

## Listed Investment Companies (LICs)

### SECTOR REPORT

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### Monthly LIC update – top picks

- This report contains a LIC sector update and performance review of our coverage list for the month of July 2017. The table on page 2 provides an update of the overall sector as at 17 August 2017 with our estimated current NTAs derived from our model portfolios for the LICs.
- **Top picks:** Our top picks refer to preferred exposures within each sector based on numerous quantitative and qualitative factors. However, they should not be treated as official stock recommendations but merely as a guide to where we would apportion funds at this particular point in time.
- **Large capitalisation:** On average, the total shareholder return (TSR) of large cap LICs outperformed the ASX All Ordinaries Accumulation Index (XAOAI) by 3.9% in July. As a majority of large cap LICs have now traded ex-dividend we have seen a reversion of this outperformance in August with share price falls (surrounding ex-dividend dates) greater than the cash (plus franking) dividend amounts. These movements have led to the emergence of more attractive entry points for investors, in our view. Diversified United (DUI) announced an increased final dividend (vs the pc) and is a top pick. DUI is currently trading at an estimated 4.4% discount to NTA. Elsewhere, the trading level of Milton Corporation (MLT) has reverted back to more normalised trading levels at an estimated 1.4% discount to NTA and is also a top pick.
- **Mid-capitalisation:** Top pick WAM Leaders (WLE) deployed ~\$73m of cash in July ahead of reporting season. NAB and WBC reappeared in WLE's top holdings following a decision to reduce "big four" bank weightings prior to the Federal Budget in May. WLE is currently trading at an estimated 5.5% discount to NTA and we believe the potential capital injection of ~\$330m from investors exercising options (November 2017) and a continued dividend ramp up profile may lead to a discount to NTA reduction. Elsewhere, Wealth Defender Equities (WDE) is a top value pick trading at an estimated 12.1% discount to NTA. Currently, the underlying portfolio is overweight mid-caps with active sectors including Energy and Consumer Discretionary. We believe any reinstatement of dividend payments may provide the catalyst for a reduction to its current 12.1% discount to NTA.
- **Small capitalisation:** Top pick Contango Microcap (CTN) outperformed the ASX Small Ordinaries (XSO) in July with top holdings including EML Payments (EML) and Ausdrill (ASL). CTN has drifted to an estimated 9.2% discount to NTA and we believe CTN may positively re-rate from these levels due to: 1) Wilson Asset Management (WAMI) becoming a substantial holder. WAMI utilises an investment strategy advocating discount reductions to NTA; and 2) CTN's ongoing buyback and dividend yield (6.8%) to provide share price support at these current levels.
- **International:** The 4.1% AUD appreciation against the USD in July was a key performance detractor for a number of International LICs as many remain unhedged to currency fluctuations. August (month-to-date) has seen a slight reversion to the July appreciation with the AUD depreciating 1.5% against the USD and this should positively impact August NTA performance. While heightened geopolitical risk is impacting global markets, we view the current discounts of PM Capital Global Opportunity Fund (PGF) and MFF Capital Investments (MFF) of 5.9% and 15.8% to NTA respectively as attractive entry points. On a fully adjusted basis, accounting for all outstanding MFF options (Oct. 2017 expiry), MFF is still trading at an estimated 7.6% discount to NTA.
- **Specialty:** Blue Sky Alternative Access Fund (BAF) continues to realise investments with proceeds received from two residential developments during July. BAF deployed \$3.8m of capital in July as part of the previously announced investment commitment to the Blue Sky Strategic Australia Agriculture Fund. Providing investors with exposure to an alternative assets class while maintaining liquidity, BAF is a top pick.

