

Clime Capital Limited (ASX:CAM)

Quarterly Report

December 2014



Chairman's Letter

Dear Fellow Shareholder,

I believe the following current trends could dominate markets in the first half of 2015. They are:

1. Australia's sharply declining terms of trade and a deterioration in our balance of trade means we will record monthly trade deficits of between \$1 billion and \$2 billion for the foreseeable future;
2. The above trade deterioration and the rapidly declining resource capital investment cycle will act to depress economic growth to well below our annual long term growth rate. Quarterly economic growth rates will likely fall below 0.5% (2.0% per annum) and therefore unemployment will rise;
3. A weakening Australian dollar is certain but this will elevate inflation in contrast to the occurrence of deflation in much of the developed world; and
4. Despite our relatively high inflation rate, there will likely be both a cut in cash rates and a solid rally in our bond market such that Australian investors will suffer a period of negative real interest rates across the yield curve.
5. The above may paint a confusing picture and indeed it could be suggested that the forecasts are inconsistent with each other. However, the forecasts merely reflect the chaotic nature of the world economy and markets.

This chaos is most clearly presented in bond markets across the world where yields have plummeted despite a massive lift in sovereign debt. Six years of unrelenting supportive monetary policy settings in Europe, Japan and the US have created markets that struggle to appreciate or fairly price risk. Investors are therefore now confronted with the likelihood of low returns and possibly the loss of capital as the true long term effects of quantitative easing (QE) play out.

The sustained maintenance of low cash rate settings has neither improved credit demand nor consumer confidence. Rather, it has fed speculation and created an investment environment whereby participants simply pay higher multiples for stagnating earnings.

The recent sharp decline in the oil price is surprising and therefore its outlook is difficult to forecast. The flow-on effects to consumer energy prices have added to the significant risk of deflation in Europe while further improving the competitiveness of the Chinese manufacturing sector. It may have a similar positive affect on the US manufacturing sector, but we believe the continued strengthening of the US dollar will have an offsetting effect on US exports.

In this issue

Chairman's Letter 1

The Clime Capital
offer to
Shareholders 3

Portfolio Summary 4

Investment
Objectives &
Our Process 6

About
Clime Capital 7

Lower petrol and energy costs would normally be positive for consumer activity in major developed economies but across most of Europe the effects of rapid population ageing and high youth unemployment will act to check these benefits. Indeed, lower oil prices will add to the downward pressure on interest rates meaning that savers or retirees will simply not generate enough income to maintain their standard of living.

On reflection it is now clear the monetary policy settings of major developed economies over the last six years have not resulted in sustained economic recovery. Importantly these policies have not even resulted in inflation or credit growth.

The developed world now suffers from historically low yields on savings that act to stymie both retirement incomes and consumer confidence. Therefore much of the developed world (particularly Europe and Japan) in 2015 will remain in a low growth cycle and it is difficult to see how this will change over the remainder of this decade. Further, should deflation permeate around the world, then it is possible similar pressures may confront Australia.

In all, a difficult climate to navigate and one that requires discipline and patience.

Kind Regards,

A handwritten signature in black ink, consisting of a stylized, cursive 'J' followed by a horizontal line extending to the right.

John Abernethy
Chairman

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 recognized top performing Value Equity Manager - Clime Asset Management (“the Manager”).

The Clime Listed 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 (as at 31 December 2014)	\$0.96
Rolling 12 Month Dividend	4.6cps
Historical Dividend Yield	4.8%
Percentage Franked	100%
Grossed Up Yield	6.8%
Dividend Reinvestment Plan	Yes

Preference Shares Overview (ASX:CAMPA)

Share Price (as at 31 December 2014)	\$1.96
Rolling 12 Month Dividend	19cps
Historical Dividend Yield	9.7%
Percentage Franked	100%
Grossed Up Yield	13.8%
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.

