AUSTRALIAN RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Clime Capital Limited (ASX: CAM)

Initiating Coverage

10 November 2021

INDEPENDENT INVESTMENT RESEARCH

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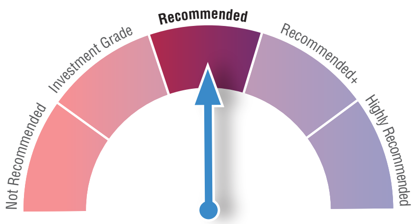
Clime Capital Limited (ASX: CAM)

Initiating Coverage

Note: This report is based on information provided by the Manager as at August 2021.

Rating



Key Investment Information (as at 30 September 2021)	
ASX Code	CAM
Share Price ($)	0.96
Pre-tax NTA ($)	0.965
Shares on Issue (m)	139.9
Market Cap ($m)	134.3
Listing Date	February 2004
Investment Structure	Listed Investment Company (LIC)
Investment Manager	Clime Investment Management Limited
Trailing 12-month Dividend Yield (net)	5.0%
Trailing 12-month Dividend Yield (grossed up)	7.1%
Fees:	
Management Fee (p.a)	1.0%
Performance Fee (p.a)	20.0% (plus GST)
Performance Fee Hurdle	ASX All Ordinaries Accumulation Index, subject to positive performance.

Key Exposure	
Underlying Exposure	Portfolio predominantly exposed to an all cap portfolio of Australian equities with a smaller exposure to unlisted fixed income securities. The Manager has the mandate to invest in global equities, however this is not expected to make up a meaningful position in the portfolio.
FX Exposure	Currently no direct FX exposure. The Manager has the ability to invest in international securities, however this is not expected to make up a meaningful position in the portfolio in the event international securities are included.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

COMPANY SUMMARY

Clime Capital Limited (ASX: CAM) is a Listed Investment Company (LIC) with a long history, with the Company listing on the ASX in February 2004. The portfolio is managed by Clime Asset Management Pty Limited, a wholly owned subsidiary of Clime Investment Management Limited (ASX: CIW), an ASX-listed asset management company with $1.18b funds under management (FUM) and $5.1b funds under management and advice (FUM&A) as at 30 June 2021. The Company's primary objective is to provide an above market yield. In addition to this the Company seeks to provide superior risk-adjusted returns to the benchmark index (ASX All Ordinaries Accumulation Index). The Company provides exposure to a portfolio that can be broken down into three sleeves: (1) Australian equity exposure; (2) Unlisted fixed income; and (3) Cash. The portfolio will predominantly provide exposure to an all cap Australian equities portfolio. Typically 50%-70% of the portfolio will be invested in ASX 100 stocks and 30%-50% will be invested in stocks outside the ASX 100. Up to 17.5% of the portfolio will be invested in a portfolio of unlisted fixed income securities. The fixed income portfolio is designed to meet the interest payment requirements of the Convertible Notes as well as provide additional income to the portfolio. The Manager has the ability to hold cash in the event attractive investment opportunities cannot be identified. While there are no mandated limitations, the Manager will typically hold no more than 30% cash at any given time. The portfolio will comprise 35-55 securities. Since July 2014, the portfolio has had an average of 49 securities. The Manager is paid a management fee of 1.0%p.a of the gross assets of the Company and is eligible for a performance fee of 20% of the outperformance of the ASX All Ordinaries Accumulation Index, subject to performance being positive.

INVESTOR SUITABILITY

An investment in CAM is suitable for those investors seeking an above market yield and regular income with the Company paying quarterly dividends. The Company will seek to generate the above market yield from a portfolio of all cap domestic equities and a portfolio of fixed income securities. While the Company will seek to provide long-term capital growth, based on the historical performance of the portfolio, investors should not be seeking to generate alpha through this investment. The portfolio exposure has changed over time from predominantly domestic large cap exposure and some international exposure to a predominantly domestic all cap portfolio with exposure to unlisted fixed income varying from 7.6% to 15.7% over the last three years. It is unclear as to whether the Manager will settle with the current makeup of the portfolio and as such investors should be comfortable with the potential for the underlying exposure to vary further. The Company has a focus on income for shareholders, providing fully franked quarterly dividends. Based on the profits reserve as at 30 June 2021, the Company had 3.7 years of dividend coverage based on the dividends paid over the last 12-months. Therefore we expect dividend volatility to remain low over the short-to-medium term.

RECOMMENDATION

Independent Investment Research (IIR) has initiated coverage on Clime Capital Limited (ASX: CAM) with a **Recommended** rating. CAM has delivered on its primary objective of delivering an enhanced grossed up yield to the broader market and is one of the few LICs that provides a quarterly dividend to investors. There has been significant changes in the underlying exposure of the portfolio over the life of the Company with the Manager having a relatively open-ended mandate contributing to the Company not achieving it's secondary objective of generating superior risk-adjusted returns to the market. Given this, CAM is for income focused investors seeking an enhanced yield with the Company not an appropriate investment for those seeking a portfolio that is going to generate capital returns above the broader market. This is reflected in the limited payment of performance fees to the Manager. The Company has traded in a relatively narrow premium/discount to NTA band given its size which is a positive for investors and can be attributed to the yield offered, the Convertible Notes and a relatively loyal shareholder base that has received increased dividends through numerous bonus share issues. We note that there are some risks surrounding the upcoming maturity of the Convertible Notes. In the event the restructure is not approved and a large amount of the Notes are redeemed at face value at the upcoming maturity date, this may result in some volatility in the share price and an expansion of the discount.

SWOT

Strengths

- The primary objective of the Company is to provide a grossed up dividend yield that exceeds the broader market. The Company has achieved this and has dividend coverage in the profits reserve to maintain the current dividend in the medium-term.
- CAM provides a regular, fully franked income stream with dividends paid quarterly.
- The Company seeks to pay fully franked dividends, with all dividends to date being fully franked. This is expected to continue with the Company realising the value of franking to its shareholder base.
- The Manager ensures there is a backup analyst as part of the process for the purpose of succession planning and risk management.
- For a LIC of its size, CAM has traded within a relatively narrow premium/discount to pre-tax NTA band. We attribute this partially to the attractive dividend yield offered combined with the Convertible Notes issue.
- The Convertible Notes issued through an Entitlement and Shortfall Offer to shareholders has provided participating shareholders with additional income.
- As at 30 June 2021, the Company had 3.7 years dividend coverage in the profits reserve based on the dividends paid over the last 12-months.