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#### Disclosure

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

## Sector Update

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

Figures as at: 17 August 2017

Large Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Aug 1	Current Est. NTA	Current Estimated Disc/Prem	July NTA	July Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Australian Foundat.	AFI	5.90	6938.9	24.0	4.1%	5.8%	-1.2%	5.83	1.2%	5.87	4.1%	0.5%	2.4%	0.14%
Argo Investments	ARG	8.02	5560.5	30.5	3.8%	5.4%	0.4%	7.84	2.3%	7.71	3.6%	-0.7%	3.2%	0.17%
Australian United In	AUI	8.47	1047.8	34.0	4.0%	5.7%	-0.2%	8.71	-2.7%	8.58	-1.0%	-6.4%	-4.7%	0.10%
BKI Investment Ltd	BKI	1.64	1011.2	7.3	4.5%	6.4%	-2.6%	1.60	2.4%	1.61	6.5%	1.3%	1.7%	0.15%
Djerriwarrh	DJW	3.55	778.7	20.0	5.6%	8.0%	-4.8%	3.19	11.2%	3.24	18.2%	15.1%	25.0%	0.46%
Diversified United	DUI	3.86	805.6	14.0	3.6%	5.2%	1.6%	4.04	-4.4%	3.98	-4.5%	-7.1%	-6.0%	0.13%
Milton Corporation	MLT	4.45	2901.2	18.7	4.2%	6.0%	-1.3%	4.51	-1.4%	4.54	1.5%	-1.5%	0.9%	0.12%

  

Mid Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Aug 1	Current Est. NTA	Current Estimated Disc/Prem	July NTA	July Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Australian Leaders	ALF	1.24	337.9	9.0	7.3%	10.4%	-2.7%	n.a	n.a	1.27	0.4%	6.0%	6.6%	1.00%
Aberdeen Leaders	ALR	1.16	68.6	5.0	4.3%	6.2%	0.0%	1.26	-8.2%	1.24	-6.9%	-9.6%	-8.2%	0.75%
AMCIL Limited	AMH	0.88	227.0	3.5	4.0%	5.7%	-2.2%	0.95	-7.3%	0.94	-0.5%	0.3%	-0.9%	0.65%
Cadence Capital	CDM	1.30	354.8	8.0	6.2%	8.8%	1.2%	1.18	9.4%	1.17	9.4%	7.5%	7.5%	1.00%
Contango Inc Gen Ltd	CIE	0.98	79.1	6.5	6.7%	9.5%	-2.0%	1.05	-7.6%	1.02	-2.5%	-5.2%	-3.8%	0.95%
Carlton Investments	CIN	31.89	844.3	123.0	3.9%	5.5%	-1.1%	35.93	-11.2%	36.65	-12.0%	-13.0%	-11.4%	0.09%
Future Gen Ltd	FGX	1.10	384.6	4.1	3.7%	5.3%	0.9%	n.a	n.a	1.14	-4.7%	-1.6%	-1.7%	0.00%
Mirrabooka Invest.	MIR	2.75	433.9	14.0	5.1%	7.3%	3.8%	2.23	23.6%	2.27	16.7%	19.1%	14.8%	0.65%
Perpetual Equity Ltd	PIC	1.06	268.6	4.2	4.0%	5.7%	0.0%	1.12	-5.0%	1.11	-4.1%	-7.8%	-6.1%	1.00%
Plato Income Max.	PL8	1.08	320.0	n.a	n.a	n.a	-2.3%	n.a	n.a	1.03	n.a	n.a	n.a	0.80%
Qv Equities Limited	QVE	1.34	367.2	3.8	2.8%	4.1%	-1.8%	1.21	10.3%	1.19	14.3%	7.1%	1.5%	0.90%
WAM Capital Limited	WAM	2.47	1564.4	14.8	6.0%	8.5%	0.0%	n.a	n.a	1.96	26.1%	20.2%	13.4%	1.00%
WAM Leaders Limited	WLE	1.11	463.1	1.0	0.9%	1.3%	-0.4%	1.18	-5.5%	1.16	-4.0%	-0.4%	-0.3%	1.00%
Wealth Def Equ Ltd	WDE	0.83	104.2	2.0	2.4%	3.5%	1.2%	0.94	-12.1%	0.93	-12.0%	-12.6%	-8.7%	1.25%
Whitefield Ltd	WHF	4.53	394.3	17.0	3.8%	5.4%	0.0%	4.95	-8.4%	4.86	-6.8%	-9.5%	-7.8%	0.25%

