

Listed Investment Companies

STOCKS COVERED IN THIS REPORT

Company	Page No.
AMCIL (AMH)	7
Argo Investments (ARG)	8
Australian Foundation Inv. Co. (AFI)	9
Australian United Inv. Co. (AUI)	10
BKI Investment Company (BKI)	11
Cadence Capital (CDM)	12
Carlton Investments (CIN)	13
Century Australia Investments (CYA)	14
Contango Microcap (CTN)	15
Diversified United Investments (DUI)	16
Djerriwarrh Investments (DJW)	17
Global Mining Investments (GMI)	18
Hunter Hall Global Value (HHV)	19
Magellan Flagship Fund (MFF)	20
Milton Corporation (MLT)	21
Mirrabooka Investments (MIR)	22
Platinum Capital (PMC)	23
Templeton Global Growth (TGG)	24
WAM Capital (WAM)	25
Whitefield (WHF)	26
Appendix	
<i>Premium/(Discount) to pre-tax NTA</i>	27
<i>Premium/(Discount) to post-tax NTA</i>	27
<i>Total shareholder return – 6 months</i>	28
<i>Total shareholder return – 1 year</i>	28
<i>Total shareholder return – 3 years</i>	29
<i>Total shareholder return – 5 years</i>	29

RESEARCH ANALYST

Josh Kannourakis

03 9602 9265 jkannourakis@baillieu.com.au

SECTOR REPORT

Domestic outperforming, global lagging

- This document provides an outline of Australian listed investment companies (LICs).
- We describe the features of a typical LIC and list the benefits from investing in these companies. We also provide profiles of 20 potential LIC investments, established LICs that invest in companies on the ASX and overseas markets.

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.
- Many LICs 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

- Depending on the individual LIC, investment in just one of these companies can give an investor exposure to more than 100 different companies in a range of industries.
- This reduces the risk that the investor will suffer capital losses because 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 in the hands of 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. The investor 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 20 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

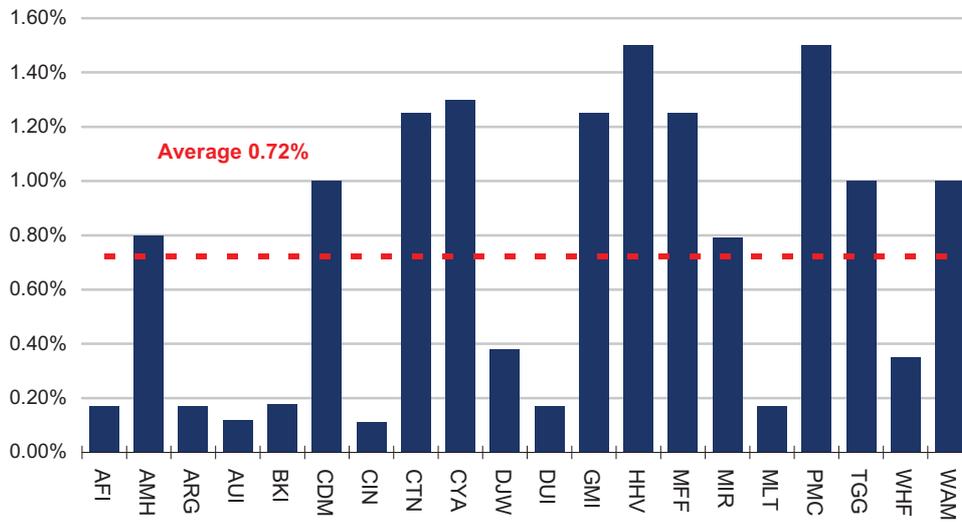
- Investing in the ASX via a LIC is highly cost-effective relative to other methods of investing in a “portfolio” of investments.
- The initial cost comes in the form of brokerage paid to acquire the shares. Investing in a LIC allows the investor to effectively buy shares in more than 50 companies (depending on the LIC), but only pay brokerage to invest in one company (the LIC). A LIC is therefore an efficient method of diversification.
- The aforementioned entry costs to LIC investments are generally lower than for retail managed funds, which utilise a “front-end load” charge that can be up to 4 percent 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 0.11-1.5 percent of assets per year. This is much lower than average fees charged for retail managed funds, which are approximately 1.5-3.0 percent. 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 on the next page.

