

## Listed Investment Companies (LICs)

### SECTOR REPORT

#### Monthly LIC update – top picks

#### CONTENTS

Company	Page #
LIC Sector Picks	1
Updated Sector Snapshot	2
WAM Leaders (WLE)	3
Large Capitalisation TSR & NTA Performance	5
Mid-Capitalisation TSR & NTA Performance	5
Small Capitalisation TSR & NTA Performance	5
International TSR & NTA Performance	6
Specialist TSR & NTA Performance	6

- The following report contains a LIC sector update and performance review of our coverage list for the month of May 2016.
- **Top picks:** Our top picks refer to preferred exposures within each sector based on numerous quantitative and qualitative factors. However, they should not be treated as official stock recommendations but merely as a guide to where we would apportion funds at this particular point in time.
- **Large capitalisation:** Large cap LICs are currently at attractive levels, trading at or below respective NTAs. Recent Total Shareholder Return (TSR) has underperformed compared to both the All Ordinaries Accumulation Index (XAOAI) and individual NTA movements. In our view, this underperformance illustrates the market sentiment towards large cap LICs trading at such significant premiums to NTA (~8.0%-10.0%) when market confidence is increasing. Conversely, unless the large cap space experiences a period of substantial underperformance, we do not believe trading levels will revert to significant discounts. Therefore we maintain our view that a number of large cap LICs currently offer attractive points, trading below historical averages. Australian Foundation Investment Company (AFI), trading at an estimated 1.8% premium to NTA is a top pick within the space. Elsewhere on a valuation discount, Diversified United Investment (DUI) remains a top pick, currently trading at an estimated 6.0% discount to NTA.
- **Mid-capitalisation:** We add WAM Leaders (WLE) to our coverage list following its ASX listing in May. Trading close to its NTA, we view WLE as a top pick within this space whilst noting the lack of trading history. We provide greater insight on WLE on page three. Future Generation Fund's (FGX) NTA increased 3.6% in May, with growth for FY16TD up 10.2%. Outperformance over the broader market (5.8%) can be attributed to the portfolio allocation to varying investment strategies: long equities (50.2%), absolute bias (24.8%) and market neutral (15.4%). FGX remains a top pick given this allocation composite.
- **Small capitalisation:** Currently trading at an estimated 20.5% discount to NTA, Acorn Capital (ACQ) remains a top pick on both valuation appeal and TSR performance (up 13.4% this quarter). Elsewhere, Cantango Microcap (CTN), offering a 6.6% dividend yield (partially franked) and broad exposure to the small and micro segments of the market is a top pick. We view the current estimated 15.3% discount to NTA as an attractive entry point.
- **International:** Global Value Fund (GVF) remains a top pick following a 4.0% NTA increase in May. GVF is currently trading at an estimated 5.6% discount to NTA with a 4.8% discount yield (FF). After strong NTA growth in May (6.6%), PM Capital Global Opportunities Fund (PGF) has been impacted by "Brexit" concerns with 13.0% of its portfolio comprising United Kingdom domiciled companies. Meanwhile, negative share price movements to top holdings such as Lloyd's Banking Group and Bank of Ireland has seen PGF's NTA fall 6.4% in June-to-date. Whilst we remain positive on PGF, we do acknowledge short term risk associated with the pending "Brexit" vote. PGF is currently trading at an estimated 12.1% discount to NTA.
- **Specialty:** Bailador Technology (BTI) has added a new company to its portfolio - Click Loans Group. Click Loans is an online company, providing applicants end-to-end online mortgages and mortgage solutions. In May, BTI also increased its stake in Viocorp, with a follow-on investment of \$4.0 million. Viocorp, BTI's second largest holding now represents 23.9% of the overall portfolio. Although trading at its NTA, we see potential upside revaluation risk to BTI's NTA as a number of underlying holdings are held at cost price, in our view. Elsewhere, Bluesky Alternative Access Fund (BAF), up 11.9% over the current quarter, remains an attractive proposition due to its low correlation with the market. BAF's largest asset allocation exposures are private real estate, real assets and private equity representing 35.9%, 31.5% and 25.4% of the portfolio respectively.

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#### Disclosure

The author owns no shares in any of the mentioned companies.

Baillieu Holst Ltd has acted in a corporate advisory role for WLE and earned fees in relation to that activity in the past 12 months.

