, Australia | PO Box H90, Australia Square, NSW 1215
ABN 99 106 282 777 P 02 8917 2100 F 02 8917 2155 W www.clime.com.au T @climeinvest

NTA Report - March 2020

NTA before tax	Total Portfolio Including Cash	Rolling 12 Month Dividend	Historical Dividend Yield
\$0.66	\$103.4m	5.0cps	7.1%

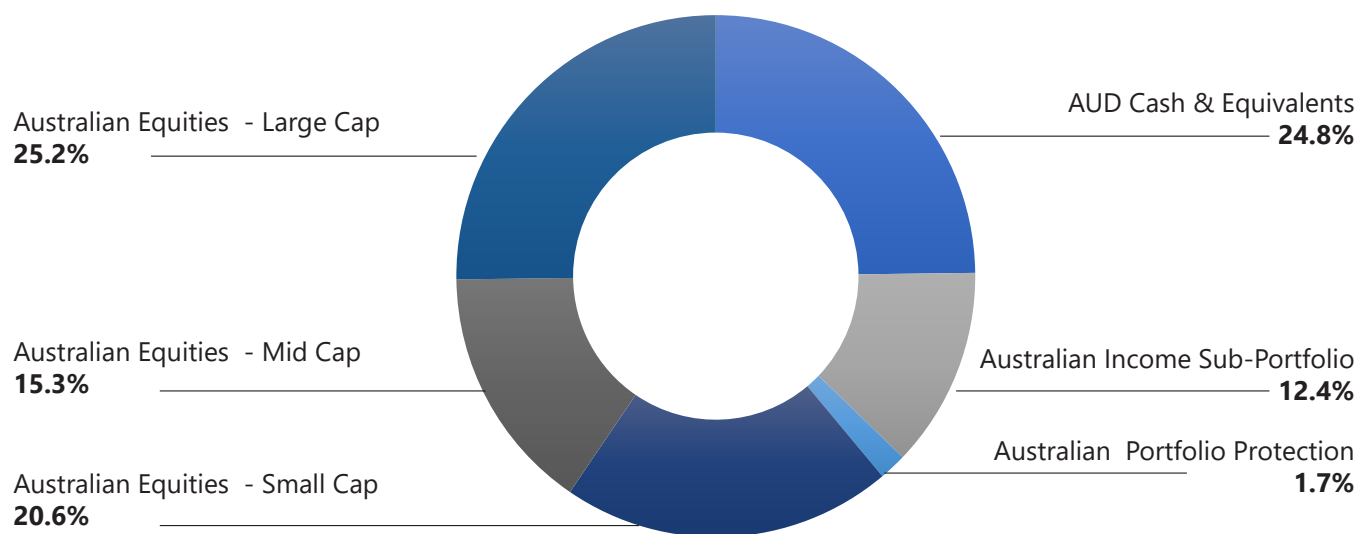
Net Tangible Assets (NTA)

	March ¹	February ¹	January ²
NTA before tax	\$0.66	\$0.91	\$1.03
NTA after tax	\$0.73	\$0.90	\$0.99
CAM Share Price	\$0.70	\$0.91	\$0.97
Yield excl. Franking	7.1%	5.5%	5.2%
Yield Incl. Franking	10.2%	7.9%	7.4%

¹ 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 March and February 2020 are before the effect of this dividend payment.

² 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 the effect of this dividend payment.

Gross Asset Allocation



Company Overview (\$m) (Cum Dividend)

Assets	\$M
Australian Equities	\$63.2
Australian Income Sub-Portfolio	\$12.8
Australian Portfolio Protection	\$1.8
AUD Cash & Equivalents	\$25.6
Total Portfolio including cash	\$103.4
Notes Payable at face value	(\$28.0)
Net Tangible Assets Before Tax	\$75.4

Top 5 Holdings

Company	ASX Code	% of Assets
BHP Group	BHP	5.5%
Bravura Solutions	BVS	3.6%
Appen	APX	3.5%
Westpac	WBC	3.5%
Austal	ASB	2.9%



Portfolio Commentary

The CAM portfolio pre-tax net return was -20.0% in the month of March, compared to a -20.9% return for the S&P/ASX All Ordinaries Accumulation Index, while the CBC portfolio pre-tax net return was -18.9%, compared to a -20.7% return for the S&P/ASX200 Accumulation Index.