FIG.1: MANAGEMENT FEES OF SELECTED LICs FOR FY11



- Unlike management fees, performance fees are paid only if the LIC's investment portfolio outperforms a predetermined benchmark and are 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 below. The benchmark index is the S&P/ASX All Ordinaries Accumulation Index unless otherwise stated below.

FIG.2: PERFORMANCE FEES FOR SELECTED LICs

Company	Performance Fee
AMH	None
ARG	None
AFI	None
AUI	None
BKI	None
CDM	20% of returns over index or of portfolio return
CIN	None
CYA	10% of returns above index +1%
CTN	15% of returns above index
DJW	None
DUI	None
GMI	15% of returns above HSBC Global Mining Capital Index
HHV	15% above MSCI World Index
MFF	10% if returns exceed MSCI World Index and 10-year bond rate
MLT	None
MIR	None
PMC	10% of returns above MSCI World Index +5%
TGG	None
WHF	None
WAM	20% of returns above index or of portfolio return

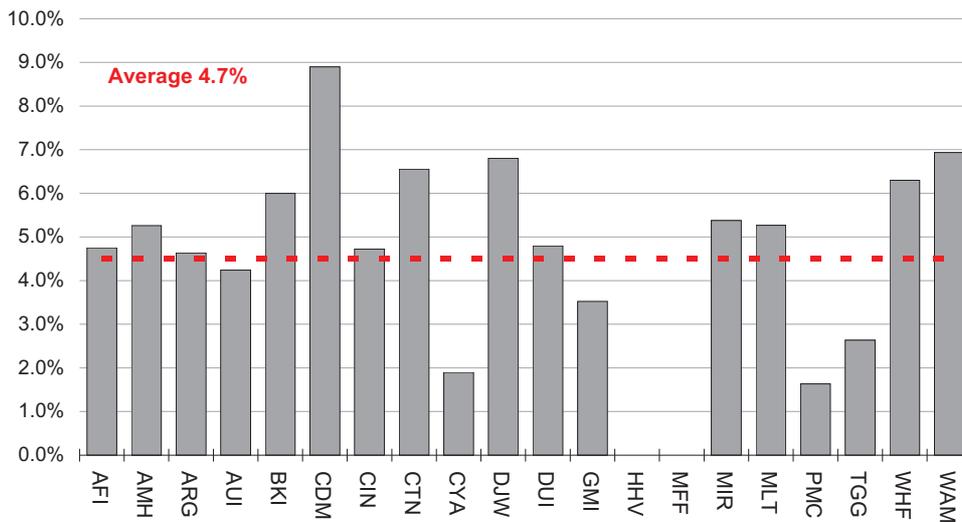
Exit costs

- 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



Taxation issues

- The returns of the LIC are generally taxed at the company tax rate of 30 percent. 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 shareholders’ 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 percent 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. For many investors, therefore, only 50 percent of this amount is taxable. 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 0.11 percent to 1.5 percent, whereas managed funds often charge at least 1.5 percent. 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 0.11-1.5 percent, whereas managed funds often charge at least 1.5 percent

LICs versus exchange traded funds (ETFs)

- LICs and exchange traded funds 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 they 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.

LIC sector catalysts

- Encouraging policy changes and the rapid growth of self-managed superannuation funds (SMSFs) are likely to attract some fresh interest to the LIC sector.
- Changes to the Corporations Act in 2010 will benefit LIC investors by allowing them to receive more consistent dividends. Under the previous rules, dividends could only be paid out of profits (meaning asset write-downs could prevent dividend payouts), whereas the new rule allows companies to pay out dividends to the value of their net assets.
- Additionally, commissions received on managed funds will be banned from 1 July 2012. It is hoped that this change will level the playing field between managed funds and LICs by removing the incentives given to many financial planners for placing clients in particular funds.
- SMSFs are the fastest growing area of superannuation and LICs stand to benefit from this growing trend. Many SMSF owners hold LICs as their fund's core investment, removing much of the hassle that accompanies managing the entire fund on their own.

AFIC notes

- Australian Foundation Investment Company (AFI) announced in the December quarter that it was seeking to raise \$200 million via the issue of a convertible note issue (AFIC). Each note has a face value of \$100 and provides a fixed interest rate return of 6.25 percent per annum with the option of converting into AFIC ordinary shares at \$5.09 on or before 28 February 2017.
- AFI's low gearing, financial conservatism, loyal shareholders and strong management have made the notes trade at a substantial premium to par since their issue in December 2011.