Portfolio Summary at 31 December 2014

Performance

	1 Year	3 Years	5 Years
Clime Capital Total Shareholder Returns	-7.1%	10.8% p.a.	8.2% p.a.
Actual Total Returns		36.2%	48.3%

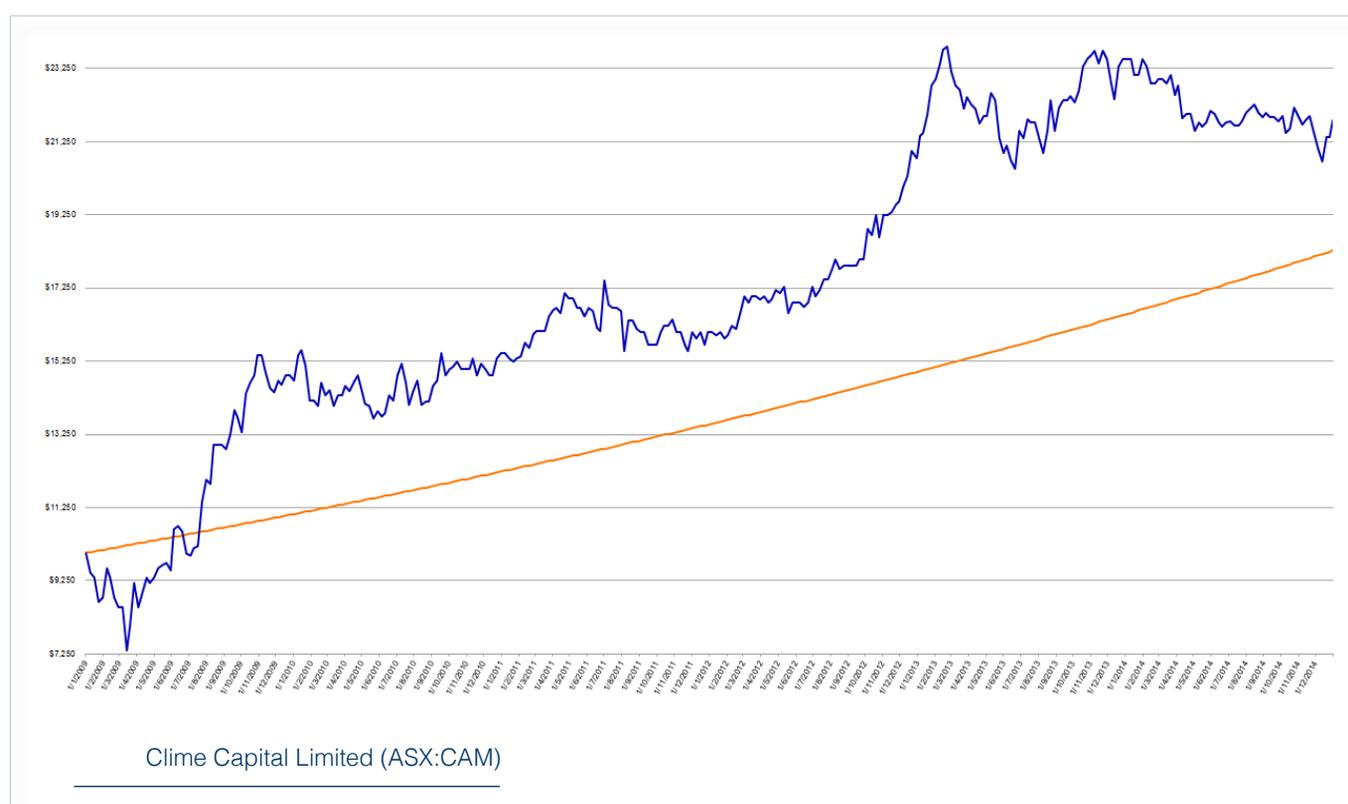
Clime Capital Total Shareholder Returns do not include the added benefit of franking credits which are attached to dividend distributions. Further, the returns reported for Clime are after all management and transaction costs and payment of preference dividends.

More recently and despite market volatility, the Manager has ensured that Clime's capital has been maintained along with the payment of regular quarterly franked dividends to both ordinary and preference shareholders.

