

Premiums Stabilising

What are LICs?

Listed investment companies are essentially listed equivalents of mutual funds, with some significant differences. The more established LICs tend to charge lower fees than their unlisted counterparts and are closed end funds – investors buy and sell the LIC vehicle so the LIC managers don't need to buy stock at the top of a Bull market or sell stock at the bottom of a Bear market. It also means that LIC share prices may deviate significantly from their underlying NTA.

Summary of Recommendations

This report covers 34 LICs, comprising 17 established companies and 17 newer listings. Charts showing 10 year price and NTA trends for the established LICs are shown in Appendix 1. Their top 20 holdings are shown in Appendix 2.

The weighted average premium to liquidation NTA of the established LICs was **8.8%** at the end of October. This is well below the 10 year average of **12.7%**. The smaller and riskier LICs continue to languish at large discounts to NTA.

A comparison of premium to liquidation NTA and long-term NTA growth reveals that **AUI, CIN and WAM** have the strongest long-term growth, with **CIN** and **WAM** offering the best value. Although **WAM** mainly invests in small companies its cash holdings have averaged 27.4% since inception. **MLT** and **DUI** offer the best value among the larger, conservative LICs.

Amongst the newer LICs, **CAM** has the best track record of NTA growth over the last five years and is trading at the largest discount to NTA (the average discount of the newer LICs is 16%). CAM's top ten holdings include BHP, WOW, ANZ, TLS and WBC. **CTN** also has a good NTA growth track record and offers a better yield (see table on page 6).

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Summary Table

Company	Code	Current Price 22.11.10 \$	Current NTA (pre-tax on unreal. gains)	Current NTA (after tax on unreal. gains)	Prem. (Disc.) to NTA %	Prem. (Disc.) to liq. NTA %	Estimated 2011 DPS ¢	Estimated 2011 Yield %	Estimated 10 Year Compnd Return % p.a.	5 Year Compnd Return % p.a.	2 Year Compnd Return % p.a.	Market Cap \$M
Aust. Foundation	AFI	4.82	4.78	4.14	0.8	16.4	21.0	4.4	10.2	7.9	10.4	4,883
Aberdeen Leaders	ALR	1.29	1.38	1.33	-6.5	-3.0	9.5	7.4	7.5	5.9	8.6	78
Amcil	AMH	0.66	0.76	0.73	-13.8	-10.3	2.5	3.8	n.a.	8.2	13.9	130
Argo Investments	ARG	6.01	6.16	5.55	-2.4	8.3	25.0	4.2	9.9	4.1	6.1	3,654
Aust. United Invest.	AUI	6.80	7.26	6.33	-6.3	7.4	26.0	3.8	11.2	6.2	9.8	712
Brickworks Investm	BKI	1.25	1.40	1.33	-10.7	-6.0	6.0	4.8	n.a.	5.6	10.1	526
Choiseul Invest.	CHO	4.90	5.05	4.37	-3.0	12.1	21.5	4.4	10.4	3.9	7.6	475
Carlton Investments	CIN	18.20	21.61	18.84	-15.8	-3.4	67.0	3.7	13.1	5.2	18.0	483
Djerriwarrh Invest.	DJW	4.21	3.63	3.49	16.0	20.6	26.0	6.2	7.2	6.8	10.0	900
Divers. United. Inve	DUI	2.96	3.16	2.79	-6.3	6.1	13.0	4.4	9.8	6.4	11.1	487
Ironbark Capital	IBC	0.48	0.54	0.54	-11.8	-11.3	3.0	6.3	2.8	3.7	12.0	68
Mirrabooka	MIR	1.78	1.84	1.72	-3.5	3.2	10.0	5.6	n.a.	5.8	13.2	241
Milton	MLT	16.90	17.52	15.87	-3.5	6.5	73.0	4.3	9.6	2.2	4.3	1,682
Platinum Capital	PMC	1.45	1.27	1.27	14.2	14.2	10.0	6.9	6.1	-0.2	23.3	237
Templeton Global	TGG	0.81	0.96	0.96	-15.6	-15.6	0.0	0.0	-2.3	-6.8	4.9	118
WAM Capital	WAM	1.39	1.66	1.60	-16.6	-13.2	8.0	5.8	11.5	7.5	25.9	145
Whitefield Capital	WHF	3.00	3.36	3.44	-10.7	-12.8	17.0	5.7	5.2	1.8	10.5	177
All Ords Accum. Ind	XAOAI	33932							8.1	5.4	18.2	

Why Buy LICs?

For conservative investors wishing to match or possibly beat the long-term returns of the All Ordinaries Index, especially those with a limited amount of capital, a number of LICs can provide the necessary spread of investments. Although many investors focus on whether a LIC is trading at a discount or premium to net tangible asset backing (NTA), in reality, the better performing LICs trade at a premium and the poor performers often trade at deep discounts.

The most important criterion in the evaluation of a LIC is its track record. Those with the best long-term performances (measured by total return, dividend and NTA growth) are the ones likely to give the best future returns. However, given the lack of track record of the newer LICs, a closer focus on investment philosophy, NTA backing and the investment manager’s skill are most important in making a valuation call.

LICs that rely on a theme are unlikely to out-perform the market over the long term, but can provide strong returns over a short to medium term time frame. Gearing (e.g. Aberdeen Leaders) is potentially a positive when markets are moving higher but can be a negative when Bear markets prevail.

Global and Theme LICs

Templeton Global (TGG), Platinum Capital (PMC) and the newer Global Mining Investments (GMI), Linq Resources (LRF), Magellan Flagship Fund (MFF) and Hunter Hall Global (HHV) have a global spread of investments and may be appropriate for investors wishing to diversify beyond Australia. Of these, Platinum has the ability to apply derivatives to protect against loss. Templeton is still suffering from its heavy exposure to the U.S. and European equity markets and continues to under-perform. AMP Capital China Fund provides exposure to China A shares. Djerriwarrh (DJW) specialises in purchasing local option stocks and writing call options against them. Other stocks with a specific focus include Contango (CTN), which mainly targets domestic microcaps, and Australian Enhanced Income Fund (AYF), which invests in hybrid and other debt securities.

