



Clime Capital Limited

14 July 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 June 2021.

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**Clime Capital Limited**

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## NTA Report June 2021

NTA before tax (CUM Dividend)	NTA after tax (CUM Dividend)	Total Portfolio Including Cash	Rolling 12 Month Dividend	Historical 12 Month Dividend Yield	Historical 12 Month Dividend Yield Including Franking
<b>\$0.995</b>	<b>\$0.961</b>	<b>\$160.6m</b>	<b>4.75cps</b>	<b>5.0%</b>	<b>7.1%</b>

**Share price as at 13 July 2021: \$0.94**

### Net Tangible Assets (NTA)

	June <sup>1</sup>	May <sup>1</sup>	Apr
<b>NTA before tax (CUM Dividend)</b>	\$0.995	\$0.950	\$0.935
<b>NTA after tax (CUM Dividend)</b>	\$0.961	\$0.930	\$0.917

<sup>1</sup>On 12 May 2021, 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 April 2021 to 30 June 2021, payable on 28 July 2021. NTA before and after tax disclosed above for May and June 2021 are before the effect of this dividend payment.

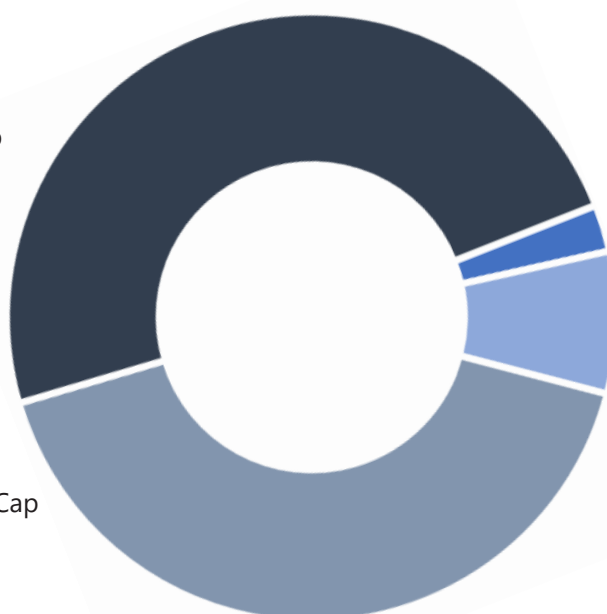
### Gross Asset Allocation

Australian Equities - Large Cap  
**49.7%**

AUD Cash & Equivalents  
**2.5%**

Australian Income Sub-Portfolio  
**7.6%**

Australian Equities - Small Cap  
**40.3%**





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

Assets	\$M
Australian Equities	\$144.5m
Australian Income Sub-Portfolio	\$12.1m
AUD Cash & Equivalents	\$4.0m
Total Portfolio Including Cash	\$160.6m
Convertible Notes (CAMG)	(\$26.9m)
Net Tangible Assets Before Tax	\$133.7m

## Top 20 Holdings

Company	ASX
Amcor	AMC
Australia & New Zealand Banking Group	ANZ
BHP Group	BHP
Brickworks	BKW
Electro Optic System Holding	EOS
Hansen Technologies	HSN
Integral Diagnostics	IDX
Jumbo Interactive	JIN
Mach7 Technologies	M7T
Mineral Resources	MIN
National Australia Bank	NAB
Navigator Global Investments	NGI
Nick Scali	NCK
Oz Minerals	OZL
Rhipe	RHP
RPM Global Holdings	RUL
Seven Group Holdings	SVW
Sonic Healthcare	SHL
Wesfarmers	WES
Westpac Banking Corporation	WBC



## Portfolio Commentary

The portfolio returned 4.6% (pre-tax net of fees) in the month of June, compared to a 2.3% return for the S&P/ASX200 Accumulation Index. For the quarter, the portfolio delivered a return of 11.8% (pre-tax net of fees), compared to an 8.3% return for the S&P/ASX200 Accumulation Index.

The strong returns delivered by the ASX in June capped off a strong year of recovery, with the S&P/ASX200 Accumulation Index returning 27.8% for the financial year. While a positive outcome that generally reflects the equally impressive bounce back in the domestic economy, the Australian market still lagged global equities. The ASX underperformed the technology heavy S&P 500 by 14 percentage points (ppt) over FY21 and MSCI AC World by 9 ppt. Due to Brexit, the key laggard in global stocks was the UK, which we outperformed by 10.8ppt.

For the month, Technology (+13.4%), Communications (+5.5%) and Staples (+5.3%) led the way, while Financials (-0.2%) and Materials (+0.3%) were the laggards.

