

# Listed Investment Companies (LICs)

## Sector Report

### December 2018 performance review and update

**Top picks:** Our top picks refer to preferred exposures within each sector based on numerous quantitative and qualitative factors. They should not be treated as official stock recommendations but merely as a guide to where we would apportion funds at this point in time. The table on page 5 provides an update of the overall sector, as at 29 January 2019, with our estimated current net tangible assets (NTAs) derived from our model portfolios for the LICs.

**Traditional LICs:** On average, traditional LICs slightly underperformed the All Ordinaries Accumulation index (XAOAI) in Dec-18 by 0.7% and 0.2% on total shareholder return (TSR) and NTA bases respectively. A number of traditional LICs have announced 1H19 results, with both AFIC and BKL announcing special dividends alongside interim dividends. Management noted proceeds from underlying holdings' (RIO, BHP buybacks) recent corporate activity, and cited the potential impact of an ALP Federal election win and the subsequent uncertainty surrounding Labor's franking rebate policy, as the key drivers. We outline the respective franking balances of traditional LICs on page 3. Our top picks include Milton Corp (MLT) and Diversified United (DUI), which are trading at estimated 1.9% and 2.8% discounts to NTA respectively.

**Large capitalisation:** WAM Leaders (WLE) and Ophir High Conviction Fund (OPH) are our top picks, trading at estimated 5.6% and 0.9% discounts to NTA respectively. We added OPH to our coverage list in our [Nov-18 LIC update](#). We believe OPH should command a scarcity premium due to: 1) the listing mechanism of converting unlisted units; 2) unitholders were provided an opportunity to redeem funds prior to listing (soaking up initial selling pressure, in our view); 3) increased investor demand due to a strong track record of management outperformance and the hard closing of the fund since early 2018; and 4) the initial minimum investment of \$100k, which is no longer applicable. Elsewhere, WLE's underlying portfolio remains skewed towards the ASX top 20 (~55%), the highest allocation in a number of months. WLE has progressively increased its dividend since inception and we believe risk is to the upside for this to continue.

**Small/Micro capitalisation:** Top pick Acorn Capital (ACQ) outperformed the ASX Small Ordinaries Accumulation Index (XSOAI) for the year ending Dec-18 by 5.9% (TSR). The underlying portfolio continues to hold a significant unlisted allocation (29%). This, coupled with a 5% cash weighting, provides a natural market hedge, in our view. The current 6.4% discount to NTA, as well as a trailing 5.7% dividend yield, provides an attractive entry point for investors. Elsewhere, Westoz (WIC) is our top small cap resources pick, trading at an estimated 2.9% discount to NTA with a trailing yield of 5.6%.

## Analyst

Piers Flanagan  
+ 613 9282 8127  
pflanagan@baillieu.com.au

## Disclosure

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

**International:** Top picks MFF Capital Investments (MFF) and PM Capital Global Opportunities Fund (PGF) underperformed (TSR basis) the MSCI World Index (AUD adjusted) in Dec-18, as geopolitical risk continued to impact global markets. As a result, discount trading levels have widened, providing attractive entry points, in our view. MFF was the top performing LIC (on both NTA and TSR bases) for the year ending Dec-18 (up 8.2% and 16.3% respectively). Trading at an estimated 8.0% discount to NTA, MFF remains a top pick for investors seeking exposure to the US. Elsewhere, PGF's regional exposure of the US (37.8%), Europe (28.9%) and Other (17.0%) means it is our top broad-based global pick, trading at an estimated 9.7% discount to NTA. TGG remains our top European pick (currently overweight Europe and underweight US), trading at an estimated 9.6% discount to NTA.

## Contents

Key LIC Franking Balances	3	Glennon Small Companies (GC1)	38	URB Investments (URB)	66
Updated Sector Snapshot	4	Global Value Fund (GVF)	39	VGI Partners Global (VG1)	67
Performance table (Dec-18)	12	Lowell Resources Fund (LRT)	40	WAM Active (WAA)	68
Acorn Capital (ACQ)	13	Lion Selection (LSX)	41	WAM Capital (WAM)	69
Australian Foundation Inv. Co. (AFI)	14	Monash Absolute Investment (MA1)	42	WAM Research (WAX)	70
Australian Leaders Fund (ALF)	15	MFF Capital Investments (MFF)	43	Whitefield (WHF)	71
Argo Global Listed Infrastructure (ALI)	16	Magellan Global Trust (MGG)	44	Westoz (WIC)	72
AMCIL (AMH)	17	Mirrabooka Corporation (MIR)	45	WAM Leaders (WLE)	73
Antipodes Global Inv. Co. (APL)	18	Milton Corporation (MLT)	46	Watermark Mkt. Neutral Fd. (WMK)	74
Argo Investments (ARG)	19	NAOS Ex-50 Opp. Co. Ltd (NAC)	47	8IP Emerging Companies (8EC)	75
Australian United Inv. Co. (AUI)	20	NAOS Emerging Opportunities (NCC)	48		
Bluesky Alternative Access Fund (BAF)	21	NGE Capital (NGE)	49		
BKI Investment Company (BKI)	22	NAOS Small Opportunities (NSC)	50		
Barrack St Investments (BST)	23	Ophir High Conviction (OPH)	51		
Bailador Technology Investments (BTI)	24	Ozgrowth Ltd (OZG)	52	Historical Prem/Disc Trading Levels	76
Clime Capital (CAM)	25	PM Capital Asian Opportunities (PAF)	53	Historical Prem/Disc Trading Levels	77
CBG Capital (CBG)	26	Platinum Asia Investments (PAI)	54	Historical Prem/Disc Trading Levels	78
Cadence Capital (CDM)	27	PM Capital Global Opportunities (PGF)	55	Historical Prem/Disc Trading Levels	79
Concentrated Leaders Fund (CLF)	28	Perpetual Equity Investment (PIC)	56	Historical Prem/Disc Trading Levels	80
Contango Income Generator (CIE)	29	Pengana International Equities (PIA)	57	Historical Prem/Disc Trading Levels	81
Carlton Investments (CIN)	30	Platinum Capital (PMC)	58	Premium/Discount to Pre-tax NTA	82
Djerriwarrh Investments (DJW)	31	Plato Income Maximiser (PL8)	59	Premium/Discount to Post-tax NTA	82
Diversified United Investments (DUI)	32	QV Equities (QVE)	60	Total Shareholder Return – 12 mths	83
Ellerston Asian Investments (EAI)	33	Ryder Capital (RYD)	61	TSR compound annual growth – 3 yrs	83
Ellerston Global Investments (EGI)	34	Spheria Emerging Companies (SEC)	62	TSR compound annual growth – 5 yrs	84
Forager Australian Shares Fund (FOR)	35	Sandon Capital Investments (SNC)	63	NTA growth – 1 yr	85
Future Generation Global Inv. (FGG)	36	Templeton Global Growth (TGG)	64	NTA compound annual growth – 3 yrs	85
Future Generation Investment (FGX)	37	Thorney Opportunities (TOP)	65	NTA compound annual growth – 5 yrs	86



## Franking and special dividends

- Recently, a number of domestic focused LICs announced special dividends to accompanying respective 1H19 interim dividends (AFI/BKI/MIR/AMH). For a majority of these LICs this is the first special dividend in a number of years (>5 years). Respective LIC managers have cited a number of reasons for the special dividend including: 1) recent corporate activity (buybacks) from underlying holdings; and 2) the uncertainty surrounding Australian Labor Party's proposed franking policy should the ALP win the upcoming election.
- **Special dividend:** To date, domestic LICs AFI, BKI, MIR and AMH have announced special dividends. AFI announced an 18.0cps 1H19 interim dividend (incl. 8.0cps special dividend). In FY18, AFI paid a total of 24.0cps in dividends. We note within the traditional segment that ARG, AUI and DUI are still to report 1H19 results.
- Figure 1 below depicts the respective franking balance of key domestic LICs (as at FY18). We believe risk is to the upside of further special dividend announcements from those LICs that are yet to report 1H19 results as well as for the remainder of FY19, as noted by BKI and MLT in their results commentary.
  - **BKI recent dividend commentary:** "Following payment of these dividends, BKI will have approximately \$16.8m of imputation credits available for future dividends. It is therefore the intention of the BKI Directors to distribute to shareholders another fully franked special dividend of at least 1.0cps. This dividend would be declared on or before the release of BKI's FY19 results, expected on Wednesday, 17 July 2019".
  - **MLT recent dividend commentary:** "We note that special dividend income is expected to be strong in the second half which may allow for a special dividend for the full year."

**Fig.1: Franking balances of key domestic LICs (as at FY18)**

Company	Code	FY18 net franking balance (post FY18 final) (\$'000)	Ability to frank additional dividend amount up to (\$'000)	Retained earnings/Dividend reserve FY18 (\$'000)	FY18 dividends paid (\$'000)
Australian Foundat.	AFI	107.6	251.0	631.7	282.2
Argo Investments	ARG	69.5	162.2	410.2	221.4
Australian United In	AUI	32.4	75.6	133.9	43.4
BKI Investment Ltd	BKI	16.7	39.0	47.0	45.4
Diversified United	DUI	9.1	21.1	67.5	31.5
Djerriwarrh	DJW	23.7	55.2	56.6	44.1
Milton Corporation	MLT	96.3	224.8	203.1	125.0
Mirrabooka Invest.	MIR	17.1	45.2	15.7	19.0
AMCIL Limited	AMH	1.8	4.7	10.6	11.1
Perpetual Equity Ltd	PIC	5.3	12.4	10.4	19.0
WAM Capital Limited	WAM	1.4	3.4	130.1	102.6
WAM Leaders Limited	WLE	2.1	4.9	68.6	35.1
Whitefield Ltd	WHF	12.8	29.9	24.2	15.2
Acorn Cap Inv Fund	ACQ	1.1	2.5	18.8	3.3
WAM Research Ltd	WAX	1.8	4.2	59.8	17.2
Westoz Inv Ltd	WIC	3.5	8.3	25.4	7.8

Source: Company reports, Baillieu estimates

## Performance Review

- The All Ordinaries Accumulation Index (XAOAI) returned -3.5% for the year ending 31 December 2018, whilst the MSCI World Index (AUD adjusted) – a benchmark for LICs with an international focus – returned 1.7%, as global markets outperformed local equities and the Australian dollar depreciated 9.6% against the US dollar.

### Traditional LICs

- AFIC (AFI) & DUI were the strongest performers for the year ending 31 December 2018 with TSRs of -0.1% and -1.3% respectively and active returns of 3.5% and 2.3%.
- Diversified United Investment (DUI) was at the largest discount to net tangible assets at 5.2%. Djerriwarrh (DJW) is currently trading at a 6.8% premium to NTA.
- DJW has the highest trailing dividend yield at 6.4%.

### Large capitalisation LICs

- CBG Capital (CBC) and Future Generation Fund (FGX) were the strongest performers for the year with TSRs of 10.0% and 4.2% respectively and active returns of 13.5% and 7.7% respectively.
- Australian Leaders Fund (ALF) was at the largest discount to net tangible assets at -16.4%. WAM Capital (WAM) continues to trade at a significant 21.8% premium to NTA.
- Contango Income Generator (CIE) has the highest dividend yield at 8.6% (partially franked).

### Small capitalisation LICs

- WAM Research (WAX) and Glennon Small Companies (GC1) were the strongest performers for the year with TSRs of 1.4% and 0.6% respectively and active returns of 5.0% and 9.2%.
- NGE Capital (NGE) was at the largest discount to net tangible assets at 24.2%. WAX continues to trade at a significant 33.8% premium to NTA.
- Naos Small Cap Opportunities (NSC) has the highest dividend yield at 10.1%.

### International

- MFF Capital Investments (MFF) & Future Generation Global (FGG) were the strongest performers for the year with TSRs of 16.3% and 6.3% respectively and active returns of 14.3% and 4.5%.
- Argo Global Infrastructure (ALI) was at the largest discount to net tangible assets at 15.6%. PMC continues to trade at a significant 16.8% premium to NTA
- Platinum Asia (PAI) has the highest dividend yield at 9.3%.

### Specialist

- Lion Selection (LSX) was the strongest performer for the year with a TSR of 5.6% and an active return of 21.6%
- Bailador Tech (BTI) was at the largest discount to net tangible assets at 34.5%. WAM Active (WAA) trades at a 1.8% premium to NTA.
- Sandon Capital (SNC) has the highest dividend yield at 8.3%.

## Updated Sector Snapshot

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

Figures as at: 29 January 2019

Traditional LICs	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Jan 1	Current Est. NTA	Current Estimated Disc/Prem	Dec NTA	Dec Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Australian Foundat.	AFI	6.29	7497.9	24.0	3.8%	5.5%	4.8%	5.88	6.9%	5.69	5.4%	1.5%	1.5%	0.14%
Argo Investments	ARG	7.77	5531.9	31.5	4.1%	5.8%	2.5%	7.61	2.1%	7.34	3.3%	0.8%	1.4%	0.17%
Australian United In	AUI	8.40	1043.0	35.0	4.2%	6.0%	5.7%	8.70	-3.5%	8.44	-5.8%	-4.2%	-5.0%	0.10%
BKI Investment Ltd	BKI	1.57	1142.2	7.3	4.7%	6.7%	4.0%	1.56	0.8%	1.51	0.3%	-1.0%	1.3%	0.15%
Djerriwarh	DJW	3.13	694.2	20.0	6.4%	9.1%	2.5%	2.99	4.7%	2.95	6.8%	5.2%	14.8%	0.46%
Diversified United	DUI	4.11	864.9	15.0	3.6%	5.2%	6.8%	4.23	-2.8%	4.10	-6.1%	-5.2%	-5.9%	0.13%
Milton Corporation	MLT	4.47	2972.3	19.0	4.3%	6.1%	3.7%	4.56	-1.9%	4.42	-2.5%	-1.6%	-0.8%	0.12%

