

# LISTED INVESTMENT COMPANIES

## BELL POTTER

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### Discount to NTA: Threat or Opportunity - Managing the investment process

Although purchasing a LIC at a historical discount to the long-term discount or premium to pre-tax NTA will not guarantee out-performance, it does in our view suggest that if an LIC looks expensive that perhaps an alternative more appropriately priced alternative should be utilised. However, managing this process can be difficult given LICs are only obligated to disclose their NTA at the end of each month. In this edition, we discuss some of the issues associated with buying an LIC and Bell Potter's pending launch of an indicative NTA (continued page 2).

#### Premiums and Discounts to NTA

An analysis of the current share price premium to pre-tax NTA relative to the five year average pre-tax NTA can indicate if a LIC is expensive or cheap.

- LICs trading in line with historical norms include **BKI** and **MFF**.
- LICs trading at reasonable discounts to historical norms include **AFI**, **ARG** and **PMC**.
- LICs trading at a premium to historical norms include **DJW** and **WAM**.

#### Active and Absolute returns

On an active return basis (excess NTA return over the benchmark) **AFI** remains the key standout over all time periods, along with **MLT**. At the smaller end, **AMH** and **MIR** have delivered strong NTA performance over all time periods. On a NTA value added basis from an international perspective **MFF** delivered solid returns over all periods.

#### Preferred LICs: **AFI**, **MLT** (Large), **AMH** and **MIR** (Small) and **MFF** (International)

From a purely quantitative basis as at 31 December 2011, we retain **AFI** and include **MLT** as our preferred Large LICs. Both have delivered strong out performance over the medium to long-term, delivered similar yields (AFI 5.2% net, 7.4% gross, MLT 5.2% net, 7.5% gross) over the past 12-months and both trade a substantial discount to pre-tax NTA (AFI -6.0%, MLT -9.8%). Our preferred Small LICs are **AMH** and **MIR**. Both have delivered substantial out performance over 1,3 and 5 years and delivered reasonable historical yields of 5.5% (7.8% gross) and 6.0% (8.5% gross) respectively. Our preferred International LIC is **MFF**. **MFF** has consistently delivered strong out performance against its benchmark and peers over tall time periods. However, we note that **MFF** is unlikely to pay a dividend in the medium term.

*This is a purely quantitative analysis and it must be noted that historical performance is no guarantee of future performance*

### Inside this edition

- Opinion piece
- AFIC Note Issue
- Coverage of 25 securities
- Performance measures relative to benchmarks

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## Discount to NTA: Threat or Opportunity - Managing the investment process

Imagine you could buy a widget at a 6.3% discount to its value and that widget ordinarily traded broadly in line with its NTA. Imagine that widget had a history of high performance, was structurally superior to unlisted counterparts, ran at a fraction of the cost of other widgets, and the company that manufactured the widget was backed by a highly experienced board with one of the deepest and most experienced management teams in the market. Now imagine that widget was in fact one-of Australia's largest and most recognised Listed Investment Companies, Argo Investments (ARG) with a history dating back to 1946.

LICs are market listed, closed ended funds. This structure leaves the security, as well as its underlying holdings, exposed to the vagaries of the investment market. As such the LIC can trade away from its underlying Net Tangible Asset (NTA), which it invariably does more often than not.

At its most basic, when demand exceeds supply we usually see the NTA discount contract, and when supply exceeds demand its usually expands. This changing level of demand can be explained by key qualitative variables such as the LIC's mandate and clarity of message, historical performance, history of distributions, quality and reputation of management, longevity of the vehicle, size of the funds under management, liquidity of the security and current market conditions.

Although discounts to NTA are traditionally viewed as a negative, this is largely driven by shareholders who acquired stock at a shallower discount or premium to pre-tax NTA rather than where the security currently trades. Clearly not an ideal scenario, however, perhaps it highlights a flaw at the point of purchase: ignorance of the average historical discount or premium of the share price to the pre-tax NTA.

Our belief is that discounts and premiums should be managed as part of the investment process and managed appropriately more likely to deliver a net positive to the investor through the investment horizon.

Statistical analysis done in-house suggests that LICs have a tendency to revert to their mean discount or premium to pre-tax NTA through the cycle. In our view, this perhaps suggests that a canny investor may be able to game the system. While perceivably this may suggest that we are advocating that an investor could buy a LIC at a slight premium to NTA, we are essentially trying to ensure an investor does not simply acquire a LIC simply because it simply trades at a discount.

Trading at a discount or premium for that matter is part and parcel of many LICs, however, what many investor fail to appreciate is where that discount usually lies, and managing the investment accordingly. Essentially, if you buy an LIC at a 20% premium to its pre-tax NTA and it ordinarily trades in line, you are increasing your risk of a capital loss should we see normalisation back towards the mean.

Figure 1: share price and Premium/Discount to Pre-Tax NTA



## Discount to NTA: Threat or Opportunity - Managing the investment process.

ARG has traded at a slight average monthly discount of 0.5% to its pre-tax NTA since 31 December 1992. However, what is interesting to note is that it has traded as high as a 18.5% premium on 6 June 2008 and as low as a 15.5% discount in 29 December 2000.

While clearly purchasing an LIC at a discount to the long-term discount or premium to pre-tax NTA will not guarantee out-performance. However, in our view it does suggest that if at the time of investment the LIC looks expensive as per historical norms, that perhaps an alternative more appropriately priced LIC should be used. Given there are 62 LICs listed on the ASX, invariably there is likely an appropriate alternative.

