

10 October 2011

Net Tangible Assets (NTA) Update

NTA \$1.14 before tax and \$1.12 after tax.

The Clime Capital board is pleased to report the NTA of Clime Capital Limited as at 30 September 2011.

Investments	31 July 11	31 August 11	30 September 11
Equities	\$50.6m	\$51.9m	\$51.3m
Cash	\$12.5m	\$10.2m	\$9.8m
Net Assets	\$63.1m	\$62.1m	\$61.1m
NTA before tax per share	\$1.17¹	\$1.15¹	\$1.14¹

¹ Fully Diluted NTA per share incorporates both the fully paid ordinary shares and converting preference shares on issue and bonus entitlements due to be paid on conversion of the preference shares

	3 months	1 year	2 years*	3 years*	4 years*
Clime Capital Limited	-5.07%	-3.72%	2.00%	9.73%	-1.38%
ASX All Ordinaries Acc. Index	-11.28%	-8.43%	-3.48%	0.02%	-7.42%
Outperformance	6.21%	4.71%	5.48%	9.71%	6.04%

* Annualised investment performance to 30 September 2011.

Top Ten Portfolio Holdings – 30 September 2011

ASX Code	Company Name	Portfolio Weighting (%)
TLS	Telstra Corporation Limited	9.00
BHP	BHP Billiton Limited	7.79
MMS	McMillan Shakespeare Limited	7.03
AAZPB	Australand Convertible Notes 31/12/2049	7.02
EPX	Ethane Pipeline Income Fund	5.94
MXUPA	Multiplex Convertible Note 31/12/2049	5.26
WOW	Woolworths Limited	4.82
ANZ	Australia & New Zealand Banking Group Li	4.77
CBA	Commonwealth Bank of Australia	4.34
MLC	Mothercare Australia Ltd	4.12

Investment Update

The world has commenced the painful process of deleveraging. During this period many commentators and strategists will look at price movements and see them as predictive of a world recession. Many more will look at charts and conclude that more precipitous price falls are likely to occur. However, very few of them will acknowledge the beneficial effects of deleveraging. Less still will acknowledge that it was leverage in the first place that caused asset prices to rise to unsustainable levels. It is our view that the deleveraging process will bring the prices of a whole range of assets back to proper levels. To ascertain what a “proper level” is, will only be apparent to those investors that can assess value.

The analysis of value can only be derived from the actual or potential assessment of cash flows that come from an asset. The affect of debt on the prices of assets is an important observation to make because it will give us an insight into the likely price developments across markets and assets in coming months as debt is withdrawn.

We have stated many times in the past that price and value are distinct concepts. For too long the mispricing of risk has led to a misconception or mispricing of value. In recent times it has meant that many asset prices were based on sentiment and the perceptions of what “others” will pay. Often the “others” were only buyers because they had access to debt. When debt was offered in excessive levels and for low cost, then proper risk analysis was destroyed and generally prices were inflated. Many markets thus traded price and not fundamentals. For instance was the price of copper really based on demand, supply and cost of production? Or was it driven by geared hedge funds and traders who utilised access to cheap debt to speculate on price movements. Thus, does the 25% fall in the price of copper have more to do with the deleveraging of the world financial system than it does with the likelihood of a Chinese growth downturn?

The effect of the fall in the Australian share market of over 20% since April has taken the total market capitalisation to below Australia's GDP of \$1.3T. As the market plummets on Euro debt concerns, it is interesting to reflect that China's foreign reserves of \$3T could actually buy the whole Australian market and still have a cool \$1.7T left over. Of course they would not be interested in the bulk of the companies on the Australian market as many are unprofitable. However, BHP, RIO, bulk commodity producers, the major banks, some building groups and financial services companies would be of clear interest and even more so given that the \$A has just devalued by over 10% against the Chinese Yuan.

China has and will continue to invest its immense foreign reserves throughout the world. We suspect that over time, more of these reserves will be directed to its trading partners who offer growth that is far superior to Europe and the US. Quite frankly, Australia offers that opportunity but the size of our economy and our small market capitalisation are an inhibiting force.

But there is an important point for Australian investors to contemplate. They should not get caught up in the emotion or desperation flowing out of Europe and consequently lose sight of the strategic value of some major Australian companies in the Asian region.

We have continued to acquire stocks at prices that we regarded as highly attractive. We have deployed some \$0.5m of cash. Cash has been realised from our positions in CCL and CSL. We have taken new positions in RIO and Iress (IRE) , and have added to our positions in BHP, and BKW.

Kind regards

John Abernethy
Chairman
Clime Capital limited