Large Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Jan 1	Current Est. NTA	Current Estimated Disc/Prem	Dec NTA	Dec Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Australian Leaders	ALF	0.97	253.4	2.0	2.1%	3.0%	-0.5%	n.a	n.a	1.16	-16.4%	-14.5%	-2.3%	1.00%
Concentrated Leaders	CLF	1.22	72.2	6.0	4.9%	7.1%	5.4%	1.27	-4.2%	1.21	-3.7%	-5.6%	-7.9%	0.75%
AMCIL Limited	AMH	0.89	241.0	4.3	4.8%	6.8%	4.1%	0.92	-3.0%	0.88	-2.8%	-6.1%	-2.8%	0.65%
Clime Capital	CAM	0.84	76.8	5.0	6.0%	8.5%	0.3%	0.88	-4.3%	0.84	1.2%	-6.7%	-8.2%	0.83%
CBG Capital	CBC	0.90	23.6	3.1	3.4%	4.9%	0.0%	0.94	-3.9%	0.91	-1.1%	-12.0%	-10.7%	1.00%
Cadence Capital	CDM	0.87	278.7	8.0	9.2%	13.1%	-1.7%	0.94	-7.5%	0.93	-5.2%	3.8%	8.0%	1.00%
Contango Inc Gen Ltd	CIE	0.76	79.0	6.6	8.6%	12.3%	-3.8%	0.91	-16.6%	0.88	-9.8%	-6.2%	-5.2%	0.95%
Carlton Investments	CIN	31.38	830.8	121.0	3.9%	5.5%	3.2%	35.19	-10.8%	35.07	-13.3%	-11.6%	-12.2%	0.09%
Future Gen Ltd	FGX	1.16	459.8	4.5	3.9%	5.5%	-1.3%	n.a	n.a	1.11	5.7%	0.2%	-1.3%	0.00%
Mirrabooka Invest.	MIR	2.50	397.6	12.0	4.8%	6.9%	4.5%	2.29	9.3%	2.21	14.0%	7.6%	13.2%	0.65%
Ophir High Conviction	OPH	2.29	458.0	0.0	na	na	2.2%	2.31	-0.9%	2.13	5.2%	na	na	1.23%
Perpetual Equity Ltd	PIC	1.05	362.1	6.3	6.0%	8.6%	0.5%	1.07	-2.1%	1.04	0.1%	0.3%	-4.8%	1.00%
Plato Income Max.	PL8	1.01	298.1	5.4	5.3%	7.6%	1.5%	n.a	n.a	0.99	0.6%	-2.5%	-0.1%	0.80%
Qv Equities Limited	QVE	1.08	297.6	5.2	4.8%	6.9%	3.3%	1.12	-3.3%	1.08	-3.2%	-2.5%	1.7%	0.90%
WAM Capital Limited	WAM	2.08	1479.4	15.5	7.5%	10.6%	-3.7%	n.a	n.a	1.77	21.8%	20.8%	19.6%	1.00%
WAM Leaders Limited	WLE	1.08	760.5	5.0	4.6%	6.6%	1.9%	1.14	-5.6%	1.09	-3.1%	-2.2%	-1.6%	1.00%
Whitefield Ltd	WHF	4.35	388.6	18.8	4.3%	6.2%	3.3%	4.67	-6.9%	4.52	-6.9%	-6.7%	-7.9%	0.25%

Small Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Jan 1	Current Est. NTA	Current Estimated Disc/Prem	Dec NTA	Dec Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Acorn Cap Inv Fund	ACQ	1.09	57.6	6.2	5.7%	6.7%	2.3%	1.16	-6.4%	1.15	-7.2%	-10.8%	-13.1%	0.95%
Barrack St Invest	BST	0.88	16.0	3.3	3.7%	4.4%	-0.6%	1.12	-21.7%	1.07	-17.8%	-19.4%	-17.3%	1.00%
Naos Small Cap Opp	NSC	0.68	114.9	6.9	10.1%	11.9%	0.7%	n.a	n.a	0.76	-11.2%	-11.4%	-10.0%	1.25%
Forager Aust. Shares	FOR	1.38	157.1	21.3	15.4%	15.4%	3.8%	1.36	1.5%	1.34	-0.7%	9.0%	10.6%	1.00%
Glennan SML Co Ltd	GC1	0.87	41.4	4.0	4.6%	5.4%	-6.5%	n.a	n.a	0.91	2.2%	-12.8%	-9.0%	1.00%
Naos Emerg Opp	NCC	1.06	63.5	7.3	6.8%	9.8%	-3.6%	n.a	n.a	1.09	0.9%	1.6%	-1.8%	1.25%
NGE Capital	NGE	0.67	24.9	0.0	na	na	18.6%	n.a	n.a	0.77	-24.2%	-21.1%	-23.5%	1.90%
Ozgrowth Limited	OZG	0.16	57.0	0.5	3.1%	4.5%	0.0%	0.20	-17.9%	0.19	-13.5%	-19.4%	-19.8%	1.00%
Ryder Capital	RYD	1.20	61.6	3.0	2.5%	3.6%	0.8%	n.a	n.a	1.35	-10.2%	-17.4%	-9.4%	1.25%
Spheria Emerging Co	SEC	1.70	112.8	4.0	2.4%	3.4%	-1.7%	1.90	-10.7%	1.84	-6.0%	-6.9%	-6.5%	1.00%
WAM Research Ltd	WAX	1.37	258.8	9.5	7.0%	9.9%	-6.5%	n.a	n.a	1.09	33.8%	23.8%	21.6%	1.00%
Westoz Inv Ltd	WIC	1.07	141.9	6.0	5.6%	8.0%	4.4%	1.10	-2.9%	1.06	-4.1%	-9.2%	-11.8%	1.00%
8lp Emerg Co Ltd	SEC	0.71	29.1	4.0	5.6%	8.0%	-5.3%	n.a	n.a	0.87	-13.9%	-15.3%	-12.3%	1.25%

International	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Jan 1	Current Est. NTA	Current Estimated Disc/Prem	Dec NTA	Dec Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Argo Global Ltd	ALI	1.93	273.5	3.8	1.9%	1.9%	4.9%	2.27	-15.0%	2.18	-15.6%	-14.7%	-12.2%	1.25%
Antipodes Global	APL	1.05	579.1	5.0	4.8%	4.8%	5.5%	1.12	-5.8%	1.09	-8.3%	-5.4%	-2.5%	1.10%
Ellerston Asian	EAI	0.99	108.0	1.0	1.0%	1.0%	-1.0%	1.10	-10.2%	1.02	-2.3%	-5.9%	-9.2%	0.75%
Ellerston Global Inv	EGI	0.94	102.8	4.0	4.3%	6.1%	-3.6%	1.04	-10.1%	0.99	-2.2%	-7.7%	-10.2%	0.75%
Future Glb Invest Co	FGG	1.34	525.0	1.0	0.7%	1.1%	0.8%	n.a	n.a	1.26	5.3%	0.8%	-0.4%	0.00%
Global Value Fnd Ltd	GVF	1.04	152.9	6.3	6.1%	8.7%	0.0%	1.10	-6.0%	1.04	-0.1%	-0.5%	-0.9%	1.50%
Pengana International	PIA	1.10	278.3	7.0	6.4%	9.1%	3.8%	1.17	-5.8%	1.15	-7.6%	-6.2%	-6.6%	1.50%
MFF Capital Invest.	MFF	2.60	1406.6	3.0	1.2%	1.6%	2.4%	2.83	-8.0%	2.65	-4.1%	-7.4%	-9.3%	1.25%
Magellan Global Trust	MGG	1.67	1761.9	6.0	3.6%	5.1%	3.7%	1.63	2.8%	1.57	4.5%	-0.7%	-0.2%	1.35%
Pm Capital Asian Ops	PAF	1.03	58.0	4.5	4.4%	6.3%	3.5%	1.01	1.1%	0.99	-0.3%	2.4%	-4.7%	1.00%
Platinum Asia Ltd	PAI	1.08	388.7	10.0	9.3%	13.3%	0.5%	1.03	4.7%	1.02	5.4%	5.1%	0.0%	1.10%
Pm Capital Fund	PGF	1.14	400.3	3.6	3.2%	4.5%	4.6%	1.26	-9.7%	1.17	-7.1%	-4.5%	-8.4%	1.00%
Platinum Capital Ltd	PMC	1.72	493.9	10.0	5.8%	8.3%	-2.0%	1.55	11.2%	1.50	16.8%	12.7%	8.7%	1.10%
Templeton Global	TGG	1.26	277.8	8.0	6.3%	9.1%	-1.9%	1.39	-9.6%	1.33	-3.2%	-8.6%	-10.0%	1.20%
VGI Partners Global	VG1	2.31	641.3	0.0	na	na	3.6%	2.20	4.8%	2.24	-0.4%	5.3%	4.6%	1.50%

Specialist	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Jan 1	Current Est. NTA	Current Estimated Disc/Prem	Dec NTA	Dec Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Blue Sky Alt Access	BAF	0.84	172.0	5.0	6.0%	8.5%	0.0%	1.11	-24.2%	1.11	-24.2%	-15.1%	-3.5%	1.20%
Bailador Tech Inv	BTI	0.80	96.2	0.0	na	na	5.3%	1.16	-31.0%	1.16	-34.5%	-26.4%	-18.0%	1.75%
Lowell Resource Fund	LRT	4.55	12.7	0.0	na	na	-4.8%	5.68	-19.9%	5.43	-12.0%	-9.3%	na	2.16%
Lion Selection Grp	LSX	0.38	56.3	0.0	na	na	-1.3%	n.a	n.a	0.43	-11.6%	-3.8%	-7.5%	1.50%
Monash Absolute	MA1	0.77	34.1	1.0	na	na	7.7%	n.a	n.a	0.86	-16.8%	-15.4%	-9.8%	1.50%
NAOS ex-50 Opport.	NAC	0.86	45.2	6.6	7.7%	11.0%	-3.4%	n.a	n.a	1.00	-11.0%	-11.3%	-7.1%	1.75%
Sandon Capital Ltd	SNC	0.84	40.7	7.0	8.3%	11.9%	0.6%	n.a	n.a	0.92	-9.2%	-4.4%	-4.6%	1.25%
Thorney Opp Ltd	TOP	0.63	128.3	1.5	2.4%	3.4%	4.1%	n.a	n.a	0.70	-13.6%	-13.5%	-9.0%	0.75%



## LIC Basics

### What is a LIC?

- A LIC has characteristics of both managed funds and stock exchange-listed companies.
- Essentially a LIC is a company that invests in other companies, with the purpose of giving its shareholders exposure to a variety of shares via its investment portfolio.
- LICs may also invest in cash or fixed income instruments, although in many cases this will form only a relatively small proportion of their investment portfolio.
- Income from LICs takes the form of semi-annual dividend payments that are linked to the profitability of the portfolio. Capital gains can arise where the investor sells the shares in the LIC for more than they originally bought them for.

### Benefits of investing in LICs

#### Diversification

- Investment in just one LIC can potentially give an investor exposure to more than 100 different companies in a range of industries.
- This therefore reduces the risk to capital losses as losses connected to one company may be offset by gains by others in the portfolio.
- A LIC is a cost-effective method of achieving such a degree of diversification.

### LICs are managed by investment professionals

- Each LIC is managed by full-time investment professionals whose goal it is to optimise returns on the investment portfolio for shareholders within strictly enforced risk parameters.
- In this respect, LICs are passive investments. Once the shares in the LIC have been purchased, the investor leaves investment decisions to the managers of the LIC.
- Some LICs have operated for more than 50 years while others, although only recently listed, are operated and managed by investment firms that have built strong reputations over many years.

### Transparent investment philosophy

- All LICs are transparent as to how they invest their funds. Investors can choose the relevant LIC based on their own investment goals and risk preferences.
- Some LICs focus on specific geographic areas (such as Australia or overseas), may invest in a range of industries or focus on just one (such as resources), or are geared towards providing investors with annual income streams or longer-term capital gains (or a combination of both).
- In this document, we briefly describe each of the 51 selected LICs as well as list the main investments of each and their recent performance.

### Ease of investment

- Investing in a LIC is done in exactly the same manner as any other company on the ASX, by placing an order with your stockbroker to buy shares in it.
- Exiting the investment is just as straightforward: the investor sells the shares on-market during trading hours through their stockbroker.
- The majority of LICs are highly 'liquid', meaning that there are a relatively large number of willing buyers and sellers on the ASX ready to allow the investor to enter or exit the investment at any time they want and without having to buy in at a premium or sell at a discount to "market price".

## Costs involved in investing in a LIC

### Entry costs

- Investing in the ASX via a LIC is highly cost-effective relative to other methods of investing in a 'portfolio' of investments.
- The initial cost comes in the form of brokerage paid to acquire the shares. Investing in a LIC allows the investor to effectively buy shares in more than 50 companies (depending on the LIC), but only pay brokerage to invest in one (the LIC). A LIC is therefore an efficient method of diversification.
- The entry costs to LIC investments are generally lower than retail managed funds, which utilise a "front-end load" charge that can be up to 4% of the market value of the units in the fund at the date of purchase.

Investing in the ASX via a LIC is highly cost-effective relative to other methods of investing in a "portfolio" of investments

### Ongoing costs

- There are two types of fees that the manager of the LIC charges during the investment period: management fees and performance fees.
- The LIC uses management fees to cover costs incurred in running the portfolio. These fees are taken out of the profits of the LIC, which are a function of the performance of the investment portfolio of the company (including dividends paid and capital gains/losses on shares that are sold). They are paid regardless of the profitability of the investment portfolio.
- These fees range from 0.0%-1.75% of assets per year. This is much lower than average fees charged for retail managed funds, which are approximately 1.5-3.0%. The effect of this cost-saving on a longer-term investment, where returns compound over a number of years, can be quite substantial. One reason for this lower cost is that LICs do not incur back-office or distribution costs, reducing their cost of operation. The fees (calculated as a "management expense ratio" or MER) of our selected LICs are shown in the graph below.
- Unlike management fees, performance fees are paid only if the LIC's investment portfolio outperforms a predetermined benchmark and is linked to the size of this outperformance. Not all LICs charge performance fees.
- These fees provide an incentive for the manager of the fund to optimise returns for shareholders of the LIC. They are generally paid not just if the fund is profitable, but when it is more profitable than the market as a whole. Unlike management fees, they will generally not deteriorate low returns or worsen investment losses.
- Performance fees for our selected LICs are shown in the table overleaf. The benchmark index is the S&P/ASX All Ordinaries Accumulation Index unless otherwise stated below.

## NTA Performance calculation methodology

\*\*NTA performance is calculated on pre-tax NTA basis which refers to net tangible assets after tax paid but before tax on unrealised gains as well as cash dividends paid during the relevant period. \*TSR performance figures from Bloomberg and calculated with re-invested dividends. \*Active return refers to TSR relative to that of the comparative index.

Disclaimer: LIC performance measurements reflect performance after all operating expenses and taxation. Using index benchmarks often understates performance as the indices used are before all operating expenses and tax. Total Shareholder Returns are often negatively impacted by capital events such as options, DRPs, Share Purchase Plans and placements. Dividend yields contained within are historical and are not an indication of future dividend payments.