LIC performance

- It was another difficult year for global equity markets but our selected LICs have materially outperformed. The All Ordinaries Accumulation Index returned -7.0 percent over the 2012 financial year. The MSCI World Index*, a benchmark for LICs with an international focus, returned -0.6 percent. Shareholder return relative to the benchmark index is known as the active return.
- Our LICs outperformed the market, on average, with an active return of 4.3 percent.

Large capitalisation domestic

- Djerriwarrh Investments (DJW) was the strongest performer over the past 12 months with a total shareholder return (TSR) of 5.0 percent and an active return of 12.0 percent. Milton Corporation (MLT) was also notable with a TSR of 3.1 percent and an active return of 10.1 percent.
- Australian United Investment Company (AUI) was at the largest discount to net tangible assets (pre-tax**) at 11.3 percent. Milton Corporation (MLT) was also notable at a 7.4 percent discount.
- Djerriwarrh had the highest dividend yield over the past 12 months at 6.8 percent.

Small capitalisation domestic

- AMCIL (AMH) was the strongest performer over the past 12 months with a TSR of 13.5 percent and an active return of 20.6 percent. Cadence Capital (CDM) and WAM Capital (WAM) were both notable with TSRs of 9.7 percent and 8.7 percent respectively and active returns of 16.8 and 15.7 percent respectively.
- Carlton Investments (CIN) and Century Australia Investments (CYA) were at the largest discount to NTA (pre-tax**) at 25.2 percent and 24.1 percent respectively. Contango Microcap was also notable at a 17.9 percent discount.
- Cadence Capital had the highest dividend yield over the past 12 months at 8.9 percent.

Global

- Magellan Flagship Fund (MFF) was the standout performer over the past 12 months with a TSR of 23.5 percent and an active return of 24.2 percent.
- Templeton Global Growth (TGG) was at the largest discount to NTA (pre-tax**) at 20.9 percent. Hunter Hall Global Value (HHV) was also notable at a 17.1 percent discount.
- Global Mining Investments (GMI) had the highest dividend yield over the past 12 months at 3.5 percent.

*A\$ adjusted

**Pre-tax NTA refers to net tangible assets after tax but before tax on unrealised gains

BKI Investment Company (BKI)

www.bkilimited.com.au

- BKI was listed on the ASX in December 2003 with an objective to provide investors with sound dividend yields and long-term capital growth.
- BKI invests in a diversified portfolio of Australian shares, trusts and interest-bearing securities.
- The total shareholder return for FY2012 was 2.3 percent with pre-tax net asset backing decreasing 3.4 percent. The active return was 9.3 percent.

The total shareholder return for FY2012 was 2.3 percent with pre-tax net asset backing decreasing 2.4 percent; the active return was 9.3 percent

FIG.16: BKI SNAPSHOT

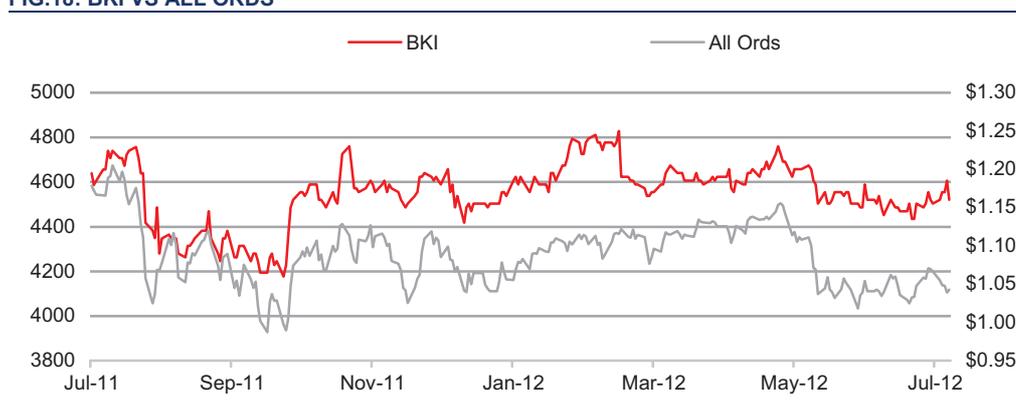
Price (13 July 2012)	\$1.16
Share price range (12 months)	\$1.04-\$1.25
Shares on issue	427,516,347
Market capitalisation	\$504.5mn
Pre-tax asset backing*	\$1.30
Post-tax asset backing*	\$1.26
Premium/(Discount) to pre-tax NTA	-11.2%
Premium/(Discount) to post-tax NTA	-8.3%
Dividend yield (FY12)	6.0%
Dividend per share (FY12)	7.2c
Franking	100%
Management expense ratio	0.18%