Weaknesses

- There has been significant rotation in the underlying exposure of the portfolio throughout history and an inconsistency in the messaging surrounding the objective of the Company.
- The Manager has an objective to deliver less volatility than the market, however this appears to be in conflict with the portfolio composition and for the most part has not been achieved.
- The portfolio has consistently underperformed the broader market on a net basis, although we note the portfolio has had reduced exposure to the market through cash holdings and exposure to the fixed income portfolio.
- The Convertible Notes on issue are set to be redeemed at face value on 30 November 2021. Given the cash position of the Company, the board is seeking to restructure the Notes in addition to issuing additional Notes, with total Notes on issue of up to $35m post the offer. Without the additional raise the Manager will have to divest some of the portfolio to meet redemptions. While the capital raise will alleviate the immediate requirement of portfolio divestment, in the event the Notes are not converted under the revised offer, the Notes will be required to be redeemed at the new maturity date of 30 October 2025. In addition to this the Company is seeking to increase the amount of Notes on issue to a total of $35m. As such, in the event the Company finds itself in the same position in four years time with the majority of Notes outstanding, the Company will have to potentially sell down a greater portion of the portfolio to repay the Notes.

Opportunities

- An investment in CAM provides the opportunity to receive an above market yield with the benefits of franking.
- CAM provides a slightly unique exposure to other LICs with the addition of the unlisted fixed income exposure combined with the all cap domestic equities exposure.
- While the Convertible Notes issue may have ramifications for the portfolio at the time of maturity in four years, there will be a priority offer for eligible existing noteholders and shareholders up to $5m, providing shareholders the opportunity to generate additional income from the Notes and potentially acquire shares at a discount in the event the CAM shares trade above $1.00 during the issue period.

Threats

- Given the greater than market exposure to ex 100 stocks, the portfolio is likely to be more volatile than the market.
- The Company may trade at a premium or discount to NTA. If the Company trades at a discount for a prolonged period of time, investors may not be able to realise the value of the portfolio upon exit.
- The Company continues to seek to grow the Company through bonus issues, entitlement offers and share placements, however the placements have sometimes been at a discount to the share price and NTA and therefore dilutive to existing shareholders. Future capital raisings may be further dilutive to shareholders.

COMPANY OVERVIEW

Clime Capital Limited (ASX: CAM) is a Listed Investment Company (LIC) with a long history, with the Company listing on the ASX in February 2004. The portfolio is managed by Clime Asset Management Pty Limited, a wholly owned subsidiary of Clime Investment Management Limited (ASX: CIW), an ASX-listed asset management company with $5.1b funds under management and advice (FUM&A) as at 30 June 2021.

The Company's market cap has grown over seven-fold since listing. Upon listing, the Company had a market cap of $17.64m. At 30 September 2021, the Company had a market cap of $134.3m. The Company has grown through a combination of capital growth, acquisitions, share purchase plans and bonus and rights issues with the Company having 9 bonus option issues throughout its history. Some of the key events are highlighted in the below share price history chart.

In October 2019, the Company completed the acquisition of CBG Capital Limited (CBG), a LIC that was founded by Ronni Chalmers. As compensation for CBG, CAM provided scrip via CAM ordinary shares and Convertible Notes. At the time of acquisition, CBG had a net assets of $27.4m. They key investment team members of CBG, Ronni Chalmers and Vincent Cook, joined the Manager post the acquisition and remain key members of the investment team.

The Company has a relatively open-ended mandate and the portfolio composition has changed over time. The portfolio can currently broken down into three sleeves: (1) Australian equity exposure; (2) Unlisted fixed income; and (3) Cash. The portfolio will predominantly be exposed to domestic equities with exposure to stocks of all sizes with a small exposure to unlisted fixed income investments, which provides additional income to the portfolio and satisfies the interest payments for the Convertible Notes. The Company has the ability to move to cash in the event attractive opportunities cannot be identified. As at 30 September 2021, the portfolio was allocated 47.7% to top 100 stocks and 42.3% to ex 100 stocks. The Manager has the mandate to invest in international stocks and has historically had an allocation, however, we do not expect international equities to make up a meaningful position in the portfolio moving forward.

The Manager has a fundamental bottom up investment process with a focus on quality company's with strong valuation discipline. The Manager does apply a macro economic overlay for portfolio construction purposes however bottom up stock selection is the key driver. The Manger has a medium-to-long term investment horizon. The portfolio has a reasonably high level of turnover with an average turnover rate of 80% over the last six financial years with some years being more active than others.

The Company provides a regular fully franked income stream with dividends paid quarterly and has provided an attractive dividend yield for shareholders.

The Company pays the Manager a management fee of 1.0%p.a (excluding GST) of the gross assets of the Company, calculated and paid monthly in arrears. The Manager is also entitled to a performance fee of 20% (excluding GST) of the outperformance of the ASX All Ordinaries Accumulation Index (the "benchmark") for the annual period, subject to performance being positive.

Convertible Notes (CAMG)

In December 2017, the Company issued unsecured convertible notes (Notes) through an Entitlement and Shortfall Offer. Additional Notes have been issued as compensation for acquisitions. As at the date of this report, there were 22.28m Notes on issue with a face value of $0.96 per Note. The Notes are listed on the ASX under the ticker CAMG. The Notes pay a fixed interest rate of 6.25%p.a, payable quarterly in arrears and mature on 30 November 2021. Each Note is convertible into 1.025 CAM fully paid ordinary share. The Notes were adjusted for the bonus share issue in September 2018.

The Company is seeking to restructure the Convertible Notes. On 28 October 2021, the Company issued a Prospectus regarding the Restructure Offer and intends to offer up to $35m new Notes with a face value of $1.00 per Note. The Company intends to have no more than $35m Notes on issue following the Completion of the Offer.

