
Chairman's Address Annual General Meeting

The accounts and financial report of Clime Capital Limited (CAM) for the year 2018/19 have been distributed to shareholders before this meeting.

Therefore, in this Chairman's address, I plan to briefly comment on these results. I will also update you on the performance and balance sheet of CAM following the first four months of trading in the current financial year. Then to conclude I would like to comment on why I believe that CAM is a unique but focused LIC.

In summary, the FY19 was a volatile one for equity markets.

There was a torrid first half that took CAM to an interim loss at 31 December 2018. However, this was followed by a sharp recovery in equity markets and CAM benefitted strongly and reported a full year profit before tax of \$8.5 million.

The extent of the volatility is shown by reviewing CAM's gross portfolio return over the entire financial year and comparing it to the second half result. The gross portfolio return (pre-fees and tax) for the whole of FY19 was 13.3% whilst the second half gross return was 23.8%.

Dividend payments to shareholders amounted to 5 cents per share fully franked. The dividend increased by 2.5% a share on the previous year because the company declared a 1 for 40 bonus issue in FY18.

Approximately \$4.5 million of fully franked dividends were declared in FY19. After the \$0.7 million of dividend reinvestment, approximately \$3.8 million was paid in cash dividends.

In December 2017, CAM issued \$20.75 million of listed unsecured convertible notes (CAMG). These notes were issued at 96 cents, mature in December 2021 and pay quarterly interest at the rate of 6.25% per annum. The notes also accrue the 1 for 40 bonus issue until and if they are converted by the holder into ordinary shares. This means that each CAMG converts into 1.025 CAM.

Following the issue of convertible notes as part consideration for CBG Limited the convertible debt (approximately \$28.2 million) represents about 20% of total assets as 31 October. This is well below the 40% gearing ratio allowed under the trust deed of issuance.

Takeover of CBG Limited (CBG)

In June 2019, CAM announced a takeover bid for CBG Capital Limited (CBG).

The takeover, which had been recommended by CBG independent directors, created a larger CAM (approximately \$138 million in gross assets) and this is expected to benefit shareholders in several ways, including:

- a. A larger company with increased liquidity in its securities should attract more investor interest and particularly from the financial advisory sector;
- b. A lower Management Expense ratio will result from operating synergies. The MER is measured as the dollar expense over the gross assets of CAM presented as a percentage; and
- c. The expectation that the above two positives will combine to improve the CAM market rating so that it trades more consistently with NTA.

It is pleasing to report that following the takeover announcement and positive response from CBG's directors that the CAM share price moved higher and has traded on several occasions at or above pretax NTA.

CAM now owns 100% of the shares of CBG after completing the compulsory acquisition process on 25 October 2019

The two investment management teams blended seamlessly together as they have been working together for the last 2 years.

Following this AGM our portfolio managers Adrian Ezquerro and Ronni Chalmers will present to you a review of the portfolio.

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 Net Tangible Assets (NTA) announcements.

As at the close of business on 31 October 2019, the gross value of CAM's investment portfolio (including the CBG portfolio) was \$137.5 million. A cash dividend (ex DRP) of \$1.25 million was paid in late October.

As at the close of business 13 November 2019, the gross value of CAM's investment portfolio (including the CBG portfolio) was approximately \$139 million.

This compares to the combined \$138.3 million of CAM and CBC gross assets as individually reported as at 30 June 2019. Since 30 June CAM has paid cash dividends of \$2.23 million, convertible note interest of \$0.34 million and tax of \$0.78 million.

Buyback of shares

The Company's on-market buyback remains active. Historically, the buyback operates at a minimum 10% discount to underlying pretax NTA and the intention is to at least buy back the shares issued under the Dividend Reinvestment Plan (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 2019, the company has bought back 136,118 shares at an average price of 90.20 cents. Over the same period the company has issued 172,785 shares (excluding shares issued for acquisition of CBG) at an average price of 92.06 cents.

Class action against UGL

As previously advised, CAM (on its own behalf and on behalf of group members in the proceeding) commenced a class action proceeding against UGL Pty Limited (formerly UGL Ltd) (UGL).

CAM has previously announced that an in principle settlement has been reached by the parties subject to execution of a deed of settlement and approval of the Federal Court of Australia. CAM is pleased to advise that a conditional deed of settlement has been entered into which resolves the proceeding on terms favourable to Clime and group members, and the matter is now set down for a court approval hearing on 4 December 2019.

The class action involved extensive activity by executives of Clime Investment Management Limited.

The CAM investment proposition

Following this meeting the Head of Investments at Clime Asset Management, Adrian Ezquerro, and team will present a detailed portfolio review. This review will cover the structure of the portfolio that now encapsulates purposeful sub portfolios across unlisted yield, large, mid and low capitalization segments. Adrian (with Ronni Chalmers) will introduce some of the investments made in each segment.

As part of that review Adrian will show that CAM's shareholder investment returns over the last ten years have been highlighted by:

1. A dividend payment yield that has been consistently higher than that achieved by the ASX index;
2. A dividend franking rate that is consistently higher than the ASX index; and
3. Portfolio growth returns that are consistent with the ASX capital growth index without exposing the portfolio fully to market risk.

I believe this analysis is important for shareholders to note because the out performance of market dividend yield is as important as the out performance of the market indices and particularly in an era of rapidly declining yields.

CAM's focus has always been on capital maintenance, a steady growth in dividends and the capturing of capital growth without exposing the portfolio to excessive risk.

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