

ASX Listed Investment Companies

July 2012



EVANS & PARTNERS

This report focusing on **ASX Listed Investment Companies** seeks to **i)** identify and capitalise on any trading opportunities that may exist across the sector & **ii)** assist clients seeking to broaden portfolio exposure through an investment in a diverse and professionally managed portfolio of assets (focused on Australian and International equities).

Across our universe of Listed Investment Companies (LICs), we also take a closer look at relative fund performance figures through to the period ending 30 June 2012.

Note that the Pre-Tax NTA stated below is as last reported (ie. for the month ended 30 June 2012).

Code	Name	Price (\$) 30/6/2012	Pre-Tax NTA 30/6/2012 (\$)	Prem/Disc to NTA (%) 30/6/2012	Implied NTA Calculation*			FY11/FY12 DPS (c)**	Historic Yield (Last Price) %	Market Cap (\$m)	Benchmark Index
					Last price (\$)	Pre-Tax NTA (\$)	Prem/Disc to NTA (%)				
Domestic Focus											
AFI	Australian Foundation Inv Co Ltd	4.16	4.35	-4%	4.18	4.39	-5%	21.0	5.0	4501	ASX 200
ARG	Argo Investments Limited	5.15	5.50	-6%	5.13	5.55	-8%	26.0	5.1	3349	ASX 200
MLT	Milton Corporation Limited	15.21	16.42	-7%	15.25	16.52	-8%	81.0	5.3	1879	All Ords
DJW	Djerriwarrh Investments Limited	3.75	3.17	18%	3.88	3.21	21%	26.0	6.7	862	ASX 50
AUI	Australian United Investment Company Lim	5.55	6.26	-11%	5.60	6.31	-11%	26.5	4.7	603	ASX 300
BKI	BKI Investment Company Limited	1.16	1.30	-11%	1.17	1.31	-11%	6.4	5.5	511	ASX 300
DUI	Diversified United Investment Limited	2.37	2.72	-13%	2.43	2.74	-11%	13.0	5.3	413	ASX 300
MIR	Mirrabooka Investments Limited	1.81	1.87	-3%	1.88	1.85	2%	10.0	5.3	256	50% Small/50% Mid Cap
WHF	Whitefield Limited	2.60	2.93	-11%	2.60	2.90	-10%	17.0	6.5	202	ASX 200 Industrials
WAM	WAM Capital Limited	1.54	1.59	-3%	1.56	1.60	-3%	11.0	7.1	168	All Ords
AMH	AMCIL Limited	0.72	0.77	-6%	0.71	0.78	-9%	3.5	4.9	152	ASX 200
CTN	Contango Microcap Limited	0.99	1.21	-18%	1.01	1.21	-17%	7.2	7.2	147	Small Ords
WIC	Westoz Investment Company Limited	0.94	1.27	-26%	0.94	1.28	-27%	4.0	4.3	120	ASX 200
ALF	Australian Leaders Fund Limited	1.18	1.30	-10%	1.18	1.31	-10%	11.0	9.3	83	ASX 200
Global Focus											
MFF	Magellan Flagship Fund Limited	0.84	0.95	-12%	0.85	0.93	-9%	0.0	0.0	290	MSCI A\$
PMC	Platinum Capital Limited	0.97	1.07	-10%	0.99	1.05	-6%	0.0	0.0	157	MSCI A\$
TGG	Templeton Global Growth Fund	0.68	0.86	-21%	0.70	0.84	-19%	0.0	0.0	105	MSCI A\$

NTA calculations are based on end of month figures (30/6/2012)

*Implied NTA's are calculated using benchmark index return to close price on 23/7/2012

**Last reported full year dividend. For LICs yet to announce FY12 final dividend, we take FY11 DPS.

The key attributes we look for in an LIC:

- **Dividend sustainability** – It is important that an LIC has the ability to pay consistent and steady distributions to shareholders. Dividends paid by LICs are determined by management and unlike unlisted managed funds are not obliged to distribute all surplus income.

- **Market liquidity** – An LIC needs to have sufficient size to provide sufficient market liquidity.

- **Share price premium/discount to NTA** – We will target LICs that are attractively valued relative to historic levels and absolute value. While there are factors that contribute to an LIC trading above or below its NTA (including market liquidity), relative underperformance to NTA may be viewed as a trading opportunity or the chance to gain exposure to underlying holdings at a relatively cheaper level than that traded on market.

- **Board/Management Experience** – We look for a Board and Investment Committee with extensive market experience, a transparent investment philosophy and a consistent track record of meeting investor expectations.