Clime's investment philosophy remains focused on investing in quality companies with strong valuation discipline. With Clime's proprietary quality scoring as a significant cornerstone, the Clime Capital portfolio is constructed based on a "sub-portfolio" approach. This allows your investment manager to look right across the market cap spectrum to find the best investment opportunities available. This commentary presents the current positioning of each sub-portfolio by market capitalisation. Given the significant amount of portfolio repositioning activity executed during the quarter and highlighted in the above commentary, much of the sub-portfolio commentary will focus on introducing the investment theses for new portfolio inclusions.

Large Cap Sub-Portfolio

GPT Group (GPT) is one of Australia's largest diversified property groups and a member of the ASX50. GPT owns and manages a high quality portfolio of retail, office and logistics property assets worth \$25.3bn on 31 December 2019.

As introduced in recent reports, 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.

On 19 March GPT withdrew its funds from operations and distribution guidance (formerly 3.5% growth to 33.8cps and 27.4cps respectively), mainly reflecting the uncertainty in retail, which contributed 39% of FY19 earnings. While these effects are material near term, the sharemarket is pricing them in as permanent, having sold GPT down to a 35% discount to its net tangible asset (NTA) backing. With a longer term time horizon, we see this as an opportunity to establish a position in a high quality diversified property group at an attractive price.

Leading iron ore producer **Fortescue (FMG)** was added to portfolios during the quarter at a price equivalent to a 20% free cash flow yield and a double digit fully franked dividend yield. Those figures of course encapsulate a robust commodity price coupled with a lower AUD and thus may moderate in the months and years to come. Nonetheless, following a brief COVID-19 inspired selloff, we took the opportunity to add FMG at a significant discount to both value and the prevailing share price.

FMG was founded in 2003 and shipped its first iron ore to China in 2008. It has grown to be one of the largest global iron ore producers, shipping ~170 million tonnes of iron ore per year, and is the lowest-cost provider of seaborne iron ore to China. Fortescue owns and operates an integrated infrastructure and supply chain with two mine hubs in the Pilbara and a third under development, the five-berth Herb Elliott Port in Port Hedland, the Judith Street Harbour towage infrastructure and a heavy-haul railway. The main development projects are the Eliwana Mine and Rail Project and the Iron Bridge Magnetite Project.

With low gearing, high levels of profitability and margin, FMG is today a high quality business. The company is genuinely cheap on conservative assumptions, generates significant free cash flow and continues to execute well operationally.

The COVID-19 crisis has provided another window of opportunity to add one of the ASX's most consistent long term performers to the portfolio at an attractive price, **Sonic Healthcare (SHL)**. Sonic is one of the world's largest medical diagnostics companies, providing laboratory and diagnostic imaging services to medical practitioners, hospitals, community health services and their patients. The group also operates Australia's largest network of primary care medical centres, Independent Practitioner Network, as well as other healthcare businesses.

SHL listed on the ASX in 1987 and is a member of the ASX 50. Since 1993 annual revenues have risen from A\$25m to over A\$6bn. As we have previously noted, SHL has a 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.

Mid Cap Sub-Portfolio

During the quarter we introduced several high quality mid-caps to the portfolio. We are genuinely excited by the long term prospects for each of these businesses.

Austal (ASB) is a leading designer and manufacturer of defence and commercial ships with a strong heritage in the design and manufacture of high-speed aluminium catamaran and trimaran vessels. Clients include the U.S. Navy, Royal Australian Navy and ferry operators including Fred Olsen in Spain, Molslinjen in Denmark and Condor Ferries in the UK.

