

**Chairman's address
Annual General Meeting**

The accounts and financial report for the year 2016/17 have been distributed to shareholders before this meeting.

Therefore in this Chairman's address I plan to briefly comment on these results and update you on the performance of the company for the first four months of the current financial year.

In summary the FY17 was a very good year where the company made solid profits and also maintained the franked dividends on both ordinary shares and the converting preference shares.

I am pleased to report that the converting preference shares (CAMPA) were converted to ordinary shares on 30 April 2017 and the drain on the cash flow and franking for the company ceased at that time.

In FY 17 the company paid dividends to all shareholders of \$5.2 million and this was at the same level paid in FY 16. Of this amount some \$1.4 million was paid to preference shareholders in both FY 17 and FY 16. There was an increase in dividends paid to ordinary shareholders which resulted from the increase in ordinary capital following the preference share conversion.

Following the conversion of the preference shares, your Directors increased the level of quarterly dividends paid to ordinary shareholders from 1.20 cents per quarter to 1.25 cents per quarter. The current payment level of 1.25 cents per quarter suggests an annual dividend rate of 5.0 cents per annum fully franked. The current yield on the company's shares is approximately 6% franked or 8% on gross yield basis.

Shareholders will note that the company continued to pay tax. The company is taxed on trading account. Tax paid on realized investment gains is directly credited to the franking account. Actual tax paid in FY17 was \$0.7 million which was at the same levels as FY16.

Shareholders will note from the Annual Report that the company had \$0.5 million of franking credits available for distribution at the end of the financial year. Also the company had profit reserves of \$8.9 million.

Finally, on reviewing the 30 June 2017 balance sheet and portfolio it is important to note the following:

1. Cash weightings of around \$14 million representing 18% of the portfolio included both \$A and USD balances. This cash balance has decreased substantially as at October 2017 as the manager utilised the liquidity for portfolio purchases;
2. International equity holdings (ex \$US cash) were A\$5.8 million representing 8.7% of the invested portfolio. This level was well below the previous year and the manager has increased the level further over the last 4 months to A\$9.56 million; and
3. The balance of \$60.47 million as at 30 June 2017 was in Australian listed and unlisted securities.

Year to date performance

I trust that shareholders continue to monitor the company's performance through our monthly interim gross asset announcements and our monthly NTA announcements.

As at the close of business Tuesday (14 November 2017) the gross assets of the company were valued at \$82.7 million. This compares to the \$79.9 million reported as at 30 June 2017.

The increase in gross assets (at market prices) is essentially due to improvement in the portfolios since 30 June. Gross assets have increased from 30 June after taking into account \$1.9 million in cash dividends paid (ex DRP) to shareholders in July and October.

The directors are pleased to report an unaudited pretax profit of \$4.4 million for the 4 months ending 31 October 2017. This profit result will allow directors to add to the profit reserves of the Company to secure ongoing quarterly dividends.

Converting preference shares

I'm pleased to report that the converting preference shares issued by the company in 2007 were converted to ordinary shares in April 2017. The conversion factor accrued for the 6 bonus issues that were declared and so each preference share was converted into 1.387118 ordinary shares.

It is important for shareholders to understand that the payment of high preference share dividends had been a burden on the company and detracted from total portfolio returns. It has been particularly so over the last few years as the RBA reduced cash rates to historic lows in Australia. As noted above in FY 17 the preference shareholders received \$1.4 million in franked dividends. Since inception in mid-2007 the preference shares have received over \$10 million in franked cash dividends with no DRP operating on these dividends.

Buyback of shares

The Company's on-market buyback remains active. Historically, the buyback operates at a minimum 10% discount to underlying NTA and the intention is to at least buy back the shares issued under the DRP. By undertaking the buyback, we believe that the company should be able to steadily and prudently grow franked dividends for shareholders.

Since 30 June the company has not bought back any shares.

Class action against UGL

Clime Capital Limited has announced that it intends to commence proceedings against UGL Limited (UGL) on its own behalf, as representative applicant, and on behalf of group members who acquired shares in UGL during the period 8 August to 5 November 2014 inclusive (claim period).

The proposed class action is funded by IMF Bentham Limited. Phi Finney McDonald is representing Clime Capital and class members in the proposed class action. Executives of Clime Investment Management Limited will be involved in pursuing the claim.

The action relates to events that occurred between August 2014 and November 2014.

The proposed class action will allege that during the claim period UGL failed to keep the market informed about problems relating to a major joint venture construction contract that it was undertaking. These problems were not disclosed by UGL until 6 November 2014, when it told the market that the forecast costs of the Ichthys project had increased and the joint venture had recognised a provision. The UGL share price declined by more than 25% by close of trade on 11 November 2014.

The class action will allege that UGL's conduct caused Clime and persons who acquired shares during the claim period to suffer loss.

Convertible Note Issue

In late October the Board resolved to raise up to \$21 million by way of a convertible note issue. The issue is to be conducted by way of a placement of \$7 million to wholesale and sophisticated investors with an offer of \$14.5 million to shareholders. The placement was heavily oversubscribed and closed last week.

The terms of the note issue are covered in the offering document that shareholders have received.

The important feature of the note, from the perspective of the directors, is that it is both attractive to shareholders and to the benefit of the company.

The introduction of fixed rate convertible debt issued at a premium to NTA has the following benefits:

1. It potentially raises equity at a premium to today's NTA and therefore it is not dilutive;
2. The yield is attractive and the annual interest payments of about \$1.3 million will be serviced by over \$100 million of assets. Therefore the risk of default is extremely low;
3. The interest payments are tax deductible for the company and the leverage in the balance sheet strongly supports the dividend flows to ordinary equity owners; and
4. The owners of the notes have the unique offer of stable contracted interest payments with a call (to convert) and a put (to redeem) based on the Clime Capital share price in 4 years time.

It is the view of the directors that should the investment manager perform in a steady fashion that the returns to both equity and note holders will be good. Obviously equity holders will have a better return in most growth scenarios based on a higher level of equity risk. Note holders will have a better return in a flat or low return scenario based on the lower risk structure of the notes.

Outlook

Following this meeting the Head of Investments at Clime Asset Management, Anthony Golowenko, and two of our investment analysts (David Walker and Damen Kloeckner) will present a detailed portfolio review. This review will cover the structure of the portfolio that now encapsulates five purposeful sub portfolios across large, developing and international portfolios. A new sub portfolio will be grown out of the note issue through high yielding direct investments. Anthony will outline some of the investments already made in this segment.

In Conclusion

I wish to thank you for your ongoing support of Clime Capital. I also wish to thank the staff at Clime for their hard work and acknowledge the support of your Directors.

Looking forward, I see the company as being well placed to purposefully deploy your capital as opportunities present while maintaining a sound level of dividend distributions to all shareholders.

John Abernethy
Chairman