Recent News

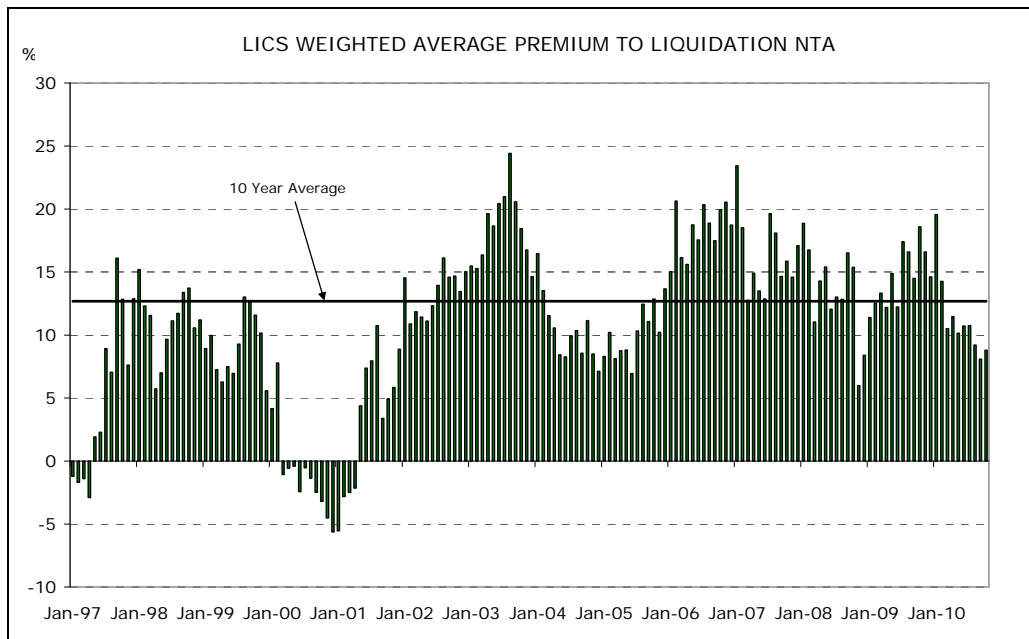
As a result of the price falls and deep discount to NTA, most of the newer LICs have implemented share buyback programs. Several of the older LICs have also initiated buyback programs (ALR, CIN, IBC, TGG and WHF).

Milton and Choiseul are planning to merge, with CHO shareholders being offered 27.88 MLT shares for each 100 CHO shares, as well as a special dividend (if the merger is successful the payment date would be 16.12.10) estimated to be 16c per share. Benefits include greater liquidity and lower management expense ratio (currently 0.17%). CHO shareholders will vote on the proposal at a scheme meeting on the 26th November.

Whitefield and Sylvastate are also planning to merge their respective portfolios over the next few months.

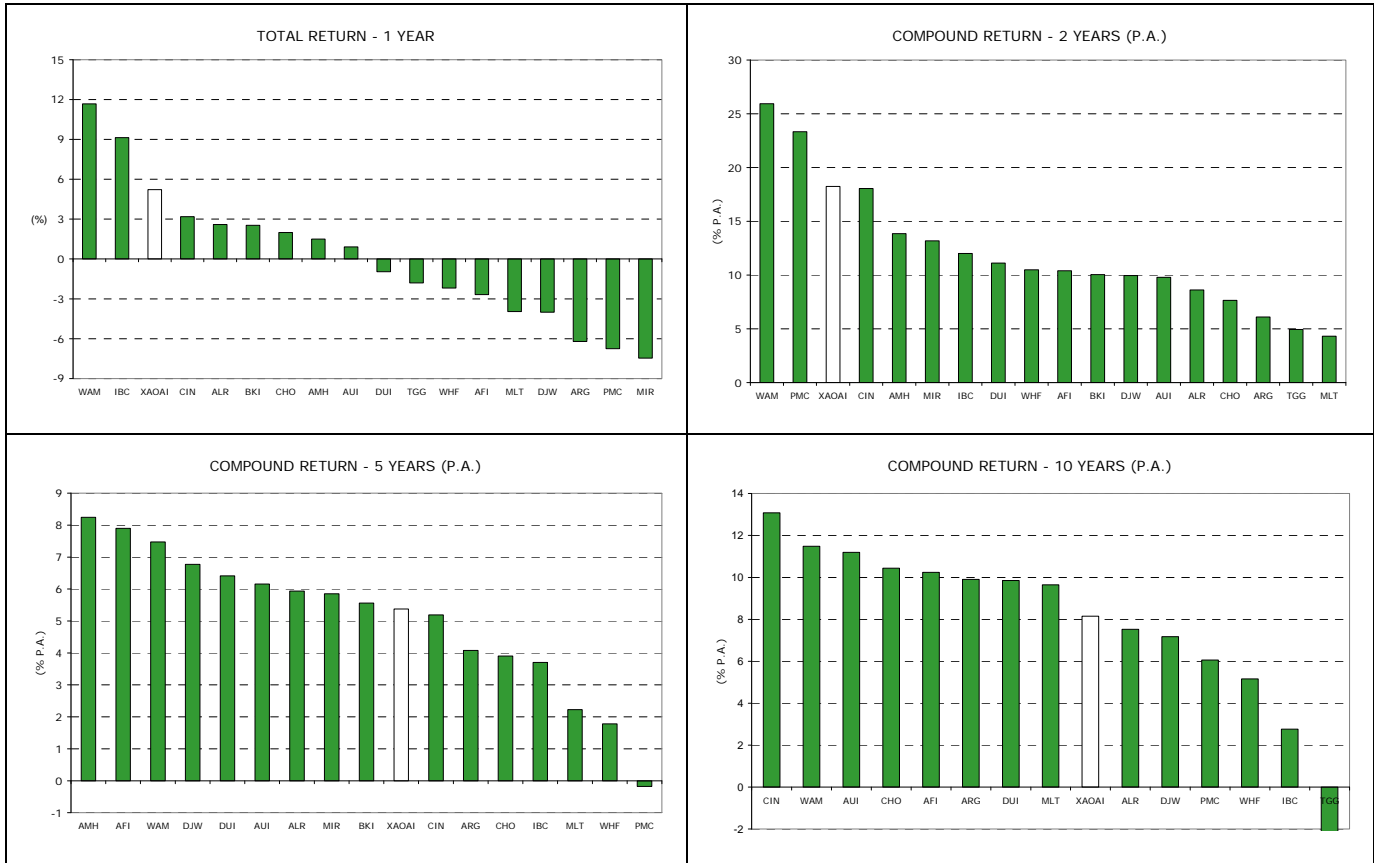
Established LICs

The trend of weighted average premiums since January 1997 is shown in the chart below, based on month-end prices. The index is starting to stabilise after falling sharply and is currently **8.8%**, well below the 10 year average of **12.7%**.