  

Small Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Aug 1	Current Est. NTA	Current Estimated Disc/Prem	July NTA	July Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Acorn Cap Inv Fund	ACQ	0.94	45.6	3.3	3.5%	4.1%	-3.1%	1.08	-12.7%	1.09	-11.3%	-12.4%	-14.7%	0.95%
Barrack St Invest	BST	0.84	15.4	2.5	3.0%	3.5%	-2.9%	1.05	-20.1%	1.05	-17.6%	-14.8%	-14.6%	1.00%
Contango Microcap	CTN	0.94	157.2	6.4	6.8%	8.1%	-0.5%	1.03	-9.2%	1.01	-7.3%	-6.8%	-8.6%	1.25%
Forager Aust. Shares	FOR	2.09	190.3	11.2	5.4%	5.4%	2.5%	1.74	20.1%	1.76	15.9%	n.a	n.a	1.00%
Glennon SML Co Ltd	GC1	0.95	44.5	4.0	4.2%	5.0%	0.5%	n.a	n.a	0.99	-5.3%	-6.0%	-5.4%	1.00%
Naos Emerg Opp	NCC	1.42	84.0	7.0	4.9%	7.0%	2.9%	n.a	n.a	1.33	3.8%	-0.9%	-7.5%	1.25%
Ozgrowth Limited	OZG	0.16	57.1	0.5	3.1%	4.5%	1.6%	0.20	-18.6%	0.19	-16.7%	-19.1%	-15.8%	1.00%
WAM Research Ltd	WAX	1.61	296.9	8.8	5.4%	7.8%	0.9%	n.a	n.a	1.22	30.7%	22.3%	12.8%	1.00%
Westoz Inv Ltd	WIC	0.96	123.2	6.0	6.3%	9.0%	-0.5%	1.10	-13.3%	1.08	-8.0%	-12.6%	-10.9%	1.00%
8lp Emerg Co Ltd	8EC	0.92	37.7	1.0	1.1%	1.6%	2.2%	1.07	-14.4%	1.06	-15.4%	-12.1%	-10.6%	1.25%

  

International	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Aug 1	Current Est. NTA	Current Estimated Disc/Prem	July NTA	July Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Argo Global Ltd	ALI	1.77	253.4	3.5	2.0%	2.0%	0.0%	2.05	-13.9%	2.03	-13.1%	-11.2%	-8.7%	1.25%
Ellerston Asian	EAI	0.95	106.3	n.a	n.a	n.a	0.5%	1.07	-11.6%	1.07	-11.8%	-12.2%	-9.6%	0.75%
Ellerston Global Inv	EGL	1.03	77.8	2.0	2.0%	2.8%	1.5%	1.15	-11.2%	1.16	-13.1%	-12.0%	-5.3%	0.75%
Future Glb Invest Co	FGG	1.10	312.0	1.0	0.9%	1.3%	-0.5%	n.a	n.a	1.14	-2.7%	-3.8%	0.3%	0.00%
Global Value Fnd Ltd	GVF	1.13	137.1	6.2	5.4%	7.8%	-0.9%	1.12	1.1%	1.09	4.7%	1.2%	-4.1%	1.50%
Hunter Hall Global	HHV	1.17	285.7	7.0	6.0%	8.5%	-0.4%	1.17	-0.2%	1.17	0.6%	-4.6%	-9.0%	1.50%
MFF Capital Invest.	MFF	1.99	971.3	2.0	1.0%	1.4%	1.5%	2.36	-15.8%	2.26	-13.4%	-14.9%	-9.1%	1.25%
Pm Capital Asian Ops	PAF	1.12	62.3	4.5	4.0%	5.8%	0.0%	1.14	-2.5%	1.15	-3.3%	-9.1%	-10.3%	1.00%
Platinum Asia Ltd	PAI	1.05	377.0	n.a	n.a	n.a	-2.3%	1.11	-5.2%	1.10	-2.1%	-5.7%	-1.7%	1.10%
Pm Capital Fund	PGF	1.10	382.6	3.1	2.8%	4.0%	-1.4%	1.16	-5.9%	1.16	-4.2%	-11.3%	-10.9%	1.00%
Platinum Capital Ltd	PMC	1.69	478.1	8.0	4.7%	6.8%	-4.5%	1.65	2.3%	1.65	7.0%	2.3%	8.4%	1.10%
Templeton Global	TGG	1.36	308.1	4.5	3.3%	4.7%	-1.1%	1.48	-7.9%	1.47	-6.7%	-10.7%	-8.6%	1.20%