## Sector snapshot

### BAILLIEU HOLST - EQUITY RESEARCH Listed Investment Companies Coverage by Sector

Figures as at: 17 June 2016

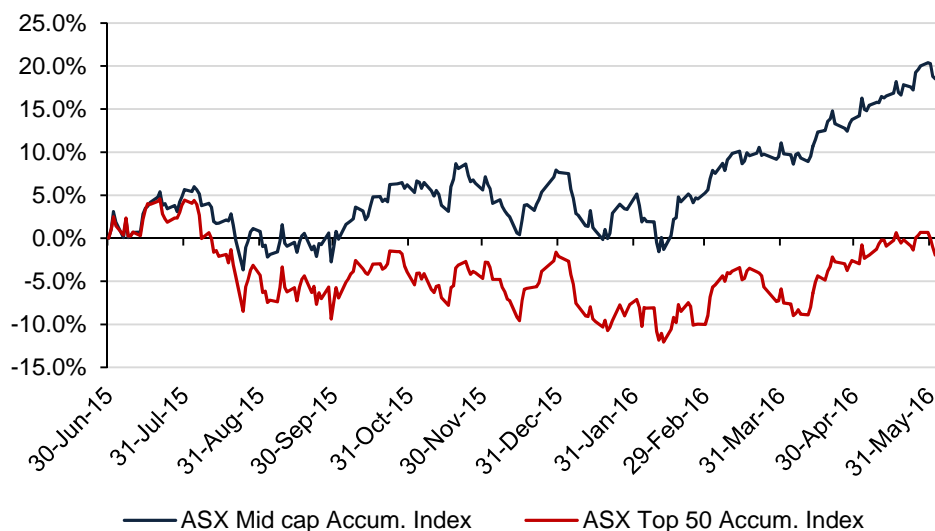
Large Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since June 1	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Australian Foundat.	AFI	5.52	6250.6	24.0	4.3%	6.2%	-2.1%	5.42	1.8%	5.68	-0.7%	0.9%	4.4%	3.9%
Argo Investments	ARG	7.21	4900.3	30.5	4.2%	6.0%	-0.3%	7.02	2.8%	7.28	-0.7%	2.6%	6.6%	3.2%
Australian United In	AUI	7.25	885.8	33.7	4.6%	6.6%	0.0%	7.48	-3.0%	7.82	-7.3%	-6.8%	-4.4%	-5.8%
BKI Investment Ltd	BKI	1.57	939.5	7.3	4.6%	6.6%	0.0%	1.53	2.9%	1.59	-1.3%	3.3%	-1.3%	0.5%
Djerriwarrh	DJW	4.07	885.3	26.0	6.4%	9.1%	-0.5%	3.09	31.5%	3.21	27.4%	31.5%	33.7%	27.5%
Diversified United	DUI	3.27	680.7	14.0	4.3%	6.1%	-2.4%	3.48	-6.0%	3.65	-8.2%	-7.0%	-4.9%	-6.7%
Milton Corporation	MLT	4.21	2729.7	19.0	4.5%	6.4%	-0.9%	4.18	0.7%	4.35	-2.3%	-0.7%	2.3%	0.9%
Mid Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since June 1	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Australian Leaders	ALF	1.42	384.6	10.0	7.1%	10.1%	-0.4%	n.a	n.a	1.32	7.6%	7.8%	3.0%	7.5%
Aberdeen Leaders	ALR	1.07	65.9	5.0	4.7%	6.7%	-1.8%	1.17	-8.7%	1.22	-10.7%	-10.1%	-9.1%	0.2%
AMCIL Limited	AMH	0.93	234.3	4.0	4.3%	6.2%	-1.6%	0.93	-0.6%	0.96	-2.1%	-1.4%	-3.2%	-2.1%
Cadence Capital	CDM	1.26	341.9	11.0	8.7%	12.5%	-2.7%	1.13	11.1%	1.16	11.4%	17.3%	10.2%	4.8%
Contango Inc Gen Ltd	CIE	0.94	71.5	2.0	2.1%	3.0%	1.1%	0.99	-4.6%	1.01	-7.5%	-3.5%	n.a	n.a
Carlton Investments	CIN	31.65	835.5	111.0	3.5%	5.0%	0.0%	34.87	-9.2%	36.70	-13.7%	-12.4%	-10.9%	-11.4%
Future Gen Ltd	FGX	1.12	254.3	4.0	3.6%	5.1%	-0.9%	n.a	n.a	1.17	-4.2%	-2.1%	-1.8%	n.a
Mirrabooka Invest.	MIR	2.73	429.6	17.0	6.2%	8.9%	-1.4%	2.39	14.0%	2.45	13.1%	12.8%	11.1%	11.8%
Perpetual Equity Ltd	PIC	0.93	232.9	1.3	1.4%	2.0%	-2.1%	1.02	-9.0%	1.05	-9.7%	-9.0%	-6.1%	n.a
Qv Equities Limited	QVE	1.08	239.1	1.5	1.4%	2.0%	1.9%	1.10	-2.4%	1.12	-5.9%	-5.5%	-3.2%	n.a
WAM Capital Limited	WAM	2.15	1013.8	14.3	6.6%	9.5%	0.5%	1.90	12.9%	1.92	11.3%	15.5%	9.4%	7.6%
WAM Leaders Limited	WLE	1.08	387.1	0.0	0.0%	0.0%	0%	n.a	n.a	1.09	-1.2%	n.a	n.a	n.a
Wealth Def Equ Ltd	WDE	0.77	95.0	1.0	1.3%	1.9%	-2.5%	0.85	-9.9%	0.88	-11.3%	-9.5%	n.a	n.a
Whitefield Ltd	WHF	4.11	333.8	25.5	6.2%	8.9%	-2.1%	4.57	-10.0%	4.75	-11.6%	-8.1%	-6.9%	-6.4%
Small Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since June 1	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Acorn Cap Inv Fund	ACQ	0.89	44.7	n.a	n.a	n.a	0.6%	1.12	-20.5%	1.10	-19.7%	-19.2%	-18.5%	n.a
Barrack St Invest	BST	0.94	14.9	1.5	1.6%	1.9%	-1.6%	1.17	-20.0%	1.17	-18.6%	-18.1%	-18.2%	n.a