- **An appropriate fee schedule** – Value for money and relatively low-cost management

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LIC PORTFOLIO PERFORMANCE

Across our universe of Listed Investment Companies (LICs), returns (inclusive of dividends) have been challenged by volatile trading conditions, both domestically and internationally. Below we table LIC investment portfolio performance (pre-tax NTA), highlighting funds that have performed well relative to peers and respective benchmarks.

Over the 12 months to 30 June 2012, **Mirrabooka Investments (MIR, +3.8%)**, **WAM Capital (WAM, +4.4%)** and **Amcil (AMH, +3.5%)** were the only domestically focused LICs to generate positive fund returns. On the international front, **Magellan Flagship Fund (MFF)** was the standout performer generating a +25.2% return.

ASX Listed Investment Companies - Annual Pre-Tax NTA Performance to 30 June 2012

Name	Code	Market Cap (\$m)	Annual Returns (Incl Dividends) %								Fund Benchmark
			Pre-Tax NTA				Benchmark				
			6 months	1Yr	3Yr	5Yr	6 months	1Yr	3Yr	5Yr	
Domestic Focus											
Australian Foundation Investment Company Limited	AFI	4440	3.2%	-4.8%	7.1%	-2.0%	3.3%	-6.7%	5.7%	-4.0%	ASX 200
Argo Investments Limited	ARG	3311	4.2%	-5.7%	5.6%	-3.7%	2.9%	-7.0%	5.9%	-4.1%	All Ords
Milton Corporation Limited	MLT	1903	4.5%	-0.6%	7.4%	-2.4%	2.9%	-7.0%	5.9%	-4.1%	All Ords
Djerriwarrh Investments Limited	DJW	851	3.8%	-4.4%	5.8%	-3.1%	4.1%	-5.4%	6.0%	-2.9%	ASX 50
Australian United Investment Company Limited	AUI	595	3.5%	-9.8%	5.2%	-4.3%	3.1%	-7.0%	5.6%	-4.2%	ASX 300
BKI Investment Company Limited	BKI	511	0.8%	-3.5%	7.1%	-0.7%	3.1%	-7.0%	5.6%	-4.2%	ASX 300
Diversified United Investment Limited	DUI	412	5.3%	-7.5%	5.0%	-4.3%	3.1%	-7.0%	5.6%	-4.2%	ASX 300
Mirrabooka Investments Limited	MIR	255	5.9%	3.8%	13.9%	-1.8%	-0.8%	-13.3%	3.6%	-8.2%	Small/Mid Cap
Whitefield Limited	WHF	205	7.3%	-2.3%	5.0%	-6.2%	-1.0%	-4.8%	6.3%	-10.7%	ASX 200 Ind
WAM Capital Limited	WAM	167	6.9%	4.4%	11.3%	0.6%	2.9%	-7.0%	5.9%	-4.1%	All Ords
AMCIL Limited	AMH	152	4.1%	3.5%	12.5%	2.8%	3.3%	-6.7%	5.7%	-4.0%	ASX 200
Contango Microcap Limited	CTN	148	0.1%	-15.0%	4.4%	-5.7%	-2.6%	-14.6%	3.4%	-8.9%	Small Ords
Westoz Investment Company Limited	WIC	119	4.4%	-6.6%	4.7%	1.4%	2.9%	-7.0%	5.9%	-4.1%	All Ords
Australian Leaders Fund Limited	ALF	84	10.5%	-0.1%	10.9%	4.8%	2.9%	-7.0%	5.9%	-4.1%	All Ords
International Focus											
Magellan Flagship Fund Limited	MFF	291	16.3%	25.2%	14.8%	-0.5%	4.2%	-2.9%	0.3%	-8.6%	MSCI A\$
Platinum Capital Limited	PMC	157	4.0%	-7.8%	-1.6%	-1.4%	4.2%	-2.9%	0.3%	-8.6%	MSCI A\$
Templeton Global Growth Fund Limited	TGG	104	3.6%	-6.3%	-0.4%	-9.4%	4.2%	-2.9%	0.3%	-8.6%	MSCI A\$

Source: IRESS, Company Data, Bloomberg

*Returns are calculated assuming dividend reinvestment

Milton Corporation (MLT, -0.6%) was the best performing large cap LIC (market cap > \$1bn) over the past 12 months, ahead of **Australian Foundation Investment Company (AFI, -4.8%)** and **Argo Investments (ARG, -5.7%)**, with all three companies outperforming the ASX 200 (-6.7%) and All Ordinaries (-7.0%) indices. Over the past 5 years, **AFI** has been the best performing large cap returning -2.0% p.a (ASX200 -4.0%).