However, managing this process can be a difficult given LICs are only obligated to disclose their NTA at the end of each month and they have 10 working days to disclose this information. Effectively this means that an investor is only able to retrospectively gauge the value of the underlying NTA on purchase, and for the remainder of the month essentially flying blind with regards to the real value of the underlying NTA. Bell Potter is seeking to address this gap by providing an indicative live NTA on a trial basis.

We calculate the indicative NTA by tracking the underlying NTA each month. This is essentially achieved by monitoring the percentage movements of the disclosed holdings. It works best with LICs with a high percentage penetration of investments in the Top 20, regular disclosure of the Top 20 (monthly and quarterly), lower turnover of investments and regular disclosure of cash position.

Our back testing indicates that this process is not without error, although this is usually kept below 1.5% but clearly susceptible to higher turnover vehicles and/or large tax realisation. Nonetheless, we believe this is an acceptable degree of error, given the average absolute movement in any month on the All Ordinaries is 3.2%, with a maximum monthly rise of 8.1% and decline of 13.9% over the last 10 years. Overlaid with the compression or expansion of discount or premium to the underlying pre-tax NTA can make it difficult for the investor to manage the buying process.

We will be launching our pilot program mid-way through the March quarter. It will provide indicative NTA's for 6 of the larger domestic LICs that meet our criteria. We will provide the indicative end of day pre-tax NTA, current indicative discount/premium to pre-tax NTA and historical average discount/premium to pre-tax NTA over 3, 5 and 10 years. We intend to run this program to 30 June 2012, and dependent on the level of interest will keep it running on an ongoing basis. Please contact your adviser if you would like access to this daily report.

**Please note that managing the discount or premium when purchasing an LIC is only one variable that needs to be considered. While we believe it is an important variable, potential investors must also consider the appropriateness of the LIC mandate, performance of the vehicle, distribution policy of the vehicle, and investment team, among other variables.**

## AFIC Notes: 6.25% fixed plus an option on the market

During the December quarter, Australian Foundation Investment Company (ASX code: AFI) launched a redeemable, unsecured convertible note. Trading under the ASX code AFIG, the note has a face value of \$100, was issued with a fixed coupon of 6.25% per annum and convertible into ordinary shares at a 25% premium to the 5-day VWAP of AFI prior to issue date. Unless converted or redeemed earlier, the issuer will redeem the \$100 face value of the outstanding notes on 28 February 2017.

### Key Terms of the AFIC Notes

- **Interest Payment:** 6.25% per annum fixed coupon payable semi-annually in arrears on 28 February and 31 August each year;
- **Maturity:** Matures on the 28 February 2017 (if not already redeemed or converted);
- **Convertibility:** Convertible into Ordinary Shares on each Interest Payment Date at a fixed Conversion Price of \$5.0864. The Conversion Price was set at a 25 per cent premium to the average of the daily volume weighted average prices of AFIC Ordinary Shares traded during the five Business Days prior to the issue date;
- **Size:** The Board issued \$227 million of AFIC Notes; and
- **Ranking:** Unsecured, and ranking for payment after any secured creditors are paid. AFIC Notes rank equally with AFIC's current bank facilities and ahead of AFIC Ordinary Shares.

### Activity

Since listing on the 22 December 2011, AFIG has traded at a volume weighted average of \$103.62. It reached a high of \$105.55 on the 9 January 2012 and currently trades at a respectable \$104.20 on the 20 January 2012. This premium likely reflects the demand for a fixed income yield and the embedded call option.

### Application

We view AFIG as an extremely interesting security perfectly calibrated for today's volatile and uncertain market conditions. The issue was structured to favour current holders of AFIC equity with a shareholder priority offer.

We believe the issue is suitable for conservative investors seeking a fixed income return, accompanied with capital preservation and exposure to market upside. The structure of these Notes allow the holders to benefit from equity market gains, with the protection of the bond component if equity markets remain stagnant or fall over the 5 year period. Essentially downside risk is limited to the 6.25% fixed unfranked yield, with redemption in February 2017. At \$104.20, AFIC notes yield 5.37% which appears attractive as compared to a 5 year government bond yielding 3.30% and a 5 year term deposit yielding ~5.50%, particularly when you realise it is accompanied with an embedded option on the market.

## Universe Summary

On an arithmetic basis, the LICs within the Bell Potter universe are trading at an average discount to pre-tax NTA of 14.1% at 31 December 2011.

Over the past quarter the domestic LICs discount contracted from 8.8% to 7.5%. Large LICs (market capitalisation > \$500m) discount weighted average pre-tax NTA contracted to 5.7% from 6.9%. The discount of the smaller LICs (< \$500m) contracted to 15.3% from 17.0%.

Over the same period the International LICs discount contracted to 18.2% from to 20.1%. Geographic LICs discount decreased to 17.3% from 19.7% and Specialist LICs remained largely unchanged at a 21.0% discount.