Contango Microcap	CTN	0.96	153.9	6.3	6.6%	7.7%	1.6%	1.13	-15.3%	1.14	-16.8%	-15.6%	-10.7%	-10.7%
Glennon SML Co Ltd	GC1	0.98	24.7	0.8	0.8%	0.9%	-1.0%	1.06	-7.3%	1.07	-7.6%	-6.4%	n.a	n.a
Naos Emerg Opp	NCC	1.03	48.8	6.3	6.1%	8.7%	-1.4%	n.a	n.a	1.23	-15.4%	-8.0%	-10.7%	-10.8%
Ozgrowth Limited	OZG	0.14	48.6	1.0	7.4%	10.6%	0.0%	0.18	-23.3%	0.17	-22.4%	-22.0%	-17.0%	-15.3%
WAM Research Ltd	WAX	1.36	236.0	8.0	5.9%	8.4%	1.5%	1.18	15.1%	1.19	12.3%	13.1%	8.8%	6.3%
Westoz Inv Ltd	WIC	0.82	106.6	7.5	9.1%	13.1%	-2.4%	1.01	-19.1%	1.00	-16.3%	-16.8%	-13.2%	-10.3%
8lp Emerg Co Ltd	8EC	0.98	32.7	0.0	0.0%	0.0%	-2.2%	1.09	-11.0%	1.10	-9.4%	-10.1%	n.a	n.a
International	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since June 1	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Amp Capital China	AGF	0.82	382.1	33.6	40.9%	40.9%	-1.8%	1.00	-17.9%	1.03	-18.9%	-16.7%	-22.7%	-21.8%
Argo Global Ltd	ALI	1.88	267.6	0.5	0.3%	0.3%	-5.7%	1.93	-2.6%	2.03	-5.4%	-6.3%	n.a	n.a
Ellerston Asian	EAI	0.83	98.4	n.a	n.a	n.a	-1.4%	n.a	n.a	0.95	-19.3%	-13.1%	n.a	n.a
Ellerston Global Inv	EGL	0.91	70.0	2.0	2.2%	3.1%	-3.2%	n.a	n.a	1.09	-14.0%	-12.2%	-4.8%	n.a
Future Gib Invest Co	FGG	1.08	291.6	n.a	n.a	n.a	-0.5%	n.a	n.a	1.09	-0.9%	5.3%	n.a	n.a
Global Value Fnd Ltd	GVF	1.04	107.7	5.0	4.8%	6.9%	3.5%	1.10	-5.6%	1.12	-10.1%	-7.8%	-11.4%	n.a
Hunter Hall Global	HHV	1.28	312.2	11.0	8.6%	8.7%	0.4%	1.44	-11.4%	1.46	-12.7%	-14.0%	-13.7%	-12.8%
Magellan Flagship	MFF	1.86	863.3	2.0	1.1%	1.1%	-4.1%	1.99	-6.6%	2.12	-8.5%	-4.7%	-7.1%	-3.4%
Pm Capital Asian Op	PAF	0.92	49.6	n.a	n.a	n.a	-2.7%	1.02	-10.6%	1.06	-11.2%	-10.5%	-13.1%	n.a
Platinum Asia Ltd	PAI	0.92	266.8	n.a	n.a	n.a	-3.7%	0.92	-1.0%	0.95	0.3%	2.3%	n.a	n.a
Pm Capital Fund	PGF	0.89	306.2	1.5	1.7%	2.4%	-5.9%	1.01	-12.1%	1.08	-12.6%	-10.9%	-12.4%	n.a
Platinum Capital Ltd	PMC	1.65	370.6	9.0	5.5%	7.8%	0.9%	1.46	13.2%	1.52	7.7%	13.1%	13.5%	8.8%
Templeton Global	TGG	1.22	304.6	4.1	3.4%	4.8%	-2.8%	1.32	-7.6%	1.38	-9.2%	-10.9%	-11.6%	-8.1%
Specialist	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since June 1	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Blue Sky Alt Access	BAF	1.18	144.6	3.0	2.5%	3.6%	4.4%	1.10	7.5%	1.10	3.0%	-2.8%	-4.1%	n.a
Bailador Tech Inv	BTI	1.14	115.0	n.a	n.a	n.a	-10.2%	1.16	-1.7%	1.16	9.5%	-4.2%	-15.7%	n.a
Lion Selection Grp	LSX	0.32	34.2	n.a	n.a	n.a	0.0%	n.a	n.a	0.35	-8.6%	-20.7%	-32.0%	-28.8%
Sandon Capital Ltd	SNC	0.81	36.7	5.0	6.2%	8.9%	-1.2%	n.a	n.a	0.94	-13.4%	-11.6%	-9.5%	n.a
Thorney Opp Ltd	TOP	0.55	93.1	0.5	0.9%	1.3%	0.9%	n.a	n.a	0.62	-11.5%	-9.9%	-8.5%	-4.2%
Watermark Fund Ltd	WMK	1.02	92.9	6.0	5.9%	8.4%	0.0%	n.a	n.a	1.04	-1.9%	-1.4%	-7.9%	n.a