Across LICs with a market cap of between \$400m-\$1bn, **BKI Investment Company (BKI)** has been the best performing fund returning -3.5% over 12 months and -0.7% p.a. over the past 5 years. Based on FY12 DPS of 6.4cps, BKI is yielding 5.5% fully franked. **Whitefield Ltd (WHF)**, which invests predominantly in top 100 industrial stocks, has reported the strong 6 month performance of +7.3% and yields an attractive 6.5% ff.

Providing investment exposure across domestic small/mid cap listed equities, **MIR** has generated strong fund performance of +3.8% over 12 months and +13.9% p.a. over 3 years. **WAM**, the best performing domestic LIC over the past 12 months, returned +4.4% and +11.3% p.a. over 3 years. **MIR & WAM** are yielding 5.3% & 7.0% fully franked respectively, based on FY12 distributions. **Australian Leaders Fund (ALF)** (+10.9%) & **AMH** (+12.5%) also generated strong double digit 3 year returns. **ALF** has been the best performing LIC over 5 years at +4.8% p.a., benefitting from its use of hedging strategies to enhance returns and manage risk.

MFF has generated the strongest returns across internationally exposed LICs, with +25.2% over 12 months and +14.8% p.a. over 3 years. The company is yet to pay a dividend to shareholders but is considering paying a partially franked dividend going forward. **MFF** has available credits to frank a 1cps dividend to 26% but has been awaiting the final tax ruling from the ATO (made on 27 June 2012) before deciding on a distribution policy for the fund to 30 June 2012 and beyond.

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The table below outlines the premium/discount to Pre-Tax NTAs for each LIC as at 30 June 2012, alongside the historical averages dating back to January 2005. Across the board most LICs are trading relatively cheaper than historically has been the case.

We also look at the impact on premium/discounts by adjusting pre-tax NTA's for management fees. **We capitalise annual management fees at an estimate of 8x, thus adjusting NTA's lower.** This is only to be viewed as an indicative guide on highlighting the impact management fees may have on the relative value proposition, particularly for funds with management fees in excess of 1% per annum.

ASX Listed Investment Companies

Name	Code	Market Cap (\$m)	Share Price (\$) 30/6/2012	Pre-Tax NTA (\$) 30/6/2012	Prem/Disc to Pre-Tax NTA (%)	Historic Average (%)*	Mgt Fee (%)	Adj. Pre-Tax NTA (\$)	Adj Prem/Disc to Pre-Tax NTA (%)
Domestic Focus									
Australian Foundation Investment Company Limited	AFI	4501	4.16	4.35	-4%	-1%	0.19%	4.28	-3%
Argo Investments Limited	ARG	3349	5.15	5.50	-6%	0%	0.17%	5.42	-5%
Milton Corporation Limited	MLT	1879	15.21	16.42	-7%	-2%	0.17%	16.20	-6%
Djerriwarrh Investments Limited	DJW	862	3.75	3.17	18%	6%	0.37%	3.08	22%
Australian United Investment Company Limited	AUI	603	5.55	6.26	-11%	-5%	0.15%	6.18	-10%
BKI Investment Company Limited	BKI	511	1.16	1.30	-11%	-12%	0.18%	1.28	-10%
Diversified United Investment Limited	DUI	413	2.37	2.72	-13%	-7%	0.20%	2.68	-11%
Mirrabooka Investments Limited	MIR	256	1.81	1.87	-3%	-5%	0.81%	1.75	3%
Whitefield Limited	WHF	202	2.60	2.93	-11%	-11%	0.35%	2.85	-9%
WAM Capital Limited	WAM	168	1.54	1.59	-3%	-17%	0.90%	1.48	4%
AMCIL Limited	AMH	152	0.72	0.77	-6%	-11%	0.90%	0.71	1%
Contango Microcap Limited	CTN	147	0.99	1.21	-18%	-26%	1.25%*	1.09	-9%
Westoz Investment Company Limited	WIC	120	0.94	1.27	-26%	-31%	1.00%*	1.17	-20%
Australian Leaders Fund Limited	ALF	83	1.18	1.30	-10%	-21%	1.00%*	1.20	-2%
International Focus									
Magellan Flagship Fund Limited	MFF	290	0.84	0.95	-12%	-14%	1.25%*	0.86	-2%
Platinum Capital Limited	PMC	157	0.97	1.07	-10%	13%	1.50%*	0.95	2%
Templeton Global Growth Fund Limited	TGG	105	0.68	0.86	-21%	-14%	1.00%*	0.79	-14%

Source: IRESS, Company Data

Note: Annual management fees capitalised at 8x

*Does not include any performance fee

Large cap LICs (**AFI -4%**, **ARG -6%**, **MLT -7%**) are trading at a discount to pre-tax NTA and below historical averages which sit near flat. While fund performance over the past 12 months has not been exceptional given the difficult trading environment, these companies are attractively priced at current levels for an investor looking for a longer term quality portfolio exposure and a track record of delivering dividend growth. High retained earnings positions see little risk to dividend cuts in the near term.