  

Specialist	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Aug 1	Current Est. NTA	Current Estimated Disc/Prem	July NTA	July Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Blue Sky Alt Access	BAF	1.20	205.4	6.0	5.0%	7.1%	-2.0%	1.15	4.4%	1.15	6.6%	6.4%	1.8%	1.20%
Bailador Tech Inv	BTI	0.85	102.2	n.a	n.a	n.a	-1.2%	1.07	-20.6%	1.07	-19.6%	-12.3%	-14.6%	1.75%
Lion Selection Grp	LSX	0.40	44.3	n.a	n.a	n.a	0.0%	n.a	n.a	0.38	5.3%	-5.5%	-24.3%	1.50%
Monash Absolute	MA1	0.79	41.2	n.a	n.a	n.a	-0.6%	n.a	n.a	0.88	-9.8%	-6.0%	-4.7%	1.50%
Sandon Capital Ltd	SNC	0.96	46.1	6.5	6.8%	9.7%	-1.0%	n.a	n.a	1.00	-2.7%	-3.8%	-5.6%	1.25%
Thorney Opp Ltd	TOP	0.71	120.5	1.2	1.7%	2.4%	0.7%	n.a	n.a	0.78	-9.8%	-6.2%	-7.4%	0.75%
URB Investments	URB	1.00	72.9	n.a	n.a	n.a	-5.2%	n.a	n.a	1.02	n.a	n.a	n.a	0.50%
WAM Active Limited	WAA	1.16	44.8	5.3	4.5%	6.5%	5.5%	n.a	n.a	1.06	3.3%	6.6%	4.0%	1.00%
Watermark Fund Ltd	WMK	1.00	86.9	6.0	6.0%	8.6%	-0.5%	n.a	n.a	1.00	0.0%	1.1%	-4.1%	1.00%

