



Clime Capital Limited

12 May 2021

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 2021.

For further information contact:

John Abernethy

Chairman
Clime Capital Limited

(02) 8917 2107

Clime Capital Limited

Level 12, 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

April 2021 NTA Report

NTA before tax	NTA after tax	Total Portfolio Including Cash	Rolling 12 Month Dividend	Historical 12 Month Dividend Yield	Historical 12 Month Dividend Yield Including Franking
\$0.935	\$0.917	\$152.4m	4.75cps	5.3%	7.6%

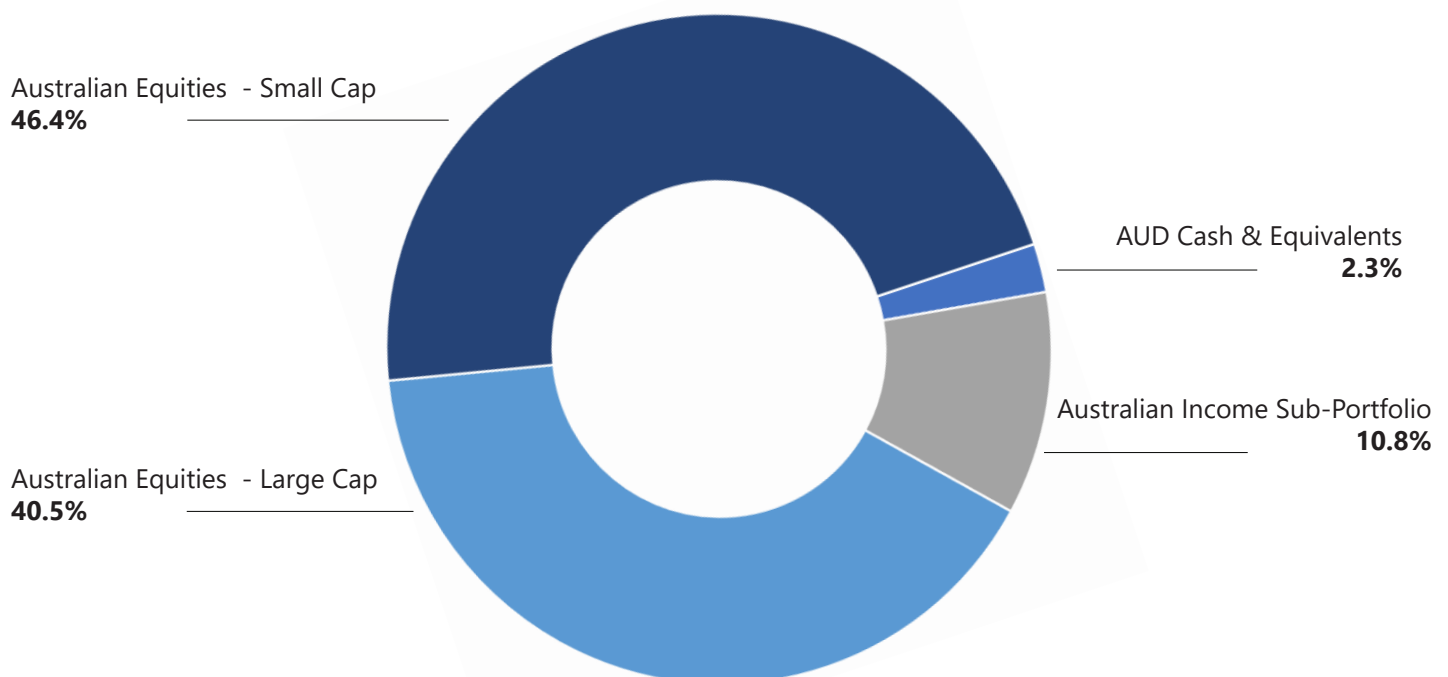
Share price as at 11 May 2021: **\$0.88**

Net Tangible Assets (NTA)

	April ¹	March ¹	February ¹
NTA before tax	\$0.935	\$0.900	\$0.900
NTA after tax	\$0.917	\$0.900	\$0.900

¹ On 2 February 2021, the Board declared a fully franked dividend of 1.20 cents per share in respect of the Company's ordinary shares for the period 1 January 2021 to 31 March 2021, payable on 29 April 2021. NTA before and after tax disclosed above for April 2021 is after the effect of this dividend payment, whereas for February and March 2021 is before the effect of this dividend payment.