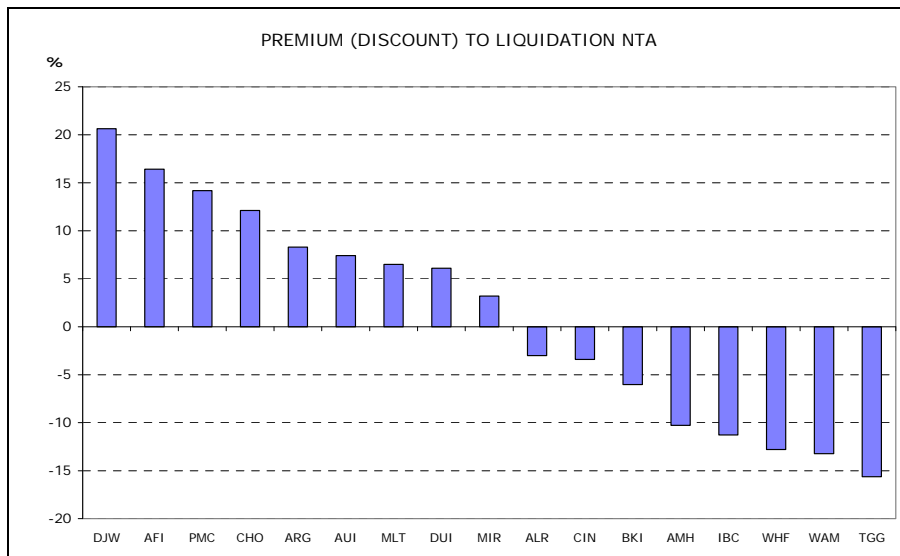
Total Return Performances

In terms of total returns, the best long-term performer (10 years) is Carlton Investments (CIN) with an annualised return of 13.1%. Amcil was the best performer over the last five years while WAM Capital recorded the best return over the last two years and one year.



Premium/Discount to Liquidation NTA

The premiums and discounts in the table below are based on prices at the close of trading on the 22nd November and reported NTAs at the end of October. Investors continue to avoid the smaller LICs. The best value of the larger, conservative LICs are Diversified United Investments and Milton.



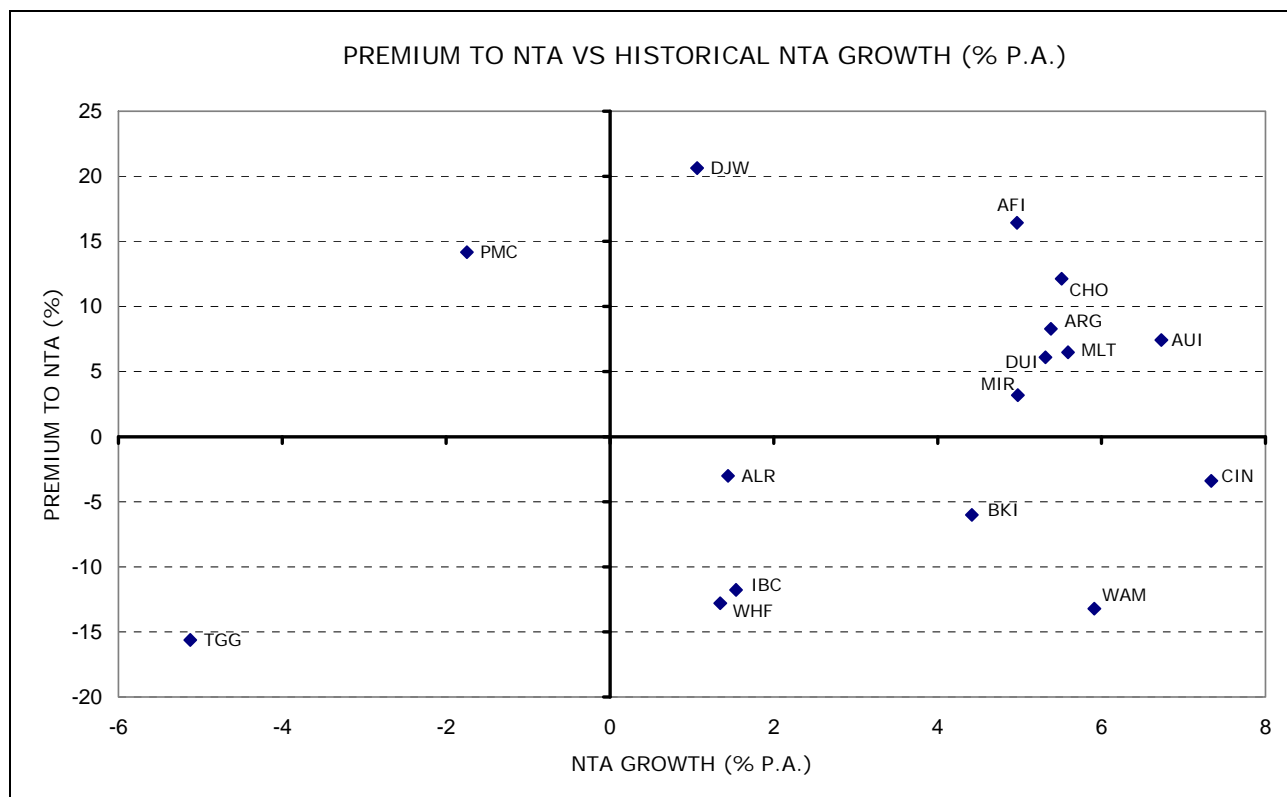
Premium to NTA vs Usual Premium to NTA

The average premiums over NTA (including tax on unrealised earnings) over the last five years are shown in the table below, along with the premiums based on November 22 closing prices and October 31 NTA. The historical premiums or discounts factor in size, risk and performance, so a significant departure from the 'normal' level indicates a possible price aberration. Our preferred stocks on this valuation basis are **ARG** and **MLT**. **WHF** also appears to be good value but has a poor record of NTA growth. **WAM** also looks attractive and does have a good track record of NTA growth. **DJW** and **IBC** continue to look expensive.

