



Clime Capital Limited

15 June 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 31 May 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

May 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
\$0.95	\$0.93	\$154.8m	4.75cps	5.1%	7.3%

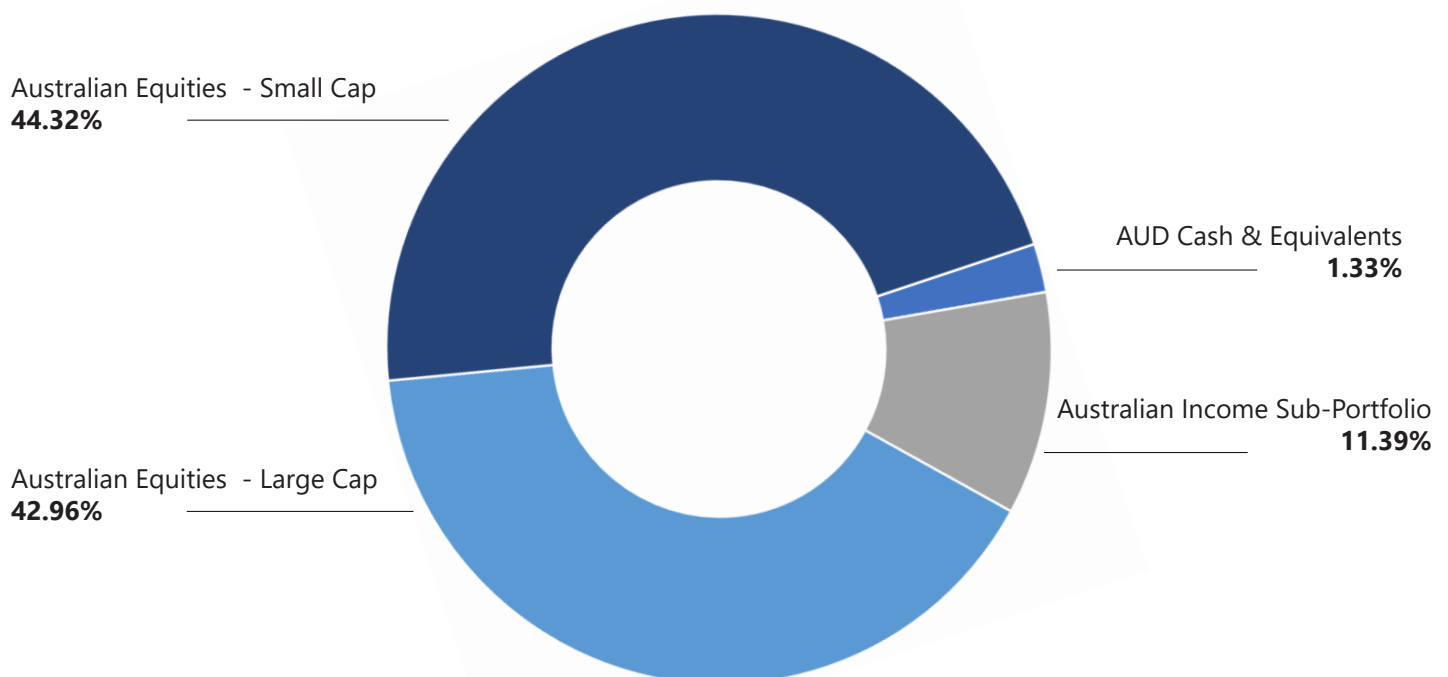
Share price as at 11 June 2021: **\$0.93**

Net Tangible Assets (NTA)

	May	April ¹	March ¹
NTA before tax	\$0.950	\$0.935	\$0.900
NTA after tax	\$0.930	\$0.917	\$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 March 2021 is before the effect of this dividend payment.

Gross Asset Allocation





Company Overview (\$m)

Assets	\$M
Australian equities	\$135.2
Australian Income Sub Portfolio	\$17.6
AUD Cash & Equivalents	\$2.0
Total Portfolio Including cash	\$154.8
Convertible Notes at face value(CAMG)	\$28.5
Net Tangible Assets Before Tax	\$126.3

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 1.9% in May, compared to a 2.3% return for the S&P/ASX200 Accumulation Index. Large cap stocks led the market strongly during May, with the ASX 50 outpacing the Small Ordinaries by 2.6 percentage points over the month.