**Fig.2: Performance fees of selected LICs**

ACQ	20% of outperformance of S&P/ASX Small Ords Acc Index
AFI	None
ALF	20% above All Ordinaries Accumulation Index
ALI	None
ALR	None
AMH	None
APL	15% of net return in excess of MSCI World Index (\$AUD)
ARG	None
AUI	None
BKI	None
BST	20% of annual outperformance over 8.0%
BTI	On sale, a fee of 17.5% of the increase in value, subject to a compound 8% hurdle
CAM	20% of outperformance in excess of the All Ords Accum. Index
CBC	20% (exclusive of GST) in excess of the S&P/ASX200 Accum. Index
CDM	20% of returns above index or of portfolio return
CIE	None
CIN	None
DJW	None
DUI	None
EAI	15% of outperformance in excess of the MSCI AC Asia Ex Japan Index (\$AUD)
EGI	15% of outperformance in excess of MSCI World Index (Local)
FGG	None
FGX	None
FOR	10% of the net return in excess of 8% p.a. benchmark
GC1	20% of outperformance over the Small Ordinaries Accumulation Index
GVF	15% of outperformance in excess of a hurdle return being 4% above the 1 year swap rate
HHV	15% above MSCI World Index
LRT	NTA change over a hurdle rate of 10% (calculated bi-annually)
LSX	15% of outperformance above benchmark
MA1	20% of outperformance over the RBA cash rate, inclusive of a high watermark
MFF	\$1m pa if TSR exceeds 10% compounded annually over a three year period
MGG	10% of excess performance above the higher of MSCI World Index (AUD)/Yield of 10 Yr Aust Govt Bonds
MIR	None
MLT	None
NAC	20% of performance in excess of the RBA cash rate + 250bps
NCC	15% of performance in excess of Small Ordinaries Accumulation Index
OPH	20.5% (pa) of outperformance over the ASX Mid-Small Index
OZG	20% where performance exceeds 7% over 12 month period
PAF	15% of performance in excess of MSCI Asia (ex Japan) Index (AUD)
PAI	15% of performance in excess of MSCI Asia (ex Japan) Index (AUD)
PGF	15% of performance in excess of MSCI World Index (AUD)
PIC	None
PMC	15% of performance in excess of MSCI World Index (AUD)
QVE	None
RYD	20% (plus GST) of outperformance over the RBA cash rate +4.5% pa
SEC	20% of returns above ASX Small Ordinaries Accumulation Index
SNC	20% of outperformance over the Benchmark Reference Rate (BBSW)
TGG	None
TOP	Greater of zero and 20% of the increase in asset value in each financial year
VG1	15% of the portfolio's performance
WAA	20% of portfolio growth over a high watermark
WHF	None
WAM & WAX	20% of returns above All Ordinaries Accumulation Index if index increased, or where the 20% of the index decreased over the period, 20% of positive portfolio perf (0% if negative)
WIC	20% where performance exceeds 10% over 12 month period
WDE	15% of outperformance over the S&P/ASX300 Accumulation Index
WLE	20% outperformance over the S&P/ASX200 Accumulation Index
WMK	20% of returns above the RBA cash rate
8EC	20% of outperformance over the RBA cash rate plus 2%

Source: Company reports, Baillieu



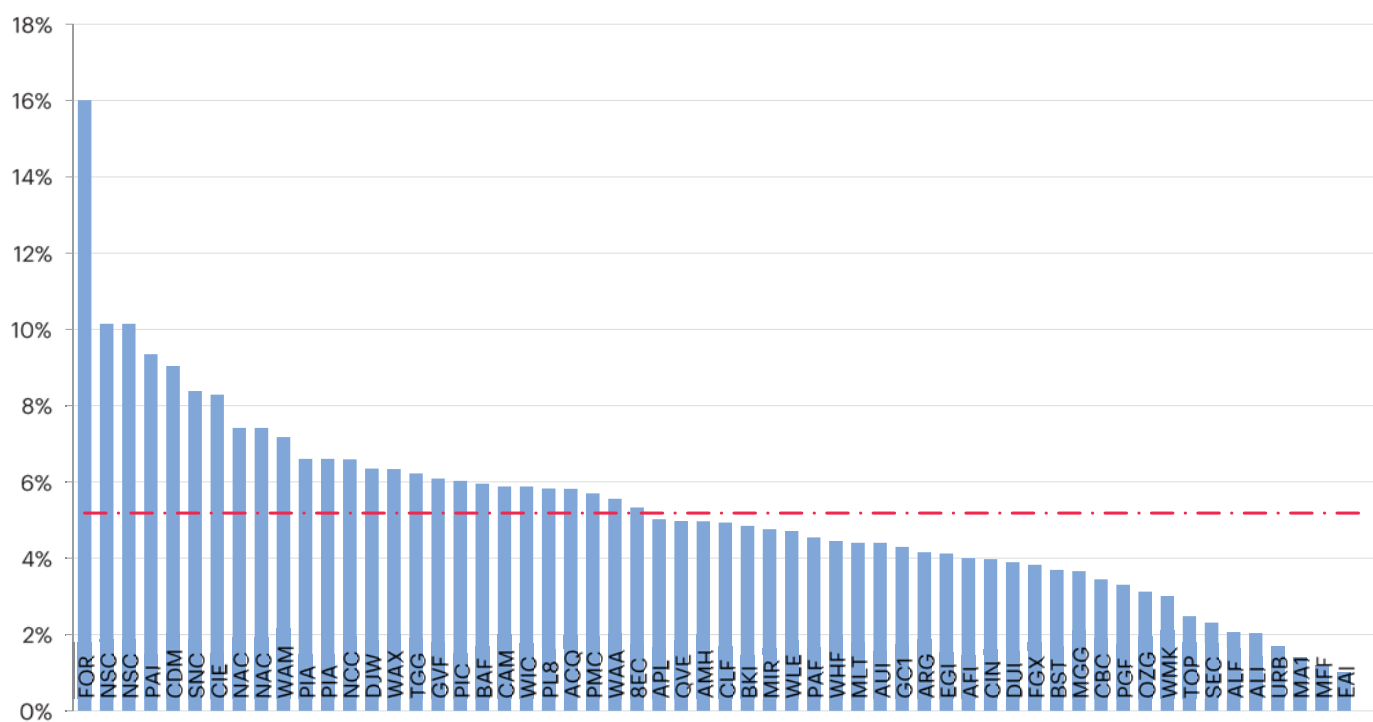
### Exit costs

- Exit costs from LICs are generally limited to the brokerage paid on selling the shares. This is unlike retail managed funds, which can generally be exited at no charge.
- Exiting a LIC investment can have tax consequences.

### What income do investors receive from a LIC?

- Annual investor income from a “buy-and-hold” investment strategy in a LIC takes the form of dividends, just like other share investments.
- However, because LICs utilise a company structure, payment of dividends is at the discretion of the management of the LIC. In other words, just because the investment portfolio of the LIC has made a profit in a given year, it does not mean that all, or even any, of that profit will be paid to shareholders in that year. This is unlike managers of retail managed funds, which are required to pay out the income to unitholders in the particular tax year that it is earned. Generally, LICs will pay out a high proportion of earnings as dividends.
- Most of our selected LICs focus on blue chip stocks and pay out a high proportion of earnings as a dividend. Accordingly, they have healthy dividend yields (as shown in the following graph).

**Fig.3: Dividend yield for selected LICs**



Source: Iress, Bloomberg, Baillieu

### Taxation issues

- The returns of the LIC are generally taxed at the company tax rate of 30%. Accordingly, when dividends are paid to shareholders of the LIC, they attach franking credits. These are a tax benefit for shareholders, as they receive a “credit” for the company tax already paid on the LIC income when the shareholder’s ordinary income is assessed.

- Capital gains are managed by the manager of the LIC. Where the dividend paid to a shareholder of a LIC contains income derived from a capital gain of the LIC, it will be treated as a capital gain, not ordinary income, in the hands of the shareholder. Under current tax rules, only 50% of this amount is taxable for many investors.
- This tax treatment contrasts with that of unlisted retail managed funds, where investors incur an annual tax liability on interest and capital gains that the fund earns each year.

### LICs versus managed funds

- LICs are listed on the stock exchange so entry and exit costs are limited to brokerage. This means that diversification is achieved at little cost. LICs also offer a tax-effective structure, whereby dividends are fully franked and assessed as a capital gain in the hands of the shareholder. Therefore, only 50% of this amount is taxable for many investors. Contrast this with managed funds where investors incur an annual tax liability on the interest and capital gains that the funds earn each year.
- The fee structures of LICs are also favourable in comparison with managed funds. Our selected LICs have management expense ratios ranging from 0.12% to 1.5%, whereas managed funds often charge at least 1.5%. The difference in fees can have a substantial effect on long-term investments. For example, from an initial investment of \$50,000 invested at identical returns for a decade, the LIC investment could be worth up to \$6,000 more than the managed fund.

Our selected LICs have management expense ratios ranging from 0.0%-1.75%, whereas managed funds often charge at least 1.5%

### LICs versus exchange traded funds (ETFs)

- LICs and ETFs both have low management fees and efficient tax structures compared with managed funds. However, ETFs have an open-ended structure, where units on offer can increase or decrease based on supply and demand, and trade at or close to their net asset value. ETFs are generally passive investment products and hence do not aim to outperform the market in the same way many of the LICs do.
- ETFs are required to distribute any surplus income to security holders, whereas LICs have the ability to conserve surplus income and take advantage of market opportunities as they see fit. This added flexibility is beneficial to the shareholder.
- Despite speculation that LICs will face increased competition from ETFs, we feel that for the majority of our clients LICs provide a superior investment vehicle with the added possibility of returns above that of the underlying asset.



Fig. 4: LIC Performance Table (Dec 2018)

Code	Company	1 Year			3 Year (annualised)			5 Year (annualised)		
		NTA performance	TSR Performance	Avg. Prem/Disc	NTA performance	TSR Performance	Avg. Prem/Disc	NTA performance	TSR Performance	Avg. Prem/Disc
AFI	Australian Foundat.	-3.6%	-0.1%	1.5%	4.4%	4.4%	1.5%	3.5%	3.2%	2.4%
ARG	Argo Investments	-5.0%	-3.1%	0.8%	4.3%	2.2%	1.4%	3.9%	4.7%	2.3%
AUI	Australian United In	-2.8%	-4.9%	-4.2%	6.5%	6.9%	-5.0%	3.8%	4.6%	-4.6%
BKI	BKI Investment Ltd	-5.5%	-8.9%	-1.0%	2.4%	0.8%	1.3%	2.7%	3.6%	0.8%
DJW	Djerriwarrh	-6.2%	-7.4%	5.2%	3.8%	-4.6%	14.8%	1.8%	-2.7%	19.7%
DUI	Diversified United	0.5%	-1.3%	-5.2%	9.1%	8.3%	-5.9%	6.4%	6.3%	-5.7%
MLT	Milton Corporation	-2.3%	-4.1%	-1.6%	3.5%	2.2%	-0.8%	4.4%	4.6%	0.3%
Code		1 Year			3 Year (annualised)			5 Year (annualised)		
		NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc
ALF	Australian Leaders	-0.8%	-9.3%	-14.5%	-1.0%	-6.8%	-2.3%	0.1%	-4.9%	1.7%
CLF	Concentrated Leaders	-6.1%	-3.9%	-5.6%	5.3%	8.5%	-7.9%	5.0%	1.7%	-5.5%
AMH	AMCIL Limited	-4.9%	0.5%	-6.1%	2.2%	2.5%	-2.8%	3.8%	3.2%	-2.3%
CAM	Clime Capital	-8.4%	1.8%	-6.7%	0.9%	5.7%	-8.2%	-0.8%	1.1%	-8.2%
CBC	CBG Capital Limited	-8.1%	10.0%	-12.0%	-1.9%	2.8%	-7.8%	na	na	na
CDM	Cadence Capital	-20.7%	-30.2%	3.8%	-3.1%	-11.1%	8.0%	-0.3%	-3.7%	6.1%
CIE	Contango Inc Gen Ltd	-8.7%	-12.6%	-6.2%	1.5%	0.0%	-5.2%	na	na	na
CIN	Carlton Investments	-2.9%	-5.4%	-11.6%	0.0%	0.0%	-12.2%	7.3%	7.8%	-11.5%
FGX	Future Gen Ltd	-6.0%	4.2%	0.2%	1.4%	4.1%	-1.3%	na	na	na
MIR	Mirrabooka Invest.	-6.4%	-0.6%	7.6%	2.5%	4.2%	13.2%	5.7%	3.3%	13.5%
PIC	Perpetual Equity Ltd	-6.1%	-5.4%	0.3%	3.9%	7.0%	-4.8%	na	na	na
PL8	Plato Inc Max Ltd.	-2.2%	-3.4%	-2.5%	na	na	na	na	na	na
QVE	Qv Equities Limited	-8.7%	-16.6%	-2.5%	3.8%	3.9%	1.7%	na	na	na
WAM	WAM Capital Limited	-6.3%	-3.9%	20.8%	5.6%	7.2%	19.6%	8.1%	8.8%	15.1%
WLE	WAM Leaders Limited	-2.1%	-4.5%	-2.2%	na	na	na	na	na	na
WHF	Whitefield Ltd	-6.4%	-10.0%	-6.7%	1.8%	3.0%	-7.9%	4.8%	5.1%	-7.2%
Code		1 Year			3 Year (annualised)			5 Year (annualised)		
		NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc
ACQ	Acorn Cap Inv Fund	-8.8%	-2.8%	-10.8%	7.5%	11.7%	-13.1%	na	na	na
BST	Barrack St Invest	-4.5%	-1.7%	-19.4%	-1.6%	3.2%	-17.3%	na	na	na
NSC	Naos Smlcap Com Ltd	-17.2%	-21.8%	-11.4%	-5.6%	-4.4%	-10.0%	-1.7%	-1.7%	-9.8%
FOR	Forager Aust Shs Fnd	-17.4%	-27.6%	9.0%	na	na	na	na	na	na
GC1	Glennon SML Co Ltd	-15.5%	0.6%	-12.8%	-0.5%	1.2%	-9.0%	na	na	na
NCC	Naos Emerg Opp	-15.8%	-20.5%	1.6%	5.1%	9.8%	-1.8%	3.9%	5.6%	-5.1%
NGE	NGE Capital Limited	-4.4%	26.1%	-21.1%	na	na	na	na	na	na
OZG	Ozgrowth Limited	-14.8%	-11.1%	-19.4%	10.3%	13.6%	-19.8%	-0.7%	1.9%	-16.8%
RYD	Ryder Capital Ltd	-14.3%	-7.5%	-17.4%	7.7%	7.4%	-9.4%	na	na	na
SEC	Spheria Emerging Co	-9.7%	-10.8%	-6.9%	na	na	na	na	na	na
WAX	WAM Research Ltd	-8.0%	1.4%	23.8%	4.2%	10.5%	21.6%	7.6%	12.0%	15.3%
WIC	Westoz Inv Ltd	-11.1%	-9.4%	-9.2%	10.3%	12.9%	-11.8%	1.2%	3.3%	-10.4%
8EC	8lp Emerg Co Ltd	-23.0%	-18.6%	-15.3%	-2.3%	-5.6%	-12.3%	na	na	na
Code		1 Year			3 Year (annualised)			5 Year (annualised)		
		NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc
ALI	Argo Global Ltd	5.6%	-0.9%	-14.7%	6.9%	3.6%	-12.2%	na	na	na
APL	Antipodes Global Inv	-9.1%	-17.1%	-5.4%	na	na	na	na	na	na
EAI	Ellerston Asian	-11.7%	-9.5%	-5.9%	2.0%	1.5%	-9.2%	na	na	na
EGI	Ellerston Global Inv	-18.4%	-13.2%	-7.7%	0.2%	0.1%	-10.2%	na	na	na
FGG	Future Glb Invest Co	3.8%	6.3%	0.8%	6.5%	5.2%	na	na	na	na
GVF	Global Value Fnd Ltd	-0.9%	-6.3%	-0.5%	2.1%	6.3%	-0.9%	na	na	na
PIA	Pengana Int Equ Ltd	0.0%	-4.7%	-6.2%	0.7%	2.1%	-6.6%	5.3%	8.6%	-8.5%
MFF	MFF Capital Inv Ltd	8.2%	16.3%	-7.4%	11.8%	7.7%	-9.3%	14.4%	11.7%	-6.6%
MGG	Magellan Glob Trust	3.3%	1.9%	-0.7%	na	na	-0.2%	na	na	na
PAF	Pm Capital Asian Ops	-18.6%	-16.9%	2.4%	-0.8%	4.7%	-4.7%	na	na	na
PAI	Platinum Asia Ltd	-11.4%	-8.5%	5.1%	5.3%	4.3%	0.0%	na	na	na
PGF	Pm Capital Fund	-9.4%	-8.8%	-4.5%	3.3%	5.9%	-8.4%	na	na	na
PMC	Platinum Capital Ltd	-10.5%	-8.5%	12.7%	3.9%	2.6%	8.7%	3.1%	6.4%	9.0%
TGG	Templeton Global	-8.5%	-4.0%	-8.6%	2.4%	5.9%	-10.0%	2.8%	2.3%	-8.0%
VG1	Vgi Partners Global	10.9%	0.0%	5.3%	na	na	na	na	na	na
Code		1 Year			3 Year (annualised)			5 Year (annualised)		
		NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc
BAF	Blue Sky Alt Access	1.6%	-26.2%	-15.1%	6.7%	-0.7%	-3.5%	na	na	na
BTI	Bailador Tech Inv	7.4%	-15.6%	-26.4%	-2.5%	-8.6%	-18.0%	na	na	na
LRT	Lowell Res Fund	-31.5%	-42.8%	-9.3%	na	na	na	na	na	na
LSX	Lion Selection Grp	26.5%	5.6%	-3.8%	14.0%	29.5%	-7.5%	-6.4%	-6.4%	-18.2%
MA1	Monash Absolute	-14.0%	-16.4%	-15.4%	na	na	na	na	na	na
NAC	Naos Ex-50	-9.5%	-9.9%	-11.3%	-1.0%	1.1%	-7.1%	na	na	na
SNC	Sandon Capital Ltd	-1.8%	-8.0%	-4.4%	4.7%	6.1%	-4.6%	4.8%	2.7%	-4.1%
TOP	Thorney Opp Ltd	-9.8%	-15.3%	-13.5%	9.6%	4.0%	-9.0%	9.5%	4.3%	-6.8%
URB	URB Investments Ltd	2.4%	-13.5%	-8.5%	na	na	na	na	na	na
WAA	WAM Active Limited	-2.2%	-5.4%	3.7%	5.1%	3.4%	4.1%	5.3%	2.1%	4.8%
WMK	Watermark Fund Ltd	-2.6%	-2.3%	-12.3%	-0.8%	-0.5%	-5.2%	2.2%	0.7%	-5.7%

