



Clime Capital Limited

14 May 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 30 April 2020.

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**Clime Capital Limited**

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## NTA Report - April 2020

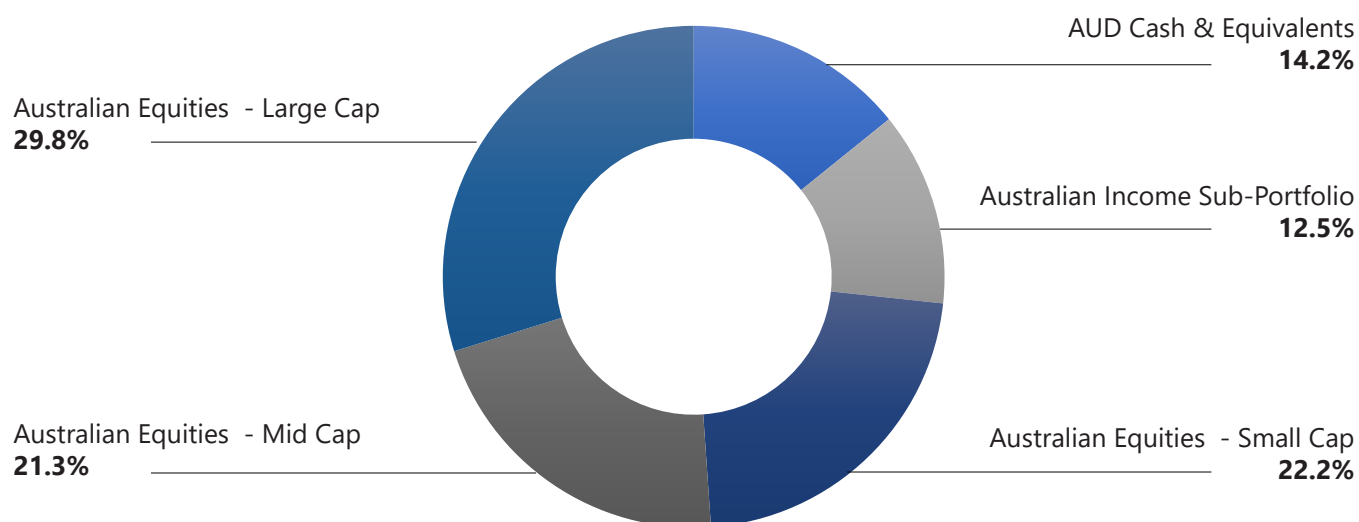
| NTA before tax | Total Portfolio Including Cash | Rolling 12 Month Dividend | Historical 12 Month Dividend Yield |
|----------------|--------------------------------|---------------------------|------------------------------------|
| <b>\$0.72</b>  | <b>\$110.0m</b>                | <b>5.05cps</b>            | <b>6.6%</b>                        |

### Net Tangible Assets (NTA)

|   | April <sup>1</sup> | March <sup>1</sup> | February <sup>1</sup> |
|---|--------------------|--------------------|-----------------------|
| <b>NTA before tax</b>                           | \$0.72             | \$0.66             | \$0.91                |
| <b>NTA after tax</b>                            | \$0.76             | \$0.73             | \$0.90                |
| <b>CAM Share Price</b>                          | \$0.76             | \$0.70             | \$0.91                |
| <b>Historical 12 Month Yield Excl. Franking</b> | 6.6%               | 7.1%               | 5.5%                  |
| <b>Historical 12 Month Yield Incl. Franking</b> | 9.5%               | 10.2%              | 7.9%                  |

<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, paid on 24 April 2020. NTA before and after tax disclosed above for April 2020 is after, and for March and February 2020 is before, the effect of this dividend payment.

### Gross Asset Allocation



### Company Overview (\$m)

| Assets                          | \$M      |
|---------------------------------|----------|
| Australian Equities             | \$80.7   |
| Australian Income Sub-Portfolio | \$13.8   |
| AUD Cash & Equivalents          | \$15.5   |
| Total Portfolio including cash  | \$110.0  |
| Notes Payable at face value     | (\$27.7) |
| Net Tangible Assets Before Tax  | \$82.3   |

### Top 5 Holdings

| Company                  | ASX Code | % of Assets |
|--------------------------|----------|-------------|
| <b>BHP Group</b>         | BHP      | 5.8%        |
| <b>Bravura Solutions</b> | BVS      | 3.6%        |
| <b>Appen</b>             | APX      | 3.5%        |
| <b>Austal</b>            | ASB      | 3.3%        |
| <b>Westpac</b>           | WBC      | 3.3%        |



## Portfolio Commentary

The CAM portfolio pre-tax net return was 7.8% in the month of April, compared to a 9.5% return for the S&P/ASX All Ordinaries Accumulation Index, while the CBC portfolio pre-tax net return was 8.6%, compared to an 8.8% return for the S&P/ASX200 Accumulation Index.