Source: IRESS, Bloomberg, company reports and Baillieu Holst estimates

## WAM Leaders Ltd (WLE)

- **About:** Wilson Asset Management (WAM) has successfully launched its WAM Leaders (WLE) LIC, after raising \$394 million. WLE is the fourth LIC under the WAM banner and complements WAM's existing products, encompassing a majority of market segments. WAM currently manages over \$1.5 billion in a LIC format for investors.
- **WAM Leaders:** WLE provides investors access to a portfolio of large-cap companies focusing on the ASX 200 Index. Management will seek to find undervalued securities and anticipate that the portfolio will comprise between 20 and 50 securities, and will be index and benchmark unaware.
- **Investment objective:** WLE will seek to provide investors a stream of fully franked dividends, capital growth over the medium-to-long term as well as preserving capital.
- **Investment strategy:** WLE will utilise a two tiered investment strategy, involving a fundamental research driven approach, overlaid with a market driven investment style:
  - **Research driven investing:** This will incorporate fundamental bottom up research focusing on key metrics such as free cash flow and return on equity (ROE). Investments will ultimately be decided if management believes it has identified a catalyst that has not yet been factored into the value of the security and therefore creating the potential for a valuation re-rating.
  - **Market driven investing:** The market driven approach seeks to take advantage of short-term relative arbitrages and mispricing opportunities. Short term market opportunities may include IPOs and corporate management as well as current market themes and trends.
- **Portfolio construction:** It is anticipated that the portfolio will initially be weighted towards the mid-cap segment of the market as there is a greater potential to find a larger number undervalued securities outside of the ASX top 20 utilising the above investment approach.