Gross Asset Allocation





Company Overview (\$m)

Assets	\$M
Australian equities	132.4
Australian Income Sub Portfolio	16.4
AUD Cash & Equivalents	3.6
Total Portfolio Including cash	152.4
Convertible Notes at face value(CAMG)	28.5
Net Tangible Assets Before Tax	123.9

Top 20 Holdings (in alphabetical order)

Ancor	AMC	Mineral Resources	MIN
APN Property Group	APD	Macquarie Group	MQG
BHP Billiton	BHP	National Australia Bank	NAB
City Chic Collective	CCX	Nick Scali	NCK
Codan	CDA	Navigator Global Investments	NGI
Goodman Group	GMG	Oz Minerals	OZL
Hansen Technologies	HSN	RPM Global Holdings	RUL
Integral Diagnostics	IDX	Sonic Healthcare	SHL
Jumbo Interactive	JIN	Westpac Banking Corporation	WBC
Mach7 Technologies	M7T	Wesfarmers	WES



Portfolio Commentary

The portfolio returned 4.9% pre-tax net of fees in April, compared to a 3.5% return for the S&P/ASX200 Accumulation Index. While the monthly return for the Australian market was strong in absolute terms, the ASX again lagged most developed global indices. The S&P 500, Nasdaq and MSCI UK Indices delivered returns of 5.3%, 5.4% and 4.0% for the month, respectively.

Domestically, Technology (+9.7%), Materials (+6.8%) and Industrials (+4.3%) outperformed, while Energy (-4.9%), Consumer Staples (-2.5%) and Utilities (-1.2%) lagged. After a weak March quarter, Australian Bonds rallied during the month, in turn providing greater support to higher growth sectors within the equity asset class.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors Mineral Resources (MIN), BHP Group (BHP) and Fortescue Metals Group (FMG), no material detractors.
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors City Chic Collective (CCX), Codan (CDA), Adairs (ADH), Jumbo Interactive (JIN) and Rhipe (RHP), key detractors Electro Optic Systems (EOS) and Mach7 Technologies (M7T).

Mineral Resources (MIN) returned 25.6% in April, supported by a 13.3% gain in the USD iron ore price and 5.9% increase in the lithium price. Mineral Resources is a beneficiary of current conditions for iron ore miners both through opportunities for mining services work and from iron ore mining in the company's own right.

BHP Group (BHP) also contributed positively to portfolio performance, returning 5.3%. BHP benefited from the abovementioned iron ore price movement, as well as the 11.9% gain in the copper price and 5.8% rise in the oil price in April. **Fortescue Metals Group (FMG)** gained 13.0%, matching the gain in the iron ore price, which is the focused resources exposure of this company.

Adairs (ADH) returned 22% reflecting broad strength across retail. The Australian consumer remains landlocked with \$60bn of pre-COVID international travel spend still largely internalized. Furniture and houseware goods was one of the strongest categories in February (+26% YoY, ABS).

Rhipe (RHP) returned 27% in April, regaining declines over the March quarter. During the month, the cloud software distributor acquired cyber security specialist, emt Distribution, and announced a slight upgrade on a solid 3Q21, with FY21 operating profit guided to \$18.0m (+36% YoY), up from \$17.5m. The business is well capitalized and trades at a discount to peers.

Mach7 Technologies (M7T) returned -6% despite a solid 3Q21 update which included record cash receipts of \$8.4m and positive operating cash flow of \$3.3m. During month M7T announced it had been awarded 2021 Global Enterprise Imaging Solutions Product Leadership by Frost and Sullivan. M7T has \$18m net cash and healthy contract pipeline heading into 4Q21.

Electro Optic Systems (EOS) returned -11% on a 1Q21 update that included \$25m of operating cash outflow on \$51m of cash receipts. EOS has \$41m cash on the balance sheet, with a material portion of a \$120m defence systems contract to hit the cash line 2Q21. Finalisation of this contract was delayed by travel restrictions during 2020. We believe that once the issue is resolved the market will refocus on the company's significant growth opportunities.

As we draw closer to the end of FY2021, we expect a multitude of earnings updates for ASX listed businesses to be delivered during the month of May. We are excited about our portfolio and remain positive on both the growth trajectory and long term opportunity set for our portfolio of businesses.

Adrian Ezquerro

Head of Investments

Ronni Chalmers

Portfolio Manager - Australian Equity

Jonathan Wilson

Portfolio Manager - Ex ASX 100

Vincent Cook

Portfolio Manager - ASX 100



Market Commentary

April started on a positive note for financial markets, after an exceptional first quarter, with divergent fortunes for equities and global bonds. The progression of the economic recovery will be the key driver of markets, and the ability to leave pandemic lockdowns behind will be the most important factor. China was an early beneficiary of “early in, and early out” and will continue to be an important world economic growth engine; however it seems that with massive fiscal support, the US is likely to take over the reins, with growth in the American economy set to rise to levels not seen for 40 years.

The world economy is recovering more quickly than was expected just 6 months ago, although the recovery is not uniform, with “low-income” developing countries enduring slower recoveries. Developing countries are at a disadvantage in engineering their recoveries because they lack the monetary and fiscal largesse now prevalent in more advanced countries.

The most recent forecasts from the IMF are that cumulative growth in global gross domestic product (GDP) per head between 2019 and 2022 is forecast to be only 3% lower than they anticipated back in January 2020 (before the onset of Covid). This forecast growth over 3 years is extraordinary given the actual 6.5% shortfall experienced in calendar year 2020.