In a reversal of fortunes on the prior month, the ASX outperformed most global indices, with the S&P500 and MSCI World delivering returns of 0.7% and 1.1% respectively. Domestically, Banks (+7.3%) and Consumer Discretionary (+3.5%) led the way, while Technology (-9.9%) and Utilities (-6.6%) underperformed.

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

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors Westpac (WBC), National Australia Bank (NAB), Australia and New Zealand Banking Group (ANZ) and OZ Minerals (OZL), only detractor of note Mineral Resources (MIN).
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors APN Property Group (APD), Integral Diagnostics (IDX) & RPM Global (RUL), key detractors Mach7 Technologies (M7T), Electro Optic Systems (EOS) & Hansen Technologies (HSN).

Westpac Banking Corporation (WBC), National Australia Bank (NAB) and Australia and New Zealand Banking Group (ANZ) contributed positively to performance, as the improving economic environment is supportive for banks. Excess capital also means that buy backs and / or special dividends are likely in the near term. WBC returned 8.2% for the month, NAB 3.4% and ANZ 6.7%. These three companies reported half year earnings results in May and Clime estimates that the excess capital positions at balance date would support buybacks of 5-6% of shares on issue.

OZ Minerals (OZL) returned 5.6% in May in the context of continued strength in the copper price, which gained 4.3% for the month in USD, taking the calendar year to date gain to 32.3%. Copper consumption is closely correlated with economic activity, while energy transition and the take up of electric vehicles are supportive for medium and long term demand.

Mineral Resources (MIN) detracted from performance, returning -5.0%, as a shortage of available truck drivers recently caused the company to reduce iron ore production guidance for the current financial year. The iron ore price increased by a further 7.8% in May and MIN plans to increase production from 20 million tonnes per annum to 90 million over the next five years, while doubling mining services work.

APN Property (APD) returned 59% for the month after announcing on 11 May it had entered into a scheme implementation deed with Dexus (DXS), under which Dexus will acquire 100% of APD. The proposed acquisition is for cash consideration of \$320 million at 91.5 cents, a 50% premium over APN's previous closing price of 61.0 cents.

Integral Diagnostics (IDX) returned 8% over the month on the back of a strong rebound in diagnostic imaging volumes. Across IDX key states of Victoria, Queensland, and Western Australia, FYTD volumes are up 14% in aggregate, with Victoria yet to accelerate. IDX trades on a free cash flow yield of 5% and retains significant balance sheet capacity for acquisitions in what is still a fragmented market.

Mach7 Technologies (M7T) finished the month -14% on no news. M7T announced on 6 May that current Mach7 Platform customer, University of Vermont (UVM), had chosen M7T's eUnity Enterprise Viewer. Reflecting a large cross sell opportunity, UVM is just the 15th of M7T's 130 customers to adopt both solutions.

Electro Optic Systems (EOS) receded -11% in May, with weakness continuing in the share price after the company's March quarterly release on 30 April. Negative sentiment persists, despite EOS subsequently announcing on 12 May cash receipts of \$43 million since 1 April, and net cash of \$60 million (up from \$41.5 million) at the AGM on 28 May. We think shares grossly undervalue EOS's contract pipeline and Spacelink business, both of which are near term catalysts.

Hansen Technologies (HSN) returned -7% for the month. HSN held its investor day on 18 May at which it reaffirmed FY21 EBITDA guidance of between \$115 and \$121 million and FY25 target of \$500m revenue at between 32% and 35% EBITDA margin. HSN's market valuation of \$1.06 billion remains attractive relative to our valuation.

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 & Economic Commentary

A resurgence in virus cases and some setbacks to vaccination programmes have pushed back the timing of recoveries in some countries somewhat, but we still expect strong global growth of over 6% this year – the fastest rate since 1973. The US will continue to lead the way, and the recovery in the euro-zone is about to step up a gear. However, downside risks are rising, mainly among Emerging Markets, and while China has emerged strongly from the pandemic, growth there will soften as credit is restrained. Inflation will continue to rebound in the coming months almost everywhere. Whereas underlying inflation pressures should dissipate in most cases next year, they are likely to hold up stronger in the US.

As COVID-19 vaccinations are being aggressively administered across regions, the consensus economic outlook has become more positive for reacceleration in Q2 and Q3. The Eurozone still lags the US and the UK in the rate of shots administered, but the production outlook across these regions indicates that we are likely to reach critical mass across developed markets by the end of Q3.