FIG.1: ASX TOP 50 ACCUM. INDEX V ASX MID-CAP ACCUM. INDEX FY16-TO-DATE



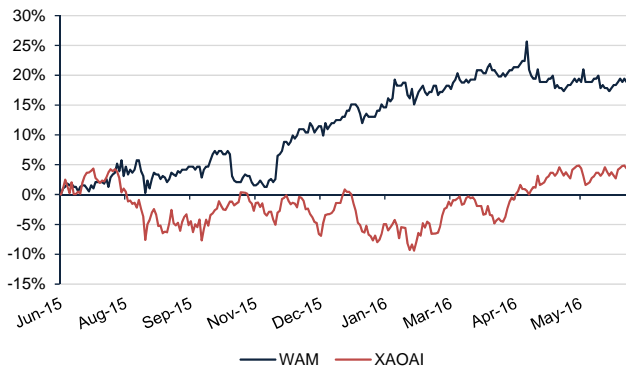
Source: IRESS, Baillieu Holst

- The figure above illustrates the relative underperformance of the ASX Top 50 Accumulation Index (XFLAI) against the ASX Mid Cap Accumulation Index (XMDAI) for FY16-to-date. The XMDAI has outperformed the XFLAI by 20.8% over this period.
- **Portfolio weighting:** Management expects that the average security weighting within the portfolio will be between 1% and 5%. These weighting expectations are in-line with management's existing LICs (WAM and WAX).

**Existing LICs**

- **WAM and WAX:** Wilson Capital (WAM) and Wilson Research (WAX) are two existing LICs managed by Wilson Asset Management and both employ similar aspects to the investment strategy outlined above. The figures below illustrate the respective outperformance of WAM and WAX over the All Ordinaries Accumulation Index (XAOAI) in FY16-to-date. Outperformance, coupled with an above market fully franked yield has led to WAM and WAX trading at an estimated 12.9% and 15.1% premium to NTA respectively.

**FIG.2: WAM TSR V ALL ORDINARIES INDEX**



Source: Company presentation

**FIG.3: WAX TSR V ALL ORDINARIES INDEX**

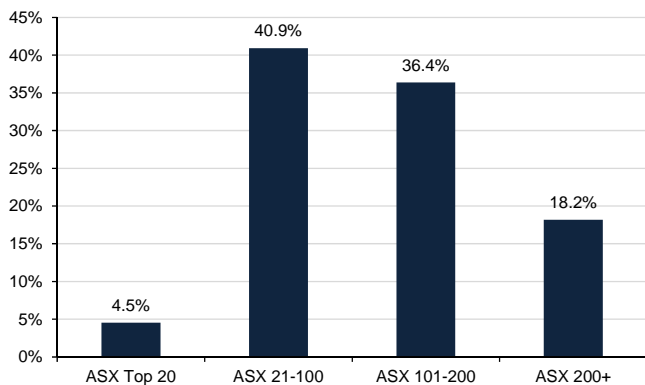


Source: Company presentation

**WLE update**

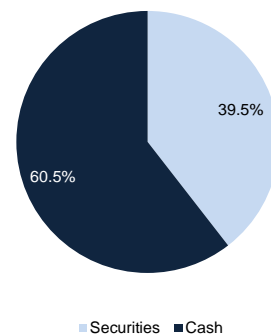
- WLE has released an update to the market outlining its current capital deployment and where the portfolio is currently invested.

**FIG.4: WLE PORTFOLIO ASX PORTFOLIO COMPOSITE**



Source: Company presentation

**FIG.5: WLE CAPITAL DEPLOYMENT**



Source: Company presentation

- Although only 39.5% invested, WLE has one security within the ASX Top 20 with 77.2% of deployed capital invested in securities located within the ASX 21-200.
- **Market timing:** The timing of deployment after a LIC IPO can have a significant influence on the performance of the fund. WAM management has historically indicated a preference to increasing the portfolio allocation to fixed interest and cash during volatile periods with WAM and WAX holding on average, 34.2% and 39.8% of the portfolio in fixed interest and cash in FY16-to-date.
- **Our view:** The strength of investor demand during the IPO leads us to be positively predisposed to WLE. The market cap of the WLE will help mitigate concerns surrounding secondary market support for recently listed LICs. Given the investment strategy of WLE, we would assume that the portfolio will initially have a mid-cap bias and we look favourably upon this for: 1) outperformance relative to the overall market of the mid-cap space; 2) increased earnings potential over the ASX Top 20; and 3) an underlying portfolio of securities that may potentially complement an existing investor portfolio of 'blue-chip' securities. In our view, this diversification aspect may appeal to investors such as SMSFs and will be further enhanced as WLE begins to ramp up its dividend yield profile.

