

Clime Capital Limited (ASX:CAM)

Quarterly Report

June 2016



Chairman's Letter

Dear Fellow Shareholder,

The June quarter finished in tumultuous fashion as United Kingdom citizens voted to take their country out of the European Union. The vote caught markets by surprise and the immediate effects included the devaluation of Sterling concurrent with heightened concerns regarding UK banks and commercial property values. Equity markets across the world weakened sharply following the vote before staging an end of financial year rally.

The "Brexit" event coincided with other developments in Europe concerning Italian banks. Here the news was not new, with approximately 18% of Italian loans books in arrears. However, what was new and concerning was German insistence on enforcing Eurozone laws that appear to prevent the Italian Government from supporting its banks by way of capital injection. The Italian Government wishes to follow the precedent set by the US Treasury in October 2008 and the UK Government in 2009 by providing capital support for their banks. However the current EU regulations dictate that bond holders and equity owners must suffer losses before any Government bailout, and so Italian bank share prices collapsed.

Meanwhile it became clear that both Spain and Portugal would not meet their Eurozone fiscal commitments by reining in their Government deficits. This added to nervousness and saw capital being invested back into low or negative yielding bonds. The Eurozone could see heightened speculation that other major economies may be forced by popular vote to withdraw from the EU.

The opening focus in this letter on Europe sets the context for the outlook for world markets in the coming quarter. It seems clear that European events will again dominate proceedings by creating price volatility, currency movements and bond rallies and corrections.

In early July, we have witnessed the effect of capital fleeing Europe, namely a powerful rally in US bonds and support for the \$A. Concurrently we observe rallies in European bonds and note the Japanese twenty year bond rate fell below a zero yield. These rallies suggest increased investor concerns rather than confidence. The bond rallies have been matched by a lift in the gold price – perhaps justifiable because gold is the ultimate zero yielding bond!

The short term outlook for the Australian equity market remains challenging. This is not created by Brexit, the narrow Australian Parliamentary majority or because of recent concerns registered by S&P regarding Australia's credit rating. Rather it is because Australian companies are struggling to grow earnings and dividends. While there will be patches of solid earnings growth provided by a few unique companies, the bulk of Australian listed companies will present earnings and outlook statements that are challenged by the well-documented low growth cycle across the world and in Australia.

Our valuation analysis suggests that the Australian equity market should produce a single digit return in 2016/17, with the bulk of the return again dominated by

In this issue

Chairman's Letter 1

Portfolio Summary 3

The Clime Capital
offer to
Shareholders 7

About
Clime Capital 8

dividends. This return will be challenged by a number of factors. In particular, we forecast that bulk commodity and energy prices will trend lower and so too will resource profits. Further, Australian banks will be tested by concerns emanating out of Europe with continued focus on capital adequacy. The broader Australian economy will either be supported by a weaker \$A or affected by a stronger \$A. So a continuing quandary for Australian investors remains the outlook for the \$A.

In our view, the Australian dollar will be lower than the current US75c level in a year's time. However, the recent developments in Europe outlined at the beginning of this letter remain the roadblock for short term forecasting and are an impediment for the \$A to fall.

Our response to these developments is to maintain a low weighting to resources and financial companies in the Australian market. We continue to maintain weightings to US multinational stocks and are focused on trading opportunities across the portfolio. The rally in bond prices (lower yields), are symptomatic of widespread concerns by asset managers. This suggests that volatility in market prices will continue in all asset markets.

In our view, volatility should be accessed and utilised rather than simply observed. That remains our intention for portfolio management, with a heightened level of activity. When longer term investment opportunities are accessed, the focus will remain upon those assets with a clear potential to generate growing and sustainable yield.