Company	Code	Current Prem./Disc.	Usual Prem./Disc.	% Points Difference
Argo	ARG	8.3	17.9	-9.6
Milton	MLT	6.5	15.3	-8.8
Whitefield	WHF	-12.8	-5.9	-6.9
Templeton Global	TGG	-15.6	-8.7	-6.9
Aust. United Invest.	AUI	7.4	14.1	-6.6
Aberdeen Leaders	ALR	-3.0	2.7	-5.7
Diversified United Invest	DUI	6.1	11.5	-5.4
Platinum Capital	PMC	14.2	18.4	-4.3
Choiseul	CHO	12.1	16.1	-3.9
WAM Capital	WAM	-13.2	-10.1	-3.1
Mirrabooka	MIR	3.2	5.4	-2.2
Aust. Foundation	AFI	16.4	18.4	-2.0
Carlton Investments	CIN	-3.4	-1.4	-2.0
Ironbark Capital	IBC	-11.8	-9.8	-1.9
Djerriwarrh	DJW	20.6	14.2	6.4

Premium to NTA vs NTA Growth

CIN leads the pack of high quality LICs in terms of NTA growth over a 10 year period. However, CIN has a large exposure to Amalgamated Holdings (34.9% of its portfolio) so conservative investors may prefer AUI. WAM also has strong growth and currently offers excellent value. AFI, DJW and PMC are clearly expensive.



NTA Growth, Last 12 Months

Company	Code	12 Months NTA Growth	
Ironbark Capital	IBC	3.6	The smaller end of these LICs performed strongly over the last 12 months.
Carlton Investments	CIN	3.2	
Brickworks Investment	BKI	2.3	
WAM Capital	WAM	2.2	
Aust. United Invest.	AUI	2.1	
Diversified United Inves	DUI	1.1	
Mirrabooka	MIR	0.6	
Aust. Foundation	AFI	0.5	
Milton	MLT	-0.9	
Templeton Global	TGG	-1.0	
Argo	ARG	-1.1	
Djerriwarrh	DJW	-2.8	
Aberdeen Leaders	ALR	-2.9	
Choiseul	CHO	-3.5	
Whitefield	WHF	-3.6	
Platinum Capital	PMC	-3.8	

Historical Dividend Growth Rates

		Compound Dividend Growth (% p.a.)	Years	
WAM Capital	WAM	9.9	10	WAM Capital, Diversified United and Australian United Investments have the best long-term (10-year) track records of dividend growth. Note WAM is off a relatively low base. Note that Templeton Global has not paid any dividends since FY2007.
Mirrabooka	MIR	9.7	8	
Diversified United Inves	DUI	8.4	10	
Aust. United	AUI	7.9	10	
Carlton Investments	CIN	7.5	10	
Choiseul	CHO	6.7	10	
Aust. Foundation	AFI	5.7	10	
Argo Investments	ARG	5.5	10	
Aberdeen Leaders	ALR	5.2	10	
Milton	MLT	5.1	10	
Djerriwarrh	DJW	2.7	10	
Ironbark	IBC	1.7	10	
Amcil	AMH	0.0	5	
Platinum Cap.	PMC	-1.7	10	
Sylvastate	SYL	-1.9	10	
Templeton	TGG	-100.0	10	

Newer LICs

In the table below we provide details of 17 floats since late 2003. Most of these companies offered shares at \$1.00.

Company	Code	Manager	Focus
AMP Capital China Growth Fund	AGF	AMP Capital	Investing in China A shares
Australian Leaders Fund	ALF	KWB Capital	At least 70% of the fund in the ASX100
Australian Enhanced Income Fund	AYF	Elstree Investment Mgt.	Debt securities, esp. hybrids
Clime Capital	CAM	Clime Asset Mgt.	Value based, partly quantitative
Century Aust. Invest.	CYA	452 Capital (Peter Morgan)	ASX300
Contango Microcap	CTN	Contango Asset Mgt.	Microcaps
Emerging Leaders Inv.	ELIS	Ausbil Dexia	Domestic, high-growth, small-mid caps
Global Mining Invest.	GMI	Bell Potter Funds Mgt.	Global resources companies
Hunter Hall Global Value	HHV	Hunter Hall Invest. Mgt.	Global equities, any size.
Hyperion Flagship	HIP	Hyperion Asset Magt.	Long-term Aust. Equities, >\$10m mcap.
Katana Capital	KAT	Classic Capital	ASX 300 stocks
LinQ Resources Fund	LRF	LinQ Capital	Small to medium size resources companies
Magellan Flagship Fund	MFF	Magellan Asset Management	The 50 most attractive global stocks
Premium Investors Gp.	PRV	Treasury Group	Several fund managers
Van Eyck Three Pillars	VTP	Van Eyck Research	ASX 300 stocks
Westoz Investment Co.	WIC	Westoz Funds Mgt.	Mainly West. Aust. stocks outside top 100
Wilson Investment Fund	WIL	WAMI	Mainly cheap industrials on ASX