A key earnings driver in recent years has been the Littoral Combat Ship (LCS) program for the US Navy. Austal has demonstrated solid operational performance over the course of this program. This has resulted in the group progressively increasing their share of work to approximately 67%/33% versus competitor Lockheed Martin, while improving margins over time. This is a positive lead indicator for future contracts with the US Navy including for Unmanned Surface Vessels and Guided-Missile Frigates.

The first half FY2020 result continued the strong recent track record of the company. EBIT increased by 48% on the previous corresponding period and management upgraded full year EBIT guidance from not less than \$105m to not less than \$110m. Clime considers that there remains upside risk to this guidance. The balance sheet is in a strong net cash position of \$152m, supporting the standing of the business as they compete in a number of significant tenders. This is one company whose earnings are unlikely to be affected by the vicissitudes of consumer sentiment.

Altium (ALU) is an ECAD (Electronics Computer Aided Design) software company. Its core product is Altium Designer, which is used to design, visualise and simulate printed circuit boards (PCBs). PCBs drive the behaviour of any digital product. Starting out from low-mid tier design solutions, Altium is increasingly growing into the high-end market catering to complex teams. It also has solutions for electronics parts and libraries, design collaboration and manufacturing workflow.

ALU is today a niche leader in PCB design software, having consistently grown its revenue at twice market growth while delivering industry leading margins. With a strong net cash balance sheet, experienced management team and a global opportunity set, we were excited to initiate a position in ALU during the quarter at quite an attractive price.

Breville Group (BRG) is a leading designer and distributor of small kitchen appliances worldwide – primarily under the Breville (North America, Australia / New Zealand, Rest of World) and Sage (European Union) brands. The company was founded in Sydney in 1932 and is focused on thoughtful design and innovation to solve identified problems with existing appliances. BRG's design and development teams work closely with professional chefs and consumers to identify food friction points and innovate to solve these challenges. BRG currently sells products into 69 countries, focused on the premium kitchen segment of the market.

Since FY2018, BRG has been progressively restructuring its mode of distribution into Europe, taking over the distribution into end retailers from historical third party relationships. This has proven to be a far more successful model and has opened the opportunity for a much bigger business in Europe.

We are particularly upbeat about the long term global growth prospects for BRG. The company has been operating in North America for 13 years and is enjoying strong demand growth there, but remains significantly underpenetrated in both the US and Europe. Compared to the level of ANZ sales, BRG is currently only 20% penetrated in North America, 7%



penetrated in Europe and even less in the Rest of World (ROW). While North America and Europe are not expected to match the level of success in BRG's home market, the competitor set is essentially the same and current growth rates and level of penetration suggest many years of strong post COVID-19 growth ahead.

REA Group (REA) is Australia's leading digital real estate group, operating through digital real estate platforms. REA offers services to agents, home buyers, investors and renters throughout Australia, parts of Asia and the USA. Through its digital platforms, REA offers listing services, subscriptions and branding products for real estate agents and property developers. For consumers, it offers websites, mobile and tablet apps with listings, tools and market commentary.

Over the past 5 years, REA has delivered an earnings per share compound annual growth rate of 14%. Beyond the current crisis, the business is set for continued strong growth into the long term, given the value proposition of the digital service and the potential for price increases relative to what is charged by real estate agents.

REA's leading position in Australia has true network effects, given the availability of properties attracts buyer/renter eyeballs and those eyeballs encourage agents/listers to use the platform. For the six month period to December 2019, realestate.com.au recorded average monthly visits of 84m, 2.95X the nearest competitor domain.com.au, as per Nielsen Digital Content Ratings. The realestate.com.au app recorded average monthly hours on the app of 2.6m over the same period, 4.06X the nearest competitor.

These dynamics are well understood by the market, however the near term disruption to real estate activity as a result of the pandemic saw the stock price fall by 43% between late February and late March. In turn, this presented a reasonable price for entry into this high quality company.

Technology One (TNE) has one of the most impressive long-term earnings histories on the ASX, in terms of consistent delivery of high earnings growth. The company has delivered an Earnings per share (EPS) compound annual growth rate (CAGR) of 13.7% for the 10 years to FY2019, with the lowest growth rate over this period being 9.7%.