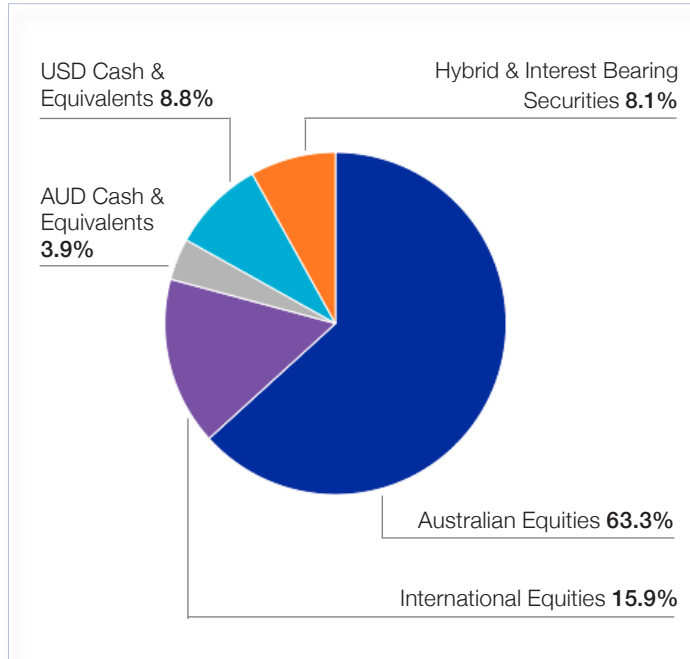
Kind Regards,

A handwritten signature in black ink, appearing to be 'John Abernethy', with a long horizontal line extending to the right.

