Chairman’s Letter

Dear Fellow Shareholder,

The ASX200 price index receded by 3.6% in September and by 8.0% for the September quarter, highlighting the challenges investors have faced of late. In fact, over the prior six months, price index returns have been even worse at negative 14.8%. As we have recently noted to investors, this continues an unfortunate long term trend of limited capital growth in the Australian market. Quite remarkably, the broader ASX200 price index is closing in on a decade of zero capital growth, with the index now comparable to levels seen in March 2006. Over the same period, the accumulation index (which includes dividends) has recorded compound annual growth of just 4%.

The above reflections are not made to alarm shareholders, rather to inform you that the environment for Australian equity investing continues to be a challenging one. As we have often noted, short term returns will remain volatile and it is a focus on the longer term that will properly determine wealth creation. As you would expect, this is where our steadfast focus remains.

In our view, there has seldom been a period in history that is anything like today’s world. Quantitative easing, near zero interest rates, negative real yields, massive government debts, slow economic growth and the emergence of China, makes this a truly unique period in history.

Sharp market corrections across the world over recent months and their failure to quickly bounce back suggest to us that the investment environment has changed. Last year’s market was buoyed by Central bank support and there was an expectation that economies would recover to a level of sustainable growth. Today that view is being challenged by a raft of sobering economic indicators that has in turn resulted in equity prices retreating sharply in China, Hong Kong, Japan, Germany, UK, Australia and the US. The explanations for the falls by commentators are so varied that it appears that most are simply in the dark. Those who present a bullish outlook from here are perhaps hoping that the Central Banks will return with even more support. Our view is that Central Banks will remain active but the results of their actions on markets will become more subdued.

Today we believe the Australian market presents as value after its 15% fall since April. However, that is not a good enough reason for investors to charge into a full market weighting in equities. Real valuation metrics, cast aside by momentum investing with the mispricing of risk, have once again become important. However, many offshore markets need to unwind from their current excessive pricing and this process could take months and possibly years to traverse.

In effect, the good times that were stimulated by excessive Central Bank largesse have moved into tough times. But today’s tough times will once again be followed by good times. That is where a fundamental valuation metric is important and
no more so than when markets - like now - drift along. Valuation is like a torch as it exposes the excesses and guides toward the opportunity.

The above leads us to a piece written by highly regarded value investor, John Hussman. What follows is extracted from a longer piece, but it is a potent reminder of the folly of momentum investing and bubble asset prices caused by Central Bank activity.

“As in equal or lesser speculative bubbles across history, there’s a common delusion that elevated stock prices represent wealth to their holders. That is a fallacy, and we can hardly believe that given the collapses that followed the 2000 and 2007 extremes, investors (and even Fed policymakers) would again fall for that fallacy so readily. The actual wealth is in the cash flows that are ultimately delivered into the hands of shareholders over time. Individuals can realise their paper wealth by selling now to some other investor and receiving cash in return, but only a small proportion of investors can actually convert current paper wealth into cash by selling to other investors without disrupting the bubble. The new buyer then receives whatever cash flows the stock delivers into the hands of existing holders, and can eventually sell the claim to the remaining stream of future cash flows to yet another investor. Ultimately, a share of stock is nothing but a claim on the long-term stream of cash flows that will be delivered into the hands of its holders over time. The current price and the future cash flows are linked together by a rate of return: the higher the price you pay today for a given stream of future cash flows, the lower the rate of return you can expect achieve by holding that investment over the long-term.”

The investment strategy in 2014 for most ‘non-value’ market participants was to invest on the basis of Price Earnings Ratio (PER) expansion. Equities were driven higher by monetary policy settings. The risk free rate of return moved to unprecedented low levels and high risk assets were mispriced. Today PERs are moving lower and the lift in required returns is occurring independent of a lift in bond yields. Today’s market is one where valuation forces are taking control of pricing and it heralds a return to a more proper pricing of equities.