The Company will be seeking approval of the Restructure Proposal at the AGM on 18 November 2021. The key terms of the Restructure Offer include:

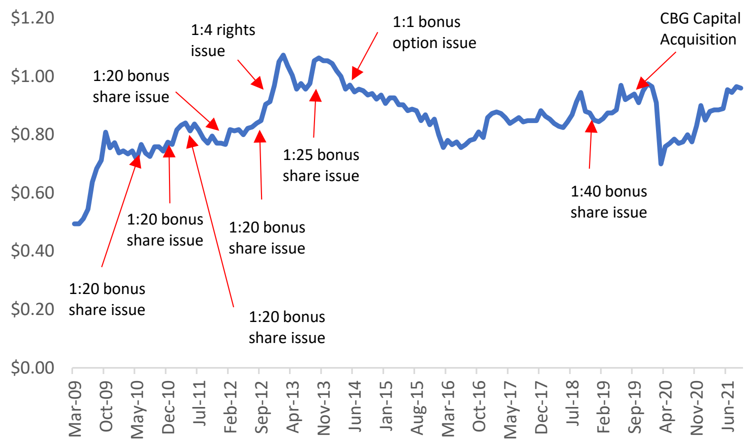
- Face value of the Notes will be amended from $0.96 per Note to $1.00 per Note;
- The maturity date will be extended from 30 November 2021 to 30 November 2025;

- Interest rate on restructured Notes will be 5.25%p.a (previously 6.25%p.a); and
- The Conversion Ratio will revert to 1-for-1 (previously 1-for-1.025).

The Notes will pay an interest rate of 5.25%p.a, payable quarterly in arrears. For existing Noteholders that seek to rollover their Notes, they will be adjusted to 24 Notes for every 25 Notes held, given the difference in the face value of the revised offer. Noteholders that seek to redeem their Notes will receive a cash payment equalling the face value of their Notes plus any accrued interest. Capital raised under the offer will be used to fund redemptions of existing Notes with any remaining capital invested in line with the current investment strategy.

In order to raise the maximum amount of Notes, the Company will need shareholder approval, which is seeking to obtain at the upcoming AGM. In the event shareholder approval is not gained, the Company will proceed with the Offer, however will have to scale-back the size of the Offer to remain within the Listing Rule Capacity requirements.

CAM Adjusted Share Price History (March 2009 to 31 September 2021)



BOARD & INVESTMENT MANAGER

There are four directors on the board of CAM, two of which are independent. The newest appointment is Marc Schwartz, who was appointed as a replacement for Brett Spork who stepped down from the board after 10 years in October 2020. All four directors have significant experience in financial markets.

Board of Directors

Name	Position	Tenure on Board (years)	Experience
John Abernethy	Chairman (Non-Independent)	12	John was appointed Director on 31 July 2009. John has over 35 years' funds management experience in Australia and was previously General Manager Investments for NRMA. John holds a Bachelor of Commerce (Economics)/LLB from the University of New South Wales. John is currently director on the boards of WAM Research Limited and Clime Management Ltd.
Ronni Chalmers	Director (Non-Independent)	3	Ronni is currently the Portfolio Manager of the All Cap Equity Fund. Ronni has over 40 years of Australian equities investment management experience. Ronni began his career as a graduate at Bankers Trust Australia, rising to Associate Director during its growth in the 1980s. After a decade at Bankers Trust he left and subsequently held senior Portfolio Manager/Investment Manager roles with several funds management and insurance companies before founding CBG Asset Management Limited in 2001. Ronni has a Bachelor of Commerce from the University of New South Wales and is a Fellow of the Financial Services Institute of Australasia.
Julian Gosse	Director (Independent)	18	Julian was appointed to the board in September 2003. Julian has extensive experience in banking and broking both in Australia and overseas, having worked in London for Rowe and Pitman, in the United States for Janney Montgomery and Scott and in Canada for Wood Gundy. Mr. Gosse has also been involved in the establishment, operation and ownership of several small businesses. Julian currently serves as a director on the board of WAM Research Limited.

Board of Directors			
Marc Schwartz	Director (Independent)	1	Marc has had a very successful business career from being Manager of Structured Finance Products at Macquarie Bank in 2007, to being Managing Director of Pascoes Pty Ltd from 2008 to 2018, which employed 150 people across two manufacturing sites and manufactured or distributed over 400 items to retailers. Marc is currently a Director of Gelflex Laboratories, the largest manufacturer of contact lenses in the Southern Hemisphere. Marc is also Director of Blackfox Property – a property syndication company and current chair of YPO Sydney Pacific. Marc's specialisation has been in operational and financial efficiency, investment and strategy. Marc holds a Bachelor of Computer Science and Mathematics (majoring in Finance) from the University of Western Australia and is a fellow of the Australian Institute of Company Directors.

Investment Manager

The portfolio is managed by Clime Asset Management Pty Limited, a wholly owned subsidiary of Clime Investment Management Limited (ASX: CIW), an ASX-listed asset management company with $1.18b in FUM and $5.1b FUM&A as at 30 June 2021.

Funds Under Management as at 30 June 2021

Fund	FUM (AUD$m)	FUM Growth - Last 12-months
Individually Managed Accounts	556	18.0%
CAM	163	35.8%
Managed Funds and Mandates	363	17.9%
Separately Managed Accounts	98	18.1%
FUM	**1,180**	**20.2%**
Funds and Insurance Premiums Under Advice	3,935	8.8%
Total FUM&A	**5,115**	**6.6%**

Source: Clime Investment Management Limited FY21 Accounts

The investment team comprises 11 people, including the two dealers. The investment team have an average of 14.1 years experience in the industry with an average tenure of 8.5 years with the Manager. We note that Ronni Chalmers and Vincent Cook joined the team after the Manager acquired CBG Asset Management in July 2017, an asset management company founded by Ronni Chalmers.

Investment Team

Name	Position	Years with Manager	Industry Experience (years)
Adrian Ezquerro	Head of Investments	14	14
Ronni Chalmers	Portfolio Manager All Cap Equity Fund	20*	40+
Vincent Cook	Portfolio Manager Large Caps	15*	15
Jonathan Wilson	Portfolio Manager Small Caps	7	7
Dr. Vincent Chin	Portfolio Manager Income Strategies	11	20
Paul Zwi	Macro Analyst	10	30+
Andrea Theouli	Investment Specialist	5**	6
Spiro Courtis	Senior Analyst Fixed Income	2	6
Jun Jung	Quantitative Analyst	3	3
Gareth Abernethy	Head of Dealing	7	10
Hugo DeVries	Dealer	4	4

*Ronni and Vincent were previously with CBG Asset Management which was acquired by Clime Investment Management in July 2017.
**Andrea previously worked with the Madison Group which was acquired by Clime Investment Management in June 2020. Andrea was with the Madison Group for four years prior to joining the team.

INVESTMENT PROCESS

Investment Objective

The primary objective of the Company at present is to provide a dividend yield above the market. The Company also seeks to provide risk-adjusted returns in excess of the benchmark. The Manager has achieved its objective of providing a greater yield than the market with dividends further enhanced through the nine bonus share issues. However, the Company has not achieved its objective of generating risk-adjusted returns in excess of the market on either a net portfolio or shareholder return basis.