John Abernethy

Portfolio Summary at 30 June 2016

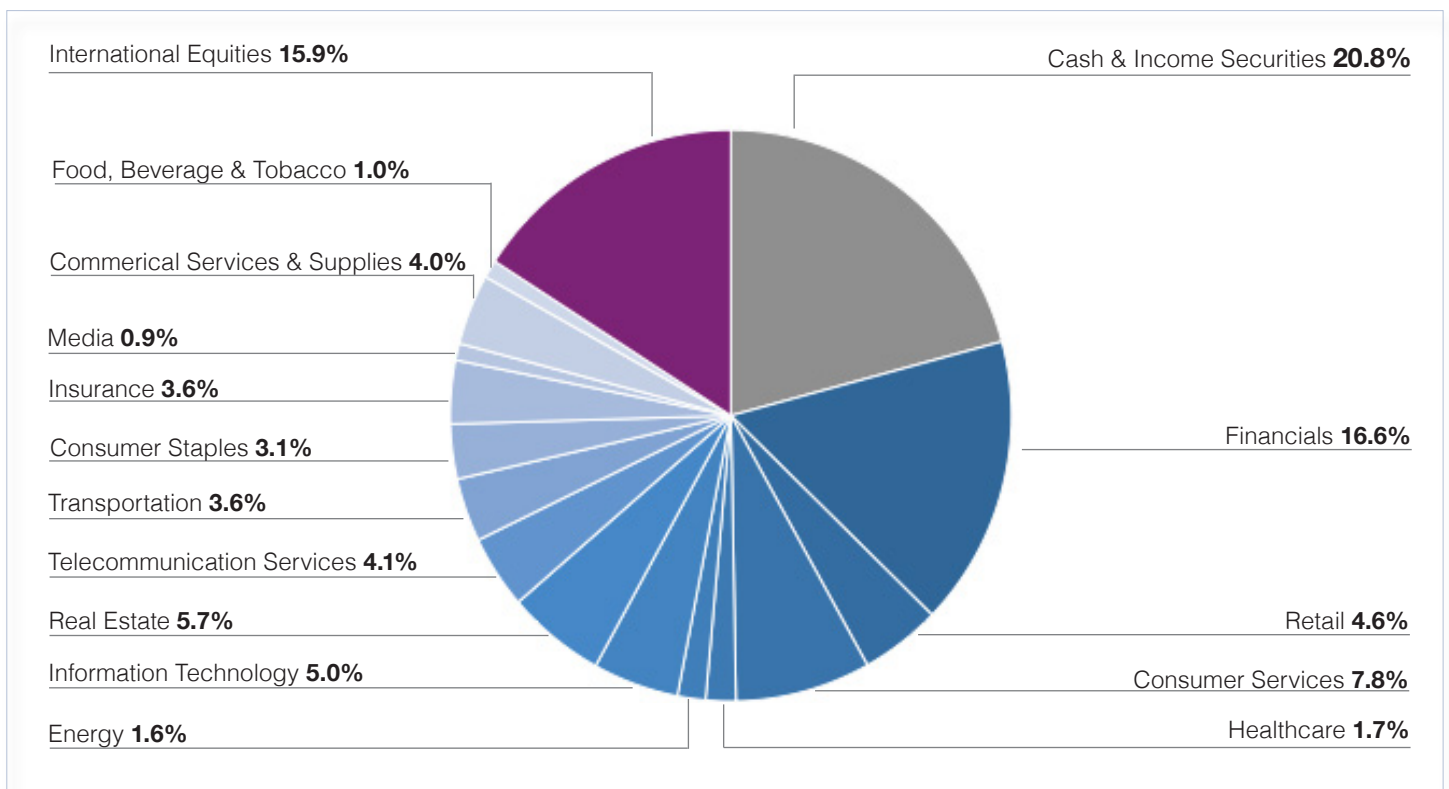
Asset Allocation



Top 10 Holdings (Weightings %)

Australian Equities	
National Australia Bank	5.08
Commonwealth Bank of Australia	4.17
Telstra Corporation Limited	4.15
Qube Holdings Limited	3.60
QBE Insurance Group Limited	3.58
Henderson Group PLC	3.02
Ardent Leisure Trust Group	2.92
Computershare Limited	2.91
Crown Limited	2.83
Multiplex Convertible Notes	2.77
International Equities	
American International Group	1.80
Oracle Corporation	1.74
Diageo	1.73
AUD Cash	3.94
USD Cash	8.84
Total	53.08

Sector Allocation



Introducing the Clime Capital Sub-Portfolio Approach

Clime Asset Management's investment approach seeks to deliver strong risk adjusted total returns to investors over the long term. Clime focuses on delivering consistent strong returns by identifying undervalued companies and, via the macroeconomic overlay, enhancing return and managing risk. We strive to ensure that risks taken in the portfolio are appropriately compensated and employ a decision framework of:

- Capital deployed;
- At what risk;
- For what likely outcome.

Capital allocation decisions are made across a number of asset classes. These are Australian Equities, International Equities, Hybrids and Interest Bearing Securities and both AUD and USD Cash and Equivalents.

As a continuing evolution of this process, Clime Asset Management are expanding the Australian Equities asset class into three sub-portfolios. Specifically:

Sub-Portfolio Group	Clime typically seek out:
Large Cap Securities	Solid yield with some capital growth
Mid Cap Securities	A balance of some yield and solid capital growth
Small Cap Securities	Strong long-term capital growth

Cash is maintained to preserve capital and as 'dry powder' to pursue selective opportunities across the portfolio.

We believe this segmentation of the Australian Equities asset class provides a clearer perspective on the likely role each sub-portfolio has to play within the asset class. This aligns with Clime's broader philosophical underpinnings of purposeful mandate design.

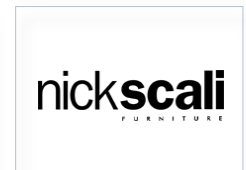
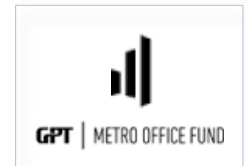
Australian Securities Summary

Specific to portfolio movements, we established several new positions during the quarter as value became apparent. This included positions in APN Outdoor Group (APO), Elders (ELD), Flight Centre Travel Group (FLT), Gateway Lifestyle (GTY), Henderson Group (HGG), IPH Limited (IPH) and IMF Bentham (IMF)*. Positions in Macquarie Group (MQG) and Challenger (CGF) were both liquidated at a profit as its price run back up to assessed value.

Key positive contributors to portfolio performance during the quarter were APN Property Group (APD)*, Credit Corp (CCP), GPT Metro Office Fund (GMF)*, Nick Scali (NCK)*, Retail Food Group (RFG) and Telstra (TLS).