**Table 1: Current share price premium/discount to NTA and Yield - 31 December 2011**

Page	ASX Listed Investment Companies	ASX Code	Price (\$)	Pre-tax NTA (\$)	Prem/ (Disc) to pre-tax NTA (%)	Post-tax NTA (\$)	Prem/ (Disc) to post-tax NTA (%)	12 Mth Dividend Per Share (\$)*	Net Dividend Yield (%)*	Franking (%)	Gross Dividend Yield (%)*	Indirect Cost Ratio 2011 (%)	Market Cap (\$m)
Domestic Focus - Large Cap													
10	AFIC	AFI	4.03	4.29	-6.0	3.80	6.1	0.210	5.2	100	7.4	0.17	4125.4
11	Argo Investments	ARG	5.06	5.40	-6.3	5.05	0.2	0.260	5.1	100	7.3	0.19	3152.5
12	Australian United	AUI	5.47	6.17	-11.3	5.62	-2.7	0.265	4.8	100	6.9	0.12	574.7
13	Djerrirrh Investments	DJW	3.52	3.15	11.8	3.16	11.4	0.260	7.4	100	10.6	0.43	760.9
14	Milton Corporation	MLT	14.50	16.08	-9.8	15.22	-4.7	0.760	5.2	100	7.5	0.17	1763.6
Domestic Focus - Small Cap													
15	AMCIL	AMH	0.64	0.74	-13.9	0.72	-11.1	0.035	5.5	100	7.8	0.79	133.8
16	BKI Investment	BKI	1.16	1.32	-12.5	1.28	-9.8	0.070	6.1	100	8.7	0.18	491.5
17	Carlton Investments	CIN	15.45	19.84	-22.1	17.58	-12.1	0.480	3.1	100	4.4	0.11	410.8
18	Contango Microcap	CTN	0.89	1.24	-28.0	1.22	-27.0	0.072	8.1	100	11.6	3.47	131.2
19	Century Australia	CYA	0.63	0.70	-9.9	0.84	-25.0	0.062	9.8	100	14.1	1.10	49.8
20	Diversified United	DUI	2.29	2.64	-13.3	2.45	-6.5	0.130	5.7	100	8.1	0.17	380.9
21	Hyperion Flagship	HIP	1.16	1.28	-9.0	1.16	-0.3	0.085	7.3	94	10.2	0.10	28.6
22	Mirraboona	MIR	1.68	1.80	-6.5	1.68	0.0	0.100	6.0	100	8.5	0.79	228.9
23	WAM Capital	WAM	1.48	1.58	-6.5	1.55	-4.6	0.100	6.8	100	9.7	2.10	156.7
24	WAM Research	WAX	0.67	0.88	-24.1	0.88	-24.1	0.060	9.0	100	12.9	1.35	79.3
25	Whitefield	WHF	2.50	2.81	-11.0	3.07	-18.6	0.170	6.8	100	9.7	0.44	189.0
26	WestOz Investment Co.	WIC	0.87	1.23	-29.3	1.22	-28.7	0.110	12.6	100	18.1	2.05	129.6
International Focus - Geographic													
27	AMP Capital China Growth	AGF	0.65	0.82	-21.3	0.82	-21.3	0.018	2.8	0	2.8	1.88	222.9
28	Hunter Hall Global Value	HHV	0.68	0.88	-23.4	0.91	-26.1	0.060	8.9	100	12.7	1.71	169.2
29	Magellan Flagship Fund	MFF	0.70	0.82	-14.6	0.89	-20.9	0.000	0.0	0	0.0	1.42	242.5
30	Platinum Capital	PMC	0.95	1.03	-8.5	1.03	-8.5	0.059	6.2	100	8.9	2.04	156.6
31	Premium Investors	PRV	0.68	0.80	-15.4	0.80	-15.4	0.035	5.1	100	7.4	1.58	69.4
32	Templeton Global Growth	TGG	0.67	0.83	-19.9	0.83	-19.9	0.020	3.0	100	4.3	1.49	97.1
International Focus - Specialist													
33	Global Mining Investments	GMI	0.92	1.15	-20.4	1.15	-20.4	0.060	6.6	100	9.4	3.08	166.9
34	Hastings High Yield	HHY	1.14	1.45	-21.7	1.45	-21.7	0.149	13.1	0	13.1	0.91	126.9
Arithmetic Average (All)					-14.1		-12.5		6.4		8.9	1.11	
Weighted Average (All)					-8.5		-2.1		5.5		7.7	0.43	
Weighted Average (Domestic Market Cap - Over \$500m)					-5.7		2.3		5.3		7.6	0.19	
Weighted Average (Domestic Market Cap - Under \$500m)					-15.3		-11.8		6.2		8.9	0.74	
Weighted Average (Domestic All)					-7.5		-0.3		5.5		7.9	0.30	
Weighted Average (International - Geographic)					-17.3		-19.4		3.9		5.3	1.70	
Weighted Average (International - Specialist)					-21.0		-21.0		9.4		11.0	2.14	
Weighted Average (International All)					-18.2		-19.8		5.2		6.7	1.80	

\*based on historical dividends declared

**Premium/Discounts to NTA**

We have categorised the universe of LICs reviewed by Bell Potter according to the percentage premium or discount the share price trades at relative to the pre-tax Net Tangible Assets. We have defined “substantial” to be a  $\geq 10\%$  premium or discount.

Over the quarter, **DJW** (from 9.6% to 11.7%) crossed the divide back into substantial premium, and **MLT** (from -11.4% to -9.8%), **PMC** (from -11.0% to -8.5%) and **WAM** (from -12.0% to -6.0%) have moved from a substantial discount to broadly in line. Key contractions within substantial discounts include **AGF** (from -27.2% to -21.3%) and **HHY** (from -26.3% to -21.7%).