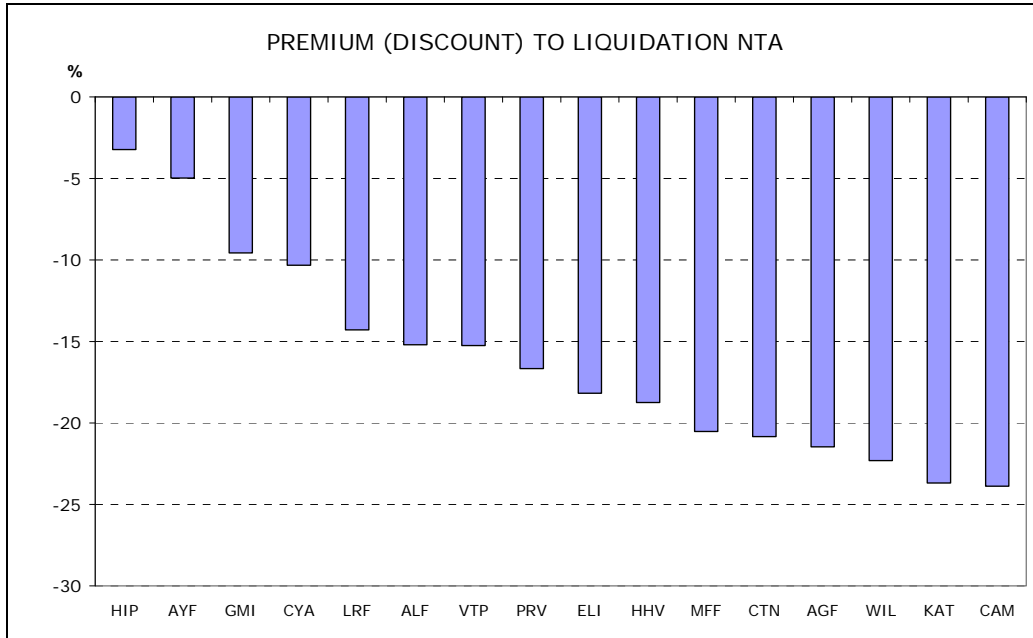
Summary Table

Company	Code	Listing Date	Current Price (22/11/10)	Adjusted Initial NTA	Current (31 October) Liquidation NTA	Premium to NTA (%)	2011	2011	Franking (%)	Market Cap. (Mill.)
							Estimated Dividends ¢	Estimated Yield (%)		
AMP Capital China	AGF	22.12.06	0.90	0.96	1.14	-21.5	6.0	6.7	0	301.6
Australian Leaders	ALF	10.02.04	1.06	0.88	1.25	-15.2	8.0	7.5	100	69.6
Australian Enhanced Income	AYF	17.10.06	6.50	9.78	6.84	-5.0	50.0	7.7	0-55	21.5
Clime Capital	CAM	3.02.04	1.02	0.88	1.34	-23.9	4.0	3.9	100	55.3
Century Australia	CYA	8.04.04	0.83	0.97	0.92	-10.3	8.0	9.7	100	140.9
Contango Microcap	CTN	25.03.04	1.11	0.85	1.40	-20.8	7.0	6.3	100	161.0
Emerging leaders Investme	ELI	26.06.06	0.90	0.96	1.10	-18.2	8.0	8.9	100	35.7
Global Mining	GMI	8.04.04	1.28	0.95	1.41	-9.6	5.0	3.9	100	244.6
Hunter Hall Global	HHV	19.03.04	0.81	0.98	1.00	-18.8	6.0	7.4	100	217.9
Hyperion Flagship	HIP	20.12.00	1.35	1.11	1.40	-3.2	8.5	6.3	100	35.7
Katana Capital	KAT	23.12.05	0.78	0.95	1.02	-23.7	2.5	3.2	100	31.6
LinQ Resources Fund	LRF	20.01.05	0.90	0.98	1.05	-14.3	3.0	3.3	0	167.0
Magellan Flagship Fund	MFF	19.12.06	0.67	0.99	0.84	-20.5	0.0	0.0	0	234.3
Premium Investors	PRV	27.11.03	0.78	0.99	0.94	-16.7	5.0	6.4	100	74.0
Van Eyk Three Pillars	VTP	28.01.04	0.80	0.82	0.94	-15.3	6.0	7.5	100	4.4
Westoz Investment Co.	WIC	16.09.09*	1.10	1.00	1.46	-24.7	10.0	9.1	100	135.0
Wilson Investment Fund	WIL	19.08.03	0.70	0.95	0.90	-22.3	5.2	7.4	100	83.0

* WIC initial NTA based on June 2005 NTA

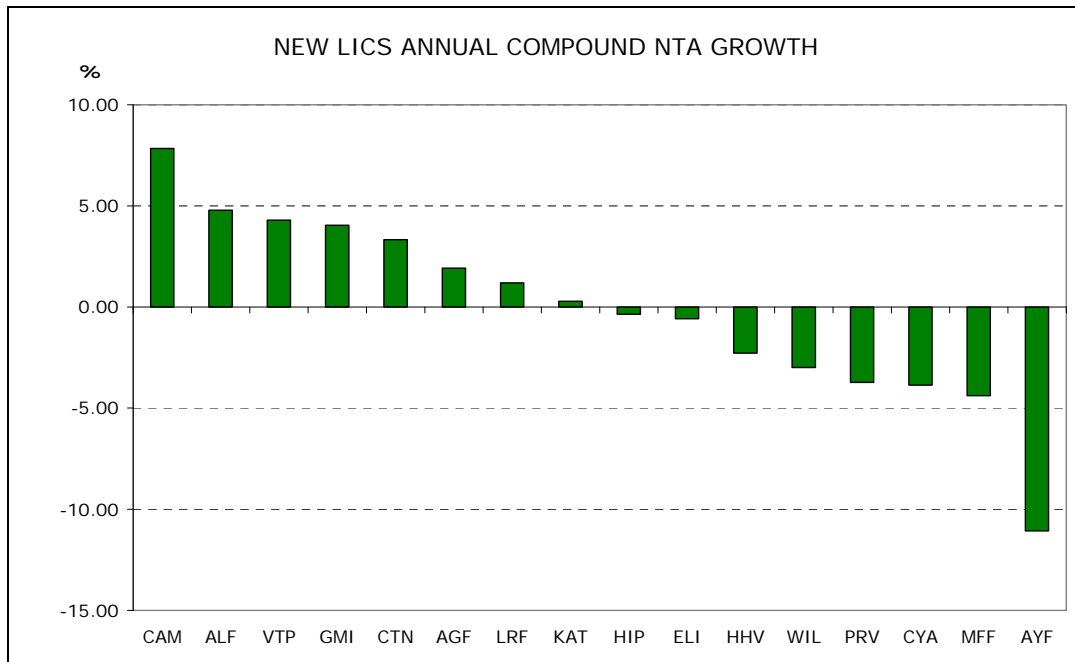
Premium to Liquidation NTA

All these LICs are trading at discounts to liquidation NTA, with the biggest discounts carried by Clime Capital and Katana Capital (see chart below). Hyperion Flagship Investments and The Enhanced Income Fund continue to carry the smallest discounts.