Conversely, negative contributions were recorded from the following positions: Ardent Leisure (AAD), Caltex Australia (CTX), Computershare (CPU), Japara Healthcare (JHC), QUBE Holdings (QUB) and Woolworths (WOW).

**Small Cap Sub-Portfolios constituents*



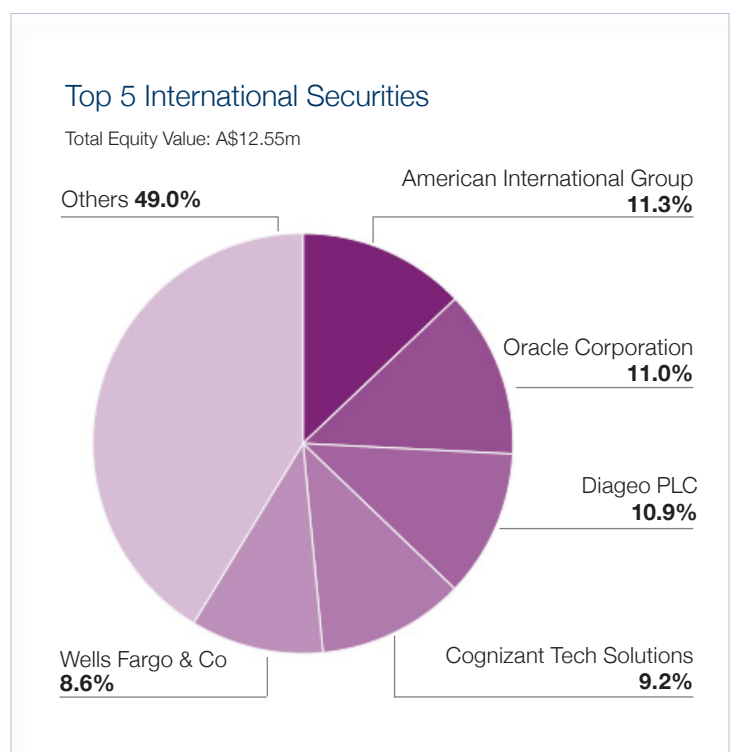
International Securities Summary

The June quarter provided international markets with a renewed dosage of volatility, with the widely unexpected Brexit leave vote sending currency, bond and share markets spinning. We maintained our view that the market was broadly stuck in a 5-10% trading range due to a lack of breakout catalysts from central banks. The currency market moved favourably for CAM's USD exposure during the quarter, dropping from approximately \$0.77 to \$0.745.

A number of new positions were initiated during the quarter, some fresh names as well as a couple we had previously exited. Roche Holdings (RHHBY) and Priceline.com (PCLN) were both added to the portfolio due to favourable thematic exposures and a compelling value proposition. Microsoft (MSFT) and American Express (AXP) were brought back into the portfolio at significant discounts to our previous sell prices. We also took advantage of market volatility and averaged down our positions in Alphabet (GOOG), Diageo (DEO) and CF Industries (CF).

During the quarter profits were taken in Amgen Inc. (AMGN), Cognizant Tech Solutions (CTSH), MasterCard Inc. (MA) and Yum! Brands Inc (YUM). Positions in Baidu (BIDU), Diageo (DEO) and Oracle (ORCL) were trimmed on market rallies, yet the positions were maintained as we still see room for further price appreciation.