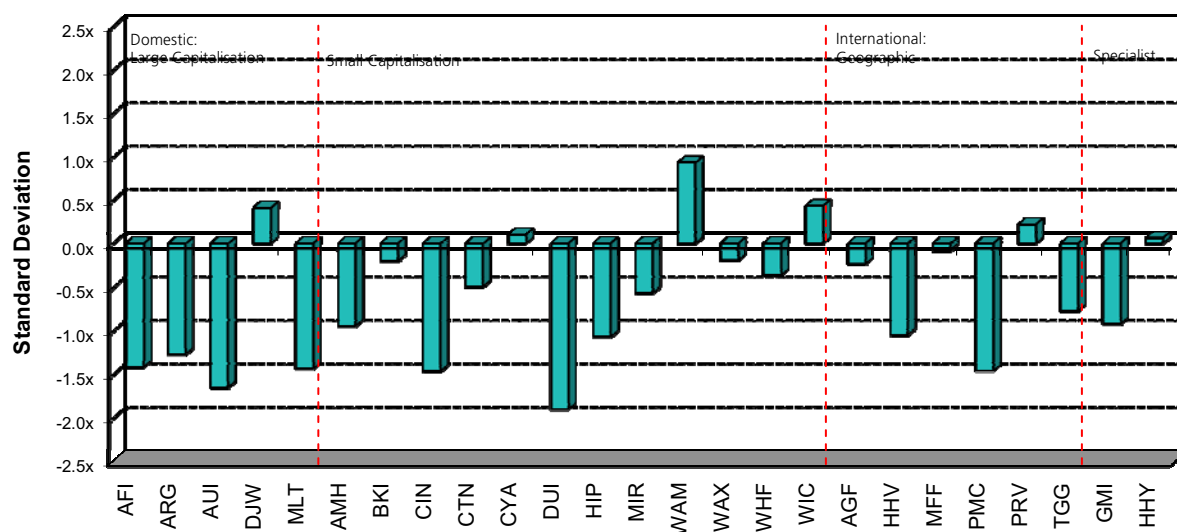
**Table 2: Current share price premium/discount versus pre-tax NTA**

Substantial premium	%	Approximately in line	%	Substantial discount	%
DJW Djerriarrh Investments	11.8	AFI AFIC	-6.0	WHF Whitefield	-11.0
		ARG Argo Investments	-6.3	AUI Australian United	-11.3
		WAM WAM Capital	-6.5	BKI BKI Investment	-12.5
		MIR Mirrabooka	-6.5	DUI Diversified United	-13.3
		PMC Platinum Capital	-8.5	AMH AMCL	-13.9
		HIP Hyperion Flagship	-9.0	MFF Magellan Flagship Fund	-14.6
		MLT Milton Corporation	-9.8	PRV Premium Investors	-15.4
		CYA Century Australia	-9.9	TGG Templeton Global Growth	-19.9
				GMI Global Mining Investments	-20.4
				AGF AMP Capital China Growth	-21.3
				HHY Hastings High Yield	-21.7
				CIN Carlton Investments	-22.1
				HHV Hunter Hall Global Value	-23.4
				WAX WAM Research	-24.1
				CTN Contango Microcap	-28.0
				WIC WestOz Investment Co.	-29.3

Source: Company data, Iress and Bell Potter

LICs often trade at a consistent premium or discount to NTA, with standard deviation providing a measure of the range in which a LICs premium normally falls. By determining each LICs average premium we can look for anomalies between average premiums to NTA and current premiums to NTA. We have calculated each LICs five year average (please note WIC listed on the ASX Sept 2009) share price premium to reported pre-tax NTA as well as its standard deviation from that average, which we portray below in Figure 2. What we are trying to convey is whether or not a LIC is cheap or expensive compared to its historical average.

**Figure 2: Current share price premium to pre-tax NTA relative to 5-year average**



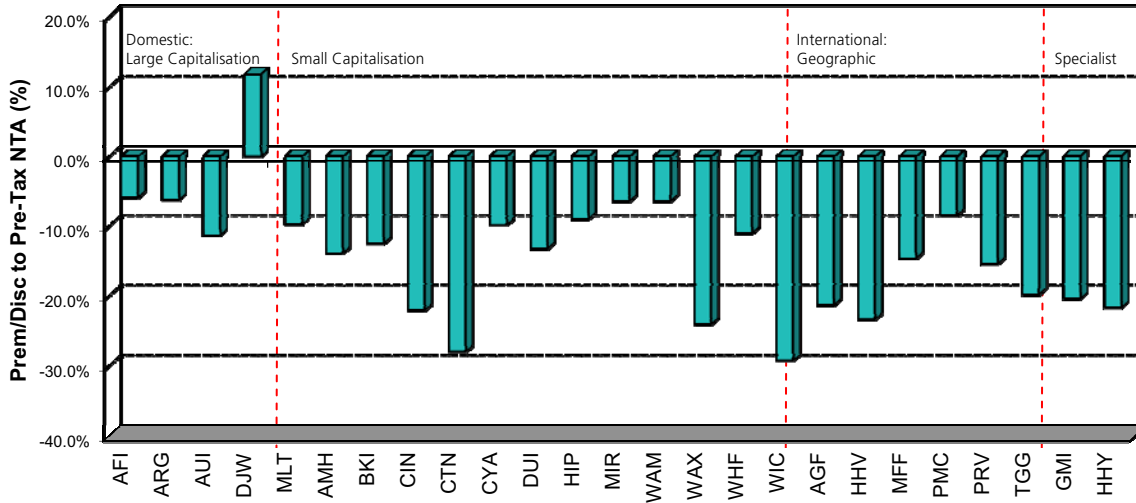
The average discount of the share price to pre-tax NTA contracted to 0.5x standard deviations in the current quarter. At the larger end of town, **AFI**, **ARG**, **AUI** and **MLT** look inexpensive. At the smaller end, **CIN** and **DUI** indicate strong value. **WAM** and to a lesser extent **DJW** looks historically expensive over the 5-year trading range. From an international perspective, **PMC** suggests reasonably value, along with **GMI** and **TGG**.