Key contributors to the portfolio return for the June quarter were:

- **Australian Equity Large Cap Sub-Portfolio:** Key contributors Mineral Resources (MIN), Westpac (WBC) and Goodman Group (GMG), no material detractors.
- **Australian Equity Small Cap Sub-Portfolio:** Key contributors APN Property Group (APD), Brickworks (BKW), RPM Global (RUL), Jumbo Interactive (JIN), City Chic (CCX) and Rhipe (RHP), key detractor Mach7 Technologies (M7T).

We review the detail of these contributors and detractors in the below commentary.

### Large Caps

**Mineral Resources (MIN)** returned +41.3% in the June quarter, supported by a 30.6% gain in the USD iron ore price and 4.7% increase in the lithium price. The lithium price is now up 91.4% this calendar year. 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.

The major challenge for the company at present is finding enough workers to support the targeted expansion in both mining and mining services operations, in the context of state and international border closures. Clime has a lot of confidence in the management of MIN and sees the current labour supply limitations as a short term phenomenon.

**Westpac Banking Corporation (WBC)** returned +8.2% as investors anticipate capital returns from the sector towards the end of the current calendar year and as housing credit growth continues to strengthen. Australian housing credit outstanding increased by 4.8% for the year through to the end of May. Importantly, the recent rate of growth would imply strengthening to approximately 7.4% over the next 12 months. Business and personal credit growth remain in negative territory, while WBC is well placed in this regard, given their higher weighting to housing credit.

**Goodman Group (GMG)** returned +17.7%, reflecting a strong operational update in May and assisted by a 0.26% tightening of the Australian government 10 year bond yield over the quarter. Goodman management affirmed guidance for 12% operational earnings per share growth in the 2021 financial year and upgraded guidance for development work in progress from \$9 billion to \$10 billion. This increased development activity will be supportive for earnings over the next two years and Clime anticipates double digit earnings growth for the company to continue.

### Small Caps

**APN Property Group (APD)** returned +69.2% for the quarter, having received a strong bid from property heavyweight Dexis (DXS) in May. The proposed acquisition is for a cash consideration of \$320 million at 91.5 cents (less any distributions), a 50% premium over APD's previous closing price of 61.0 cents.

We have owned APD for a number of years, with our thesis largely focused on the significant implied undervaluation of APD's funds management platform. This cash takeover finally realises this value appropriately and likely means our long and successful association with APD (as an investor) will come to an end.

**RPMGlobal (RUL)** returned +29.5% in the June quarter on the back of solid software sales momentum. RUL added \$19.9m of Total Contract Value (TCV) for Subscription Software sales for the quarter, bringing the total for FY21 to over \$47.7m. Management have exceeded expectations in delivering on the strategy since 2018 to transition from a software license sales model to subscription software sales.



Annualised recurring revenue from subscriptions increased 70% on FY20. We believe RUL is early in a long term trend as miners increase IT adoption from current low levels. We estimate the software business is priced at a modest 7 times total FY22 software recurring revenues (subscriptions and maintenance fees), after adjusting for RUL's net cash balance and consulting division valuation.

**Jumbo Interactive (JIN)** gained +40.1% over the quarter, reflecting higher jackpot activity over 2H21, which should support domestic lotteries retail volumes, as well as rising optimism around the global growth prospects for JIN's lotteries management SaaS division. With digital share of Australian official lotteries at around 30%, growth opportunity remains for JIN's lotteries domestic retail business. The next growth leg comes from lotteries SaaS.

After attracting some of Australia's largest charity lotteries, JIN is looking to export its leading lotteries management capabilities to the UK, US, and Canadian markets, targeting both charities and official government sectors. Execution on this strategy carries significant valuation upside, and we could see some initial traction during FY22.

**City Chic Collective (CCX)** returned +37.9% for the quarter, benefiting from rising ecommerce in its key Australia, UK, and US markets. CCX summer dress sales should also benefit from reopening in the US and UK jurisdictions, which total over 55% of sales. Based on web traffic data, CCX's acquired ecommerce businesses, Avenue (US, 2019) and Evans (UK, 2020), are trading at close to Christmas levels.

**Brickworks (BKW)** was introduced to portfolios during the quarter and returned +22.3% for the portfolio. BKW was established in the 1930s, listed on the ASX in 1962 and is today one of Australia's most significant diversified building products businesses. The company's origins lie in building products, largely through the brand Austral Bricks, however the business is far more diversified today. It now also encompasses significant equity investments and industrial property assets.

BKW provides investors with exposure to two sectors that we expect will do quite well in the coming years: building products and industrial property. The company also has a wonderful long term track record, best exemplified by its dividend history. BKW has paid a dividend every year since its listing on the ASX, with ordinary dividends either maintained or increased over an extraordinary period that now spans 45 years. On entry prices, BKW offers investors a solid fully franked yield of about 3.1%.