Investment Philosophy

The Manager has a quality focus with strong valuation discipline. The Manager believes that attractive long-term investment returns can be achieved through the implementation of a disciplined investment process, using bottom-up fundamental analysis and with a focus on high quality companies.

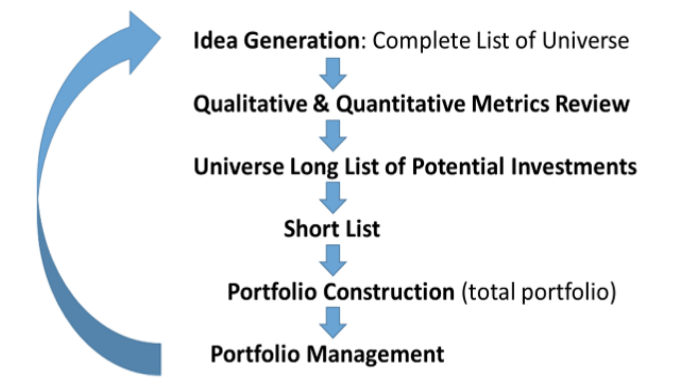
The Manager has researched the critical elements of business quality extensively and has found that there is a strong correlation between quality and outperformance (and vice versa). Companies with improving quality metrics also tend to outperform and exhibit lower levels of volatility while doing so.

The Manager seeks to invest in a benchmark unaware manner and seeks to provide portfolios that offer a combination of growth and income.

Investment Process

An overview of the Manager's investment process is provided in the below graphic. Given the portfolio will be predominantly exposed to equities, we have focused on the stock selection process.

Investment Process



Idea Generation

The Manager starts with all ASX-listed businesses and removes those that are not relevant to the strategy. For the small cap strategy, the Manager removes nano caps and companies considered to be speculative (no revenue).

Qualitative & Quantitative Metrics Review

The Qualitative and Quantitative Review involves the Manager screening the investment universe to further reduce the investable universe. The Manager applies proprietary "Clime Quality Filter" to the investment universe. The filter screens companies for:

- Financial strength;
- Low levels of leverage;
- Low capital requirements; and
- Companies that deliver genuine sustainable long-term growth.

The Manager also seeks to undertake a high level of review of the following:

- Business model sustainability.
- Business segment review
- Management review

- Industry structure
- Potential catalysts and company and/or industry specific events
- Macroeconomic review.

Potential Investments Review

This review involves a more detailed review of the investment universe after the above screening process. This part of the review process involves:

- Deeper, more detailed review of above qualitative and quantitative metrics
- Detailed review of key financial metrics: Profitability (ROE & ROIC), margins (GP & EBIT margin, level and trends), balance sheet strength, strength and consistency of cash generation, growth profile and whether growth is self-funded, valuation and growth versus valuation (PEG), trends of key metrics (improving/deteriorating) over past five years or available history.
- Detailed review of risks, macro and micro
- Review of competitive and industry position
  - Competitive advantage, leadership within a specific niche and track record;
  - Greater focus on companies with demonstrated track records of earnings and dividend consistency & stability: at least three years, preference for greater than five years;
  - Assessment of pricing power & barriers to entry;
  - Assessment of industry structure & competitive intensity; and
  - Assessment of addressable market, market growth rate and market share.

This results in a short list of companies from which the portfolio is constructed. It is from this short list that the portfolio is constructed.

Stock Selection

The portfolio is constructed from the short list of companies determined from the process detailed above. A key premise of the Manager's investment philosophy is strong valuation discipline, therefore one of the key factors for inclusion in the portfolio is the price and whether there is sufficient margin of safety for the investment to be included.

If the idea meets the requirements it is reviewed by a Portfolio Manager or senior analyst. If the stock is approved by the Portfolio Manager or Head of Investments the idea progresses to the Investment Management Review Committee where the idea is either endorsed or discarded.

The entire investment team in addition John Abernethy represent the Investment Management Review Committee.

Portfolio Construction & Review

The Manager will seek to construct the portfolio according to the below guidelines. The portfolio will be relatively concentrated with 35-55 securities. Since July 2014, CAM's portfolio has had an average of 49 securities in the portfolio. There are no sector limitations with the sector exposure of the domestic equity portfolio determined from the bottom up fundamental stock selection process.

The Company will have up to 17.5% invested in unlisted fixed income securities, to provide additional income to the portfolio. Over the thee years to 30 September 2021, the portfolio has had an average weighting of 11.4% to fixed income securities.

The Manager can invest in international securities, and has done so historically. The portfolio is not expected to have a material exposure to international securities moving forward.

The Manager utilises a position sizing matrix to determine the position size of a stock in the portfolio. The Manager considers the market cap, value, quality and expected risk to determine the weighting of a position. The maximum individual position size is 10%.

Portfolio Construction Guidelines

ASX 100 exposure	30%-70%
Ex ASX 100 exposure	30%-70%
International exposure	Up to 17.5%
Fixed Income exposure	Up to 17.5%
Number of securities in portfolio	35-55
Cash	Up to 30%
Maximum individual position size	10%

The portfolio is reviewed on a regular basis both with regards to position sizes in the portfolio as well as the contribution of risk to the portfolio. With regards to divesting a position, the position will be reviewed in detail as the stock approaches the price target or if the price drops 20%. In the event the price approaches the price target the Manager will either trim the position, exit the position or retain the position based on the revised target price. In the event the stock price has fallen by 20%, the Manager will review the investment thesis to determine if the level of conviction in the stock remains. If it does remain the Manager will retain or increase its holding in the stock. If the level of conviction no longer exists due to a change in the investment thesis then the Manager will exit the position.

PORTFOLIO COMPOSITION

The Company's invested portfolio can broken down into three sleeves: (1) Australian equity exposure; (2) Unlisted fixed income; and (3) Cash.

1) Australian Equities

The portfolio will be predominantly exposed to Australian equities. The domestic equities exposure has evolved over time. Up until late 2018, the portfolio was predominantly allocated to large cap stocks. From late 2018 the portfolio was repositioned to incorporate exposure to the both the large cap and small cap Australian equity strategies. As at 30 September 2021, the portfolio had a 47.7% exposure to top 100 stocks and 42.3% allocation to ex 100 stocks.