AUI (-11%), **BKI (-11%)**, **DUI (-13%)** & **WHF (-11%)** are trading at sizeable discounts to Pre-tax NTA, with AUI & DUI well below historical averages. When accounting for deferred tax liabilities and tax benefits from losses crystallised during the GFC, WHF's NTA is higher at \$3.15 and the discount -17%.

Strong fund performance over the past 12 months has seen a number of LICs narrow discounts to NTA - **WAM -3%** (5yr average -17%), **AMH -6%** (-11%), **ALF -10%** (-21%). Across the micro-cap sector, the **CTN (-18%)** discount has narrowed while **WIC (-26%)** continues to trade at a sharp discount.

DJW is the only LIC across our universe trading at a significant premium of 18%, above the 5 year average of 6%. This could be reflective of investors flight to safety and yield, with DJW offering an attractive 6.7% fully franked yield, generated through its use of Exchange Traded Options to enhance income return (typically 20-50% of portfolio covered dependent on market conditions).

On the internationally focused LICs, **MFF (-12%)**, **PMC (-10%)** and **TGG (-21%)** are all trading at material discounts. PMC has historically traded at premium to NTA, however recent poor fund performance and the ceasing of dividend payments due to a negative retained earnings position has impacted share price performance.

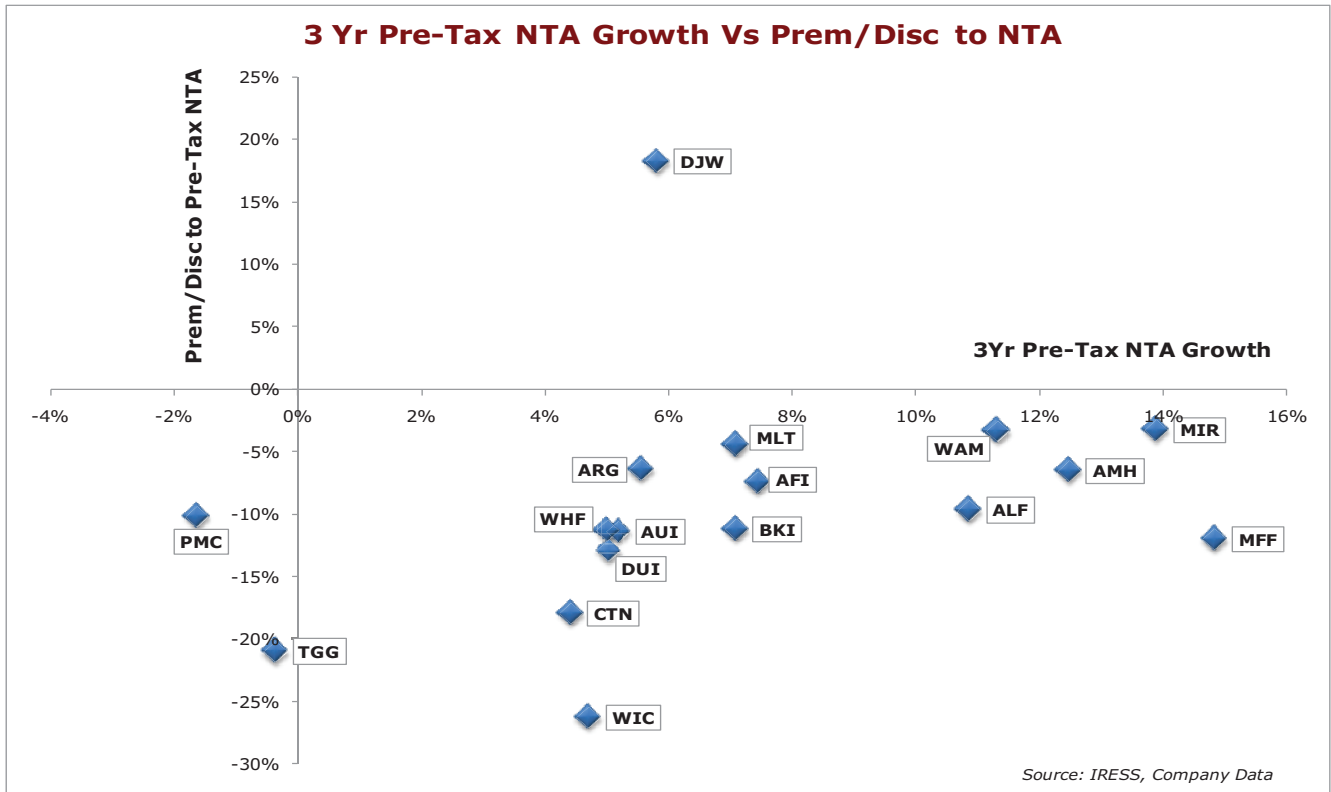
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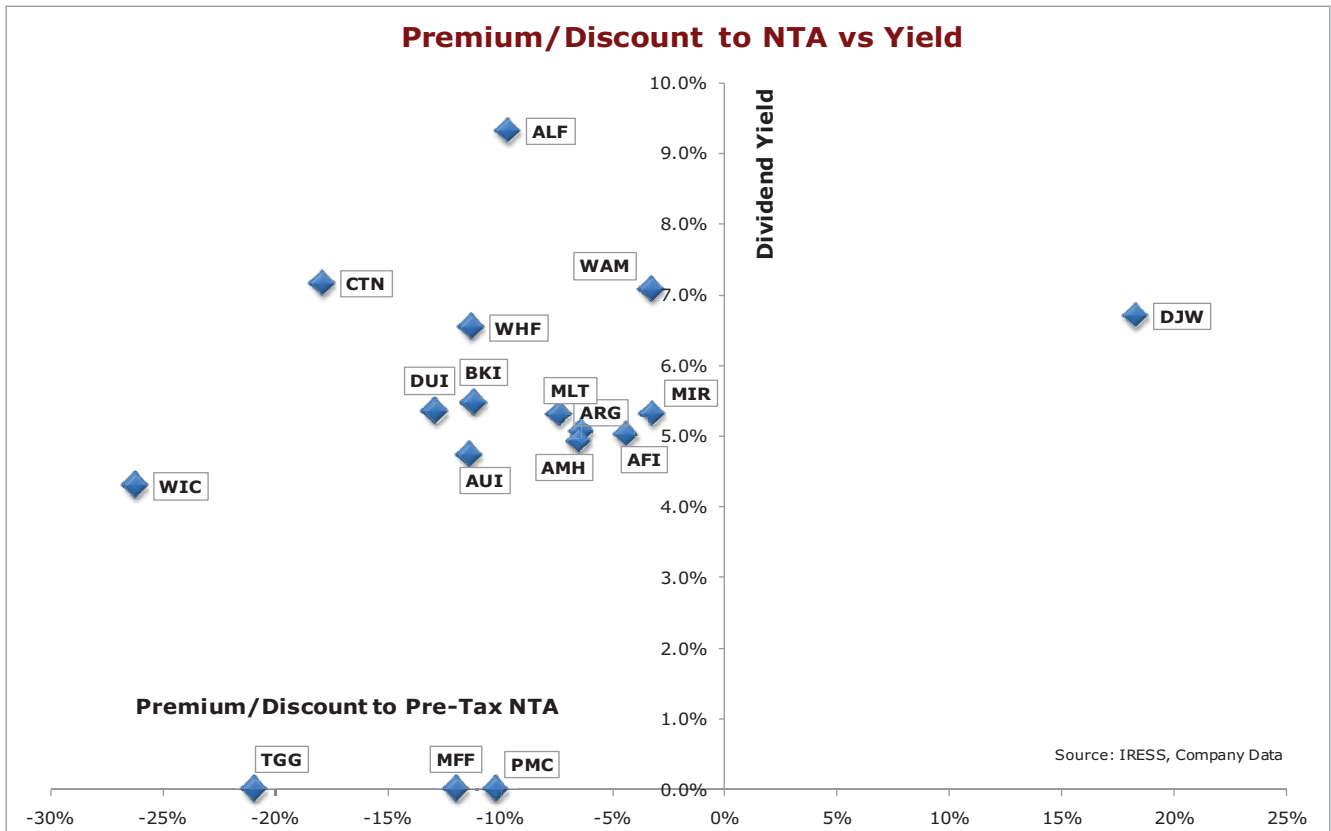


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3 Yr Pre-Tax NTA Growth Vs Prem/Disc to NTA