## WAM Active (WAA)

<https://wilsonassetmanagement.com.au/>

- Incorporated in 2008, WAM Active is managed by Wilson Asset Management International Pty Ltd.
- WAA seeks to provide positive returns in all market conditions and aims to achieve this through exposure to an active trading style portfolio.
- WAA will not incorporate a single investment strategy; rather it aims to utilise short term catalysts such as corporate transactions and takeovers, IPO's, placements and arbitrage opportunities such as LIC discount arbitrage.
- The total shareholder return for the year ending 31 December 2018 was -5.4% with pre-tax net asset backing decreasing 2.2%. The active return (TSR) was -1.9%.

**Fig.115: WAA overview**

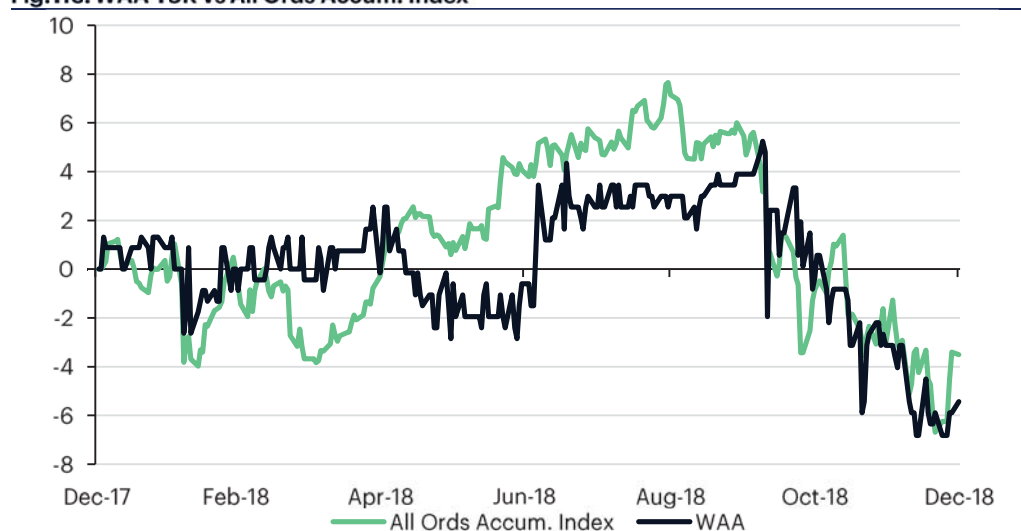
WAA Snapshot			Top Holdings			
Price (31 December 2018)	\$1.03		ALTUM LTD	MACQUARIE GROUP		
Share price range (12 months)	\$0.98- \$1.17		AURIZON HOLDINGS	MACQUARIE MEDIA		
Shares on issue (Mn)	46.0		CHALLENGER LTD	PENGANA INTERNAT		
Market capitalisation (\$Mn)	\$47		CIMIC GROUP LTD	SEVEN GROUP HOLD		
Pre-tax asset backing*	\$1.01		CLEANAWAY WASTE	SMARTGROUP CORP		
Post-tax asset backing*	\$1.01		COLLINS FOODS LT	STEADFAST GROUP		
Premium/(Discount) to pre-tax NTA	1.8%		CONCENTRATED LEA	TEMPLETON GLOBAL		
Premium/(Discount) to post-tax NTA	1.9%		CSL LTD	360 CAPITAL GROU		
Dividend yield	5.6%		DOWNER EDI LTD	WESTOZ INVEST		
Dividend per share (cents)	5.7		IDP EDUCATION LT	WOOLWORTHS GROUP		
Franking	100%					
Management expense ratio	1.00%					

*\*\*listed in alphabetical order\*\**

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
WAA	-5.4%	3.4%	2.1%	NTA growth	-2.2%	5.1%	5.3%
Active return	-1.9%	-3.2%	-3.6%	Active return	1.3%	-1.5%	-0.4%

Source: IRESS, Bloomberg, Baillieu, Company reports. Figures as at 31 December 2018. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

**Fig.116: WAA TSR vs All Ords Accum. Index**



Source: Bloomberg, Baillieu

## WAM Capital (WAM)

<https://wilsonassetmanagement.com.au/>

- WAM Capital concentrates primarily on small to medium industrial companies with an objective to deliver a rising stream of fully franked dividends, to provide capital growth and preserve capital. WAM utilises a research driven investment strategy, focusing on fundamental analysis as well as a market driven approach, seeking short-term mispricing opportunities.
- WAM also provides exposure to relative value arbitrage and market mispricing opportunities. WAM is managed by Wilson Asset Management (International) Pty Ltd.
- The total shareholder return for the year ending 31 December 2018 was -3.9% with pre-tax net asset backing decreasing 6.3%. The active return (TSR) was -0.3%.

**Fig.117: WAM overview**

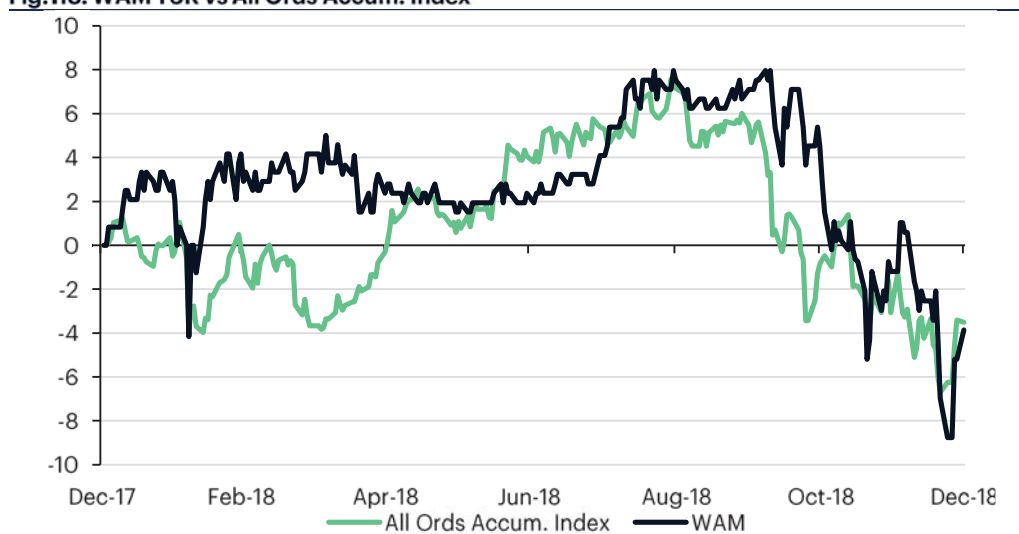
WAM Snapshot				Top Holdings			
Price (31 December 2018)			\$2.16	AUSTAL LTD			MACQUARIE GROUP
Share price range (12 months)			\$2.01- \$2.52	CIMIC GROUP LTD			MAYNE PHARMA GRO
Shares on issue (Mn)			713.6	CLEANAWAY WASTE			NONI B LTD
Market capitalisation (\$Mn)			\$1,541	CREDIT CORP GRP			PENGANA INTERNAT
Pre-tax asset backing*			\$1.77	CHALLENGER LTD			PSC INSURANCE GR
Post-tax asset backing*			\$1.80	CSL LTD			STEADFAST GROUP
Premium/(Discount) to pre-tax NTA			21.8%	DOWNER EDI LTD			TABCORP HLDGS
Premium/(Discount) to post-tax NTA			20.2%	EMECO HOLDINGS L			TEMPLETON GLOBAL
Dividend yield			7.2%	IDP EDUCATION LT			VOCUS GROUP LTD
Dividend per share (cents)			15.5	IPH LTD			WOOLWORTHS GROUP
Franking			100%				
Management expense ratio			1.00%				

*\*\*listed in alphabetical order\*\**

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
WAM	-3.9%	7.2%	8.8%	NTA growth	-6.3%	5.6%	8.1%
Active return	-0.3%	0.6%	3.1%	Active return	-2.8%	-1.0%	2.4%

Source: IRESS, Bloomberg, Baillieu, Company reports. Figures as at 31 December 2018. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

**Fig.118: WAM TSR vs All Ords Accum. Index**



Source: Bloomberg, Baillieu

Baillieu Limited has acted in a corporate advisory role for WAM and earned fees in relation to that activity in the past 12 months. In line with the company's internal compliance guidelines, our investment recommendation is restricted.

Please also refer to the general disclosure at the end of this report.



## WAM Research (WAX)

<https://wilsonassetmanagement.com.au/>

- WAM Research (WAX) aims to invest in undervalued small and medium industrial growth companies listed on the ASX. WAX is also managed by Wilson Asset Management (International) Pty Ltd.
- The investment objective is to provide a growing stream of fully franked dividends and to achieve a high real rate of return, comprising both income and capital growth within risk parameters acceptable to the Directors, utilising a fundamental research investment strategy.
- The total shareholder return for the year ending 31 December 2018 was 1.4% with pre-tax net asset backing decreasing 8.0%. The active return was 5.0%.

**Fig.119: WAX overview**

WAX Snapshot			Top Holdings		
Price (31 December 2018)	\$1.46		A2B AUSTRALIA LT	IPH LTD	
Share price range (12 months)	\$1.3- \$1.71		AUSTAL LTD	LIFESTYLE COMMUN	
Shares on issue (Mn)	189.6		BRAVURA SOLUTION	MAYNE PHARMA GRO	
Market capitalisation (\$Mn)	\$277		CITY CHIC COLLEC	MYER HOLDINGS	
Pre-tax asset backing*	\$1.09		CODAN LTD	NONI B LTD	
Post-tax asset backing*	\$1.11		CREDIT CORP GRP	PSC INSURANCE GR	
Premium/(Discount) to pre-tax NTA	33.8%		EMECO HOLDINGS L	RECKON LTD	
Premium/(Discount) to post-tax NTA	31.5%		EVENT HOSPITALIT	SERVICE STREAM L	
Dividend yield	6.3%		GTN LTD	TABCORP HLDGS	
Dividend per share (cents)	9.3		IMDEX LTD	VOCUS GROUP LTD	
Franking	100%				
Management expense ratio	1.00%				

*\*\*listed in alphabetical order\*\**

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
WAX	1.4%	10.5%	12.0%	NTA growth	-8.0%	4.2%	7.6%
Active return	5.0%	3.9%	6.3%	Active return	-4.5%	-2.4%	1.9%

Source: IRESS, Bloomberg, Baillieu, Company reports. Figures as at 31 December 2018. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

**Fig.120: WAX TSR vs All Ords Accum. Index**



Source: Bloomberg, Baillieu

## WAM Leaders (WLE)

<https://wilsonassetmanagement.com.au/>

- Incorporated in May 2016, WAM Leaders is managed by Wilson Asset Management International (WAMI) Pty Ltd. WAMI also manages WAM, WAX, WMI, WAA and CYA within the LIC space.
- WLE seeks to deliver a stream of fully franked dividends, provide capital growth over the medium-to-long term and preserve capital. The portfolio will predominately comprise of large cap companies within the S&P/ASX 200 Index.
- WLE employs a two-tiered investment process including research driven investing (fundamental bottom up approach) and a market driven approach which seeks to take advantage of short-term relative arbitrage and mispricing opportunities.
- The current portfolio position has a large cap bias with ~55% of the portfolio invested in the ASX top 20.
- The total shareholder return for the year ending 31 December 2018 was -4.5% with pre-tax net asset backing decreasing 2.1%. The active return (TSR) was -1.7%.