The Manager has the mandate to take advantage of opportunistic allocations to internationally listed equities. The portfolio has historically had periods of time where the portfolio has had sizable allocations to international equities. The portfolio has had no exposure to international equities since the beginning of 2019. The Manager has advised they may venture into international equities in the event of significant dislocations and mispricings, however, this would likely be limited in scope (up to 10% of the portfolio).

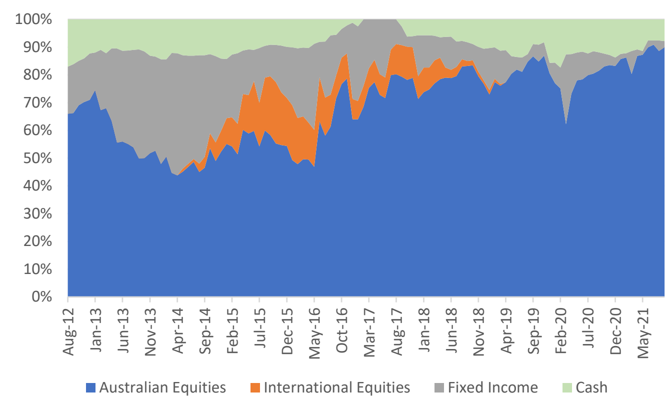
2) Unlisted Fixed Income

The portfolio includes an allocation to unlisted property trusts that provide exposure to fixed income investments. The fixed income allocation is designed to meet the interest payment requirements of the Convertible Notes and provide additional income to the portfolio.

3) Cash

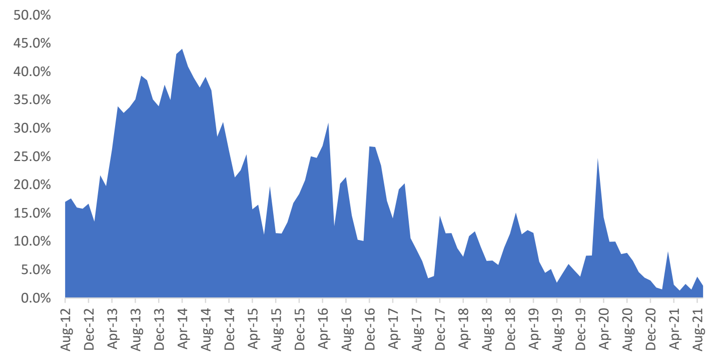
The Manager has the capacity to hold cash where attractive investment opportunities cannot be identified and this is in line with the Company's objective of preserving and protecting capital. Historically the portfolio has had periods of time of significant exposure to cash. Since August 2012, the portfolio has had an average cash exposure of 16.7%. Over the last three years the cash exposure has been lower, with an average weighting of 6.9%.

Historical Asset Class Exposure



As mentioned above, the Manager can hold cash in the event attractive opportunities cannot be identified. The cash allocation has varied over time, with periods of high cash levels in 2013 and 2014. The Manager reduced exposure to the market in the 1Q'CY2020 before reentering the market in the following quarter.

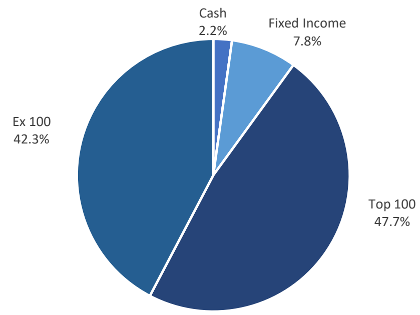
Historical Cash Exposure



Portfolio Composition as at 30 September 2021

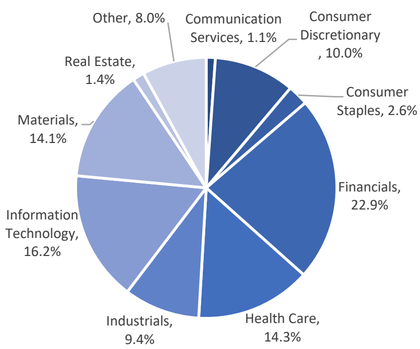
The portfolio is actively managed and as such the composition of the portfolio will vary over time, however will be predominantly exposed to Australian equities. While there is no hard and fast rules regarding the split between top 100 and ex 100 stocks, the Australian equity allocation will typically be weighted towards top 100 stocks with an allocation of 50%-70% and an allocation of 30%-50% to ex 100 stocks.

Asset Allocation as at 30 September 2021

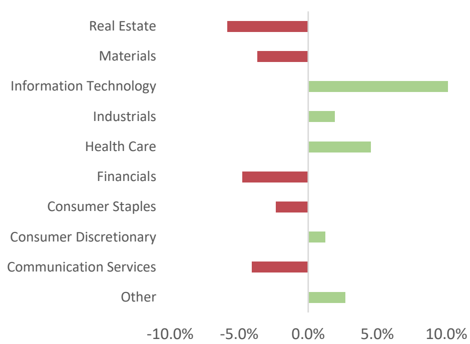


From a sector perspective, the portfolio is substantially overweight the Information Technology sector and substantially underweight Financials when compared to the benchmark.

Sector Exposure (ex cash) as at 30 September 2021



Over/Under Weight Sector Allocation Compared to the Benchmark



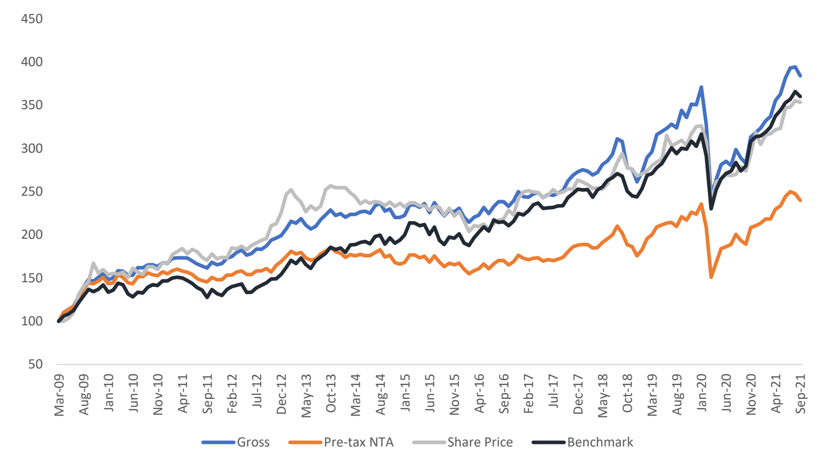
PERFORMANCE ANALYTICS

The below provides the performance anlaytics for CAM. The performance details the period from March 2009 to 30 September 2021. John Abernethy took over the management of the portfolio in March 2009.