All sectors delivered positive performance in April, led by energy despite oil futures turning negative at one point. However, energy remains the worst performer over the past year. After strong outperformance during the sharp March sell-off, consumer staples (+2.6%) was an underperformer in April. Utilities (+3.2%), telecommunications (+1.0%) and healthcare (+4.9%) were other defensive sectors that lagged in a strong April rally.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors BHP Group (BHP), Macquarie Group (MQG), Fortescue Metals Group (FMG), GPT Group (GPT) and CSL Limited (CSL), no material detractors.
- **Australian Equity Mid Cap Sub-Portfolio:** Key contributors Appen (APX), Bravura Solutions (BVS), Jumbo Interactive (JIN), Austal (ASB) and Altium (ALU), no material detractors.
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors City Chic Collective (CCX), Audinate (AD8), Integral Diagnostics (IDX), Macquarie Telecom (MAQ), RPM Global (RUL) and Electro Optic Systems (EOS), key detractors Navigator Global Investments (NGI) and Citadel Group (CGL).

While both BHP and FMG delivered solid quarterly reports, which saw the latter upgrade its production guidance, the ongoing resilience of the iron ore price was the primary driver of monthly outperformance. CSL provided a COVID-19 update during the month, with the company reaffirming FY20 constant currency profit guidance of \$2.11b to \$2.17b.

Within the mid-cap sub-portfolio, we continue to believe the likes of ALU, APX, BVS and JIN are particularly well placed to weather the COVID-19 storm. APX reaffirmed its 2020 guidance for EBITDA to be in the range of \$125m to \$130m, with management noting 'the Company's global crowd workers are fortunately and ideally situated, working from home as usual.' Typical of many portfolio companies, APX maintains a strong balance sheet, with significant cash reserves.

CCX is a specialist in plus-size ladies fashion, which is a structural growth category. CCX was already generating 65% of group sales via its online channel, suggesting the company is particularly well positioned to transition successfully to a post-COVID world. Leading mining software provider RUL provided another positive update during the month, with management noting further growth in its Annual Recurring Revenue (ARR) profile.

The portfolio retains its focus on high quality companies with strong balance sheets. In turn, this provides the portfolio with significant resilience and a platform for the delivery of sound returns to investors over the medium to long term.



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Head of Investments



**Ronni Chalmers**  
Investment Director



**Jonathan Wilson**  
Portfolio Manager - Small Caps



**Vincent Cook**  
Senior Analyst - Mid Caps



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Senior Analyst - Large Caps



## Market Commentary

Global markets recorded an extraordinary bounce from the low point on 23 March through the month of April. In local currency terms, the NASDAQ, Russell 2000 and S&P 500 each delivered returns of 15.4%, 13.7% and 12.7% respectively. Although volatile, the S&P/ASX200 Accumulation Index rallied strongly to finish up 8.8% in April, the best monthly return since 1988. This is still 23% below the high reached in February, but 21% above the low reached in late March.

While small sections of the economy may snap back relatively quickly post lockdown, most sectors after COVID-19 will probably recover at a tepid pace. Business and consumer confidence will take time to rebuild, while some restrictions may become semi-permanent.

In its baseline outlook, the RBA expects economic activity in Australia to decline by 6% in 2020 before rebounding 6% in 2021. Despite this relatively strong recovery, the RBA still expects the unemployment rate to peak around 10% and be above 7% by the end of next year. Similarly, inflation is expected to be negative in 2Q, and even in 2021 is only expected to grow at 1.0% to 1.5%, well below the RBA's target band.

Australia's Treasurer expects the shock caused by the coronavirus lockdown to dwarf the impact of the global financial crisis. Josh Frydenberg said that the restrictions introduced to minimise the spread of coronavirus would cause unemployment to double, with economic activity falling by about A\$4bn per week for as long as the lockdown remained in effect. Almost 1 million people have lost their jobs since the 14th of March following the temporary closure of businesses such as pubs, restaurants and retailers owing to social distancing rules.

The positive news is that Australia and New Zealand have so far been able to suppress COVID-19 with remarkable success. This suggests that domestic interstate travel may ease in due course, likely followed by movement between Australia and NZ. With China and most of Asia having also contained the virus reasonably well, the Asia-Pacific economies are likely to come out of the crisis earlier and ahead of Europe and the USA, possibly resulting in the strengthening of the AUD (and NZD) against a basket of international currencies.

Governments continued to undertake significant fiscal expansions. On the 14th of April, the Committee for a Responsible Budget estimated the US budget deficit will be \$3.8tn this year – some 18.7% of GDP. As expected, the Federal Open Market Committee (FOMC) left the Fed Funds rate on hold at 0.0%-0.25%. The FOMC will "maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals".

In Australia, the RBA left cash rates at 0.25% and bought \$50b of Federal and State Government Bonds in the yield targeting (QE) programme. We expect the cash rate in Australia to be on hold for an extended period.

Global bond yields remained low in April, with US 10 year government bond yields dropping another 6bp to 0.62%. In contrast, Australian 10 year government bond yields rose 13bp to 0.89%.

As the crisis unfolds, and while the economic data is yet to be presented, it is certain that the global economy (including Australia's) is already in recession. While the rate of infection growth has tapered in various geographies, the path for recovery remains uncertain, with prospective second waves of infection still a meaningful possibility.

Under this backdrop, and with company earnings guidance largely absent, it is possible that equity markets are somewhat over-confident about prospects. We remain cautious in our approach and are maintaining slightly larger cash levels than normally regarded as optimal; we will selectively invest some of this cash as and when high quality opportunity is apparent at prices that include a healthy margin of safety.

**Adrian Ezquerro**  
Head of Investments