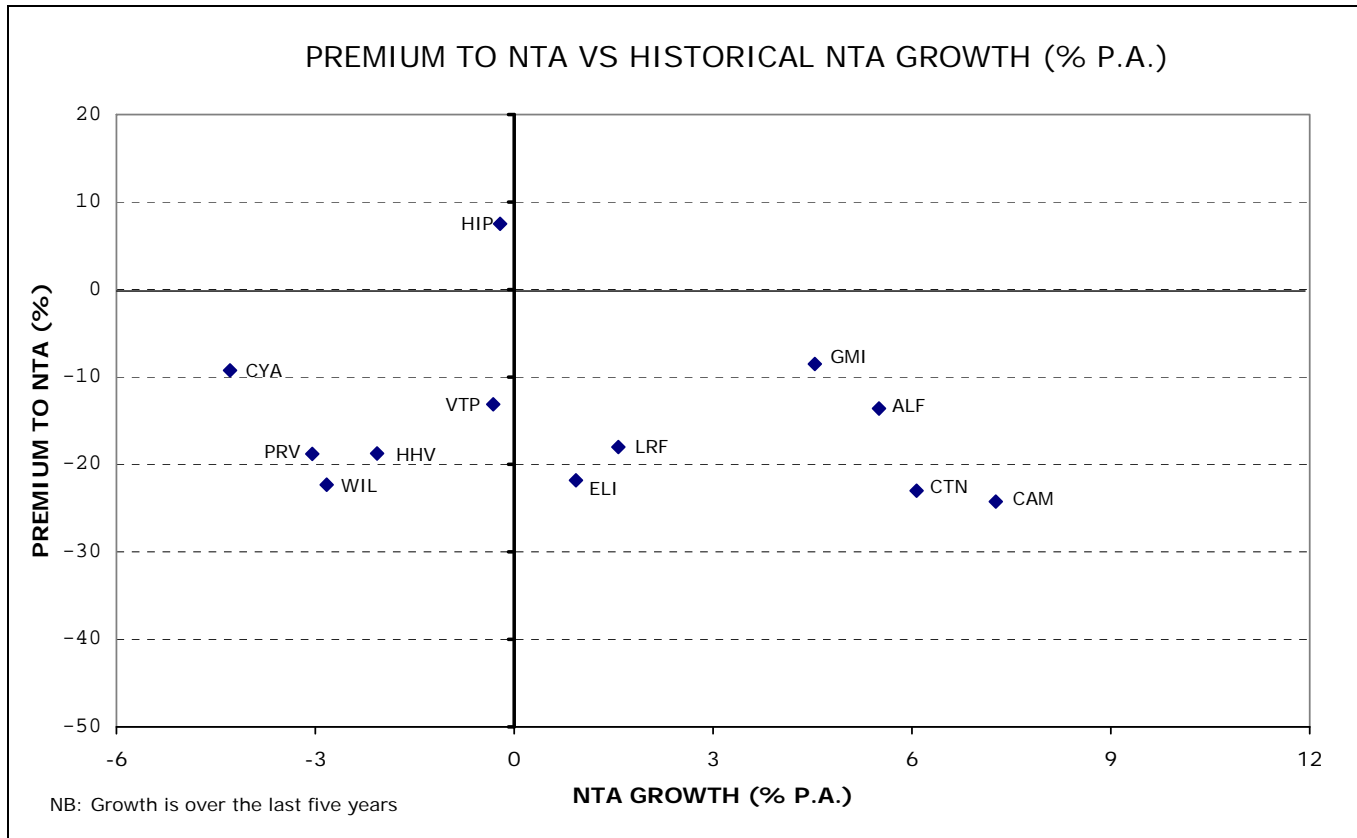
New LICs NTA Growth

In the chart below, the NTA growth represents the annualised growth over the last five years. The strongest growth stocks have been Clime Capital, the Australian Leaders Fund and Global Mining Investments. Note that VTP has carried out a major capital return and 1 for 20 share consolidation. Also note that Clime capital (CAM) trades at the largest discount to liquidation NTA despite having the strongest NTA growth over the last five years.



New LICs NTA Premium (Discount) vs NTA Growth

The chart below clearly shows that there is considerable value in the sector. Most of these stocks now offer deep discounts to liquidation NTA. Clime Capital stands out as the best value in this sector.



Domestic Exchange Traded Funds

Exchange Traded Funds are listed, managed, open-ended funds (new units are created when you invest in the fund) that invest in a portfolio of securities, which may include Australian shares, international shares, fixed income securities, listed property trusts, or a combination of asset classes. They can be classified as actively managed or passively linked to an index. The three funds shown in the table below are passive funds linked to three of the S&P/ASX indexes (the 200 Leaders, the 50 Leaders and the property trusts from the 200 Leaders index). These index funds provide returns that replicate the performances of the underlying indexes, completely eliminating manager performance risk in the process. Yields are based on the aggregate yields of the component stocks.

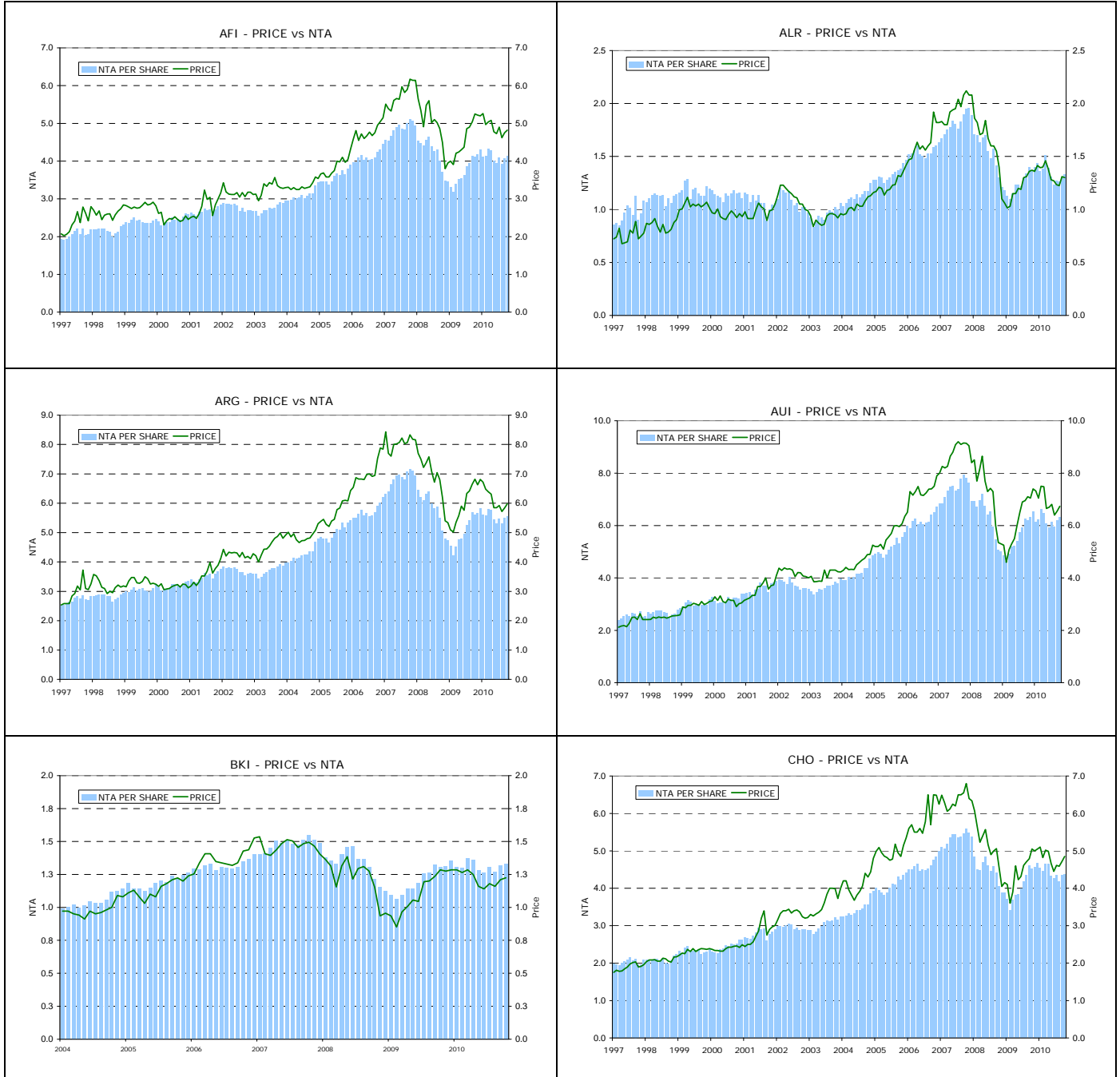
Vanguard also has a domestic fund called the Vanguard Australian Shares Index (VAS), which covers the S&P/ASX 300 index.