**Rhipe (RHP)** returned 34.0% after upgrading operating profit guidance for FY21 from \$17.5m to over \$18m in April, representing annual growth of +30%. RHP traded at healthy forward free cash flow yields throughout FY20, despite long term growth underwritten by rising demand for RHP's cloud software wholesaling services across APAC, more recently including Japan. On 1 July RHP received a non-binding indicative proposal from Norwegian peer Crayon to acquire the business for \$2.50 per share, a 20% premium to previous close.

**Mach7 Technologies (M7T)** returned -19.0%, reflecting a quiet slow quarter on the contracting front, with shares pulling back from recent highs after rallying throughout 2020. We expect contract flow for its innovative enterprise and diagnostic imaging software to pick up once again in 1H22. Management recently highlighted in June easing COVID disruptions in the US allowing accelerating pipeline conversion as in-person sale activities recommence and hospital systems normalise their budgeting cycles. Positively, M7T's base of annuity revenue now funds over 60% of operating expenditures, so we should see strong operating leverage at the bottom line in future periods.

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## Market Commentary

Although the effects of the global pandemic have further to run, the worst of the crisis has now passed, and 2021 is shaping up to be a significantly better year for the global economy than 2020 was. Risks remain, but distress in financial and investment markets has been avoided, reflecting a concerted global policy effort. Firmer growth is expected in the second half of 2021 and beyond, although inflation remains a concern and low interest rates are supporting asset pricing.

Financial year 2021 has ended on a high note for risk assets (equities and property) which significantly outperformed low risk assets (cash and government bonds). Whilst equity returns are immediately calculated from closing share prices and indices at 30 June, in coming weeks we expect revaluations of quality property as capitalisation rates ("cap rates") decline. The cap rate declines are a belated and predictable result of historically low bond yields.

Markets are currently dominated by a consensus based on three core hypotheses: durable high global growth; transitory inflation; and market-friendly central banks. Following the Pandemic Recession and the V-shaped recovery, growth over the next 12 months will be robust in the biggest economic regions in the world - China, the EU, and the US - and this will serve Australia's economy well.

Although the market narrative is in the process of switching tack, the systemically important central banks will maintain ultra-loose monetary policies for quite a while. Whether warranted (in the case of the European Central Bank) or not (in the case of the US Federal Reserve), they have too much of their reputations and thinking invested in support and stimulus to risk a premature easing of the monetary accelerator.

The widespread conviction that the current rise in inflation will be transitory remains something of an open question, however. Inflation, while transitory, cannot dissipate until supply chain and other post-pandemic disruptions resolve themselves. Nevertheless, we lean towards the consensus being correct, and that inflation worries will diminish with time.

Markets have in the past month or so turned to focus on the next stage of monetary policy, which is expected to be the slow pivot towards interest rate normalisation. In Australia, the RBA sets the cash rate, which is the rate set by the central bank for its overnight funding of the banking sector. This cash rate in turn influences the 90 day bank bill futures whereby the money market projects out 3 months on likely cash rate moves. The money market is forecasting that cash rates will be lifted in the December quarter of 2022 (some 18 months away) and that cash rates will be 1% in late 2023.

These futures markets are speculative, but we observe the following:

- Today's actual cash rate and the projected cash rate are below the actual and likely inflation rate. The rates represent negative real yields.
- The projected rise in yields by either the bank bill futures market or the RBA will not affect the outlook for risk markets. Today's equity market yields and property yields are 3% higher than the projected cash rates of 2 years hence.
- Equities and property assets are growth assets whose cash generation is supported by economic growth and inflation. To an extent, they are a hedge against inflation; and
- Sustained negative real yields, mild inflation, and predictable economic growth (as borders open in 2022/2023) suggest equities and property markets will continue to perform whilst bonds will not.

As investors once again start to deploy capital and look for opportunities, the divergent performance of various parts of the global economy means that an almost full cycle's worth of opportunities is in play at the same time. For some sectors, such as international travel, the short and medium-term outlook is weak. Other sectors, such as housing and construction, have been buoyed by both government support and household demand. And yet other parts of the economy, such as Australia's resources export sector, have been sustained by extraordinary demand emanating from China, Japan, and other Asian countries.

It is incumbent upon fiscal and monetary policy makers, business leaders and successful investors to forecast the road ahead. Most will utilise quantitative models to project employment, interest rates, economic growth, profit margins and stock multiples. Yet we should acknowledge that in many cases, these models which are built upon historically normal relationships break down in periods such as this, when unprecedented events have occurred, and data does not fit within the historical norm. In such an environment, analysts and investors are forced to place less weight on any specific piece of data, focusing instead on the larger picture.

To conclude: for higher risk equity markets, there are reasons to be optimistic about the potential for high quality listed companies to generate revenue and grow values at least in line with the economic recovery. In our view, the current trajectory of bond markets, equity markets and property assets will probably continue along their current path. We therefore maintain our constructive stance on exposure to high quality equities.