In aggregate, this suggests that active management is recommended over passive investment. As a result, there has been an incremental increase in activity in recent months. More specifically, your manager has sought to take advantage of emerging opportunities while selling down those securities that have run up both against the market and in some cases, well above value.

Kind Regards,

John Abernethy
Chairman
Portfolio Summary at 30 September 2015

Asset Allocation

- **Australian Equities**: 58.4%
- **International Equities**: 21.1%
- **USD Cash & Equivalents**: 7.5%
- **AUD Cash & Equivalents**: 3.9%
- **Hybrid & Interest Bearing Securities**: 9.1%

Top 10 Holdings (Weightings %)

**Australian Equities**
- National Australia Bank: 4.40%
- Woolworths Limited: 4.18%
- Australia & New Zealand Banking Group: 3.91%
- Telstra Corporation Limited: 3.80%
- Commonwealth Bank of Australia: 3.34%
- Computershare Limited: 3.31%
- BHP Billiton Limited: 2.83%
- Macquarie Perpetual Notes: 2.80%
- CSL Limited: 2.72%
- Flight Centre Travel Group Limited: 2.68%

**International Equities**
- American International Group: 1.72%
- Diageo Plc: 1.62%
- American Express Company: 1.61%
- AUD Cash: 3.9%
- USD Cash: 7.5%
- Total: 50.32%

Sector Allocation

- **International Equities**: 21.1%
- **Consumer Staples**: 4.2%
- **Transportation**: 1.5%
- **Telecommunication Services**: 3.8%
- **Real Estate**: 2.1%
- **Information Technology**: 3.3%
- **Energy**: 1.9%
- **Healthcare**: 6.9%
- **Industrials**: 2.7%
- **Cash & Income Securities**: 20.5%
- **Financials**: 16.0%
- **Materials**: 2.8%
- **Consumer Discretionary**: 5.2%
- **Consumer Services**: 8.0%
- **Total**: 100.0%
Australian Securities Summary

As outlined in the Chairman’s Letter, during the quarter we initiated new positions in a raft of high quality companies that fell back into value. We introduce each of these below.

Ansell (ASX:ANN) was introduced late in the September quarter as its price receded below assessed intrinsic value of approximately $20 per share. Despite experiencing some currency headwinds, largely focused on the repatriation of its Euro revenue base to its reporting USD currency, ANN is a high quality business that remains well placed in a mature, defensive industry. ANN is a global business that specialises in the manufacture and distribution of personal protective equipment (PPE). ANN’s business encompasses four key operating divisions: Industrial, Medical, Single Use and Sexual Wellness. All divisions have positively contributed to earnings growth over the previous five years, a trend we expect to continue into the medium term.

In terms of financials, positions in Commonwealth Bank of Australia (ASX:CBA), Challenger (ASX:CGF) and Insurance Australia Group (ASX:IAG) were initiated during the quarter as prices fell back heavily from highs achieved earlier in calendar year 2015. These businesses possess many or all of the critical investment characteristics we look for when investing capital. In our view, all three enjoy strong industry positioning, are financially sound, are forecast to generate above average ROE and offer solid fully franked dividend yields.

On the back of a positive long term view, coupled with more attractive pricing, we also initiated a position in QUBE Holdings (ASX:QUB) during the quarter. QUB has shaved about $1 per share of market value since early 2015, receding well below our intrinsic value of $2.28 per share during the September quarter. This facilitated the entry into a quality business at a sensible price. QUB is one of Australia’s largest providers of integrated import and export logistics services: its asset base includes a portfolio of high quality ports, terminals, warehouses and freight rail assets. Given the strategic nature of the asset base, coupled with a meaningful growth pipeline, we believe QUB is well placed to deliver an increasing stream of cash flow to holders over the long term.

The relatively small new position in Caltex Australia (ASX:CTX) was somewhat opportunistically introduced as its price swung briefly below $30 and into value. CTX has a dominant industry position as the owner and operator of a substantial network of critical domestic energy infrastructure. Given CTX’s strong balance sheet, sound cash flow and abundance of franking credits, we are of the view that CTX may become more active on the capital management front over the coming 6 to 12 months. Such activity could well augment total shareholder returns in the near to mid-term.