*As at 30 June 2012

FIG.17: PORTFOLIO TOP 10 AS AT 30 JUNE 2012

Company	Fund (%)
New Hope Corporation	10.6%
Commonwealth Bank of Australia	9.0%
National Australia Bank	8.5%
BHP Billiton	7.7%
Westpac Banking Corporation	6.0%
Telstra Corporation	4.8%
Wesfarmers	4.1%
Campbell Brothers	3.8%
Woolworths	3.6%
AGL Energy	3.0%

FIG.18: BKI VS ALL ORDS



Appendix

FIG.64: PREMIUM/(DISCOUNT) TO PRE-TAX NTA

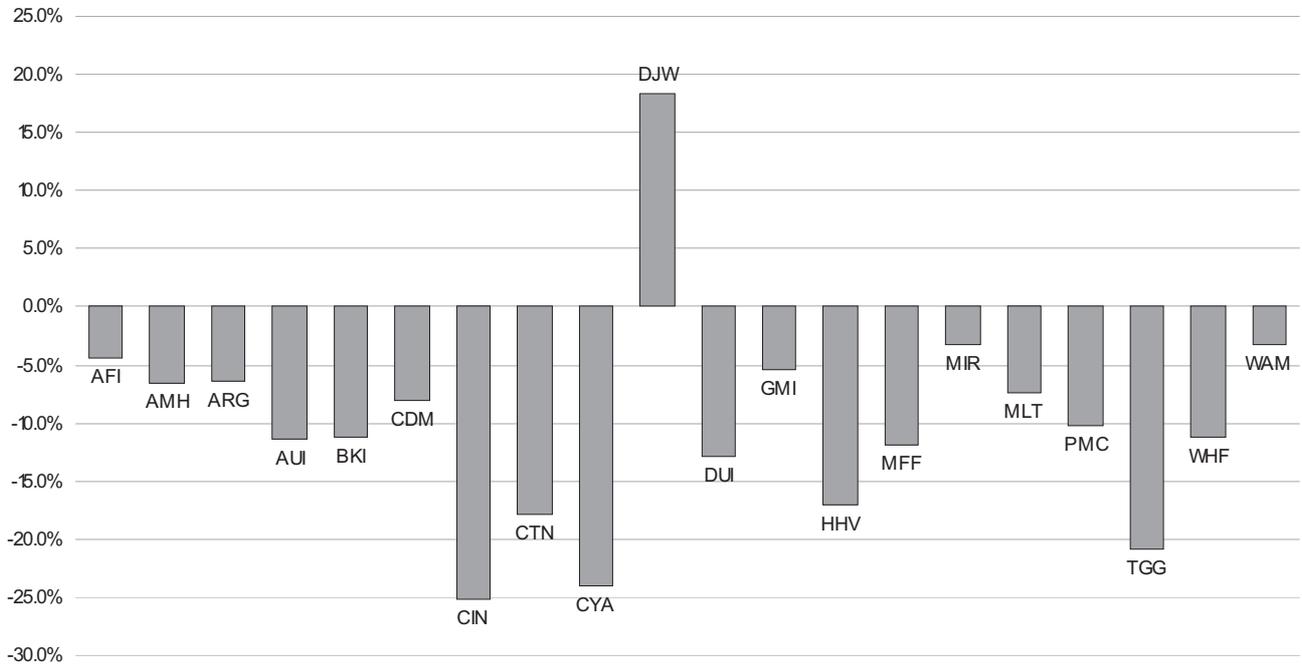


FIG.65: PREMIUM/(DISCOUNT) TO POST-TAX NTA

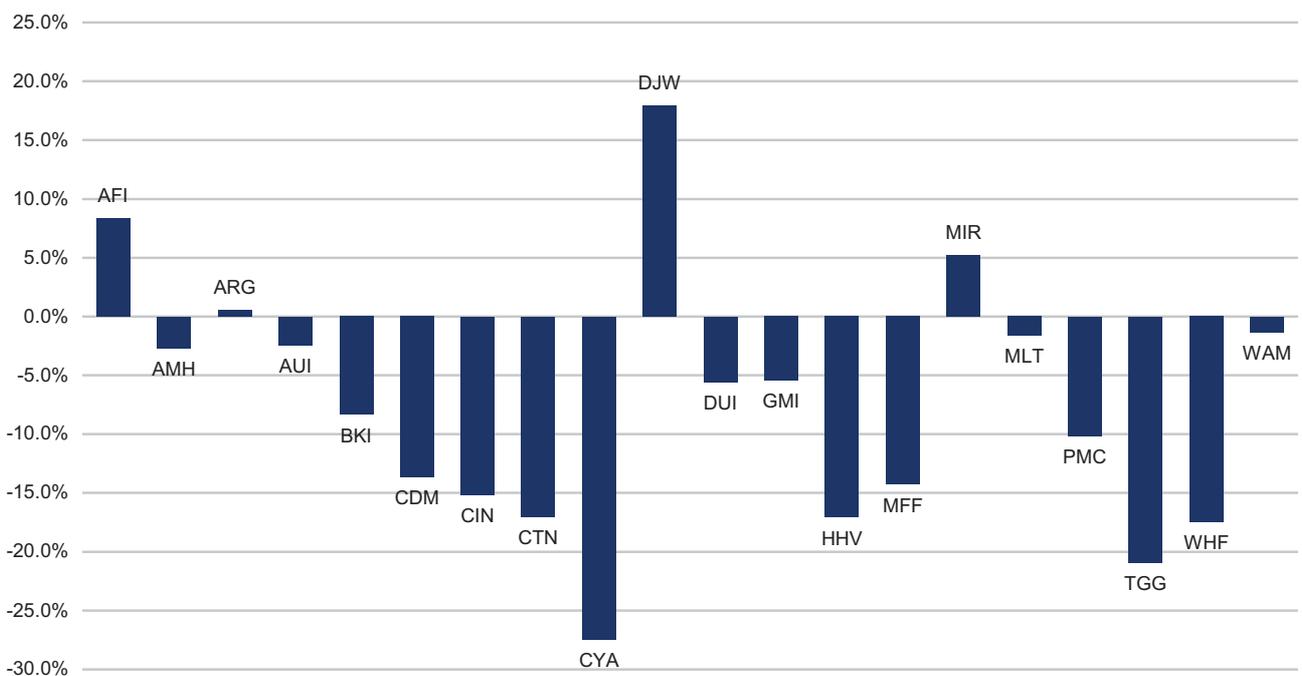
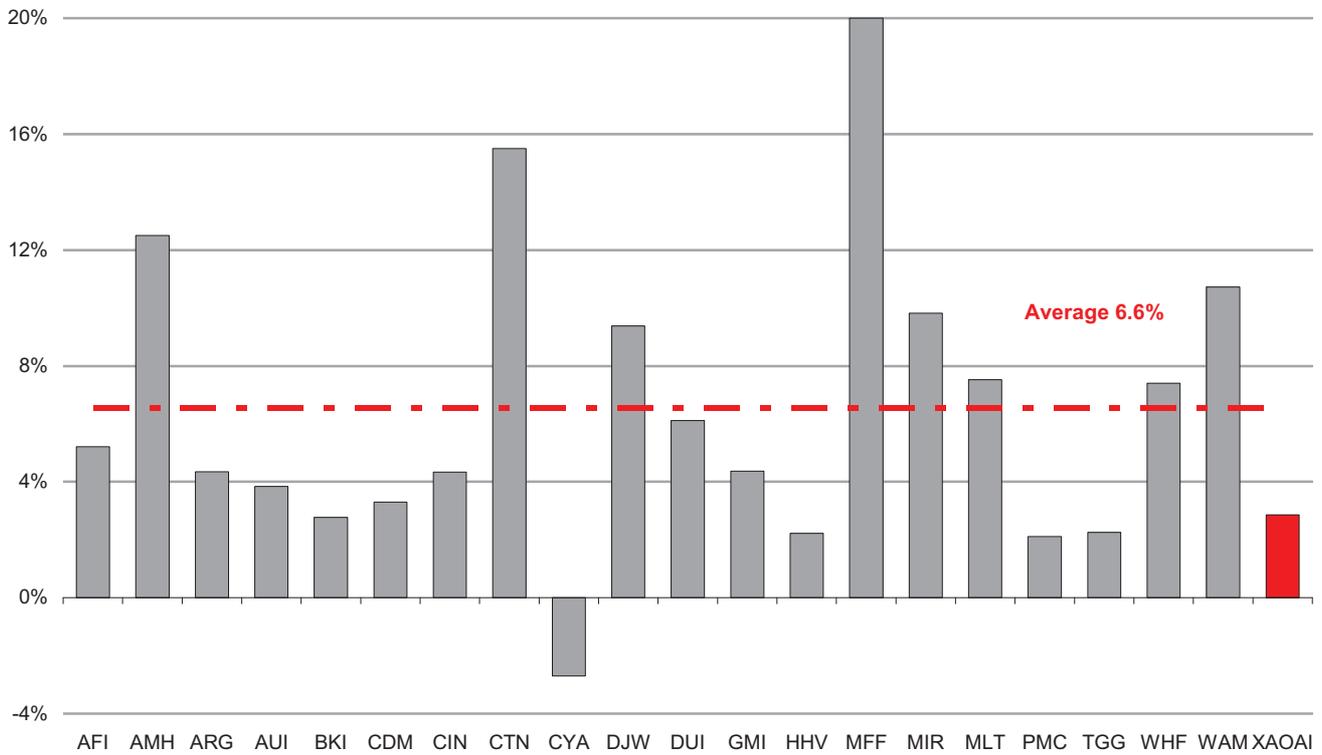