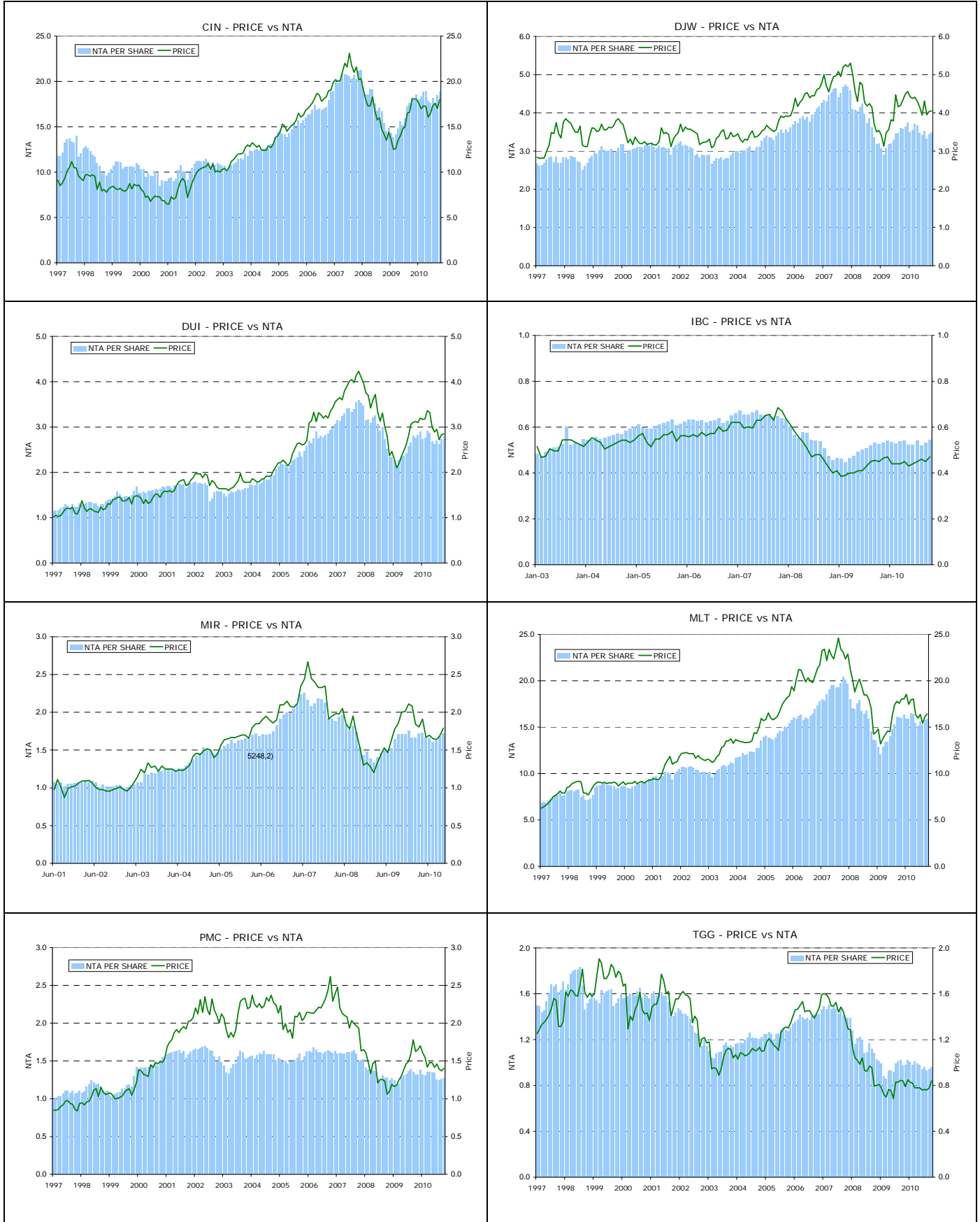
Exchange Traded Funds							Last 12 Months
Company	Code	Listing Date	Market Cap. (\$Mill.)	Current Price (22.11.10)	2010 Yield (%)	Franking (%)	Total Return (%)
SPDR ASX200	STW	27.08.01	2,540.6	44.24	3.1	71.3	-1.43
SPDR ASX50	SFY	27.08.01	257.0	45.36	4.1	57.8	1.83
SPDR ASX200 Prop. Tr. Fund	SLF	18.02.02	287.9	7.76	6.7	0.9	0.10