Finally, a position in Retail Food Group (ASX:RFG) was initiated as it sold off heavily despite reiterating a positive outlook for future growth. RFG is Australia’s largest owner, developer and manager of retail food franchise systems, with a network of approximately 2,450 outlets spanning 58 licensed global territories across 12 brands. RFG is also a roaster and supplier of coffee and affiliated products, operating four coffee roasting facilities and 12 wholesale brands across Australia, New Zealand and the US. We believe RFG is well placed to grow earnings as it expands its network both domestically and internationally, and offers investors the opportunity for both income and growth over coming years.

Despite the heightened level of investor anxiety and the associated market-wide sell-off over the last six months, there have been a number of bright spots across the
Clime Capital portfolio. This includes positions in companies such as Ardent Leisure (ASX:AAD), Flight Centre (ASX:FLT) and Japara Healthcare (ASX:JHC). Operationally, all appear to be executing well and in most cases reported results and/or outlooks that were ahead of expectations.

In line with the above, there were also a number of investments that enjoyed a sound quarter, which in turn offered your manager the opportunity to exit positions as prices traded beyond fair value. This included positions that have benefited from the surge in building related activity such as Adelaide Brighton (ASX:ABC) and Brickworks (ASX:BKW).

Furthermore, shareholders may recall that in prior reports and discussions we highlighted both the Reject Shop (ASX:TRS) and SMS Management and Technology (ASX:SMX) to be ‘work-out’ situations. We then highlighted reasons for optimism, including early stage evidence of their turnarounds being executed by rejuvenated management teams. This in fact played out as both companies delivered results and outlooks that exceeded expectations, with subsequent 40%+ rallies from recent lows providing the opportunity to begin closing out these positions at satisfactory prices.

While markets continue to be difficult and turbulent, we believe the Clime Capital portfolio is well positioned to withstand volatility and deliver a solid longer term portfolio return. As we have noted previously, if you would like to discuss any or all aspects of this quarterly report, please feel free to get in touch with the team here at Clime. We assure you that despite volatile market conditions, we remain focused on the key goals of capital preservation and sensibly growing your wealth over the long term. We thank you for your ongoing support.
International Securities Summary

Clime’s international portfolio was increased in the first three months of the financial year. The total local value of the portfolio has grown close to 12% as the manager made the strategic call to further increase exposure to U.S. currency and equities. At the end of September the offshore portfolio represented $24.4 million or about 29% of the total Clime portfolio.

The portfolio includes some $6.4 million of USD or some 26% of offshore exposure. This portfolio decision has boded well thus far, with the AUD falling close to 9% against the USD during the quarter from $0.7694 to $0.7004.

Throughout the quarter we added a number of new holdings to the portfolio. Some of the largest include:

- Bank of America Corp
- Estee Lauder Companies*
- HSBC Holdings
- Monsanto Company
- Yum! Brands Inc*

* Held securities in previous quarters

Major sell downs of positions included Exxon Mobil which was removed from the portfolio in line with the investment committee’s ongoing view to severely restrict the exposure to commodities. The portfolio now has no exposures to oil and gas.

Emerson Inc. was removed due to its relative overexposure to the European economy and likely FX pressure due to its large offshore earnings profile. General Motors (profit) and Harley Davidson (small loss) were removed as we saw increasing foreign competition from a stronger dollar eating into their profitability. IBM was sold for a profit after the stock traded above our valuation target.

During the quarter we also sold Precision Castparts after the announcement that Berkshire Hathaway would be taking over the industrial goods and fabrication company for $235 a share, representing a tidy 20% profit in just over a month.