FIG.66: TOTAL SHAREHOLDER RETURN – % RETURN OVER 6 MONTHS TO 30 JUNE 2012



*XAOAI = All Ords Accumulation Index

FIG.67: TOTAL SHAREHOLDER RETURN – % RETURN OVER 12 MONTHS TO 30 JUNE 2012

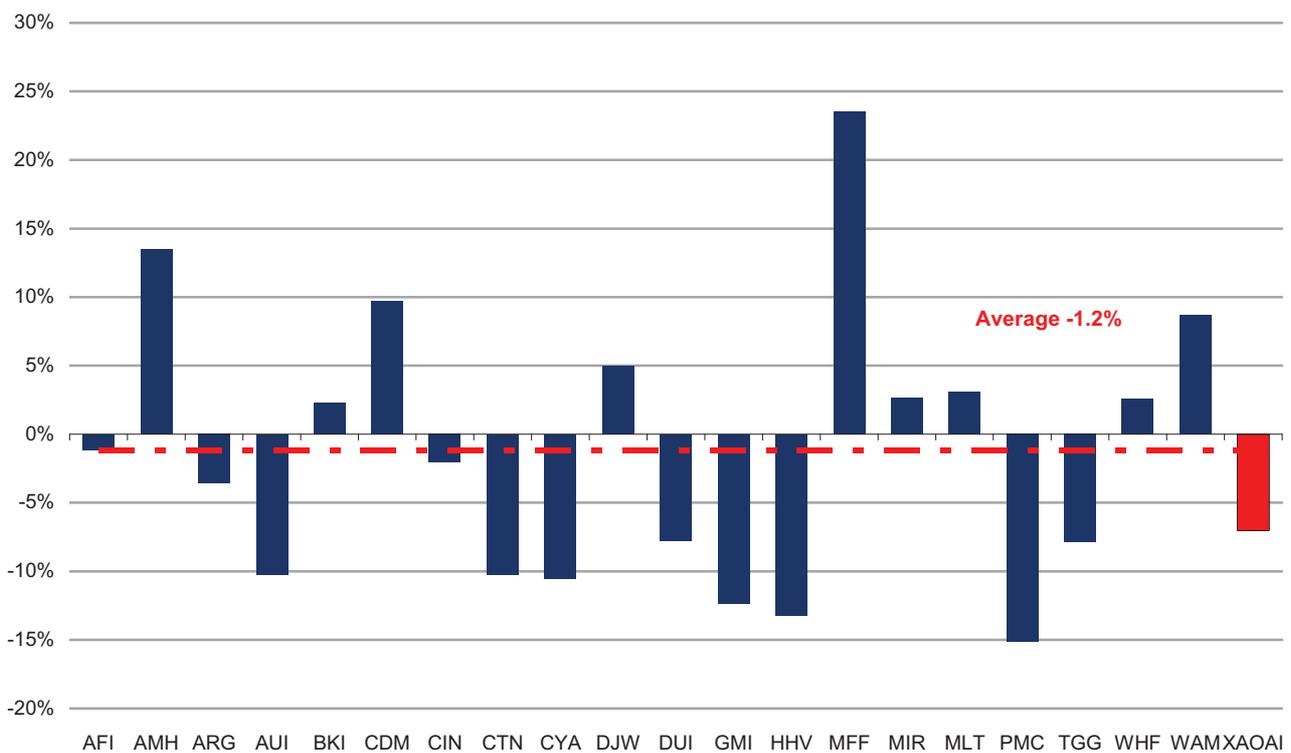


FIG.68: TOTAL SHAREHOLDER RETURN – % RETURN OVER 3 YEARS TO 30 JUNE 2012

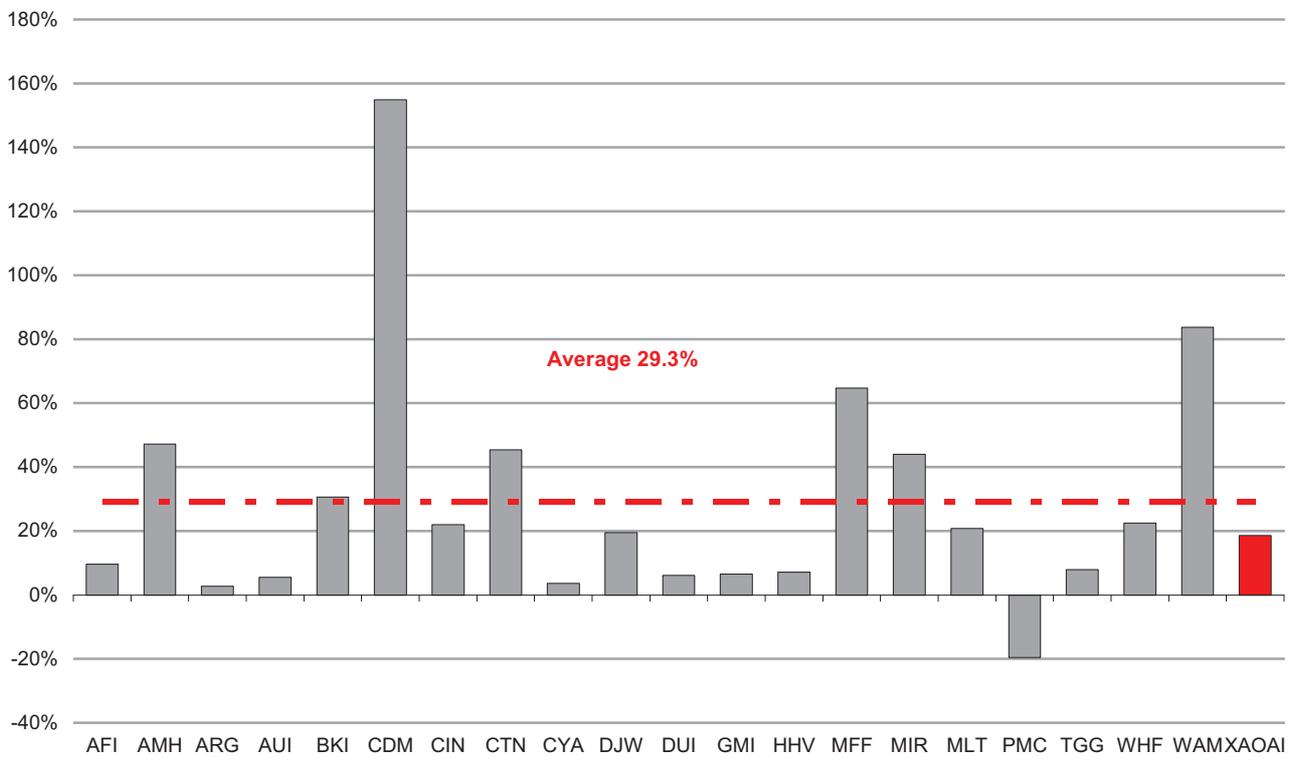
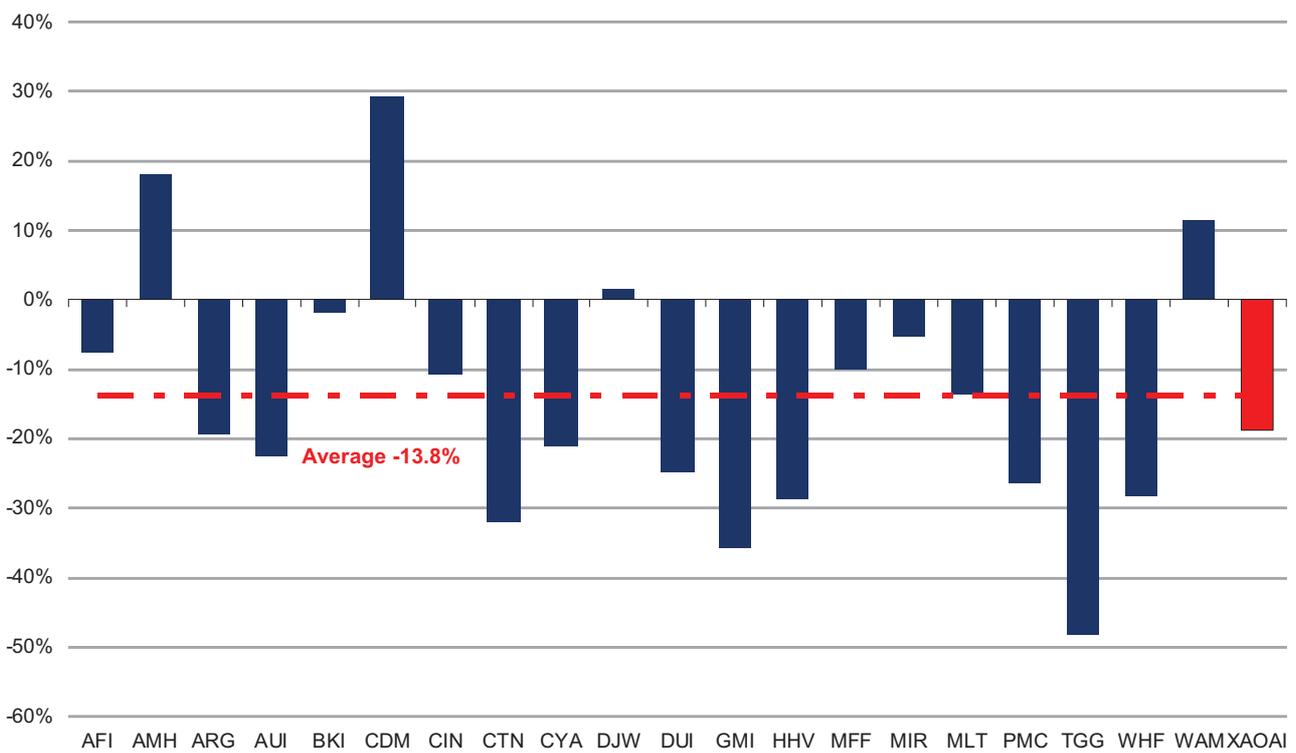