Source: Company data, Iress and Bell Potter

**Premium and Discounts to NTA (continued)**

In Figure 3 we have provided some context to this premium or discount to NTA, in current terms. While we are of the view that this measure is arguably less relevant given the lack of historical context, it does provide additional comparison among the group, particularly when viewed with Figure 2.

**Figure 3: Current share price premium/discount versus pre-tax NTA**



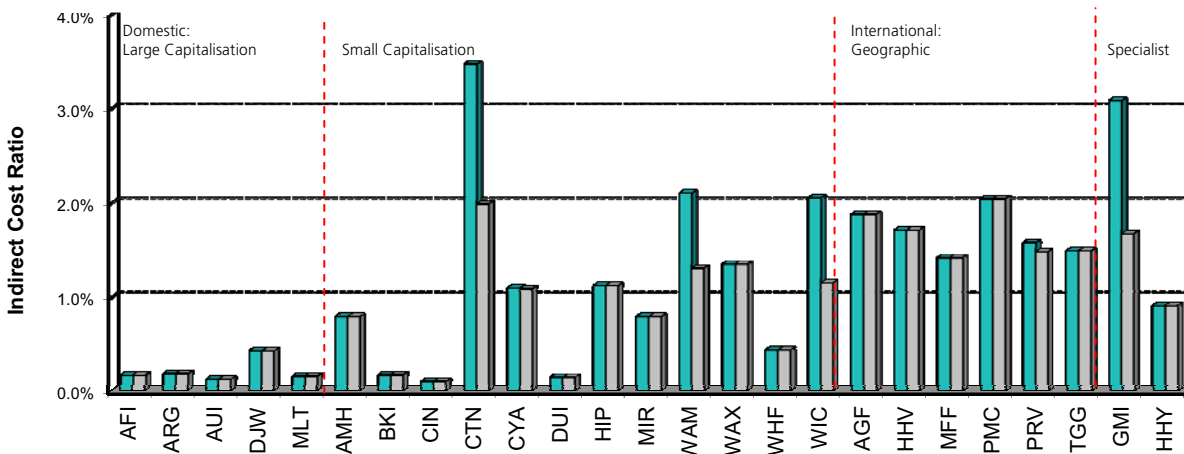
Source: Company data, Iress and Bell Potter

**Indirect Cost Ratio - Fees and Expenses**

In Figure 4 we have provided the indirect cost ratio (ICR) for LICs in our coverage, both with and without performance fees. We are using this method of calculation to standardise the cost ratios across our LIC universe, given many different interpretations of the management expense ratio, which is a frequently used expense calculation. ICR is generally accepted as the principal expense ratio calculation for the managed funds industry.

Please note, some investment mandates by their very nature are more cost intensive. For instance, funds focused on small or emerging companies where research is limited, may incur higher costs given a necessity to bridge the information gap by thorough in-house research.

**Figure 4: Indirect Cost Ratio**



Source: Company data and Bell Potter

## Investment Performance

In the table below, we have evaluated our LICs using the performance of both the pre-tax NTA and the listed share price. The NTA data seeks to measure the performance of the underlying investments of the fund. Whereas the share price data measures the performance of the security as it trades on the ASX.

Please note that the Measurement of a LIC's performance is calculated after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends, and does not incorporate franking. LIC returns will consequently be understated relative to the Index return, given the benchmarks do not factor in operating costs or taxation. Please also note that unit trusts generally do not disclose after tax performance and are therefore are not a valid comparison.