Due to the unusually high levels of volatility during the quarter, we were able to strategically exit and re-enter a number of portfolio names. We exited Amgen at $180 and re-entered in the $140s. We exited McDonald's at $100 and re-entered in the mid-low $90s. In the first quarter we exited Yum Brands at $91 and recently re-entered in the high $70s. We attribute these successes to our high conviction calls and willingness to stick to our price targets in choppy market conditions.

Throughout the period, we also topped up our holdings in Baidu, CF Industries, General Electric, Microsoft, Procter & Gamble and Wells Fargo during periods of market weakness.

The cash weighting in the portfolio has slightly decreased as we began accumulating select equities on market weakness. The S&P 500 fell 6.94% during the quarter which gave us this buying opportunity. The manager continues to forecast a strengthening USD as it sees continuing capital flows to the US in the immediate future in anticipation of the Fed’s rate hike.

The manager retains their view that U.S. equity markets are expensive – this remains the case even after the recent correction. Whilst partaking in some selective buying, the manager is looking for further market weakness before significantly decreasing cash weighting.
Investments ($m)

<table>
<thead>
<tr>
<th></th>
<th>Sep '15</th>
<th>Aug '15</th>
<th>Jul '15</th>
<th>Jun '15</th>
<th>May '15</th>
<th>Apr '15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed Securities</td>
<td>$75.53</td>
<td>$77.79</td>
<td>$73.57</td>
<td>$78.77</td>
<td>$77.94</td>
<td>$77.59</td>
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<tr>
<td>Cash</td>
<td>$9.76</td>
<td>$10.16</td>
<td>$18.19</td>
<td>$9.95</td>
<td>$15.27</td>
<td>$14.48</td>
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<tr>
<td>Net Assets</td>
<td>$85.29</td>
<td>$87.95</td>
<td>$91.76</td>
<td>$88.72</td>
<td>$93.21</td>
<td>$92.07</td>
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<th>May '15</th>
<th>Apr '15</th>
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</thead>
<tbody>
<tr>
<td>Dividends Paid</td>
<td>-</td>
<td>-</td>
<td>$1.13</td>
<td>-</td>
<td>-</td>
<td>$1.12</td>
</tr>
<tr>
<td>Taxes Paid</td>
<td>-</td>
<td>$0.27</td>
<td>-</td>
<td>-</td>
<td>$0.33</td>
<td>$0.24</td>
</tr>
<tr>
<td>Buybacks Funded</td>
<td>$0.07</td>
<td>$0.12</td>
<td>$0.15</td>
<td>$0.15</td>
<td>$0.08</td>
<td>$0.07</td>
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Shareholder Returns: $10,000 (January 2009 to September 2015)

A focus on long-term performance

<table>
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<tr>
<th></th>
<th>3 years</th>
<th>4 years</th>
<th>5 years</th>
<th>6 years</th>
<th>Since 1 Jan '09</th>
</tr>
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<tbody>
<tr>
<td>Clime Capital Total Shareholder Returns (p.a)</td>
<td>3.9%</td>
<td>6.6%</td>
<td>6.4%</td>
<td>7.1%</td>
<td>11.0%</td>
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<tr>
<td>Actual Total Returns</td>
<td>12.2%</td>
<td>28.9%</td>
<td>36.1%</td>
<td>50.7%</td>
<td>102.6%</td>
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Clime 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.
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 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.

<table>
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<tr>
<th>Ordinary Shares Overview (ASX:CAM)</th>
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<tbody>
<tr>
<td>Share Price (at month end)</td>
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<tr>
<td>Rolling 12 Month Dividend</td>
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<tr>
<td>Historical Dividend Yield</td>
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<td>Percentage Franked</td>
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<tr>
<td>Grossed Up Yield</td>
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<tr>
<td>Dividend Reinvestment Plan</td>
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<th>Preference Shares Overview (ASX:CAMPA)</th>
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<td>Share Price (at month end)</td>
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</table>

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

* With effect from June 2015 quarter, CAMPA dividends for future quarters has been revised to 4.5 cents (18 cents per annum) fully franked per share.
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.

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