Technology One was established in 1987 and listed in 1999. The company provides end to end Enterprise Resource Planning (ERP) systems to organisations in Australia, New Zealand and the UK, with a particularly strong position across Government, Education and Health. TNE's end to end solution includes software development, marketing, sales, implementation and support.

Further to the earnings growth history outlined above, 85% of revenues are generated from Government (approx. 50% of total), Education (universities, approx. 25% of total) and Health (approx. 10% of total). Moreover, TNE has a greater than 99% retention rate across these verticals. These factors provide a highly defensive earnings base.

There remains an element of risk around project work in the current environment, with earnings also skewed to the September half year, but the vast majority of this work can be done remotely. Also, management has commented that projects in train are continuing.

TNE generates high returns on invested capital (ROIC of 100% at the last result), high margins (EBIT margin of 26.3%), has no debt and \$105m of cash (equivalent to 33cents per share). Each of these metrics is indicative of a high quality business.

The above facts mean that this is one stock which rarely presents an opportunity where it is distinctly cheap. However, it is undoubtedly a high quality business and the recent 25% share price correction offered a reasonable entry point.

Wealth and funds administration software provider **Bravura Solutions (BVS)** was another good business sold indiscriminately during the quarter. BVS provides mission critical software supporting some of the world's largest superannuation, pension, and wealth administration entities.

Almost 80% of revenues are recurring, the balance sheet has \$100m cash

and no debt, the business has sales visibility over the next 18 months, and we consider it is best-in-class in its target markets. Despite these attractive characteristics the enterprise was available at 15 times FY20 earnings during March. While near term headwinds may intensify, we retain longer term conviction in our holding.

Perhaps the most notable exit from the mid-cap sub-portfolio for the quarter was **Afterpay (APT)**. We continue to see a bright long-term future for the company, however its relatively new business model is about to be tested once and for all in coming months and we want to observe how this plays out with no risk to the portfolio.

In APT's favour are its dynamic risk management, short duration receivables (30 days), and strong balance sheet. APT has assembled a world-leading risk and analytics team, led by Silicon Valley luminary Xin Ge. Xin's previous roles include Head of Risk at Uber, VP of Global Seller Risk Management at PayPal, and Director of Risk Analytics at eBay. As per its March announcement, the balance sheet has \$403m cash and \$694m undrawn facilities. The business is not under immediate pressure to cover operating expenses.

The issue at this stage is the unprecedented economic disruption caused by COVID-19. In the US, APT's key growth market, more jobs were lost over two weeks in March (9.9 million) than during 3-year duration of the GFC (9.7 million). There is further downside on this front, in our view. APT has proven loss rates can be controlled under normal economic conditions, but we want to see further proof of execution in the new environment before considering re-establishing a position.

Small Cap Sub-Portfolio

The market downturn for small and micro caps during the quarter was extreme. Instances of indiscriminate selling in high quality businesses whose operations are supported by cash-laden balance sheets, and that have uninterrupted demand drivers, were widespread. We highlight three small caps that we maintain conviction in below.

Mach7 Technologies (M7T) provides imaging data management software to multi-site healthcare networks in the US, South East Asia and the Middle East. It has 100% customer retention over 10 years of operation, with notable customers including the Hospital Authority of Hong Kong and Sentara Healthcare in the US.

The stock was sold off from a February high of \$0.93 to a low in March of \$0.37. M7T has only somewhat recovered since. With \$23m cash and no debt, the enterprise trades on a forward free cash flow yield of about 7%. We increased our holding in the company during the quarter.

As per M7T's 18 March update, there has been no change to the company's outlook, which includes \$32.5m tenders to be awarded this calendar year and a contract pipeline of over \$100m. For context, FY19 was M7T's best year to date, with contracts totalling \$21m in value won over the year. Near term contracting may slow, however COVID-19 is highlighting the need for investment in streamlined healthcare and telemedicine. Our view is M7T is in the right place at the right time.