Premium/Discount to NTA vs Yield

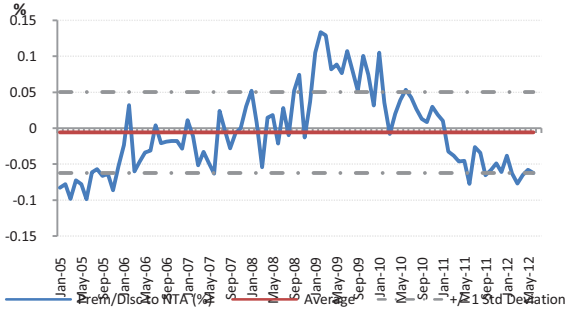


*Prem/Disc to pre-tax NTA

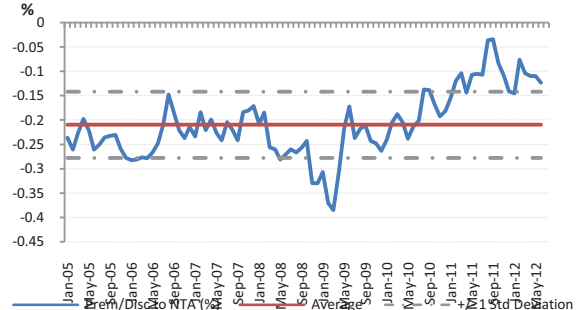
Historic Prem/Disc to NTA

Domestic Focus

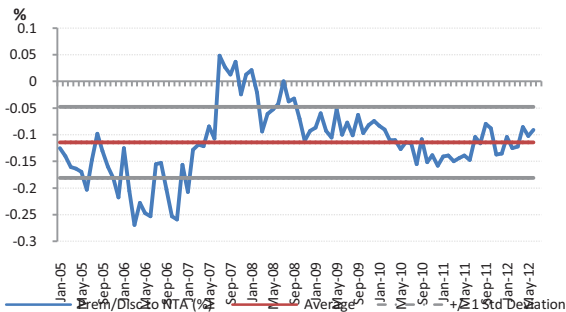
AFI Australian Foundation Investment Co



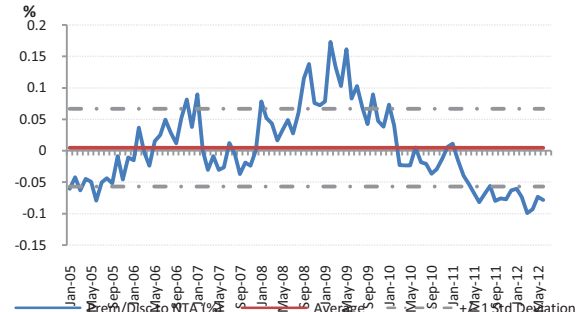
ALF Australian Leaders Fund Limited



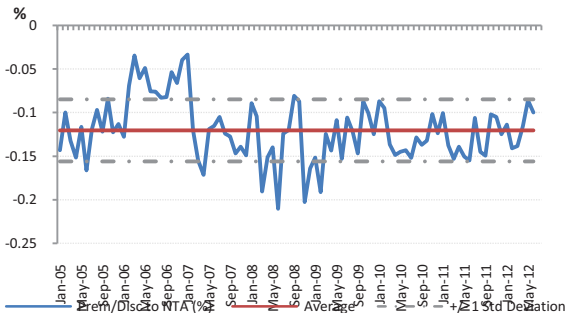
AMH AMCIL Limited



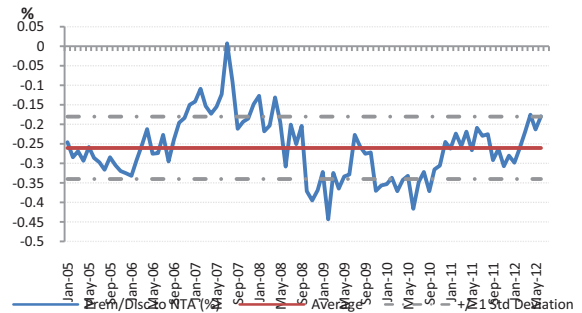
ARG Argo Investments Limited



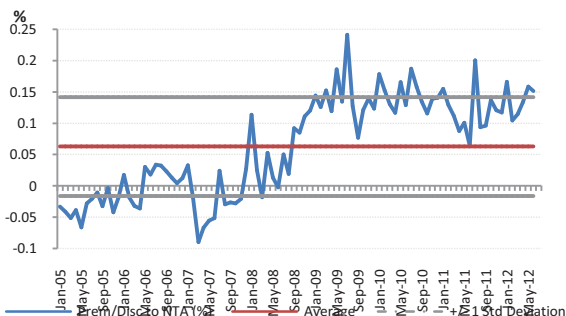
BKI BKI Investment Company Limited



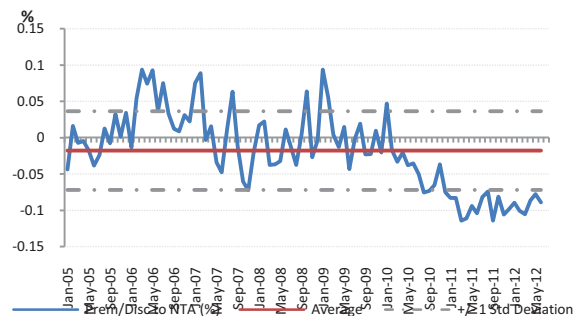
CTN Contango Microcap Limited



DJW Djerriwarrh Investments Limited



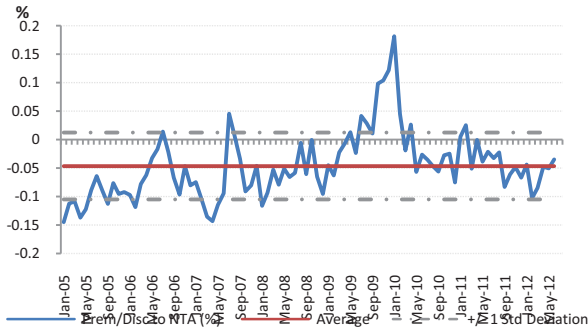
MLT Milton Corporation Limited



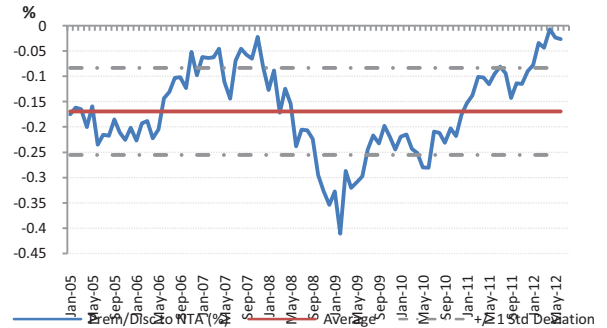
Historic Prem/Disc to NTA

Domestic Focus

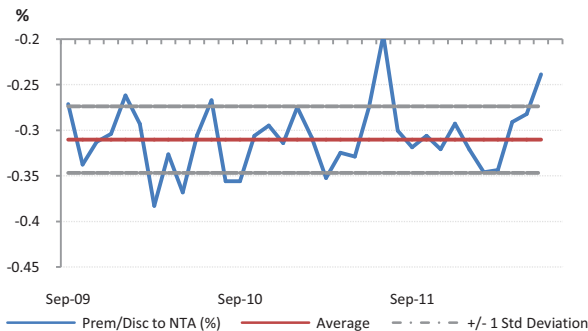
MIR Mirrabooka Investments Limited



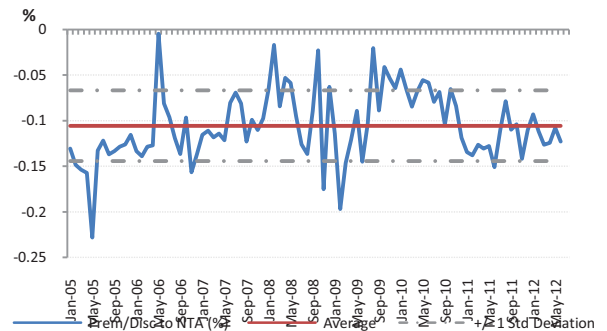
WAM WAM Capital Limited



WIC Westoz Investment Company Limited

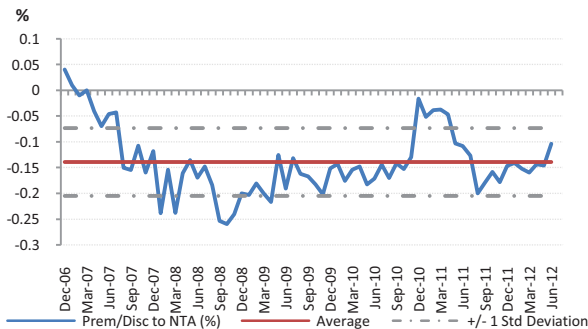


WHF Whitefield Limited

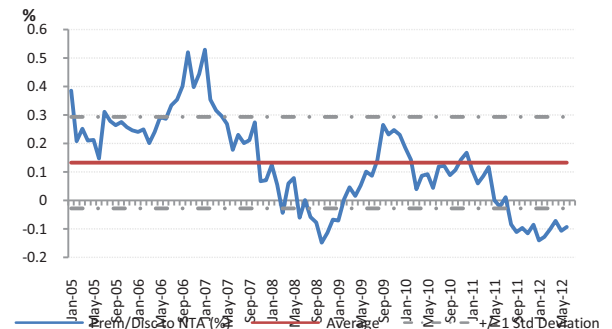


Global Focus

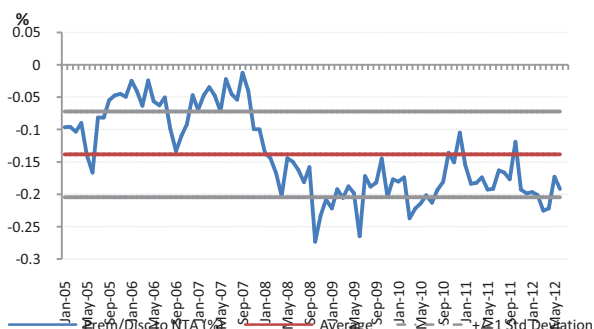
MFF Magellan Flagship Fund Limited



PMC Platinum Capital Limited