## Monthly performance by sector

FIG.6: LARGE CAP TSR

Top Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
AUI	2.8%	AUI	7.7%
DJW	2.0%	DUI	7.0%
DUI	1.8%	DJW	6.0%

Bottom Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
BKI	-1.9%	ARG	-1.0%
ARG	-0.4%	BKI	0.6%
MLT	0.0%	MLT	2.4%

FIG.8: MID CAP TSR

Top Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
ALR	4.8%	ALR	12.3%
MIR	4.1%	AMH	9.3%
AMH	3.3%	MIR	6.1%

Bottom Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
WDE	-4.3%	CDM	-6.5%
CIE	-2.6%	ALF	-1.1%
WAM	-0.5%	WDE	-0.7%

FIG.10: SMALL CAP TSR

Top Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
WIC	7.0%	OZG	17.4%
8EC	7.0%	WIC	15.1%
NCC	4.0%	ACQ	13.5%

Bottom Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
OZG	0.0%	GC1	-0.3%
ACQ	0.6%	8EC	0.0%
WAX	1.1%	WAX	0.6%

Source: Bloomberg, IRESS, Company Report, Baillieu Holst estimates

FIG.7: LARGE CAP NTA PERFORMANCE

Top Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth( %)
DJW	3.5%	DUI	14.7%
BKI	3.2%	AUI	13.8%
ARG	3.0%	DJW	13.0%

Bottom Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth( %)
AUI	1.8%	MLT	11.8%
AFI	2.3%	BKI	12.1%
MLT	2.4%	ARG	12.7%

FIG.9: MID CAP NTA PERFORMANCE

Top Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth( %)
CDM	8.9%	ALR	13.9%
WAM	8.5%	CIE	10.5%
CIE	6.2%	AMH	10.3%

Bottom Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth( %)
WDE	0.2%	ALF	3.0%
ALF	0.8%	CDM	3.4%
CIN	1.1%	CIN	3.6%

FIG.11: SMALL CAP NTA PERFORMANCE

Top Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth( %)
WAX	7.3%	8EC	17.4%
ACQ	4.0%	OZG	16.1%
CTN	2.5%	ACQ	14.9%

Bottom Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth( %)
WIC	-0.2%	WAX	5.9%
OZG	1.2%	GC1	6.3%
8EC	1.7%	WIC	11.2%

## Monthly performance by sector cont.

FIG.12: INTERNATIONAL TSR

Top Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
HHV	7.6%	HHV	17.8%
TGG	6.8%	TGG	14.7%
ALI	6.1%	ALI	11.0%

Bottom Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
EAI	-6.1%	EAI	-8.3%
PMC	-4.4%	FGG	-4.0%
FGG	-2.7%	PMC	-1.5%

FIG.14: SPECIALIST TSR

Top Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
LSX	23.1%	LSX	36.2%
BTI	19.8%	BTI	28.3%
BAF	8.7%	BAF	14.7%

Bottom Performers			
May Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
SNC	-0.6%	SNC	-2.4%
WMK	0.0%	WMK	3.0%
TOP	0.9%	TOP	4.9%

Source: Bloomberg, IRESS, Company Report, Baillieu Holst estimates

FIG.13: INTERNATIONAL NTA PERFORMANCE

Top Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth (%)
PAF	7.8%	HHV	11.9%
MFF	7.2%	MFF	10.3%
GVF	6.7%	EAI	9.9%

Bottom Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth (%)
EGI	1.7%	AGF	-21.4%
PMC	3.0%	GVF	1.8%
TGG	3.8%	EGI	3.2%

FIG.15: SPECIALIST NTA PERFORMANCE

Top Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth (%)
WMK	4.4%	TOP	13.7%
BTI	3.5%	LSX	12.9%
SNC	3.0%	SNC	4.7%

Bottom Performers			
May Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth (%)
LSX	-2.8%	BTI	-3.6%
BAF	0.4%	WMK	0.5%
TOP	2.8%	BAF	1.8%



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