Defence and Space technologies developer **Electro Optic Systems (EOS)** was also unfairly caught in the sell-off, in our view, with shares falling from over \$10.00 in February to a low of \$3.00 in March. EOS contracts to allied governments globally and as such we believe demand will be largely unaffected by the economic downturn.

With cash of \$78m, no debt, and a contract pipeline for its Defence products of \$3bn, EOS is well placed over the medium term. At \$3.00 per share, the enterprise was trading at less than 10x EBIT, a remarkably cheap price for a company forecast to grow earnings at 45%+ in the coming years.

The long term opportunity in EOS is potentially immense. Presently, the Defence segment drives the company's financial results. In the future we think the Space and Communications segments may be the primary earnings drivers. These divisions were available as free options during March.



The Space segment tracks and manages objects in space (space junk and space assets). The Space Communications business includes ground satellite receiver technologies for navy and defence and US spectrum licenses for satellites to be launched in mid-earth orbit (by mid-2024). Interestingly, EOS already has initial commitments totalling \$100m per annum for proposed mid-Earth orbit (MEO) satellite constellation.

RPMGlobal (RUL) is a leading provider of mining operations enterprise software, with solutions covering mine design, costing, operations schedule, and equipment maintenance. It has a global client base of leading miners, contractors and yellow-kit equipment providers.

RUL is the sole provider globally with full SAP enterprise system integration and certification. The Software business will benefit from increasing IT utilisation in mining from very low levels currently. In 1H20 annualised recurring revenue (software maintenance and subscription revenues) totalled \$35m. Annual recurring revenue (ARR) as of 11 March was \$11.4m, up from \$4.3m as at 30 June 2019.

Although COVID-19 may slow purchasing decisions by miners in the short term, the overall effect is likely to be positive as RUL enables remote planning and operation of mining assets. We estimate RUL has currently captured less than 5% of the addressable revenue opportunity.

Clime forecasts RUL will finish FY20 with around \$40m cash and no debt. During the sell off the enterprise traded as low as 8.5 times FY20 EBITDA and we increased our holding given our conviction in the stock. If RUL can continue sustain ARR growth rates over the next couple of years – and we believe it can – the stock should trade comfortably above current levels.



Adrian Ezquerro
Head of Investments



Ronni Chalmers
Investment Director



Jonathan Wilson
Portfolio Manager - Small Caps



Vincent Cook
Portfolio Manager - Mid Caps



David Walker
Portfolio Manager - Large Caps

Market Commentary

It will come as no surprise that the COVID-19 pandemic has had a shocking effect on the world's investment markets. Most global markets have experienced their worst quarter since the Global Financial Crisis 12 years ago, with unprecedented volatility as investors try to gauge the implications of large parts of the world's population being caught up in lockdowns of varying intensity.

As renowned investor Howard Marks writes, "The trade-off between the health costs and the economic costs will be a major challenge for every government. The inescapable fact during this pandemic is that what's good for the economy is bad for public health and vice versa." Countries that open too early will face secondary outbreaks, while those that leave it too long risk damaging their economy more than necessary.

Governments and central banks around the world have made emergency interest rate cuts and announced support measures of extraordinary size and scope to sustain economic activity at a reduced level – until we get to "the other side" of the crisis. Companies continue to withdraw their profit guidance, and many have been forced to raise fresh capital in order to bolster balance sheets ahead of the uncertain period in front of them.

As we write this report, some rare good news is that Australia may be past the worst of the health crisis in that "the curve" of new Covid-19 cases appears to be "flattening". Furthermore, the Australian Government's response has been swift and decisive.

The Government has put in place three economic stimulus packages, with total expenditure and revenue measures of \$194 billion (9.7% of GDP) through Financial Year 2023-24, the majority of which is to be executed in FY20 and FY21. Measures include sizable wage subsidies (6.7% of GDP), income support to households, cash support to businesses, investment incentives and targeted measures for affected regions and industries.

Other measures include loan guarantees between the Commonwealth Government and the banks to cover the immediate cash flow needs of small and medium size businesses (up to \$20 billion). The Government is allocating up to \$15 billion to invest in residential mortgage backed securities (RMBS) and asset backed securities to help funding for small banks and non-bank financial institutions.

