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Clime Capital Limited

Company Announcements
Australia Stock Exchange
by e-lodgement

13 December 2010

Net Tangible Assets (NTA) Update

NTA $1.38 before tax and $1.35 after tax

The Clime Capital board is pleased to report the NTA of Clime Capital Limited is $66.2 million or $1.38 per share as at 31 December 2010.

Investments	31 October 10	30 November 10	31 December 10
Equities	$51.4m	$53.2m	$52.4m
Cash	$14.2m	$11.5m	$13.8m
Gross Assets	$65.6m	$64.7m	$66.2m
Net Assets	$65.5m	$64.7m	$66.2m
NTA per share	**$1.36**[1,2]	**$1.35**[1,2]	**$1.38**[1,2]

[1] Fully Diluted NTA per share incorporates both the fully paid ordinary shares and converting preference shares on issue
[2] NTA stated is after payment of approx. $652K of dividends in October 2010

	3 months	1 year	2 years*	3 years*	4 years*
Clime Capital Limited	1.0%	4.1%	27.4%	4.8%	3.6%
ASX All Ordinaries Acc. Index	5.3%	3.3%	20.1%	-4.9%	0.3%
Outperformance	-4.3%	0.8%	7.3%	9.7%	3.3%

* Annualised investment performance to 31 December 2010.

Top Ten Portfolio Holdings – 31 December 2010

ASX Code	Company Name	Portfolio Weighting (%)
BHP	BHP Billiton Limited	9.26
MLC	Mothercare Australia	7.88
AAZPB	Australand Conv Note	7.63
MMS	McMillan Shakespeare	7.30
TLS	Telstra Corp	5.69
WOW	Woolworths Limited	5.28
ANZ	ANZ Bank Ltd	5.11
MXUPA	Multiplex CnvNt 2049	4.81
EPX	Ethane Pipeline	4.80
NAB	NAB Limited	4.04
MIN	Mineral Resources	2.91
SVWPA	Seven Grp Hld ConvNt	2.60
CBA	Commonwealth Bank	2.42
BKW	Brickworks Limited	1.66
TRS	The Reject Shop	1.52
CFX	CFS Retail Property	1.33
CCL	Coca-Cola Amatil Ltd	1.28
FPS	Fiducian Portfolio	1.01
JBH	JB Hi-Fi Limited	.92
IMFG	IMF Aust 10.25% Conv	.80

Investment Update

The CAM portfolio has under performed over the last 3 months due to the correction in price of Mothercare Australia (ASX: MLC) (formerly Headline Group Limited(ASX: HLD)) and the outperformance by mid-sized resource companies based on corporate activity. However, more significantly and importantly the portfolio has significantly outperformed the market indices over one to three years. Over three years the cumulative outperformance is nearly 30% after all fees and costs.

At this point virtually all economic forecasters forecast that the world, as measured by GDP, will grow in 2011. It is likely that the developing world, which is dominated by China, Brazil and India, will grow at a rate of at least 6%. The developed world of the US, Europe and Japan will grow at a more subdued rate of just 2%. Australia is likely to grow at a faster rate than the major developed economies of the world.

These observations lead us to the view that the Australian equity market is more likely to rise moderately, than to fall, in 2011. We do not expect a strong rise, because the economic problems confronting the developed world are immense. They range from excessively high levels of sovereign debt, severely crippled economies (the latest being Portugal) and unstable banking systems, to looming unfunded crises created by an aging population in the developed world.

The magnitude of the problems suggests that the government responses throughout the world, when they are eventually implemented, will also be immense. Indeed we suggest that there will be one very predictable response by governments around the world — new and higher taxes. Whatever growth there is and from wherever it comes, it will attract tax. The taxation response may not be until 2012, but markets will begin to price in the effects of new taxes at some point in the next 12 months. The effect of new and higher taxes will be to lower the expectation of profit growth in future years.

Quite simply the governments of the developed world will be forced to repair their highly indebted balance sheets in preparation for the rapid onset of an aging population. The clear outlook for most developed economies is for a dramatic lift in pension liabilities, social security and health payments that will arise throughout the next decade.