**Fig.125: WLE overview**

WLE Snapshot			Top Holdings			
Price (31 December 2018)	\$1.06		ARISTOCRAT LEISU	OIL SEARCH LTD		
Share price range (12 months)	\$1.02- \$1.25		AURIZON HOLDINGS	RIO TINTO LTD		
Shares on issue (Mn)	704.1		BHP GROUP LTD	SOUTH32 LTD		
Market capitalisation (\$Mn)	\$746		COMMONW BK AUSTR	TABCORP HLDGS		
Pre-tax asset backing*	\$1.09		CSL LTD	TRANSURBAN GROUP		
Post-tax asset backing*	\$1.10		EVOLUTION MINING	TELSTRA CORP		
Premium/(Discount) to pre-tax NTA	-3.1%		FORTESCUE METALS	STAR ENTERTAINME		
Premium/(Discount) to post-tax NTA	-3.8%		NATL AUST BANK	WESTPAC BANKING		
Dividend yield	4.7%		NEWCREST MINING	WOODSIDE PETRO		
Dividend per share (cents)	5.0		ORIGIN ENERGY	WOOLWORTHS GROUP		
Franking	100%					
Management expense ratio	1.00%					

*\*\*listed in alphabetical order\*\**

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
WLE	-4.5%	na	na	NTA growth	-2.1%	na	na
Active return	-1.7%	na	na	Active return	0.8%	na	na

Source: IRESS, Bloomberg, Baillieu, Company reports. Figures as at 31 December 2018. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

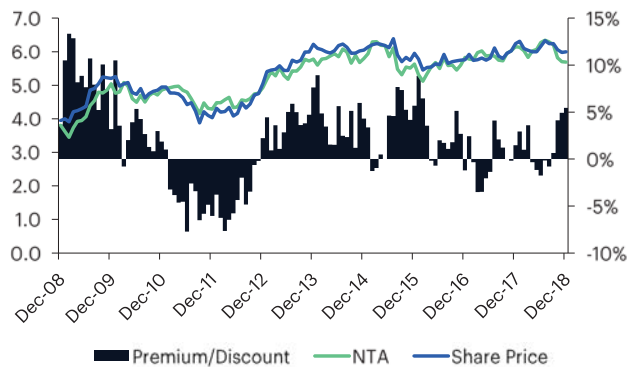
**Fig.126: WLE TSR vs ASX200 Accum. Index**



Source: Bloomberg, Baillieu

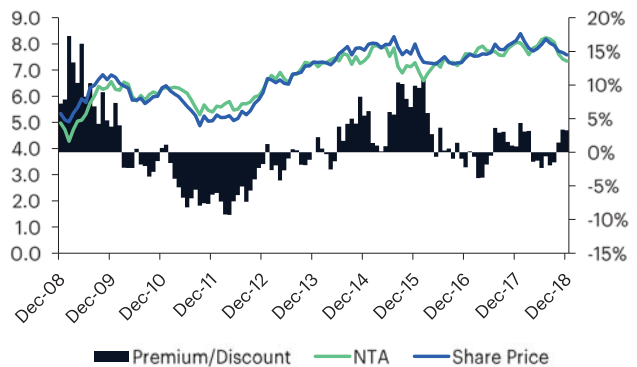
## Appendix – Historical Premium/Discounts for Selected LICs