Such a rapid roll-out is fuelling a reacceleration in global growth. Growth continues to be supported by the backdrop of continued dovish monetary policy. Global central banks' efforts to avoid the combined effects of a global recession and a credit crisis in 2020 had a positive impact on global financial markets and helped corporations weather the significant fundamental stress but resulted in a significant increase in central bank balance sheets.

Back in August of 2020, the Federal Reserve softened its language around its 2% inflation target, messaging to market participants that it is unlikely to engage in monetary tightening in the shorter term and is instead inclined to allow inflation to run moderately higher than the standard 2% target for some time before hiking interest rates. This is reflected in the flatness of the Fed Funds Futures curve.

The expected economic acceleration with the backdrop of continued easy monetary policy has fed into renewed inflationary fears by market participants. Market-based measures of inflation pricing have climbed higher in recent months, with the 10-year Breakeven Inflation Rate for US Treasury Inflation Protection Securities (TIPS) now trading above the 2% Fed target level.

Ten year TIPS Breakevens have reached levels not seen since early 2013. Back in 2013, longer term interest rates began to rise as inflationary pressures translated into a more hawkish stance from the Federal Reserve. This ultimately resulted in the Fed tapering its asset purchases in December 2013, which caused temporary market turmoil but ultimately helped to quell inflationary fears.

In some ways, the 2013 Fed asset purchase tapering looks similar to the current market environment. However, whereas Bernanke indicated as early as May 2013 that the "[The Fed] could, in the next few meetings, take a step down in our pace of purchases", Chairman Powell has indicated as late as mid-March that the Fed is not yet ready to taper. Said Chairman Powell, "Until we give a signal, you can assume we're not there yet. As we approach it, well in advance, well in advance, we will give a signal that yes, we're on a path to possibly achieve that, to consider tapering."

The question as to whether inflationary fears will materialize and the extent to which the Fed will proactively address inflationary concerns if they do, in fact, materialize are paramount for investors over the coming years. Our view on the inflationary outlook is largely dependent on time horizon. In the short term, we expect significantly higher inflation rates. One reason for this includes base effects, such as the oil price. Currently, the oil price (at \$60 USD/barrel) is more than 200% higher than one year ago. However, such one-off effects should be ignored by the central banks as they do not constitute structural inflation.

Inflation is a process rather than a one-time price jump. Therefore, central banks will not react on transitory price increases. In the medium term, the outlook for inflation is dampened as economies still faces tremendous capacity underutilization, and it will take time to close the output gaps. This is especially true in Europe which lags in recovery, but is also the case in the U.S. where the economy is still far from full employment.

In the long run, however, inflationary pressures are certainly conceivable. Concerns about a rise in inflation also surfaced post the 2008 financial crisis, based on the simple view that inflation is possibly the easiest way to deflate debt obligations. As inflation never materialised, one could be tempted to dismiss such concerns, but such an approach is not prudent given the continued rise in the levels of debt.



It is thus important to review how such inflationary dynamics will impact various asset classes. As inflationary concerns take hold, investors are increasingly seeking to shift portfolio allocations toward assets that can benefit from inflation. Within this context, we highlight that the primary risk to investors comes from a prolonged period of rising inflation (like the one in the 1970s), rather than a temporary one. While uncertainty remains as to the likelihood of inflation risk over the longer term, it is nonetheless prudent to assess a range of scenarios.

The universe of fixed income investments stands to suffer the most from any material shift higher in the long-term inflationary outlook. Ultimately, fixed income (apart from TIPs and floating rate securities) is a nominal asset with a fixed stream of income payments. Even absent a material rise in interest rates, which has been the historical experience during periods of inflationary pressure, these fixed nominal returns may look less attractive in real terms if consumer prices rise.

During periods of positive inflation surprises, equity market returns typically trend lower while volatility increases. Energy and materials have commonly outperformed during such periods, while some other sectors with strong competitive advantage and pricing power have historically provided some inflation protection (IT, Healthcare, some Consumer sectors such as Staples).

We now enter the final month of what has been an extraordinary financial year. While we maintain a constructive stance on exposure to risk assets, given risks associated with valuation, inflation and monetary policy, a selective approach focused on quality remains paramount.

Adrian Ezquerro
Head of Investments