**Table 3: Pre-tax NTA and Share Price and Performance - 30 September 2011**

Page	ASX Listed Investment Companies	ASX Code	Pre-tax NTA								Share price							
			Performance				Value-add+				Performance				Value-add+			
			Yr 1	Yr 3	Yr 5	Yr 10	Yr 1	Yr 3	Yr 5	Yr 10	Yr 1	Yr 3	Yr 5	Yr 10	Yr 1	Yr 3	Yr 5	Yr 10
Listed Investment Companies																		
10	AFIC	AFI	-7.8	9.0	0.1	7.4	2.7	1.4	2.4	1.2	-14.7	5.4	-0.6	6.9	-3.3	-3.1	1.5	0.6
11	Argo Investments	ARG	-10.2	7.6	-2.0	6.6	1.2	-0.9	0.1	0.3	-16.2	2.7	-4.5	6.2	-4.8	-5.8	-2.4	-0.1
12	Australian United	AUI	-13.3	8.1	-2.2	7.3	-2.3	0.4	0.2	1.2	-15.5	5.2	-3.7	6.4	-4.1	-3.3	-1.6	0.1
13	Djerriw arrh Investments	DJW	-8.2	7.7	-1.3	5.8	2.3	0.1	1.0	-0.4	-10.7	6.7	0.1	6.3	0.7	-1.8	2.2	0.0
14	Milton Corporation	MLT	-5.0	8.7	-0.9	7.4	6.4	0.2	1.2	1.1	-7.5	5.1	-3.5	6.4	3.9	-3.4	-1.4	0.1
Domestic Focus - Small Cap																		
15	AMCIL	AMH	-0.9	14.8	3.1	n/a	9.6	7.2	5.4	n/a	1.5	13.7	3.7	n/a	12.9	5.2	5.8	n/a
16	BKI Investment	BKI	-2.2	10.7	1.0	n/a	8.8	3.0	3.4	n/a	-2.4	12.5	-0.7	n/a	9.0	4.0	1.4	n/a
17	Carlton Investments	CIN	-6.1	10.6	1.2	8.5	4.4	3.0	3.5	2.3	-9.9	7.0	-1.0	9.0	1.5	-1.5	1.1	2.7
18	Contango Microcap	CTN	-19.3	12.7	0.1	n/a	-7.9	4.2	2.2	n/a	-23.9	18.3	-4.7	n/a	-12.5	9.8	-2.6	n/a
19	Century Australia	CYA	-20.6	3.9	-3.9	n/a	-9.6	-3.8	-1.5	n/a	-18.2	10.0	-3.8	n/a	-6.8	1.5	-1.7	n/a
20	Diversified United	DUI	-13.5	6.4	-2.7	6.6	-2.5	-1.3	-0.3	0.5	-17.3	2.4	-4.4	6.0	-5.9	-6.1	-2.3	-0.3
21	Hyperion Flagship	HIP	-7.7	7.0	-3.0	4.5	3.7	-1.5	-0.9	-1.8	-10.5	5.4	-4.7	3.9	0.9	-3.1	-2.6	-2.4
22	Mirrabooka	MIR	-2.1	13.4	0.6	10.0	16.7	5.0	6.0	2.7	-0.7	14.6	1.0	10.2	10.7	6.1	3.1	3.9
23	WAM Capital	WAM	-3.7	12.9	1.8	11.0	7.7	4.4	3.9	4.7	7.2	27.6	2.2	11.0	18.6	19.1	4.3	4.7
24	WAM Research	WAX	0.0	8.0	-2.2	n/a	11.4	-0.5	-0.1	n/a	1.0	17.8	-2.2	n/a	12.4	9.3	-0.1	n/a
25	Whitefield	WHF	-9.7	4.9	-6.6	1.8	-6.2	-3.0	-2.8	-2.7	-8.1	3.7	-5.5	1.7	3.3	-4.8	-3.4	-4.6
26	WestOz Investment Co.	WIC	-18.8	n/a	n/a	n/a	-7.4	n/a	n/a	n/a	-13.6	n/a	n/a	n/a	0.0	n/a	n/a	n/a
International Focus - Geographic																		
27	AMP Capital China Growth	AGF	-14.5	-2.9	1.1	n/a	6.9	-2.7	-2.6	n/a	-17.6	-4.0	-6.9	n/a	3.8	-3.8	-10.6	n/a
28	Hunter Hall Global Value	HHV	-16.0	9.9	-3.7	n/a	-10.4	12.2	3.7	n/a	-18.2	9.4	-5.1	n/a	-12.6	11.7	2.3	n/a
29	Magellan Flagship Fund	MFF	11.3	5.4	-3.7	n/a	19.1	9.5	5.6	n/a	-3.4	7.7	-7.4	n/a	4.4	11.8	1.9	n/a
30	Platinum Capital	PMC	-13.4	0.9	-1.2	4.6	-6.0	2.4	5.8	7.4	-31.9	-1.5	-11.1	-4.0	-18.5	0.0	-4.1	-1.2
31	Premium Investors	PRV	-7.7	6.2	-2.8	n/a	3.7	-2.3	-0.7	n/a	-0.4	17.8	-3.1	n/a	11.0	9.3	-1.0	n/a
32	Templeton Global Growth	TGG	-6.6	-4.2	-9.5	-3.2	-1.2	-2.3	-2.2	0.2	-16.0	-3.9	-13.8	-5.9	-10.6	-2.0	-6.5	-2.5
International Focus - Specialist																		
33	Global Mining Investments	GMI	-26.1	13.6	-3.6	n/a	2.7	4.9	-1.5	n/a	-26.1	11.0	-2.1	n/a	-20.7	12.9	5.2	n/a
34	Hastings High Yield	HHY	-2.7	0.9	4.4	n/a	-12.7	-9.1	-5.6	n/a	2.5	19.1	2.8	n/a	-2.7	10.6	1.2	n/a

+ return on fund over benchmark as per company profile, \* return on fund over benchmark as per company profile

Source: Company data and Bell Potter

In order to assess a LICs performance, NTA and share price need to be evaluated with respect to the relative mandate and/or benchmark, given varying outcomes from different styles of investment. In general, the NTA has been benchmarked against the relative indices preferred by the manager and these should be most reflective of its mandate. The share price of each LIC has been benchmarked against the All Ordinaries index, given this is the broadest index on the ASX and the exchange in which each LIC trades. This is arguably a less relevant benchmark.