Australian equities have recouped roughly 80% of the ground lost from the all-time high of last March - reached just before COVID-19 was designated a global pandemic by the World Health Organization - but the ASX still trails its developed market peers, especially the US.

Extraordinary monetary and fiscal stimulus and effective management of the pandemic has driven a V-shaped economic recovery in Australia, characterised by a rebounding labour market (with unemployment down to 5.6%), strong retail spending and continued strong housing demand. Unfortunately, worsening diplomatic relations with China, our largest trading partner, resulted in a reduction of Chinese investment in Australia of over 60%. Despite China’s pullback, investment has increased in the real estate, mining, and manufacturing sectors.

The recovery in the global economy is driving commodity prices higher. Australia recorded a goods trade surplus above \$8 billion in March, as imports and exports both increased 15%, according to preliminary trade data released by the ABS. Iron ore is the foundation of Australia’s export strength, accounting for 39% of all March exports. A record \$14 billion of iron ore was exported in March, up \$2.5 billion from February. Copper also made a significant contribution of \$745 million, the third highest copper ore export month on record, and adding to the positive news flow for Australia’s diversified mining groups.

In other positive economic news for Australia, inflationary pressures are yet to emerge, thus reassuring investors that rates are on hold for some considerable time. The 0.6% quarter on quarter rise in consumer prices in Q1 was well below the median consensus forecast of 0.9% and meant that inflation only edged up from 0.9% to 1.1%. An 8.7% q/q jump in fuel prices accounted for half of the rise in overall consumer prices. The weakness in underlying inflation in Q1 is consistent with the view that the RBA will announce further QE measures in due course. In our view, financial markets have probably gone too far in pricing in nearly three rate hikes by the end of 2023. We think the “normalisation” of interest rates will be a slower process than that.

Consumer confidence in many developed economies is surging, with households having amassed large amounts of savings and having received government support payments, but with little to spend it on during lockdowns. According to Moody’s, consumers around the world have stockpiled an extra \$5.4 trillion of savings since the pandemic began and are becoming increasingly confident about the economic outlook, paving the way for a strong rebound in spending as businesses reopen.

Booming global consumer confidence (notably in the US) suggests households will be willing to spend again as soon as shops, bars and restaurants reopen when restrictions are further eased. In the first quarter of this year, the Conference Board global consumer confidence index hit its highest level since records began in 2005, with significant uplifts in all regions.

The recovery in the US is steaming ahead, with recent data indicating rising confidence in the durability of the bounce-back; this is well illustrated by the surge in US retail trade figures. While last year’s shutdown was unprecedented, the extent of the rebound since then is equally remarkable. Spending has recovered far more quickly than it did after the previous (GFC induced) recession.



The recovery in economic data is mirrored by the strong US earnings reporting season. US companies which have enjoyed the largest profit upgrades include cyclical businesses, such as energy (benefitting from rising oil prices), banks (leveraged to house prices and employment), technology (as consumers and companies invest with government support programs) and resource companies (high commodity prices). An exception to all the profit upgrades: the travel and leisure sectors are seeing downgrades as concerns persist as to how quickly international borders can be reopened.

High valuations in some parts of the market suggest that many companies are vulnerable to any disappointment in profit pronouncements or forward guidance. Hence a quality focused approach, coupled with strong valuation discipline, remains critically important. In particular, cash generation needs to be monitored to avoid getting ensnared by companies that are trading on hope rather than reality.

While some commentators have argued that the \$6 trillion in recent stimulus programs announced by the Biden Administration will fuel a historic rebound in the economy, the stock market may have already accounted for the benefits. More balanced observers caution that three factors could weigh on earnings: higher taxes, rising input costs and increased financing expenses. Goldman Sachs has calculated that if the taxes planned to fund the various stimulus programs were fully implemented, they could cut corporate earnings by as much as 9% in 2022.

Equity markets have “front-run” the recovery, and are at or very near record peak levels. Nevertheless, as is always the case, risks remain. We regard the most significant risks to markets at present as being the following: the massive fiscal and monetary programs could cause an inflation outbreak; bond markets remain in “bubble-like” conditions and sharp periodic sell-offs of bonds are possible; shares and property markets are somewhat expensive, and disappointments could cause markets to correct; market sentiment and volatility measures indicate some complacency; and geo-political tensions between US and China could worsen, disrupting growth.

At present, the investment environment remains benign, investor confidence is high, and there appear to be few short-term catalysts for a change of direction. However, it pays to be cautious, especially once market complacency develops. Risks remain, and one potential negative surprise could be the re-emergence of inflation, with central banks behind the curve. All things considered; we retain our view that the positives outweigh the risks and as such, maintain our constructive stance on exposure to growth assets.

Adrian Ezquerro
Head of Investments