From a portfolio perspective, the portfolio has outperformed the benchmark over the long-term on a gross basis. After taking into consideration tax paid on realised gains, fees and expenses (pre-tax NTA), the portfolio has underperformed the benchmark on both an absolute and risk-adjusted basis by quite a considerable margin.

With respect to returns to shareholders, the total shareholder return (TSR) has been in line with the benchmark, outperforming the pre-tax NTA return over the period. We note that in March 2009 the share price was trading at a significant discount to NTA and the narrowing of the discount over time has resulted in the outperformance of the TSR when compared to the portfolio after fees, expenses and taxes paid on realised gains.

Cumulative Total Return



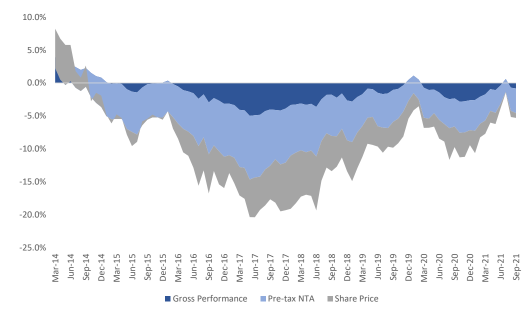
Performance Analytics (as at 30 September 2021)

	Gross (before fees and tax)	Pre-tax NTA (after realised tax but before unrealised tax)	Share Price	ASX All Ords Accumulation Index
Cumulative Total Returns				
1 year	33.0%	24.0%	26.8%	31.5%
3 year (p.a)	7.6%	5.9%	6.3%	10.4%
5 year (p.a)	10.0%	7.1%	10.1%	10.8%
10 year (p.a.)	9.0%	5.1%	7.6%	10.9%
Since 31 March 2009 (p.a)	11.4%	7.3%	10.6%	10.8%
Standard Deviation				
1 year	12.3%	12.4%	13.4%	9.7%
3 year (p.a)	19.8%	20.6%	17.1%	15.9%
5 year (p.a)	18.0%	18.7%	16.0%	14.5%
10 year (p.a.)	14.2%	14.6%	13.7%	13.4%
Since 31 March 2009 (p.a)	13.8%	14.1%	15.0%	13.4%
Sharpe Ratio				
1 year	2.56	1.81	1.89	3.08
3 year (p.a)	0.31	0.22	0.28	0.56
5 year (p.a)	0.47	0.30	0.54	0.64
10 year (p.a.)	0.53	0.25	0.44	0.71
Since 31 March 2009 (p.a)	0.72	0.41	0.61	0.69

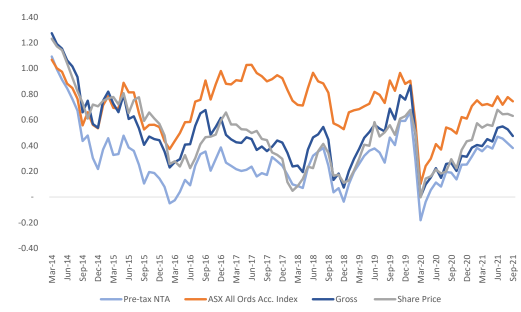
Below we take a look at the performance of the Company compared to the benchmark on a rolling five-year period to assess the consistency of performance on both an absolute and risk-adjusted basis. The Manager has a medium-to-long term investment horizon so we have taken a look at the performance of the portfolio and the share price over rolling five-year periods. The portfolio (on both a gross and pre-tax NTA basis) and the share price have largely underperformed the ASX All Ordinaries Accumulation Index, both on an absolute basis and a risk-adjusted basis over rolling five-year periods.

A couple of things to note with respect to the performance. The portfolio has reduced exposure to the market with an allocation to cash and unlisted fixed income securities. Historically,the portfolio has had a level of exposure to international stocks. Therefore the portfolio has not been directly comparable to the benchmark index throughout history.

Rolling 5-year Excess Returns



Rolling 5-year Sharpe Ratio



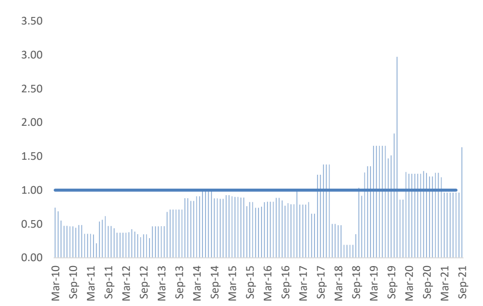
The Market Capture analysis below shows that over the short-to-medium term, the portfolio has underperformed the market in down markets and outperformed during up markets. Despite the exposure to cash and quality stocks, over the longer-term the portfolio has provided limited downside protection.

The elevated levels of volatility in down markets coincides with the addition of exposure to the domestic small cap strategy. The portfolio offered greater downside protection during the period where the portfolio was predominantly invested in large cap stocks. We have provided the rolling 12-month and 3-year down market capture charts to highlight the changing nature of the return profile as the portfolio composition has changed. The portfolio is expected to experience elevated levels of volatility given the ex 100 exposure is expected to be well above the index exposure. In the ASX All Ordinaries Index, the top 100 stocks by market cap account for over 80% of the index. This compares to the CAM portfolio which will likely have 30%-50% exposure to ex-100 stocks. Smaller cap stocks have historically had a greater level of volatility than large cap stocks.

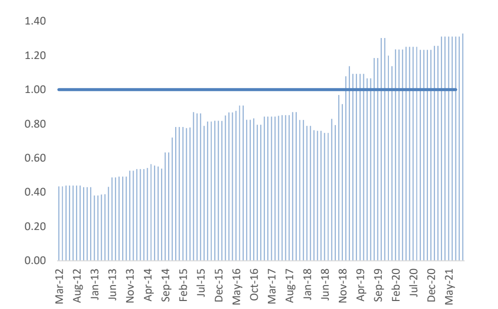
Market Capture Analysis (as at 30 September 2021)

	Up Market Capture Ratio	Down Market Capture Ratio	Market Capture Ratio
Gross			
1 year	1.08	1.64	0.66
3 year (p.a)	1.12	1.33	0.85
5 year (p.a)	1.10	1.24	0.89
10 year (p.a.)	0.91	0.98	0.93
Since 31 March 2009 (p.a)	0.94	0.86	1.10
Pre-tax NTA			
1 year	0.85	1.91	0.45
3 year (p.a)	1.08	1.36	0.80
5 year (p.a)	1.04	1.34	0.77
10 year (p.a.)	0.79	1.05	0.75
Since 31 March 2009 (p.a)	0.83	0.95	0.87