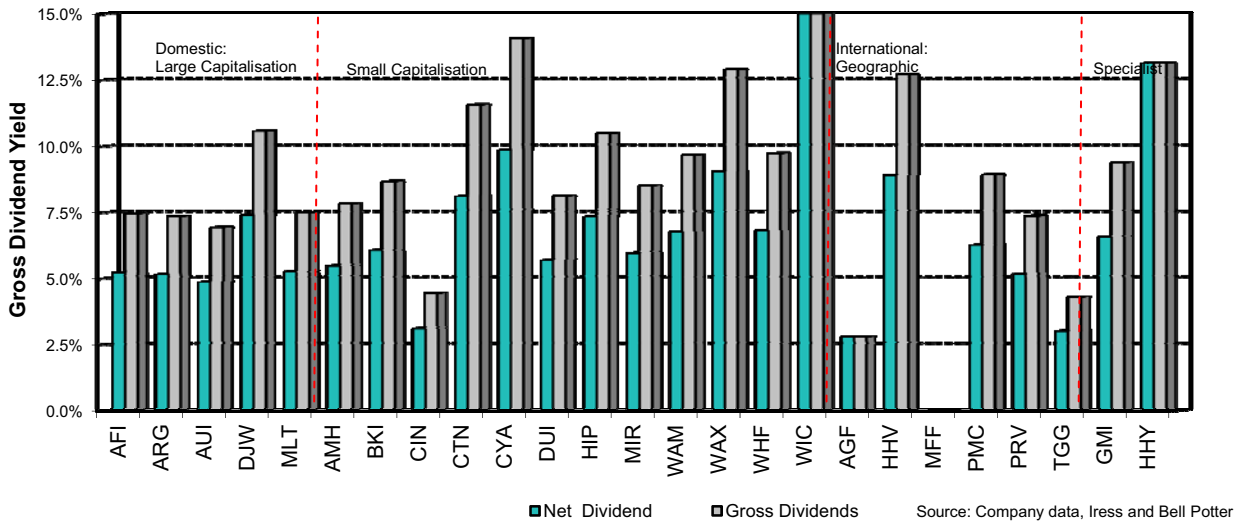
Our value-add columns seek to quantify the value conferred by the manager. It is the difference between the performance of the share price and its pre-tax NTA against the relevant benchmark. A positive value indicates outperformance against the benchmark, and a negative value indicates an underperformance. We view the pre-tax value-add as the most relevant measure of management performance.



**Historical Gross Dividend Yield**

Dividends are an important facet of any investment decision. In Figure 5 below, we have included historical net dividend yield and gross dividend yield graph, for the LICs in our universe. Nonetheless, investors must realise that although historical yield is clearly a key consideration when selecting a LIC, it is no guarantee of future yield.

**Figure 5: Historical Dividend Yield (Net and Gross)**

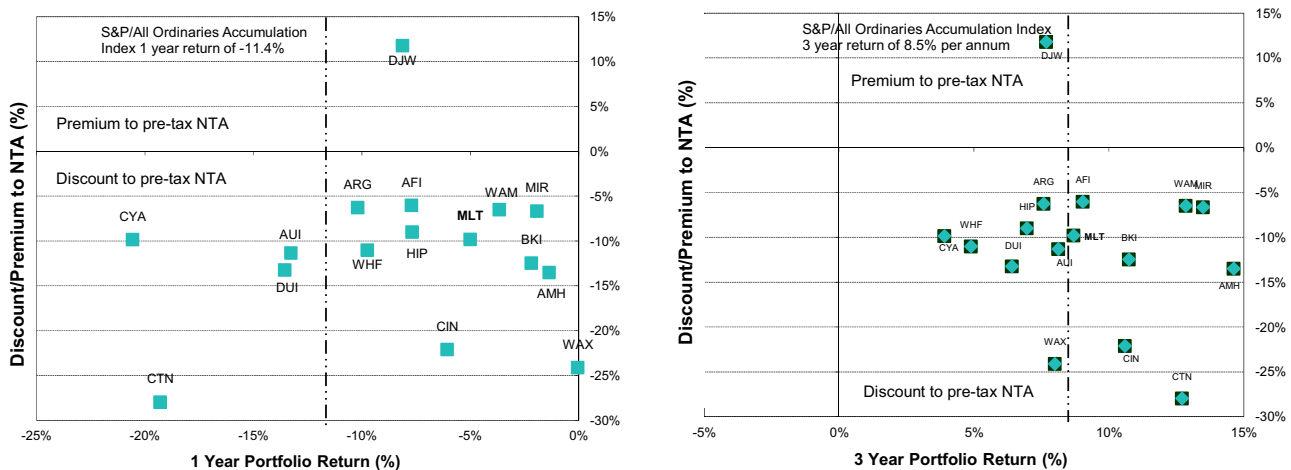


**Performance relative to NTA premium or discount**

Figure 6 shows graphically the pre-tax NTA performance of each LIC, assuming dividends are reinvested, over the past 1 year and 3 years. This is noted by its position along the horizontal axis, with LICs further to the right having achieved better returns.

The graph also highlights the share price premium or discount to pre-tax NTA at which each LIC was trading as at 31 December 2011. This can be read by noting each LICs position along the vertical axis. A LIC sitting below 0% on the vertical axis is trading at a discount to its NTA at quarter end.

**Figure 6: Share price premium/discount v portfolio performance**



# BKI INVESTMENT CO (BKI)

## Domestic Focussed

<b>Mandate:</b> Australian listed equities	<b>Benchmark:</b> S&P/ASX 300 Accumulation
<b>Manager:</b> Internal	<b>Indirect cost ratio with perf. fee:</b> 0.18% <sup>1</sup>
<b>Listed:</b> 2003	<b>Indirect cost ratio w/out perf. fee:</b> 0.18% <sup>1</sup>

## Investment Strategy

BKI invests with a long-term horizon in companies, trust and interest bearing securities, with a focus on well-managed businesses with a profitable history and sound dividend or distribution growth prospects. The portfolio had been built over 15 years, prior to being acquired by BKI and listed in 2003.