The Reserve Bank of Australia has cut the official cash rate twice (on 3 March and 19 March) to 0.25%, and announced yield targeting on 3-year government bonds at around 0.25% through purchasing of government bonds in the secondary market. APRA announced on 30 March that it is deferring its scheduled implementation of the Basel III reforms by one year to January 2023.

All these responses will be crucial in managing the response to the pandemic. But of course, the scale of the economic and financial costs remains unknown. In the US, both the world's largest economy and now the epicentre of the virus, a decline in GDP of between 15% and 30% is expected, while estimates of earnings of S&P 500 companies range from -10% to -100%. We can expect something broadly similar in Australia.

Fortunately, there are some positives: the speed with which China has managed to get back to a semblance of normality is encouraging; the monetary and fiscal responses around the world have been truly enormous and will allow many businesses to survive the "hibernation" period; banks are better capitalised and probably carry less risk than they did at the time of the GFC; and markets have adjusted to the extent where many high quality and resilient businesses are now available for investment at more attractive prices.

Philosophical thoughts - Investing with a focus on quality and value

There's no better time to reiterate one's investment philosophy than in a time of crisis. We remain focused on investing in quality companies while maintaining strong valuation discipline.

It's human nature to perceive threats more urgently than the opportunities that lie in wait on or over the horizon. At the same time, pessimism holds



an allure that will often present those propagating it as the 'wise sage', perhaps in contrast those proffering a case for long term optimism.

While we acknowledge the significant near term uncertainty, we maintain the view that equities will offer genuine long term investors the ability to generate sound returns, over time. Firstly though, we must be positioned to endure a tougher environment; 'In order to succeed, you must first survive'. Thus, our resolve to focus on high quality companies with strong balance sheets, those companies with true staying power, has only solidified.

The ever calming voice of Warren Buffett wrote in his recent annual letter to investors; 'We constantly seek to buy businesses that meet three criteria. First, they must earn good returns on the net tangible capital required in their operation. Second, they must be run by able and honest managers. Third, they must be available at a sensible price.' He continued; 'Berkshire's assets are deployed in an extraordinary variety of wholly or partly-owned businesses that, averaged out, earn attractive returns on the capital they use.' Who are we to disagree with such sound principles?

Despite market volatility, Clime retains its focus on highly profitable business (as measured by return on equity and return on invested capital): hence you see a diverse portfolio that contains the likes of CSL Ltd (CSL), Appen (APX), Bravura Solutions (BVS), Electro Optic Systems (EOS) and Jumbo Interactive (JIN) to name just a few. Finally, on this note, we also agree with Warren Buffett that 'Reinvestment in productive operational assets will forever remain our top priority'.

The 'All Cap' Appeal

Investors can often seek affirmation and the safety of the crowd. However, in order to achieve above average long term investing results, one must think a little differently. Indeed, investing is a field that demands at least a degree of contrarian thinking. In part, this is one reason why we are so passionate about active management and 'All Cap' quality investing; allowing investors to take advantage of deep insights through meeting more than 500 companies annually and accessing high quality opportunities right across the market cap spectrum.

Exclusively corraling yourself into large cap equities will likely reduce drawdowns in periods of excess stress, but will ultimately converge longer term returns to that of the index. So, while some small caps will be tested during periods of market panic as we've seen in the March quarter, finding and allocating some capital to high quality emerging small and mid-cap companies will reward the patient, diligent investor. Of course, this is provided such an endeavour is done with reference to portfolio balances and the investor's specific needs and objectives such as cash requirements from the portfolio.

Portfolio repositioning

Extraordinary circumstances often call for decisive action. 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.

Thus, in the face of the developing crisis, the first step for us was to dispassionately reassess those companies that we believed were acutely exposed to a significant downturn. This activity impacted companies that largely fell into two buckets: (1) Travel related businesses and retailers dependent on foot traffic, and (2) Leveraged businesses.