FIG.69: TOTAL SHAREHOLDER RETURN – % RETURN OVER 5 YEARS TO 30 JUNE 2012



This document has been prepared and issued by:

E.L. & C. Baillieu Stockbroking Ltd
 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:

E.L. & C. Baillieu Stockbroking Ltd (**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 50% of any brokerage resulting from any transactions you may undertake as a result of this advice.

This advice is issued on the basis that:

- a) in preparing the advice, Baillieu did not consider whether the advice is appropriate in light of the particular investment needs, objectives and financial situation of the investor(s) or prospective investor(s); and
- b) before making an investment decision on the basis of the advice contained herein, the investor(s) or prospective investor(s) need to consider whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances.

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 E.L. & C. Baillieu Stockbroking Ltd.

Save for any statutory liability that cannot be excluded, E. L. & C. Baillieu Stockbroking Ltd 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 judgement 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.

E.L. & C. Baillieu Stockbroking Ltd assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

Authors of company comments may hold shares in companies mentioned.

E.L. & C. Baillieu Stockbroking Ltd
 ABN 74 006 519 393
 Australian Financial Service Licence No. 245421
 Participant of ASX Group
 Participant of NSX Ltd

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 baillieu@baillieu.com.au

Bendigo Office
Address Cnr Bridge & Baxter Streets
 Bendigo, VIC 3550 Australia
Postal PO Box 40
 North Bendigo, VIC 3550 Australia
Phone +61 3 5443 7966
Facsimile +61 3 5442 4728
Email bendigo@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 4925 2330
Facsimile +61 2 4929 1954
Email newcastle@baillieu.com.au

Perth Office
Address Level 10, 191 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 18, 1 Alfred 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