Investments (\$m)

Investments	Dec '14	Nov '14	Oct '14	Sept '14	Aug '14	July '14
Listed Securities	\$66.8	\$62.4	\$68.1	\$60.3	\$60.7	\$61.9
Cash	\$23.6	\$28.2	\$27.1	\$35.0	\$39.0	\$36.5
Net Assets	\$90.4	\$90.6	\$95.2	\$95.3	\$99.7	\$98.4

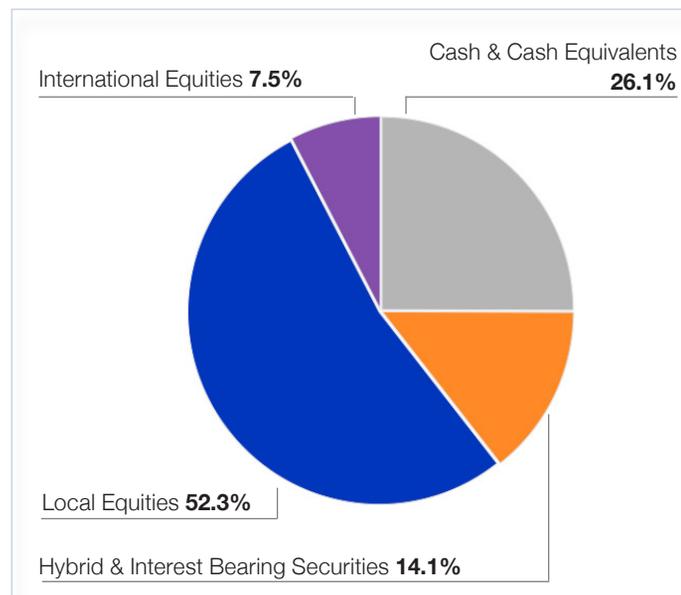
Shareholder Returns: \$10,000 (January 2009 to December 2014)



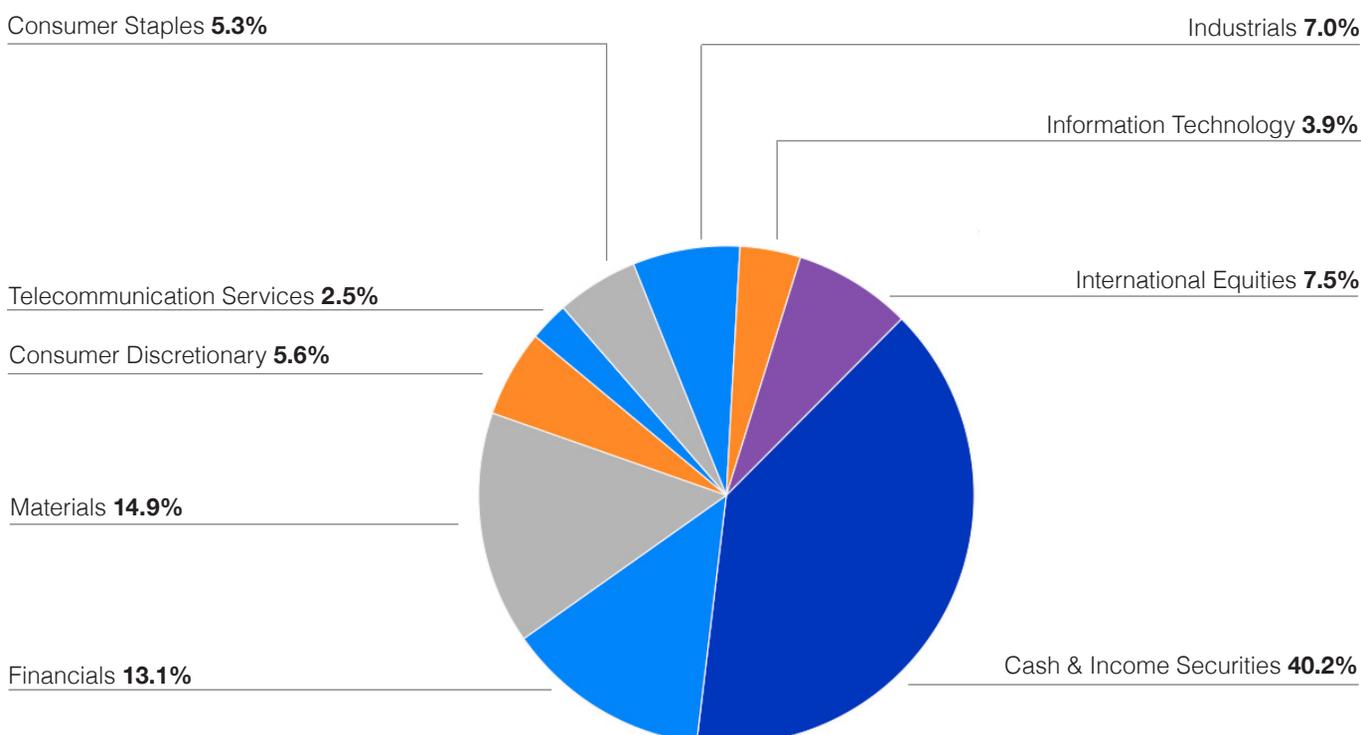
Top Holdings (Weightings %)