The likelihood of near term revenue either being impaired or ceased altogether for companies involved in the travel and bricks-and-mortar retail sectors was rising rapidly so the decision was made to remove these exposures from the portfolio during the quarter. This included our positions in Helloworld (HLO), Seek (SEK) and Webjet (WEB). While we rate these businesses and respective management teams highly, at the time of divestiture, we felt deeper discounts were likely to transpire in the weeks to follow. This indeed occurred, with WEB forced into a deeply dilutive capital raising late in the quarter.

It's a simple concept, but no business has ever died by having too much cash. Plenty of businesses have disappeared off the back of too much debt, however. Leveraged businesses, including leveraged financials, can be severely tested during downturns. As a result, we reassessed our investment theses for our positions in Afterpay (APT), Amcor (AMC) and Credit Corp (CCP). Similarly, we remain attracted to each of these businesses and may well revisit in the future, but felt the prudent course was to de-risk significant geared exposures in such an environment. Concurrently, we maintained a significant underweight position in the banking sector.

At the same time, to a smaller extent, we have utilised the degree of opportunity to initiate positions in a range of high quality companies that we indeed hope to own for many years from this point. Thus, the likes of Altium (ALU), Goodman Group (GMG), Breville (BRG), Technology One (TNE), REA Group (REA) and several other securities were introduced at 'starter' weights within portfolios during the quarter, which allows us to incrementally wade into these positions during weaker periods. We explore the investment theses for many of our new positions in the subsequent Portfolio Commentary section.

When coupled with the range of high quality businesses we already hold, we now believe we own the vast bulk of the portfolio constituents we will move forward with for the foreseeable future (based on our current thoughts for the path forward). It is our intention to buy more of these stocks, thereby adding to portfolio weights, should markets fall back to retest recent lows in the coming months.

What about earnings?

The longer term average P/E for the ASX200 is about 14.5x, which approximates the current P/E for the Australian market. However, it is notable that this only incorporates average company earnings downgrades of just -7% thus far: an improbably meagre figure given the scale of economic dislocation already evident. We therefore still see material downside to near term earnings forecasts, with the spectre of extended shutdowns and equity raisings only adding further pressure to earnings profiles.

Courtesy of UBS, since 1972, earnings per share (EPS) have fallen by 32% during an average recession. By sector, Resources EPS (-44%) has historically fallen the most on average, followed by the Financials (-27%) and the Industrials ex Financials (-25%). This provides useful context when assessing the relative optimism still embedded in current earnings forecasts. Furthermore, while EPS revisions have not yet gathered much steam, the number of ASX 200 stocks with downward EPS revisions is at record highs. We can readily observe that most ASX200 constituents that have provided guidance have either withdrawn or reduced their guidance since February.

While the above provides for a more circumspect outlook on equity performance, there remains several factors to support higher P/Es in today's environment. This includes enormous fiscal stimulus, record low interest rates, including ostensibly limitless QE funded buying of Government bonds, and a potentially faster recovery.

The Outlook

Looking ahead, a great many uncertainties remain, but we are confident that the portfolio is well positioned with a diverse range of financially strong, high quality businesses. While we do not know the tenure of the crisis, history suggests that high quality financially strong companies tend to power out of downturns, and this is how we are now positioned. Cash reserves are healthy at quarter end and afford us opportunity to incrementally add to target holdings with a view to holding and expanding these positions over the long term as market conditions turn more favourable.

Looking forward the approach for growth equity portfolio management is dictated by the following principles:

1. The portfolio will hold elevated levels of cash that will rise and fall according to opportunity and/or new updated significant information;



2. The portfolio will be generally more weighted to larger companies, with better market liquidity, identified by quality overlays and valued conservatively;
3. The portfolio's exposure to small capitalisation companies has been reduced to a level commensurate with a more risk averse environment focused on liquidity; and
4. The elevated cash holding is expected to be partly utilised by capital raising opportunities by companies that are challenged by the current environment but meet our quality analysis.

The current situation is dynamic, and our approach is to be active, nimble and open-minded to rapidly changing circumstances.

Thank you for your ongoing support.

Adrian Ezquerro
Head of Investments