**Fig.131: AFI**



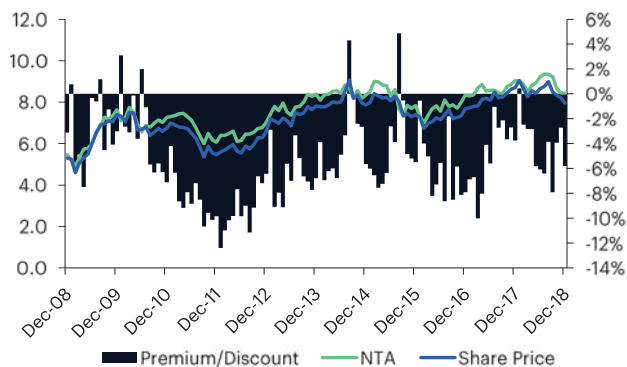
Source: Bloomberg, IRESS, Baillieu

**Fig.132: ARG**



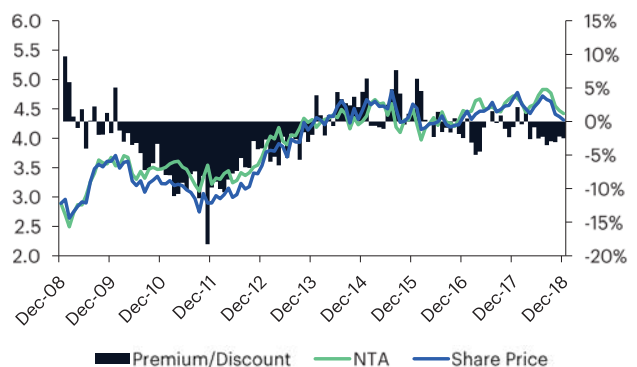
Source: Bloomberg, IRESS, Baillieu

**Fig.133: AUI**



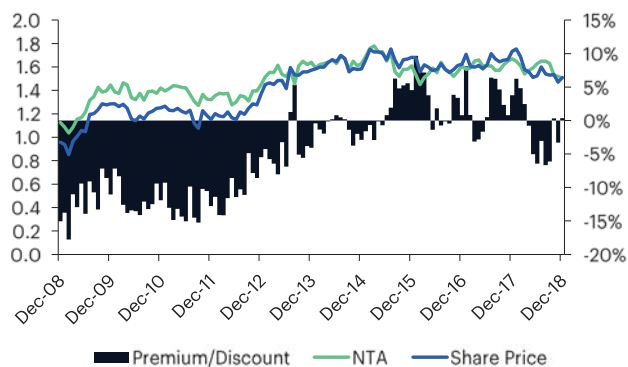
Source: Bloomberg, IRESS, Baillieu

**Fig.134: MLT**



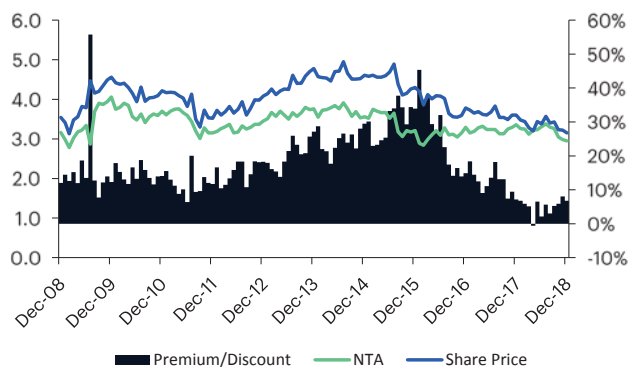
Source: Bloomberg, IRESS, Baillieu

**Fig.135: BKI**



Source: Bloomberg, IRESS, Baillieu

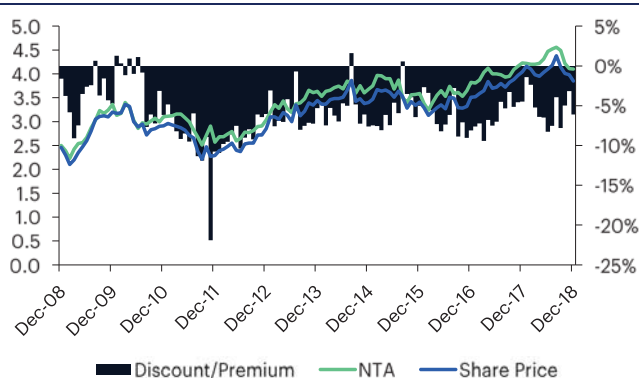
**Fig.136: DJW**



Source: Bloomberg, IRESS, Baillieu

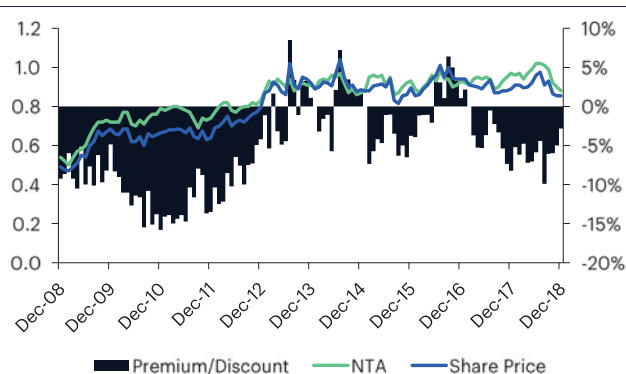


**Fig.137: DUI**



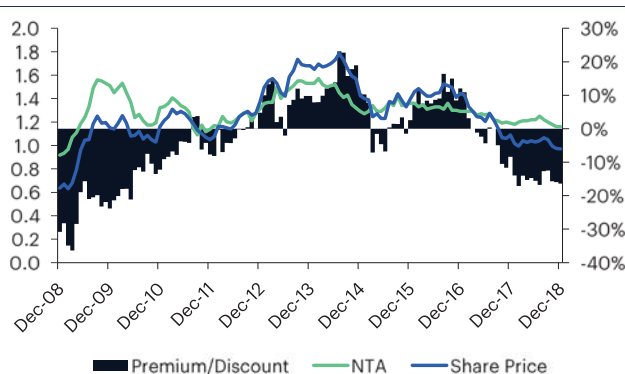
Source: Bloomberg, IRESS, Baillieu

**Fig.138: AMH**



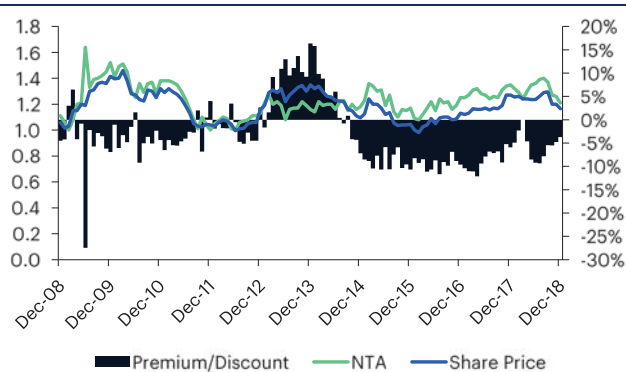
Source: Bloomberg, IRESS, Baillieu

**Fig.139: ALF**



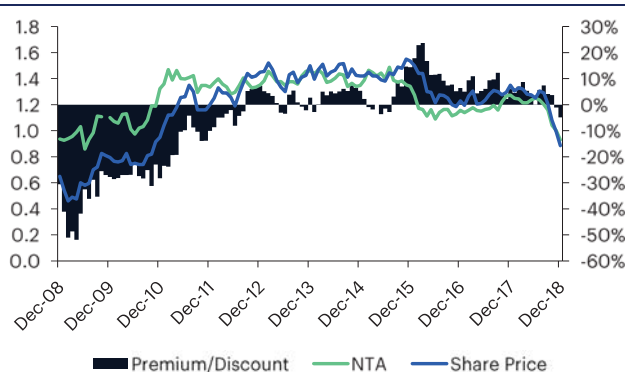
Source: Bloomberg, IRESS, Baillieu

**Fig.140: CLF**



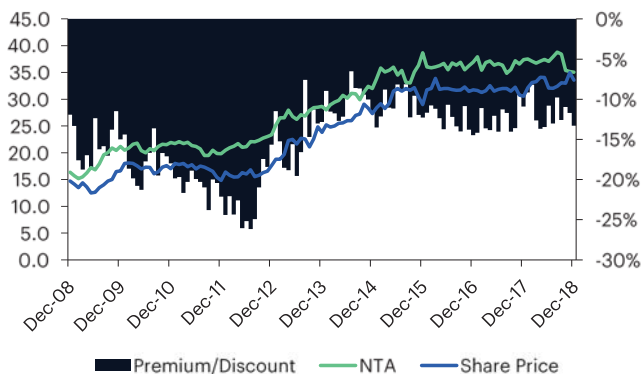
Source: Bloomberg, IRESS, Baillieu

**Fig.141: CDM**



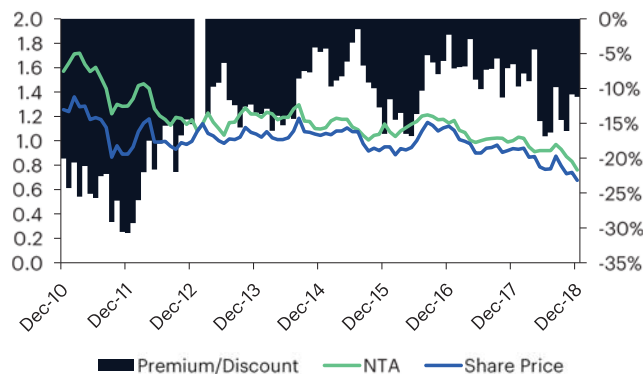
Source: Bloomberg, IRESS, Baillieu

Fig.142: CIN



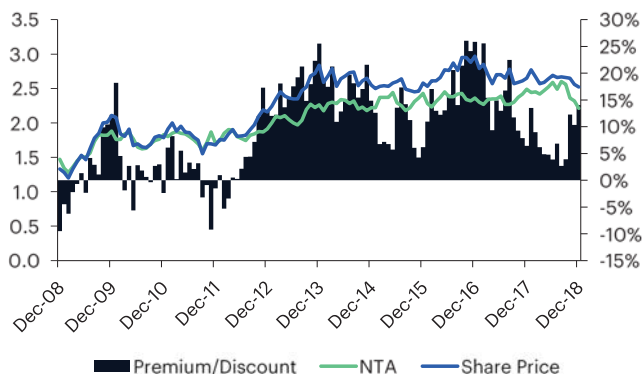
Source: Bloomberg, IRESS, Baillieu

Fig.143: NSC



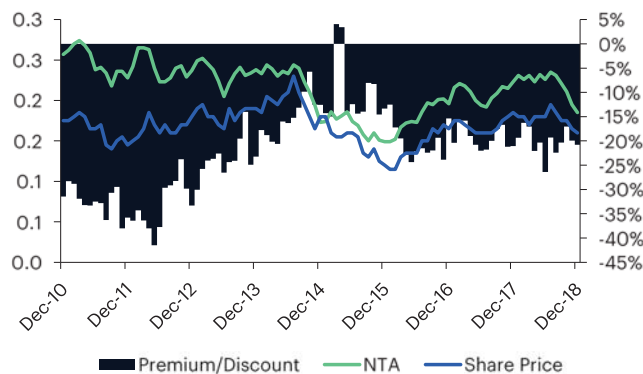
Source: Bloomberg, IRESS, Baillieu

Fig.144: MIR



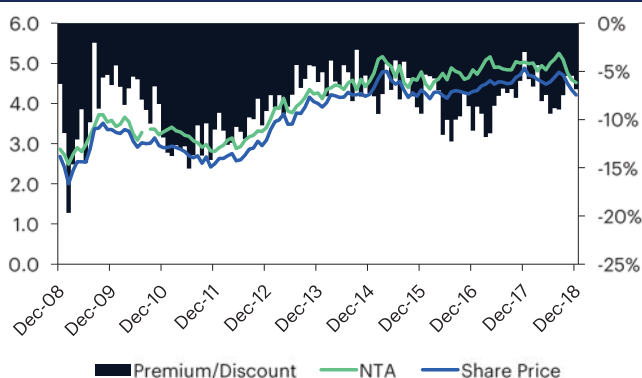
Source: Bloomberg, IRESS, Baillieu

Fig.145: OZG



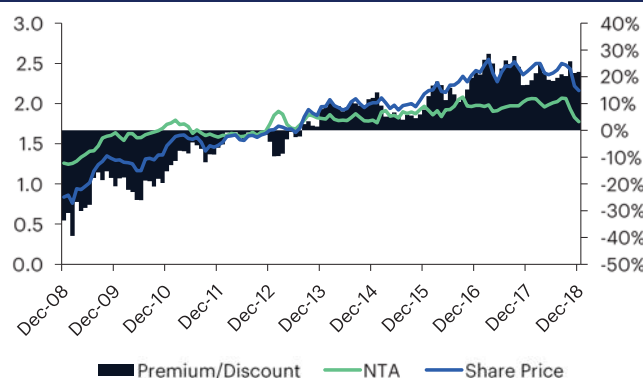
Source: Bloomberg, IRESS, Baillieu

Fig.146: WHF



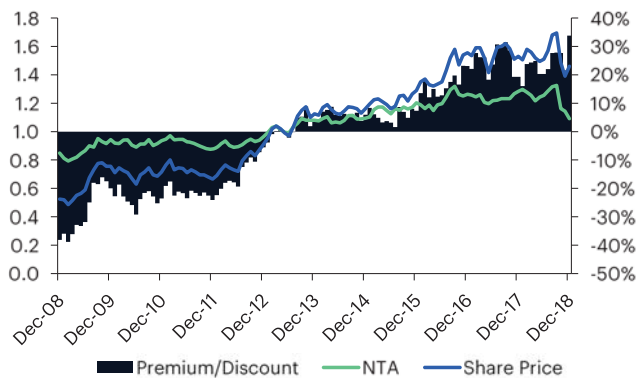
Source: Bloomberg, IRESS, Baillieu

Fig.147: WAM



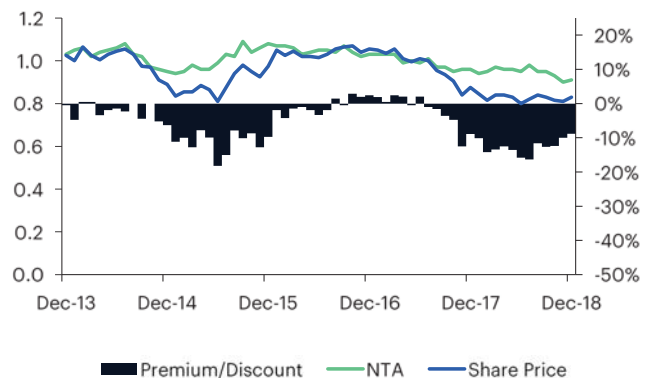
Source: Bloomberg, IRESS, Baillieu

**Fig.148: WAX**



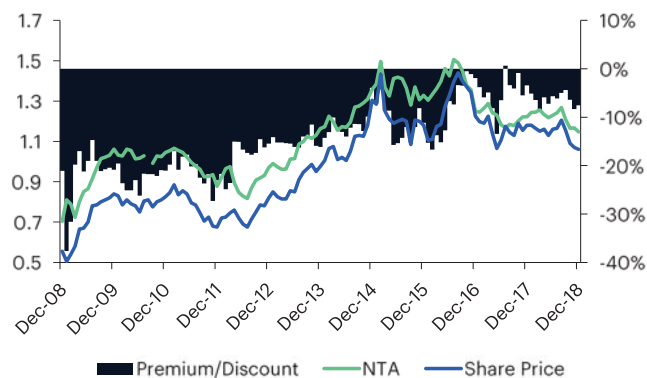
Source: Bloomberg, IRESS, Baillieu