Although Australia's sovereign debt is low, like the rest of the developed world we are confronted with the looming problem of an aging population. The baby boomers, born between 1945 and 1960, are rapidly reaching retirement. Although they are the controllers of immense wealth, they will still burden society with increasing claims on health care before they move into retirement and then aged care. They are moving from a consumption stage to a savings stage of their lives. The combination of increased taxes (whether in the form of direct tax charges or a lift in utility or services charges) and the dramatic change in consumption patterns of the aged, will surely slow economic growth. In Australia we are also confronted by our excessive household debt. This burden falls most directly on the generation of 30–45 year olds who have borrowed excessively to enter the residential market and who have to or will be required to adjust their consumption patterns.

Despite the above, we in Australia are relatively well off compared to our peers, because we benefit from our direct trade engagement with China. Further, our propensity to attract, house and provide for immigrants supports our population growth. The rest of the developed world is not so fortunate, and the depressing impact of offshore economic sentiment will on occasion, weigh negatively on our equity market throughout 2011.

Currently we have a positive view on Australia’s equity market, which just offsets our concerns about the outlook for the US and in particular, the European economies. Indeed 2011 could well be a rerun of 2010. Further, we would suggest that the investment experiences of the first decade of the twenty-first century should be reflected upon by all of us.

The past decade has seen Australian equities return about 8% pa to investors in $A terms. It is interesting to reflect that approximately 60% of this return has emanated from income or dividends; so less than 40% of the total return is from capital gain. Further, while the first seven years of this century produced astronomical gains, they were subsequently decimated by the severe market contraction of 2008. The early economic and market gains were overstated by the burgeoning credit creation in the US, Europe and even Australia through to

2007. Then as debt and credit markets crunched the excess gains were quickly taken away. The result was that Australian share market returns (of 8% p.a.) over the past decade were marginally above the long-term norm or average. Returns in the US were more sobering and barely matched inflation.

With this recent history, it would be extraordinary to expect a resurgent recovery in equity markets built upon excessive consumption and the reopening of easy credit. It is not going to happen, and the demographic pressures plus excessive government debt will simply cap any excessive market exuberance. Further, the strict requirement for banks to lift their capital ratios will in itself slow credit growth in future years.

In the meantime, the growth in China and India should continue. There is much speculation, among commentators and brokers who still somehow predict strong equity market rallies in 2011 concurrent with a slowdown in the Chinese economy. We do not expect the Chinese economy to slow dramatically in the next year and we would suggest that any slowing in China would severely negatively affect the world economy and derail equity markets.

The above analysis supports our current portfolio stance of focusing on high yielding investments along with those companies that have a potential to deliver high returns on their employed equity.

Kind regards

John Abernethy
Chairman
Clime Capital limited

Clime Capital Limited – an overview

Clime Capital Limited is a listed investment company, managed by Clime Asset Management Pty Limited. Clime Capital Limited holds a concentrated portfolio of approximately 20 securities that are listed on the Australian Stock Exchange. Its goal is to invest in companies that generate a high return on equity, are managed by capable management and that can be purchased at a price below the intrinsic value of the company.

Clime Capital Limited was listed on the ASX in February 2004. In 2006 Clime Asset Management Pty Ltd was purchased by Clime Investment Management Limited (ASX: CIW), formerly Loftus Capital Partners Limited (ASX: LCP). Since the acquisition, Clime Capital Limited has consistently outperformed the ASX All Ordinaries Accumulation Index.

Clime Asset Management Pty Ltd employs a value investment philosophy and holds the following core investment beliefs:

The preservation of capital is essential to maximise shareholder returns.

The sustainable return on equity (ROE) of a company determines the value of a company.

Investments are only be made when the share price of a company is below the value of a company.

The share price will revert to the value of the company in the medium term.

If investments cannot be found with and acceptable ROE and be purchased below their intrinsic value cash will be held.