<i>Australian Equities</i>	
Australia & New Zealand Banking Group Limited	6.11
Woolworths Limited	5.33
Adelaide Brighton Limited	4.27
BHP Billiton Limited	4.26
SMS Management & Technology Limited	3.96
National Australia Bank Notes	3.80
Macquarie Perpetual Notes	3.78
Multiplex Convertible Notes	3.77
Brickworks Limited	3.66
McMillan Shakespeare Limited	2.82
<i>International Equities</i>	
McDonald's Corporation	2.64
Exxon Mobile Corporation	1.42
General Motors	1.45
<i>Cash & Cash Equivalents</i>	
Total	73.37

Asset Allocation



Sector Allocation



Investment Objectives & Our Process

“ Clime’s first preference is to deploy its capital into businesses that can self-fund their growth... ”

The key objectives of Clime are:

- To preserve the capital of the company;
- To generate long term growth of capital and dividends without taking excessive risk.

The Manager seeks to achieve these objectives by purchasing the securities of companies that are understandable, that have honest and capable managers and are highly likely to generate superior returns over time. Securities will only be purchased when the price on offer is below the appraised value.

The investment approach is disciplined and transparent. The features of this approach are:

1. Securities are acquired in attractive companies when the market price on offer is at a discount to our assessment of value;
2. Holdings are reduced or liquidated when the market price is well above the assessment of value;
3. A realistic requirement for required return is maintained so that the risk of the portfolio is properly balanced to achieve returns without risking capital;
4. Yield is sought to enhance portfolio returns through compounding; and
5. Cash will become an important asset of the portfolio when prices are expensive and value is not readily available in the market.

The Manager is firmly of the view that price and value are different concepts. **Price** is what we pay and **value** is what we receive. While the share price is freely observable, the valuation of a company requires judgment and calculation.

The investment process applies a consistent valuation methodology to identify companies that have attractive investment characteristics. The process calculates a valuation for the company and identifies those companies whose share price is below the assessment of the company’s value.

Clime’s first preference is to deploy its capital into businesses that can self-fund their growth. These companies create value for owners by generating strong returns on equity with appropriate leverage for their business models. The profits generated by this group of businesses are best retained by the business so long as their managers can deploy retained earnings at similar “return on equity” levels. In cases where investee companies cannot redeploy retained earnings at attractive rates we look to their managers to rationally payout these profits to us as franked dividends. This allows us to make the capital allocation decision.

The Manager continually assesses investee businesses with reference to the demonstrated returns on incremental capital and the outlook for future returns on capital. Low returns on equity are not attractive nor are businesses that continually ask shareholders for additional capital.

Clime does not have current borrowings or the intention to take on debt.

“ Price is what we pay & Value is what we receive. ”

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
T (02) 8917 2107
john@clime.com.au

Richard Proctor

Company Secretary
T (02) 8917 2142
richard@clime.com.au

Stephen Wood

Senior Analyst
T (02) 8917 2149
stephen@clime.com.au

Adrian Ezquerro

Analyst
T (02) 8917 2136
adrian@clime.com.au

Vincent Chin

Senior Analyst
T (02) 8917 2143
vincent@clime.com.au

Matthew Koroï

Analyst
T (02) 8917 2106
matthew@clime.com.au

Copyright © 2015 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