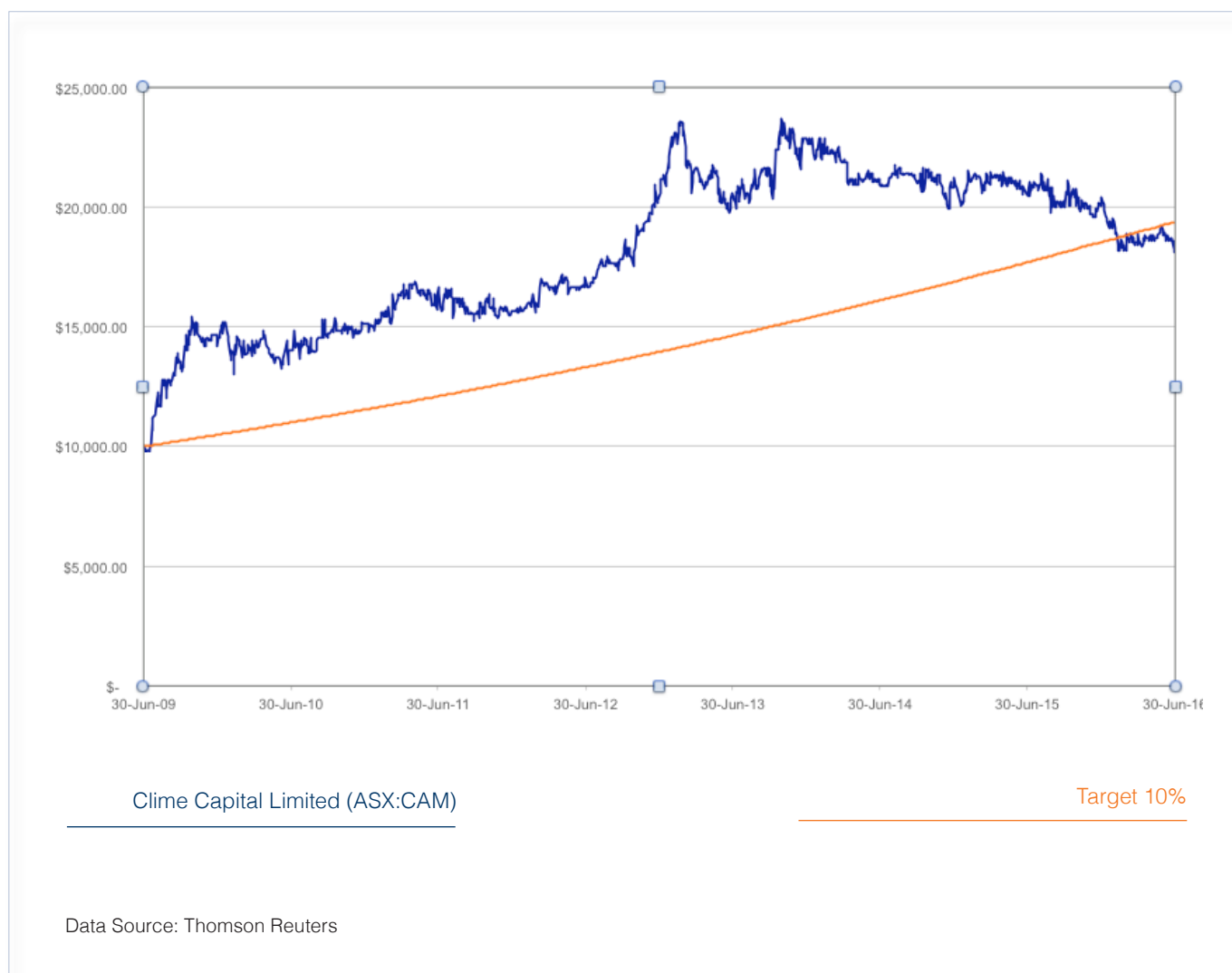
In terms of portfolio performance, our biggest positive contributors were MasterCard (MA), Amgen (AMGN) and Yum! Brands (YUM). In terms of negative performance, the largest detractors were CF Industries (CF) and Baidu (BIDU).



Investments (\$m)

	Jun '16	May '16	Apr '16	Mar '16	Feb '16	Jan '16
Listed Securities	\$68.79	\$56.85	\$58.19	\$60.29	\$58.82	\$64.38
Cash	\$10.08	\$25.53	\$21.46	\$19.86	\$19.67	\$16.85
Net Assets	\$78.87	\$82.38	\$79.65	\$80.15	\$78.49	\$81.23
Dividends Paid	-	-	\$1.11	-	-	\$1.12
Taxes Paid	-	-	-	-	\$0.10	-
Buybacks Funded	\$0.86	\$0.32	\$0.15	\$0.37	\$0.34	\$0.17

7 Year Total Shareholder Returns: \$10,000



The Clime Capital offer to shareholders

Clime Capital Limited (“Clime”) offers investors the opportunity to invest in a value focused “closed end” Listed Investment Company managed by a recognised top performing Value Equity Manager - Clime Asset Management (“the Manager”).