**Fig.149: WMK**



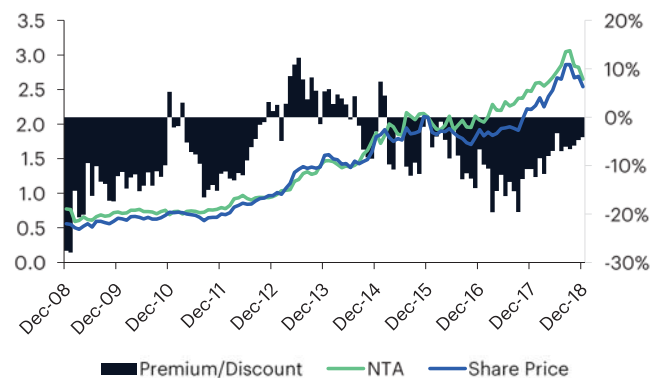
Source: Bloomberg, IRESS, Baillieu

**Fig.150: PIA**



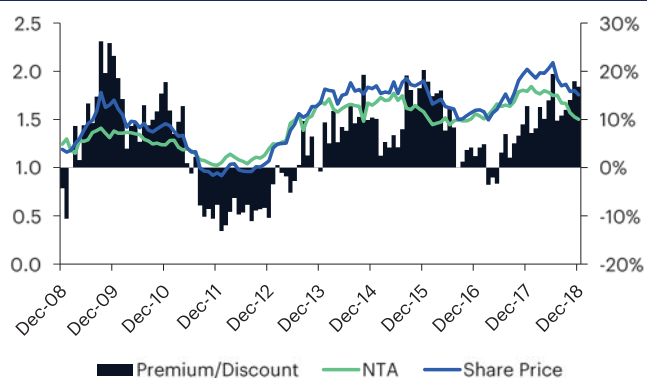
Source: Bloomberg, IRESS, Baillieu

**Fig.151: MFF**



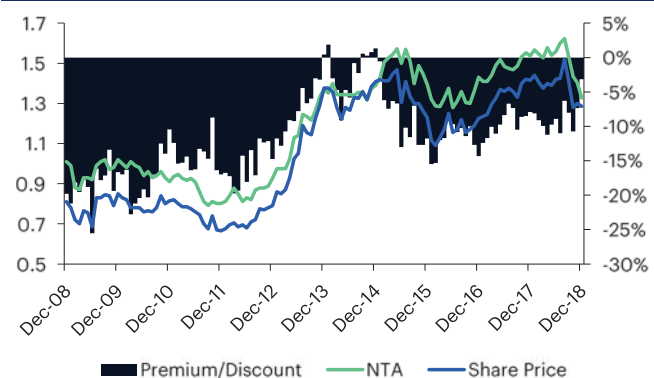
Source: Bloomberg, IRESS, Baillieu

**Fig.152: PMC**



Source: Bloomberg, IRESS, Baillieu

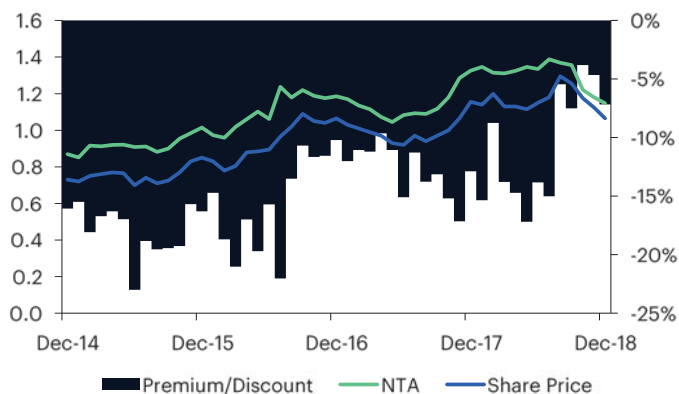
**Fig.153: TGG**



Source: Bloomberg, IRESS, Baillieu

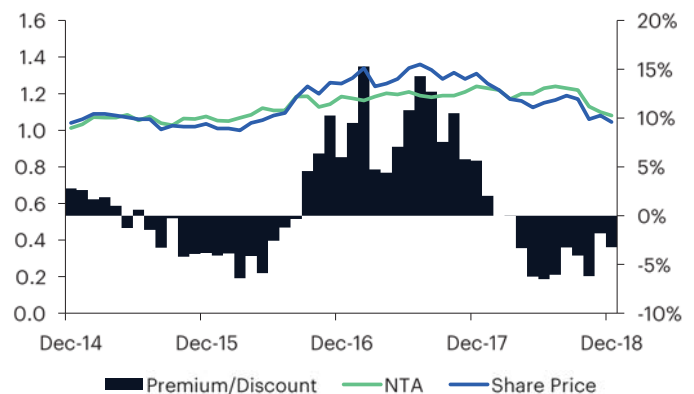


**Fig.154: ACQ**



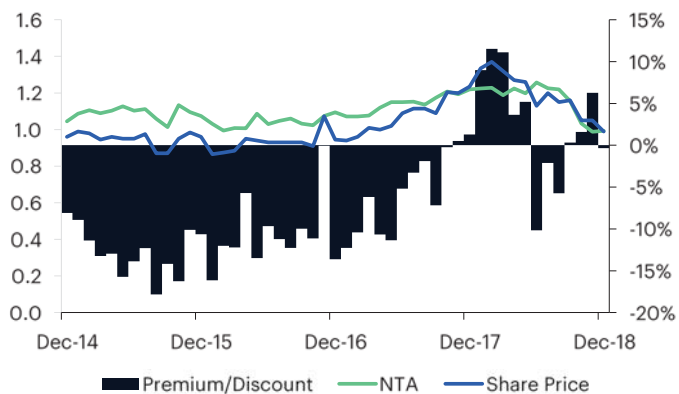
Source: Bloomberg, IRESS, Baillieu

**Fig.155: QVE**



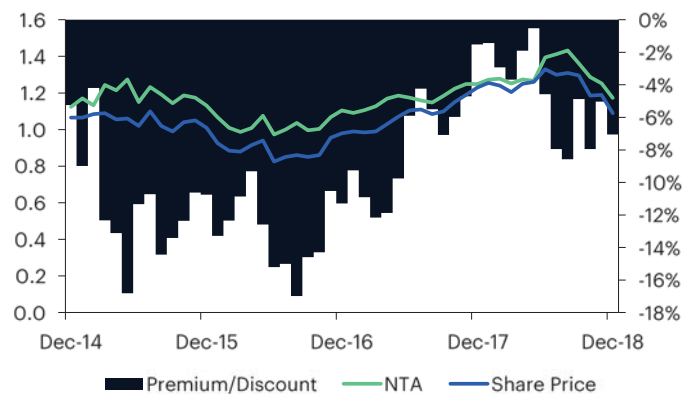
Source: Bloomberg, IRESS, Baillieu

**Fig.156: PAF**



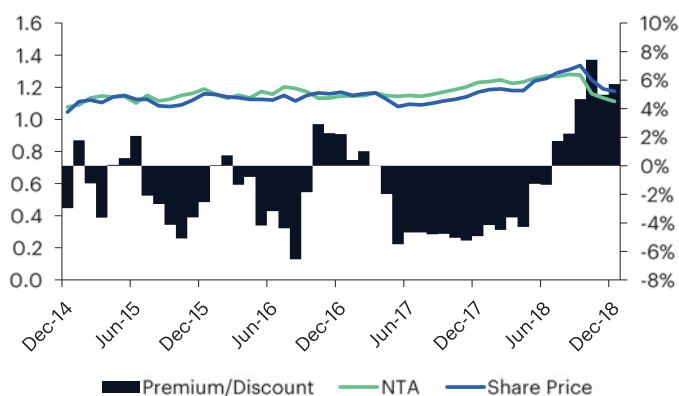
Source: Bloomberg, IRESS, Baillieu

**Fig.157: PGF**



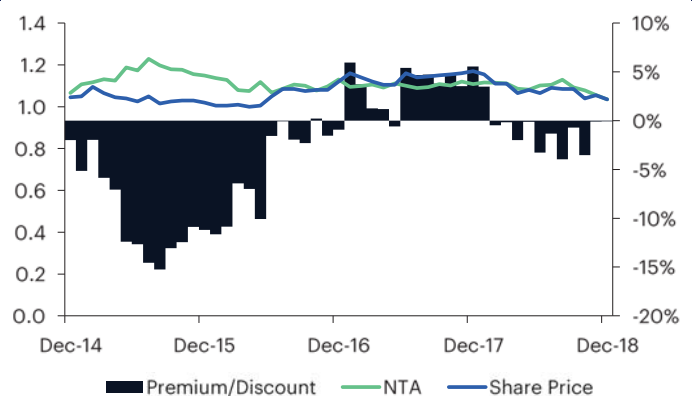
Source: Bloomberg, IRESS, Baillieu

**Fig.158: FGX**



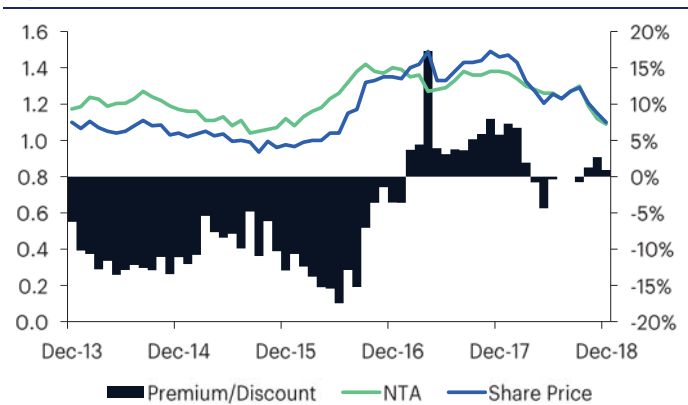
Source: Bloomberg, IRESS, Baillieu

**Fig.159: GVF**



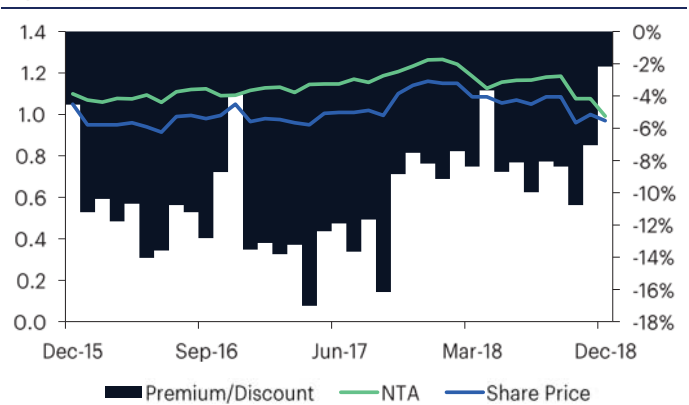
Source: Bloomberg, IRESS, Baillieu

Fig.160: NCC



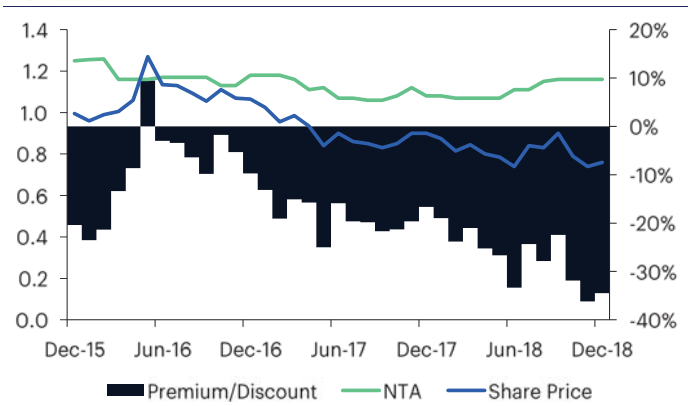
Source: Bloomberg, IRESS, Baillieu

Fig.161: EGI



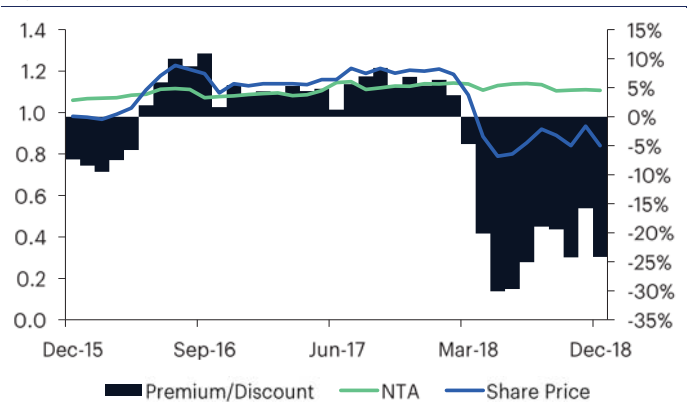
Source: Bloomberg, IRESS, Baillieu

Fig.162: BTI



Source: Bloomberg, IRESS, Baillieu

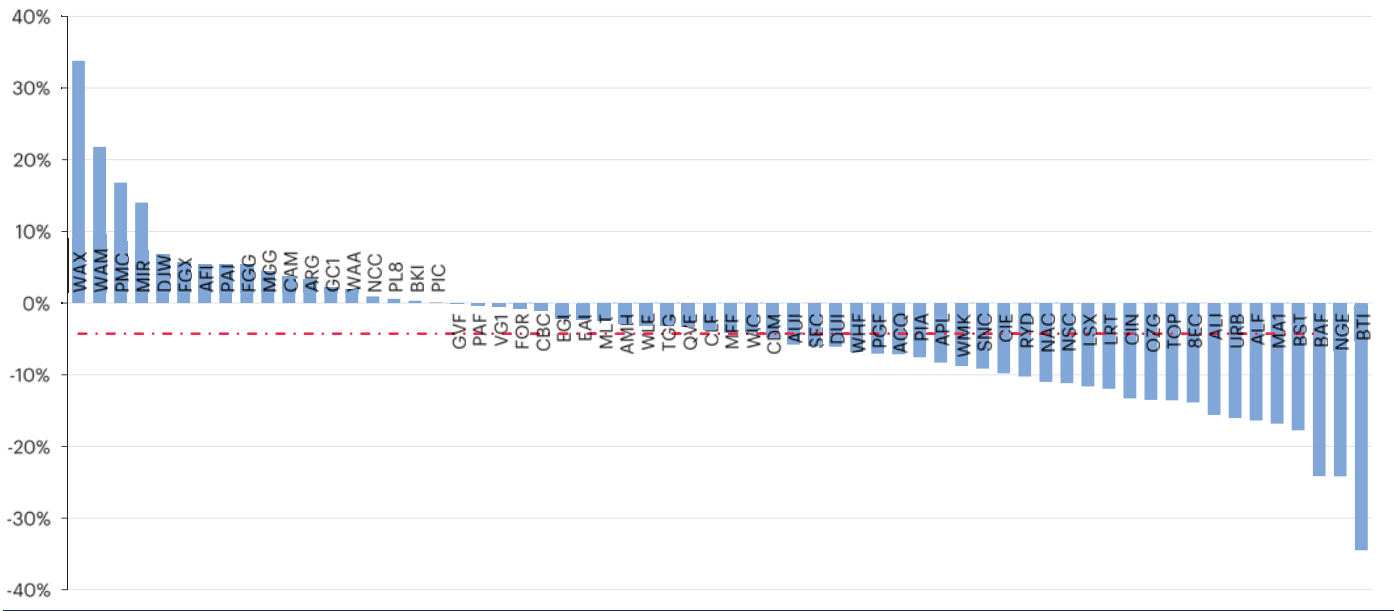
Fig.163: BAF



Source: Bloomberg, IRESS, Baillieu

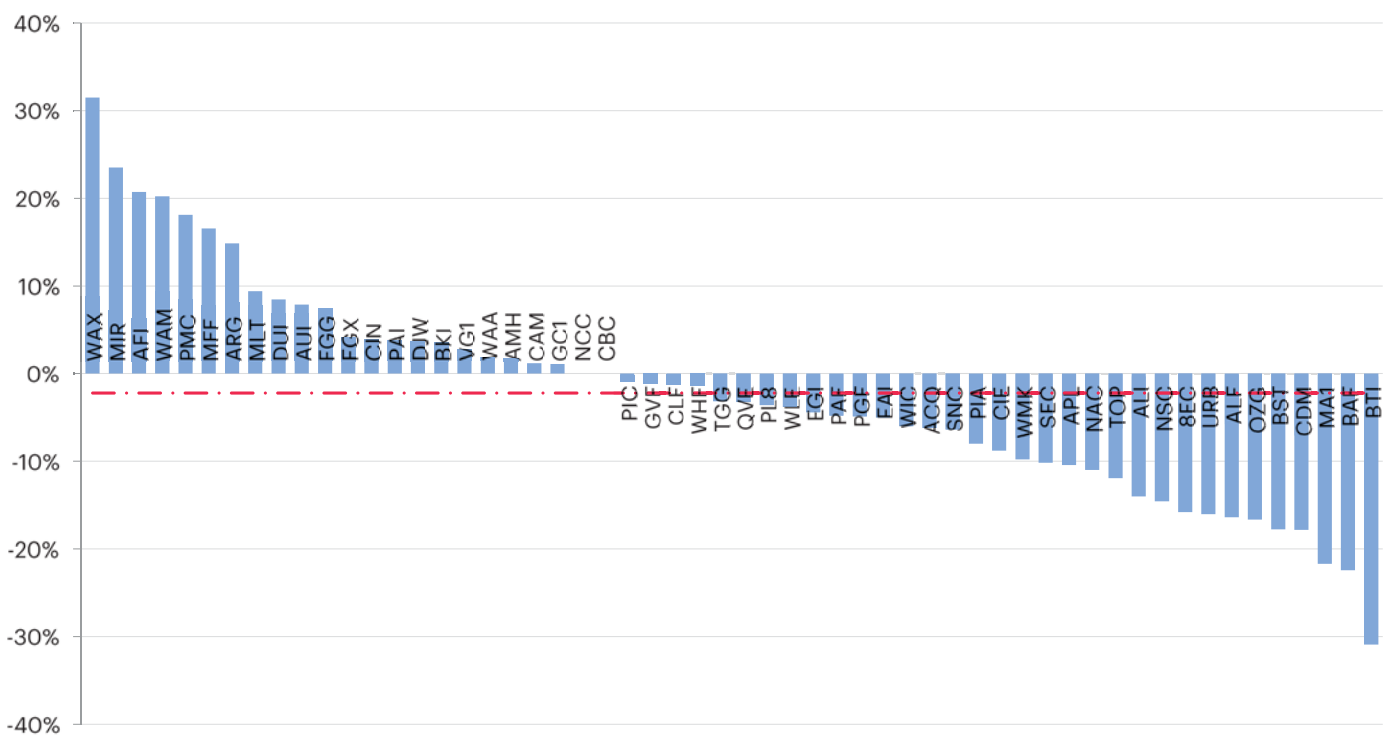
Pre- & Post Discount/Premium to NTA

Fig.164: Premium/(Discount) to Pre-tax NTA



Source: Bloomberg, Iress, Baillieu

Fig.165: Premium/(Discount) to Post-tax NTA

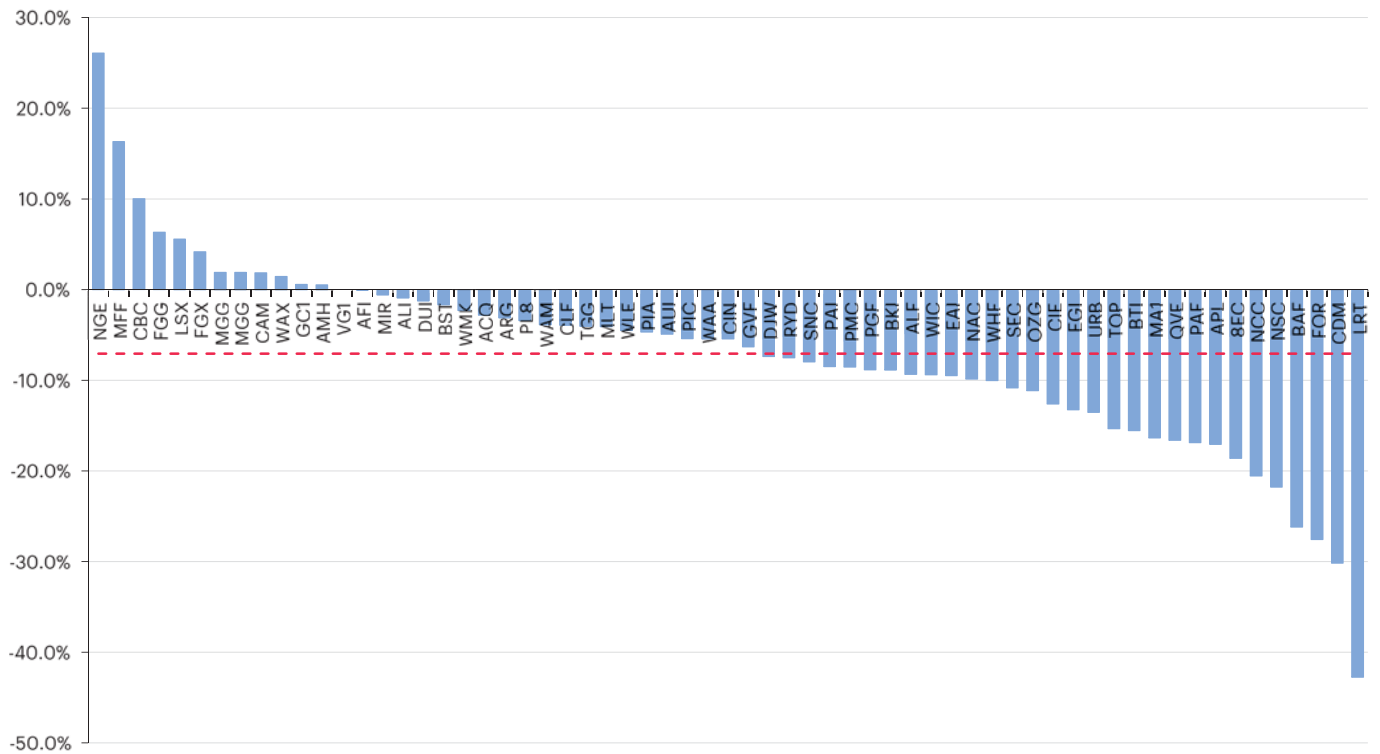


Source: Bloomberg, Iress, Baillieu



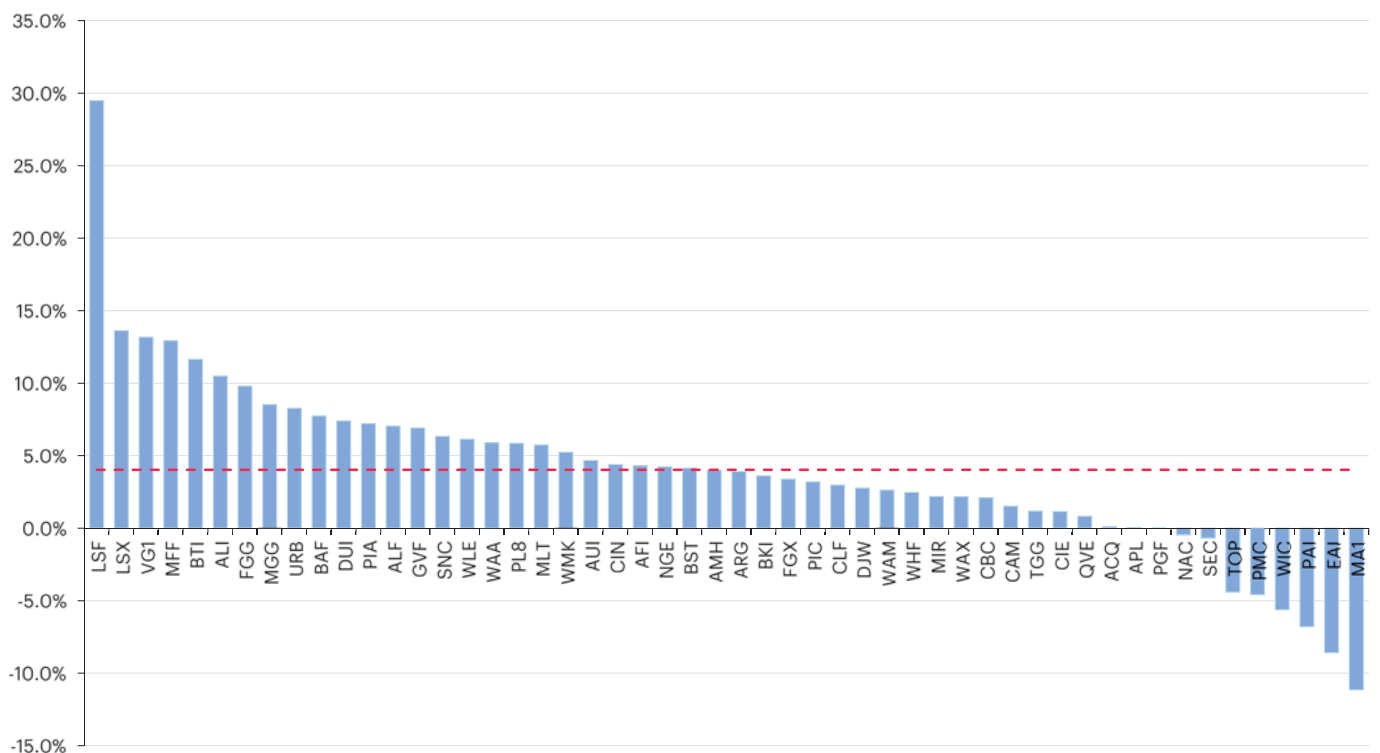
## 1, 3 and 5 Year Total Shareholder Return & NTA Growth