TGG Templeton Global Growth Fund Limited





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BKI Investment Company Limited (BKI)

Investment Style/Strategy

BKI looks to make long term investments in companies, trusts and interest bearing securities with a focus on Australian entities. With the objective of generating an increasing income stream and long term capital growth, BKI seeks to invest in well-managed businesses with a profitable history and with the expectation of sound dividend and distribution growth.

Asset Allocation

As at 30 June 2012, BKI had a total investment portfolio value of \$550m. Of which \$525m was invested in long term equities and 4.5% or \$25m was held in cash and cash equivalents.

Investment Manager

BKI has an internal Portfolio Management team to provide investment advisory services to the Board of Directors and its Investment Committee. The Investment Committee makes the final investment decisions and meet regularly to review the portfolio and is comprised of Thomas Millner, Robert Millner, Alexander Payne and Ian Huntley

Dividend Policy

BKI aims to generate an increasing income stream for distribution to its shareholders in the form of fully franked dividends. Dividends are declared out of realised profit after tax, including interest, dividends and other income received from investments but excluding realised capital profit from any disposals of long-term investments.

Fee Structure

The management expense ratio was 0.18% for the full year ending 30 June 2012. No performance fee. Benchmark: S&P/ASX 300 Accumulation.

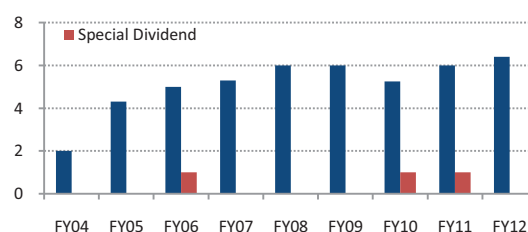
Website: www.bkilimited.com.au

Share Price 30/6/2012	\$1.16
Market Cap (\$M)	494
12 Month Price Range	\$1.06 - \$1.25
Avg Weekly Volume	822,501

Performance (annual)	6 Mth	12 Mth	3 Yr	5 Yr
BKI (Share Price)	4.1%	3.5%	9.7%	-0.2%
NTA (Pre-tax)	0.8%	-3.5%	7.1%	-0.7%
ASX300 Accum	3.1%	-7.0%	5.6%	-4.2%

	FY10	FY11	FY12
Total Dividends (cents/share)	6.3	7.0	6.4
Yield (last full year dividend)			5.5%

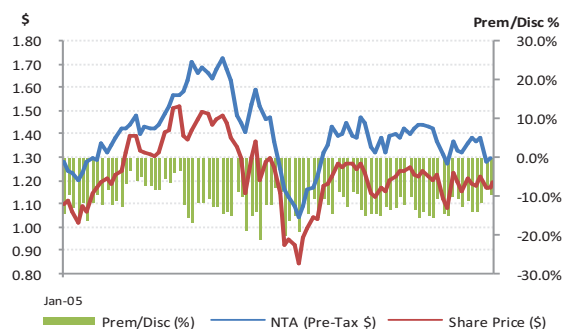
Historic Dividend Per Share (c) June Year End



NTA Data (as at end of month)

Last Reported:	30/06/2012
NTA (Pre-Tax)	\$1.30
Prem/Disc to Share Price	-11.2%
1Yr Avg NTA Prem/Disc to Share Price	-12%
5Yr Avg NTA Prem/Disc to Share Price	-13%

NTA vs Share Price Chart



Major Shareholdings

as at 30 June 2012	%
New Hope Corp	10.6
Commonwealth Bank	9.0
NAB	8.5
BHP Billiton	7.7
Westpac	6.0
Telstra	4.8
Wesfarmers	4.1
Campbell Brothers	3.8
Woolworths	3.6
AGL Energy	3.0