The Clime investment company structure offers a number of key advantages to investors.

These are:

- Clime (through its Manager’s decisions) will not be a forced seller of securities in difficult times;
- Clime will not be forced buyers at inappropriate times;
- Clime pays quarterly dividends to ordinary & preference shareholders;
- High levels of transparency by being listed on the ASX.

This allows Clime to focus on protecting and growing its capital over the longer term.

Clime invests in a diversified portfolio of Australian & International businesses, trusts and interest bearing securities.

Clime has a disciplined investment approach focused on the distinction between value and price. The allocation of investment capital into the market generally and stocks specifically is tempered by the Manager’s continual macro-economic overlay. The company has the ability to hold elevated cash levels when market risks are considered to be excessive or value is not apparent. The Manager has the ability to look across listed asset classes to seek absolute returns. This is a unique offering in an environment where many managers are often forced to be fully invested in one asset class with asset consultants dictating weightings.

Clime benefits from a strong and experienced team of value focused investment professionals. The Manager is the largest shareholder in Clime and thus its interests are strongly aligned with shareholders.

Ordinary Shares Overview (ASX:CAM)

Share Price (at month end)	\$0.775
Rolling 12 Month Dividend	4.8cps
Historical Dividend Yield	6.2%
Percentage Franked	100%
Grossed Up Yield	8.8%
Dividend Reinvestment Plan	Yes

Preference Shares Overview (ASX:CAMPA)

Share Price (at month end)	\$1.245
Rolling 12 Month Dividend	18.0cps
Historical Dividend Yield	14.5%
Percentage Franked	100%
Grossed Up Yield	20.6%
Dividend Reinvestment Plan	No

Converting Preference shareholders will accrue the bonus issue and upon conversion will receive 1.387 Ordinary Shares for every Converting Preference Share.

About Clime Capital Limited



Level 7, 1 Market Street Sydney NSW 2000 Australia
P 1300 788 568 F +61 2 8917 2155 E info@clime.com.au

Clime Capital Limited (ASX:CAM) was listed on the ASX in February 2004 to provide investors with the opportunity to participate in a long-term approach to portfolio investing using value investing principles.

The company's investment objective is to generate returns for shareholders by investing in businesses with understandable economics and excellent growth and income potential that are run by capable management.

The company was formed to provide access for all investors to a strategy intended to create long-term wealth by purchasing, at rational prices, a portfolio of businesses whose earnings are expected to increase over the years.

John Abernethy
Chairman
john@clime.com.au

Richard Proctor
Joint Company Secretary
richard@clime.com.au

Biju Vikraman
Joint Company Secretary
biju@clime.com.au

Anthony Golowenko
Head of Investments
anthony@clime.com.au

Adrian Ezquerro
Senior Analyst
adrian@clime.com.au

Stephen Wood
Senior Analyst
stephen@clime.com.au

Vincent Chin
Senior Analyst
vincent@clime.com.au

Matthew Koroï
Analyst / Dealer
matthew@clime.com.au

Damen Kloeckner
Associate Analyst
damen@clime.com.au

Gareth Abernethy
Associate Analyst
gareth@clime.com.au

Copyright © 2016 Clime Capital Limited (ASX:CAM). All rights reserved. The information provided in this document and climecapital.com.au is intended for general use only. The information presented does not take into account the investment objectives, financial situation and advisory needs of any particular person nor does the information provided constitute investment advice. Under no circumstances should investments be based solely on the information herein. Climecapital.com.au is intended to provide educational information only. Please be aware that investing involves the risk of capital loss. Data for graphs, chart and quoted indices contained in this report has been sourced by IRESS Market Technology, Thomson Reuters, Clime Asset Management and StocksInValue unless otherwise stated. Past performance is no guarantee of future returns.