Fig.166: TSR compound annual growth rate - % over 12 months



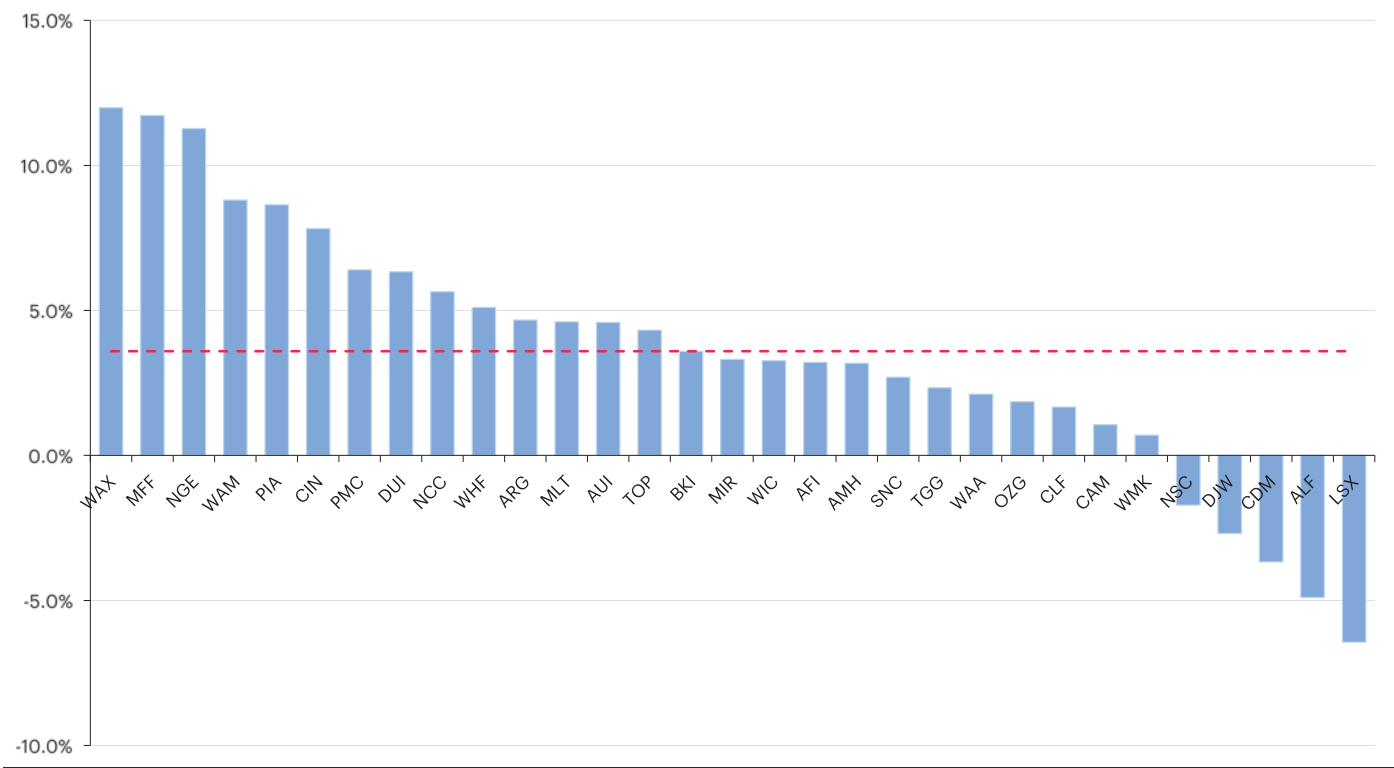
Source: Bloomberg, Iress, Baillieu

Fig.167: TSR compound annual growth rate - % over 3 years



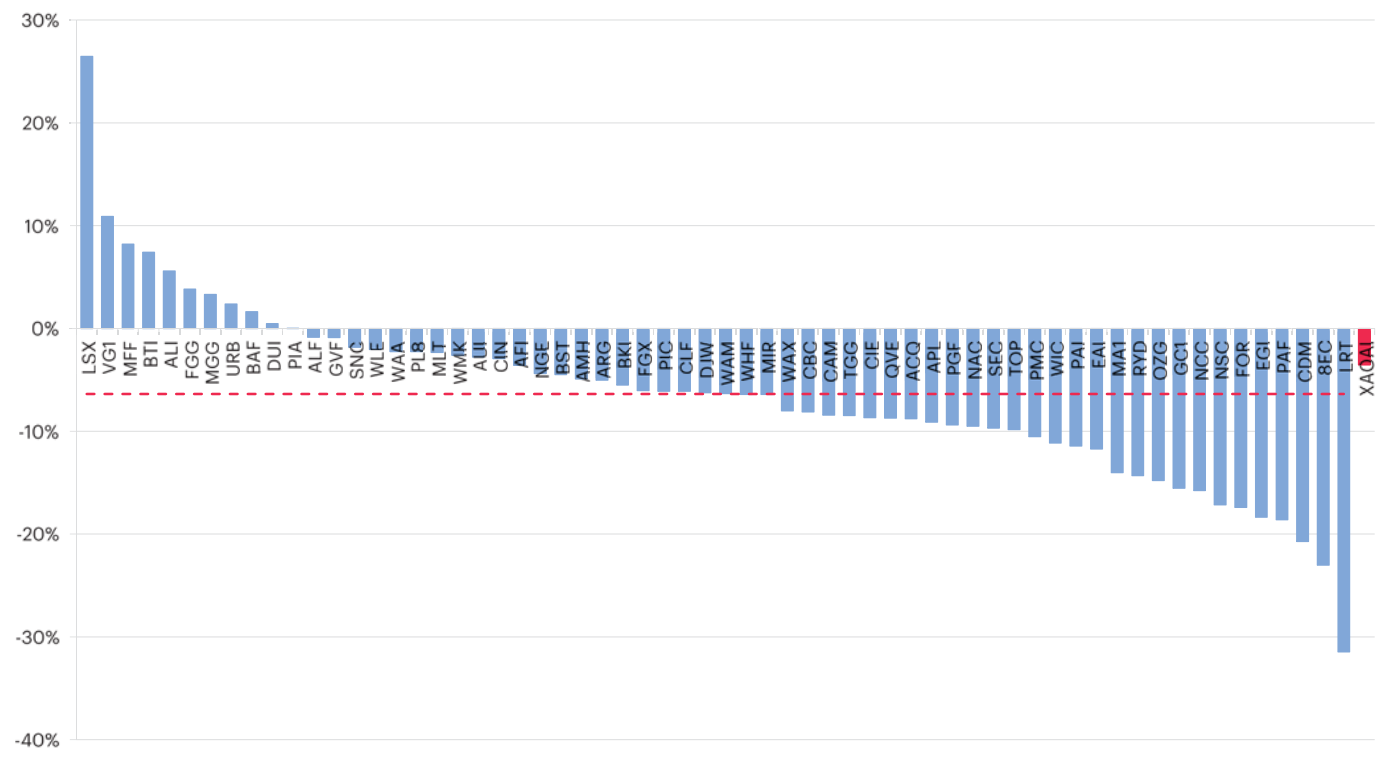
Source: Bloomberg, Iress, Baillieu

Fig.168: TSR compound annual growth rate - % over 5 years



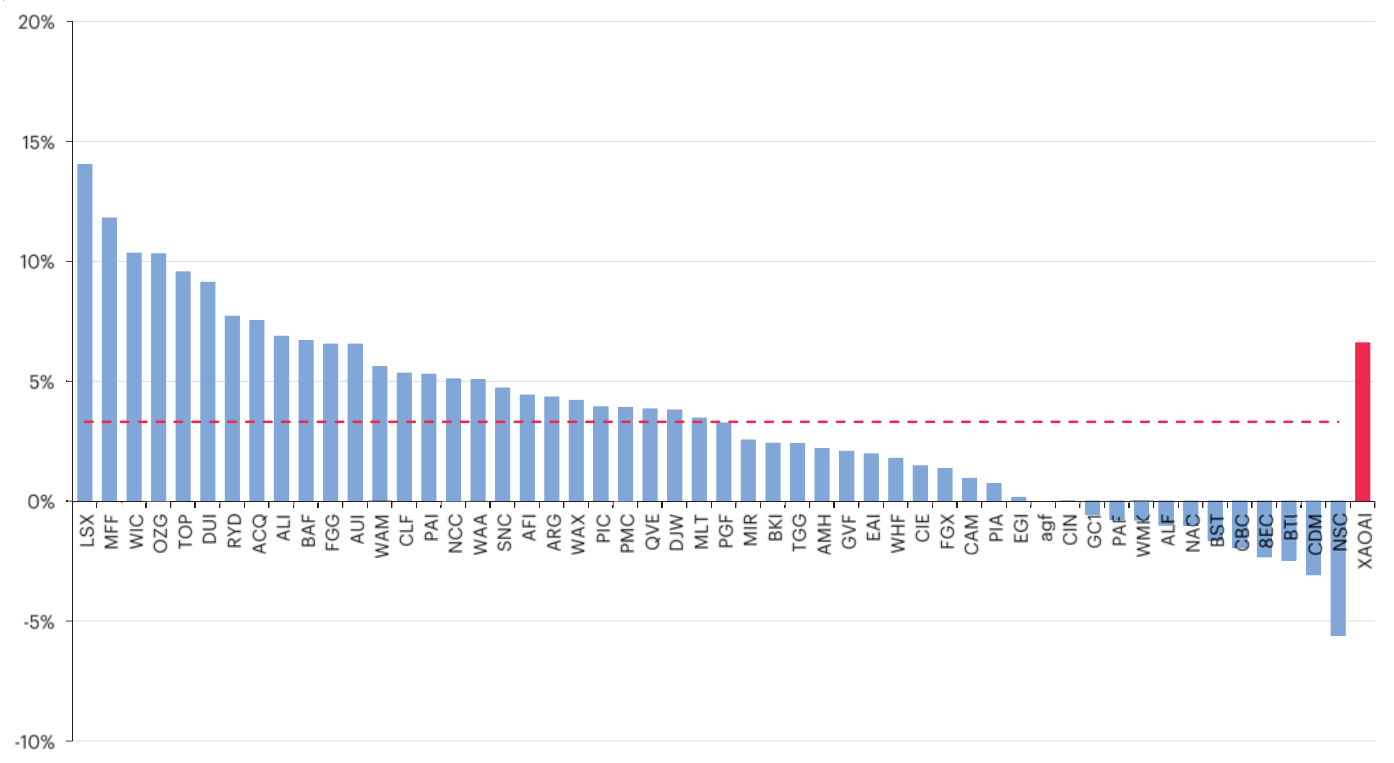
Source: Bloomberg, Iress, Baillieu

Fig.169: CAGR NTA performance - % return over 12 months



Source: Bloomberg, Iress, Baillieu

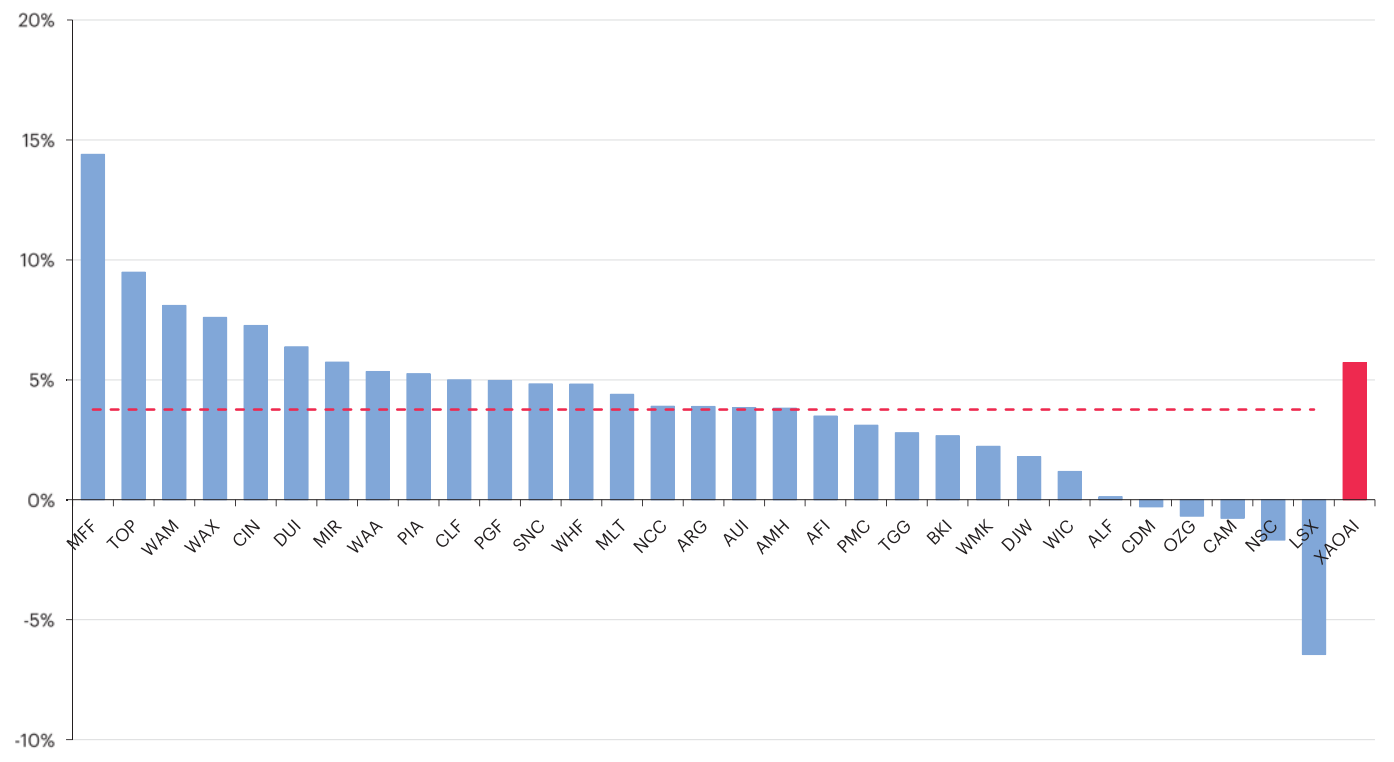
Fig.170: CAGR NTA performance - % return over 3 years



Source: Bloomberg, Iress, Baillieu



Fig.171: CAGR NTA performance - % return over 5 years



Source: Bloomberg, Iress, Baillieu

All chart data to 31 December 2018

This document has been prepared and issued by:

**Baillieu Limited**

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group  
Participant of NSX Ltd

**Analysts' stock ratings are defined as follows:**

**Buy:** The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

**Hold:** The stock's total return is expected to trade within a range of  $\pm 10$ -15 percent from the current share price over the next 12 months.

**Sell:** The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

**Disclosure of potential interest and disclaimer:**

Baillieu Limited (Baillieu) and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time. Your adviser will earn a commission of up to 55% of any brokerage resulting from any transactions you may undertake as a result of this advice.

When we provide advice to you, it is based on the information you have provided to us about your personal circumstances, financial objectives and needs. If you wish to rely on our advice, it is important that you inform us of any changes to your personal investment needs, objectives and financial circumstances.

If you do not provide us with the relevant information (including updated information) regarding your investment needs, objectives and financial circumstances, our advice may be based on inaccurate information, and you will need to consider whether the advice is suitable to you given your personal investment needs, objectives and financial circumstances. Please do not hesitate to contact our offices if you need to update your information held with us. Please be assured that we keep your information strictly confidential.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by Baillieu Limited.

Save for any statutory liability that cannot be excluded, Baillieu Limited and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Baillieu Limited assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

**Baillieu Limited**

ABN 74 006 519 393

Australian Financial Service Licence No. 245421  
Participant of ASX Group  
Participant of NSX Limited

[www.baillieu.com.au](http://www.baillieu.com.au)

**Melbourne (Head Office)**

**Address** Level 26, 360 Collins Street  
Melbourne, VIC 3000 Australia  
**Postal** PO Box 48, Collins Street West  
Melbourne, VIC 8007 Australia  
**Phone** +61 3 9602 9222  
**Facsimile** +61 3 9602 2350  
**Email** melbourne@baillieu.com.au

**Adelaide Office**

**Address** Ground Floor, 226 Greenhill Road,  
Eastwood SA 5063  
**Postal** PO Box 171  
Fullarton SA 5063  
**Phone** +61 8 7074 8400  
**Facsimile** +61 8 8362 3942  
**Email** adelaide@baillieu.com.au

**Bendigo Office**

**Address** Level 1, 10-16 Forest Street  
Bendigo, VIC 3550  
**Postal** PO Box 84  
Bendigo, VIC 3552  
**Phone** +61 3 4433 3400  
**Facsimile** +61 3 4433 3430  
**Email** bendigo@baillieu.com.au

**Geelong Office**

**Address** 16 Aberdeen Street  
Geelong West Vic 3218  
**Postal** PO Box 364  
Geelong Vic 3220 Australia  
**Phone** +61 3 5229 4637  
**Facsimile** +61 3 4229 4142  
**Email** geelong@baillieu.com.au

**Gold Coast Office**

**Address** Suite 202 Level 2, Eastside Building  
6 Waterfront Place, Robina QLD 4226  
**Phone** +61 7 5628 2670  
**Facsimile** +61 7 5677 0258  
**Email** goldcoast@baillieu.com.au

**Newcastle Office**

**Address** Level 1, 120 Darby Street  
Cooks Hill, NSW 2300 Australia  
**Postal** PO Box 111  
The Junction, NSW 2291 Australia  
**Phone** +61 2 4037 3500  
**Facsimile** +61 2 4037 3511  
**Email** newcastle@baillieu.com.au

**Perth Office**

**Address** Level 9, 216 St Georges Terrace  
Perth WA 6000 Australia  
**Postal** PO Box 7662, Cloisters Square  
Perth, WA 6850 Australia  
**Phone** +61 8 6141 9450  
**Facsimile** +61 8 6141 9499  
**Email** perth@baillieu.com.au

**Sydney Office**

**Address** Level 40, 259 George Street  
Sydney, NSW 2000 Australia  
**Postal** PO Box R1797  
Royal Exchange, NSW 1225 Australia  
**Phone** +61 2 9250 8900  
**Facsimile** +61 2 9247 4092  
**Email** sydney@baillieu.com.au