Rolling 12-month Down Capture Ratio (Gross)



Rolling 3-year Down Capture Ratio (Gross)



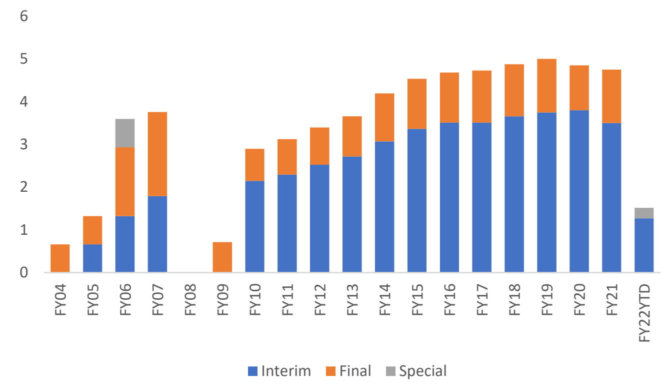
The CAM portfolio has historically performed strongest in negative markets. This is not unexpected given their focus on quality companies and their initial focus on large cap stocks up until changing the direction of the portfolio in 2018 to increase exposure to ex 100 stocks. Given the exposure to small cap stocks the markets in which the portfolio performs may differ moving forward.

Markets in which CAM Outperforms (Rolling 12-month returns) - 31 March 2009 to 30 September 2021

	Number of Periods	Number of Periods of Outperformance	% of Periods Outperformance
Gross			
Negative Markets (<0.0%)	30	15	50.0%
Moderate Markets (0.0%-10.0%)	37	15	40.5%
Strong Markets (>10%)	72	31	43.1%
Pre-tax NTA			
Negative Markets (<0.0%)	30	13	43.3%
Moderate Markets (0.0%-10.0%)	37	9	24.3%
Strong Markets (>10%)	72	18	25.0%

For the most part, the Company has provided an increasing fully franked dividend stream to investors, as shown in the below chart. FY2008 and FY2009 are exceptions with the Company not paying dividends in 2008 and only paying a final dividend in FY2009 due to market disruptions that occurred with the GFC.

Dividends Declared by Financial Year

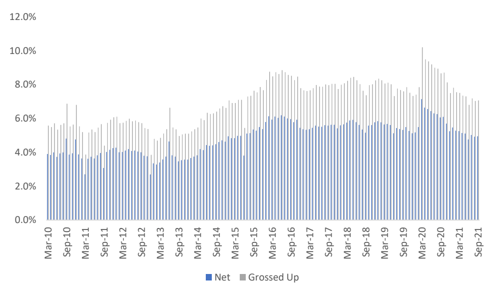


From a yield perspective, the Company has provided an improving dividend yield over time. Since March 2009, the dividend yield has ranged from 2.7% to 7.1% with the Company offering a yield of 4.9% as at 30 September 2021.

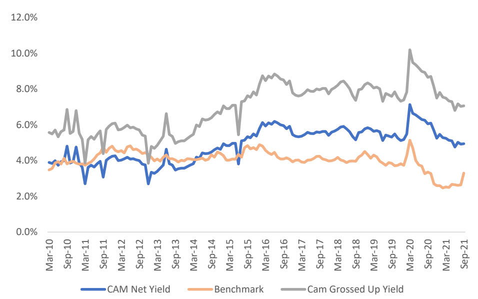
All dividends paid to date have been fully franked. On a grossed up basis, the Company offers an attractive yield with a grossed up yield of 7.1% as at 30 September 2021.

The Company seeks to provide a dividend yield above that of the market. The Company has achieved this for the most part with the improved yield accelerating from 2014.

Rolling 12-month Dividend Yield

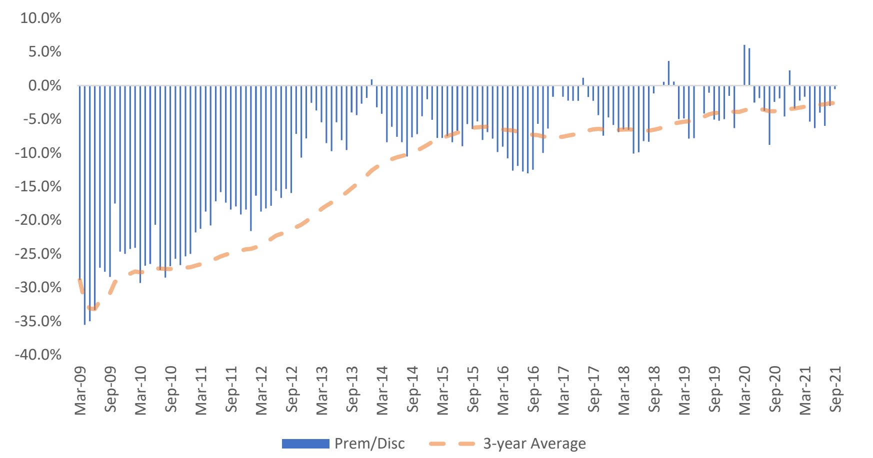


CAM Dividend Yield Compared to Benchmark



LICs are closed-ended funds with liquidity provided through the secondary market. As such, the share price may dislocate from the value of the portfolio (NTA) and trade at a premium or discount to the value of the portfolio. Discounts can provide attractive investment opportunities if the Company has the ability to narrow the discount. If companies trade at a discount for prolonged periods of time it can be a drawback as investors don't get the opportunity to exit at par value. The Company has traded both at premiums and discounts throughout its history with the range narrowing in the last three years as is highlight by the rolling 3-year average premium/discount.

Historical Premium/Discount



PEER COMPARISON

As it currently stands, CAM provides exposure to an all cap portfolio of ASX-listed stocks combined with a small exposure to a portfolio of fixed income securities. The Manager has the mandate to invest in international stocks, however, the Manager has stated that this will likely only be in the event of a significant dislocation and will be limited to 10% of the portfolio.

We have provided a comparison of the key features and performance of a selection of LICs and LITs with a market cap of $300m or less and a domestic equities focus. CAM has one of the longer performance histories of the peer group with FSI being the only LIC that has a longer history.

With respect to fees, CAM's management fees are in line with the peer group. The performance fee is at the upper end although we view the performance fee hurdle to be appropriate.