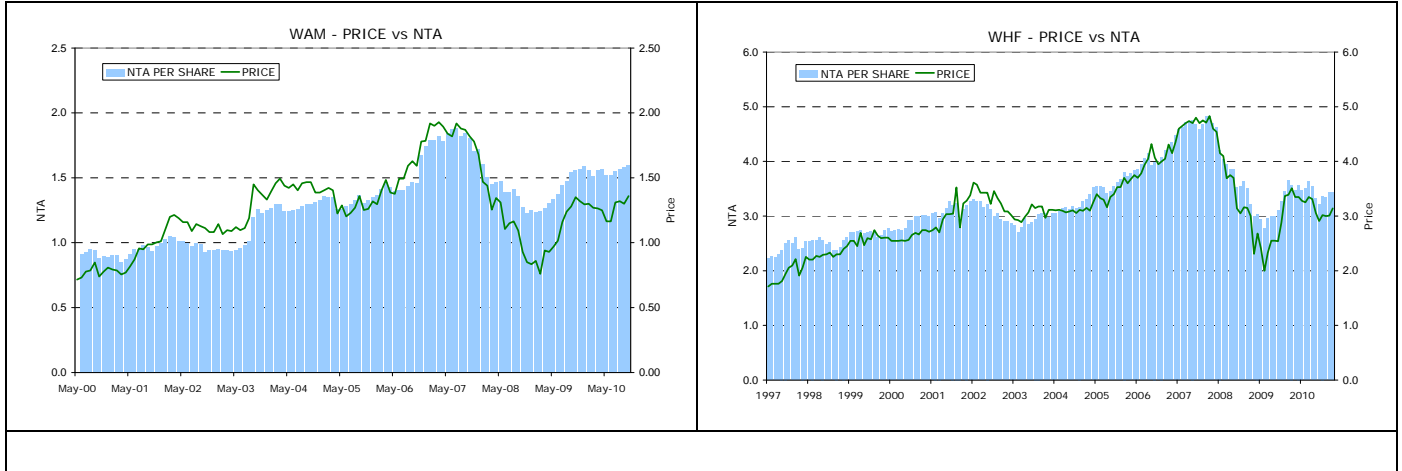
Note: the exchange is AXW not ASX.

APPENDIX 1.

The charts on the following pages show the share price and NTA/share trends over the last 12+ years for the established LICs. Last entries represent 31.10.10 for both price and NTA.







Appendix 2. Top 20 Portfolio Holdings

30.09.10	30.09.10	30.06.10	31.10.10	30.06.10	31.10.10	31.10.10	30.06.10	31.08.10	30.06.10	30.06.10	30.09.10
AFI	ALR	AMH	ARG	AUI	BKI	CHO	CIN	DJW	DUI	IBC	MIR
BHP	BHP	CBA	BHP	BHP	NHC	SOL	AHD	BHP	BHP	BHP	HDF
CBA	QBE	WBC	RIO	RIO	BHP	NAB	NAB	WBC	WPL	CBA Hybrids	OSH
WBC	RIO	BHP	WBC	ANZ	NAB	CBA	WBC	CBA	ANZ	CBA	AIX
RIO	CBA	NAB	WES	WPL	CBA	WBC	BHP	ANZ	CBA	NABHA	CPB
WES	WOW	TLS	AUI	WBC	WBC	BHP	CBA	NAB	RIO	WBC	ILU
NAB	WBC	BKN	ANZ	NAB	WES	QBE	ANZ	WPL	WBC	NAB	TOX
ANZ	ANZ	ASG	MLT	WES	WOW	MLT	AGK	TLS	NAB	WOWHB	FWD
WOW	WDC	TOX	NAB	CBA	AGK	WES	ORI	OSH	QBE	ANZ	IRE
TLS	AGK	TCL	MQG	DUI	WPL	CPB	WES	STO	CSL	ANZPA	BKN
WPL	WPL	QBE	CBA	WOW	TLS	BKW	GOW	RIO	WOW	TLS	AWC
QBE	ASX	PPC	WOW	QBE	QBE	WOW	TLS	WOW	WDC	RHC	ASZ
STO	SGT	CCL	ORG	ORI	CPB	BOQ	BOQ	QBE	TLS	DUE	CCL
OSH	DJS	AMC	TLS	TLS	ANZ	BEN	ORG	TCL	WES	NCM	REA
ORG	MTS	REA	WPL	AXA	WBC Hybrid	AGK	PPT	AMP	TCL	STO	OST
AMC	TTS	AMP	QBE	ORG	MTS	PPT	BEN	BXB	AGK	ORIPB	PPT
CPU	SPN	OSH	ORI	AWC	CCL	TLS	RIO	HDF	CMJ	IAGPA	WAN
TCL	AXA	AIX	WDC	AGK	TPM	MQG	STO	WAN	AWC	FXJPA	EQT
AGK	RHC	MCU	CPU	WDC	ASX	LEI	AMC	WES	MYS	LGL	AUB
IPL	ORI	BXB	FGL	STO	IVC	MTS	CCL	ORG	SOL	AXJHA	WLL
ORI	LEI	ANZ	STO	TAH	AMP	ANZ	BSL	AXA	STO	BEN Hybrids	PPC
31.10.10	30.06.10	30.06.10	31.10.10	30.09.10							
MLT	PMC	TGG	WAM	WHF							
WBC	Johnson & Johnson	Microsoft	AWB	CBA							
CBA	Siemens	Samsung Electronics	RKN	WBC							
BHP	Merck	Oracle	MMS	ANZ							
WES	Cisco Systems	Telenor	RHG	NAB							
NAB	Samsung Electronics	Amgen	MYS	WES							
ANZ	Microsoft	Vodafone	SGN	WOW							
SOL	Henkel	Sanofi-Aventis	TGA	QBE							
WOW	China Resources	Singapore Telecom.	PRV	MQG							
CPB	Pal	Total	ITX	TLS							
CHO	Bangkok Bank	Royal Dutch Shell	SGI	AIO							
BOQ	Bayerische Motoren	France Telecom	BKL	SEV							
BEN	Denso Corp.	Telefonica	ORL	TOL							
RIO	Yahoo	Time Warner Cable	MAQ	FXJ							
WPL	Allianz	China Telecom	IRE	MAP							
BKW	Sanofi-Aventis	Pfizer	SAI	NWSLV							
PPT	Newmont Mining		BRG	CSL							
AGK	Ecogreen Fine Chemicals		TAL	SUN							
LEI	Henderson Land Devel.		SYM	AMP							
TLS	Little Sheep		AHE	NWSB							
SUN	Infineon Technologies			HVN							

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