## Personnel

Investment Personnel: Tom Millner, Robert Millner, Alexander Payne and Ian Huntley Directors: Robert Millner (Chairman), Alexander Payne, David Hall, Ian Huntley, Tom Millner (CEO) and Jamie Pinto (Secretary).

## Key Information

Exposure: International/Domestic, Equities/Fixed Income/Derivatives, Cash

Style: Large/Medium/Small Cap, Balanced/Value/Growth, Passive/Active, Long/Short

Derivatives: n/a

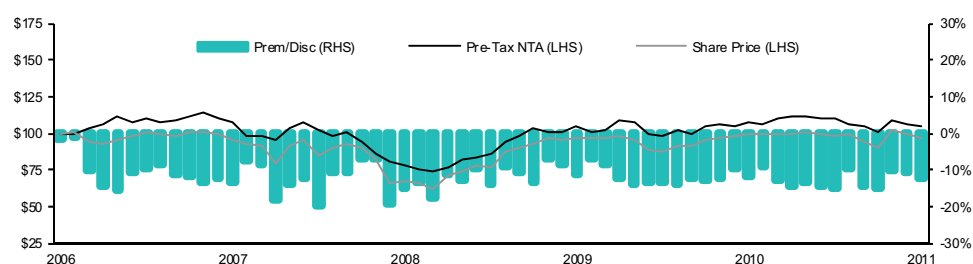
Debt: \$33.9m cash, \$0 debt (30 June 2011).

Dividend reinvestment plan: 0% discount to 5 day average price post ex-date.

Other: n/a

Performance	3-mth	6-mth	1 year	3 yr p.a.	5 yr p.a.	10 yr p.a.
<b>Share price*</b>						
Performance	6.9%	-1.1%	-2.4%	12.5%	-0.7%	n/a
Benchmark	1.9%	-9.6%	-11.4%	8.5%	-2.1%	n/a
Active return	5.0%	8.5%	9.0%	4.0%	1.4%	n/a
<b>NTA+</b>						
Performance	3.9%	-4.2%	-2.2%	10.7%	1.0%	n/a
Benchmark	2.1%	-9.8%	-11.0%	7.7%	-2.4%	n/a
Active return	1.8%	5.6%	8.8%	3.0%	3.4%	n/a

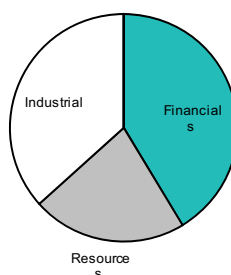
## 5 year return and premium/discount to Pre-Tax NTA



## Risk/Return Indicators

	Information Ratio	Sharpe Ratio	Standard Deviation	Tracking Error
<b>Share price</b>				
Year 1	0.88	-0.46	16.6%	10.3%
Year 3	0.36	0.44	16.7%	11.3%
Year 5	0.09	-0.32	20.1%	15.1%
<b>NTA+</b>				
Year 1	2.48	-0.70	10.6%	3.5%
Year 3	0.70	0.42	13.1%	4.4%
Year 5	0.58	-0.32	14.3%	5.9%

## Exposure (top 20)



## Share Price and NTA Summary

as at 31-Dec-11

Share price	\$1.16
Pre-tax NTA	\$1.32
Post-tax NTA	\$1.28

Premium/(Discount) share price to:

Pre-tax NTA	-13%
Post-tax NTA	-10%

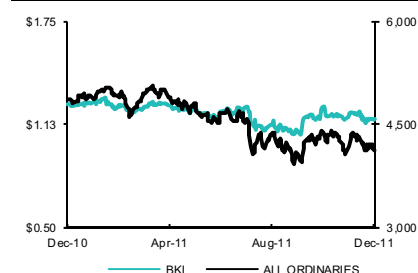
## Historic Dividend (prior 12-mths)

Dividends (net)	\$0.070
Yield	6.1%
Franking	100%
Grossed up yield	8.7%

## Capital Structure

Ordinary shares	425.5m
Options/other	0.0m
Fully diluted	425.5m
Market capitalisation	491.5m

## BKI share price v ASX All Ords



## Top 20 Shareholdings

	%
<i>as at 31-Dec-11</i>	
New Hope Corporation	14.5
BHP Billiton Limited	8.4
National Australia Bank	8.0
Commonwealth Bank	7.9
Westpac Banking Corp	5.2
Telstra Corporation	4.3
Wesfarmers Limited	3.9
Campbell Brothers Limited	3.4
Woolworths Limited	3.2
AGL Energy Limited	2.9
ANZ Banking Group	2.4
Woodside Petroleum	2.1
Metcash Limited	1.9
Coca Cola Amatil Limited	1.7
QBE Insurance Group	1.7
Westpac Pref Shares	1.7
Invocare Limited	1.3
ASX Limited	1.2
ARB Corporation	1.2
Milton Corporation	1.1
<b>% of Total</b>	<b>78.0</b>

<sup>1</sup>Calculated for the full year ending 30 June 2011. \* The share price benchmark has been compared against the S&P/ASX All Ordinaries Accumulation Index. + The NTA has been compared against the S&P/ASX 300 Accumulation.

\*+ Measurement of a listed investment company's performance is calculated after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends, however, does not incorporate franking. Index returns however are entirely before tax measures. Listed investment company returns will consequently be understated relative to the Index return.