Peer Group

LIC	Ticker	Structure	Listing Date	Market Cap ($m)*	Management Fee	Performance Fee	Performance Hurdle
Forager Australian Shares Fund	FOR	LIT	December 2016	190.1	1.0%	10.0%	8% p.a
Flagship Investments	FSI	LIC	December 2000	63.7	0.00	15.0%	Bloomberg Bank Bill Index
QV Equities	QVE	LIC	September 2014	250.2	0.90%	0.0	na
Ryder Capital	RYD	LIC	September 2015	131.1	1.25%	20.0%	RBA Cash Rate + 4.25%
Sandon Capital Investments	SNC	LIC	December 2013	113.1	1.00%	20.0%	30 day BBSW
WAM Active Limited	WAA	LIC	March 2008	78.3	1.00%	20.0%	ASX All Ordinaries Acc Index
Clime Capital Limited	**CAM**	**LIC**	**February 2004**	**129.3**	**1.00%**	**20.0%**	**ASX All Ordinaries Acc Index subject to positive performance**

*As at 30 September 2021.

Of the peer group, CAM is trading at one of the smaller discounts to pre-tax NTA at 0.5% at 30 September 2021 and is offering an attractive grossed up dividend yield based on the last 12-months dividends and the share price as at 30 September 2021.

Peer Group Trading Metrics as at 30 September 2021

LIC	Ticker	Premium/ Discount	Net Dividend Yield	Grossed Up Dividend Yield
Forager Australian Shares Fund	FOR	-15.1%	2.05%	2.05%
Flagship Investments	FSI	-12.0%	3.64%	5.21%
QV Equities	QVE	-10.3%	4.23%	6.04%
Ryder Capital	RYD	-6.3%	4.07%	5.81%
Sandon Capital Investments	SNC	-12.7%	4.88%	6.98%
WAM Active Limited	WAA	0.0%	5.54%	7.92%
Clime Capital Limited	**CAM**	**-0.5%**	**4.95%**	**7.07%**

Below we have compared the performance of the peer group using the pre-tax NTA for portfolio performance. We note that pre-tax NTA is the value of the portfolio per share after fees, expenses and tax paid on realised gains.

When compared to the peer group, CAM's portfolio performance has been at the lower end of the peer group on both an absolute and risk-adjusted basis.

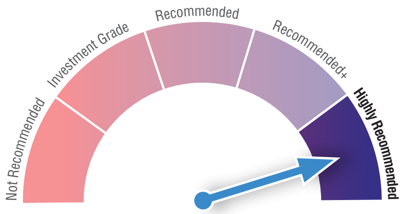
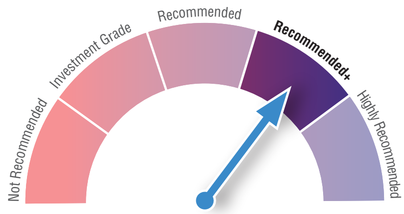
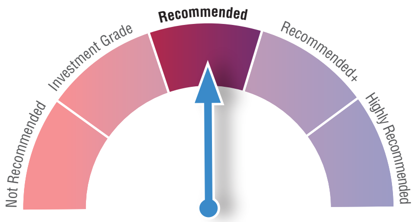
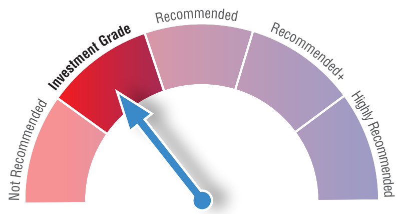
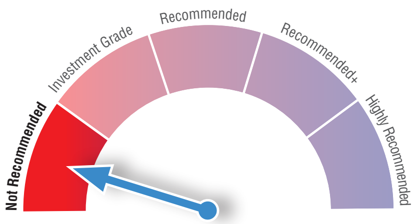
Peer Group Pre-tax NTA Performance (as at 30 September 2021)

	FOR	FSI	QVE	RYD	SNC	WAA	CAM
Cumulative Total Returns							
1 year	60.6%	24.6%	31.4%	9.5%	45.5%	18.5%	**24.0%**
3 year (p.a)	11.2%	14.6%	2.7%	9.4%	9.1%	4.9%	**4.3%**
5 year (p.a)	na	12.0%	3.4%	12.6%	8.3%	5.2%	**6.1%**
Standard Deviation							
1 year	13.5%	10.2%	10.0%	8.2%	5.7%	3.7%	**8.1%**
3 year (p.a)	26.0%	15.5%	15.9%	15.4%	12.1%	7.0%	**16.4%**
5 year (p.a)	na	13.3%	12.9%	14.1%	10.3%	5.5%	**13.2%**
Sharpe Ratio							
1 year	3.55	1.77	2.39	0.91	5.42	2.90	**1.84**
3 year (p.a)	0.30	0.69	0.10	0.52	0.57	0.38	**0.15**
5 year (p.a)	na	0.68	0.16	0.79	0.64	0.54	**0.30**

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

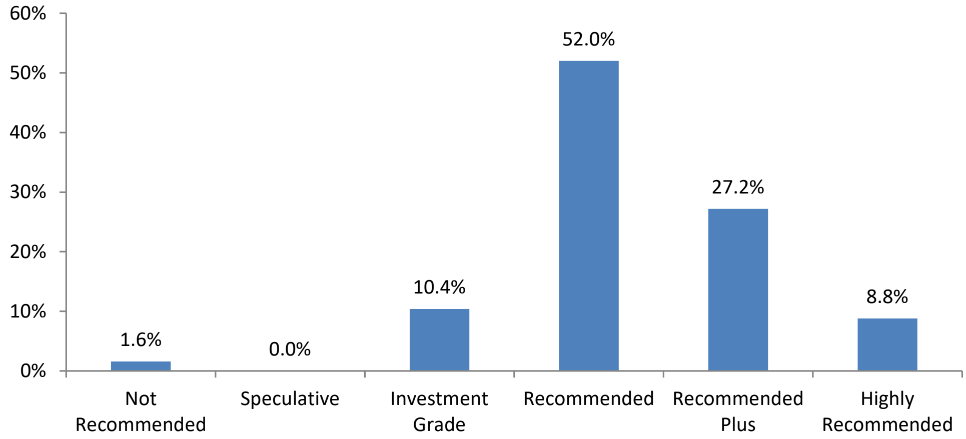
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–83**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**70–79**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Investment Grade	**60-70**
	This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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