Source: Company releases, Bloomberg, Baillieu Holst estimates

**FIG.1: LIC PERFORMANCE TABLE (JULY 2017)**

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.	5.0%	7.5%	0.5%	2.7%	3.4%	2.4%	9.0%	10.8%	2.5%
ARG	Argo Investments	7.0%	10.7%	-0.7%	4.1%	4.9%	3.2%	9.9%	12.4%	1.3%
AUI	Australian United In	10.1%	20.0%	-6.4%	2.8%	4.2%	-4.7%	9.5%	12.6%	-5.5%
BKI	BKI Investment Ltd	2.6%	10.0%	1.3%	2.7%	4.7%	1.7%	7.8%	12.0%	-0.6%
DJW	Djerriwarrh	6.1%	1.4%	15.1%	0.8%	-2.7%	25.0%	6.3%	5.5%	23.1%
DUI	Diversified United	10.2%	12.7%	-7.1%	5.5%	5.4%	-6.0%	11.5%	13.6%	-6.1%
MLT	Milton Corporation	6.2%	9.8%	-1.5%	4.3%	4.0%	0.9%	9.7%	12.0%	-0.6%
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	2.3%	-6.2%	6.0%	2.7%	-4.2%	6.6%	7.7%	8.1%	6.8%
ALR	Aberdeen Leaders	4.0%	10.2%	-9.6%	4.4%	2.6%	-8.2%	8.5%	8.4%	-2.7%
AMH	AMCIL Limited	-0.5%	-4.1%	0.3%	3.6%	1.3%	-0.9%	8.4%	10.7%	-1.3%
CDM	Cadence Capital	9.6%	7.0%	7.5%	1.7%	1.6%	7.5%	5.5%	7.7%	5.4%
CIE	Contango Inc Gen Ltd	4.8%	9.6%	-5.2%	na	na	-3.8%	na	na	na
CIN	Carlton Investments	2.2%	3.8%	-13.0%	8.5%	7.4%	-11.4%	13.5%	19.1%	-12.9%
FGX	Future Gen Ltd	-1.5%	-1.8%	-1.6%	na	na	-1.7%	na	44.9%	na
MIR	Mirrabooka Invest.	1.3%	-2.9%	19.1%	6.2%	4.7%	14.8%	12.1%	14.5%	15.0%
PIC	Perpetual Equity Ltd	7.3%	15.7%	-7.8%	na	na	-6.1%	na	na	na
PL8	Plato Inc Max Ltd.	-3.7%	2.3%	3.6%	na	na	na	na	na	na
QVE	Qv Equities Limited	10.8%	28.0%	7.1%	na	na	1.5%	na	na	na
WAM	WAM Capital Limited	7.4%	17.7%	20.2%	10.3%	14.2%	13.4%	11.5%	16.5%	8.5%
WLE	WAM Leaders Limited	4.9%	-3.4%	-0.4%	na	na	-0.3%	na	na	na
WDE	Wealth Def Equ Ltd	5.6%	10.1%	-12.6%	na	na	-8.7%	na	na	na
WHF	Whitefield Ltd	2.9%	9.8%	-9.5%	6.0%	6.0%	-7.8%	13.1%	15.6%	-7.6%
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	-9.0%	3.8%	-12.4%	3.9%	2.3%	na	na	na	-14.4%
BST	Barrack St Invest	-11.4%	-9.8%	-14.8%	4.3%	na	na	na	na	na
CTN	Contango Microcap	-10.5%	-7.9%	-6.8%	-0.9%	2.1%	-8.6%	3.4%	6.2%	-10.2%
FOR	Forager Aust Shs Fnd	17.0%	26.0%	11.8%	na	na	na	na	na	na
GC1	Glennon SML Co Ltd	-10.7%	-3.5%	-6.0%	na	na	na	na	na	na
NCC	Naos Emerg Opp	6.1%	26.1%	-0.9%	7.4%	14.8%	-7.5%	na	na	na
OZG	Ozgrowth Limited	5.9%	10.0%	-19.1%	-3.1%	-5.9%	-15.8%	2.5%	5.9%	-18.1%
WAX	WAM Research Ltd	5.5%	17.7%	22.3%	11.7%	18.8%	12.8%	13.6%	22.5%	7.8%
WIC	Westoz Inv Ltd	9.3%	14.6%	-12.6%	-1.4%	-1.7%	-10.9%	2.0%	9.2%	-13.4%
8EC	8lp Emerg Co Ltd	-6.0%	-7.3%	-12.1%	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
ALI	Argo Global Ltd	1.7%	-5.1%	-11.2%	na	na	-8.7%	na	na	na
EAI	Ellerston Asian	10.8%	12.6%	-12.2%	na	na	-9.6%	na	na	na
EGI	Ellerston Global Inv	7.2%	4.1%	-12.0%	na	na	-5.3%	na	na	na
FGG	Future Glb Invest Co	7.9%	6.7%	-3.8%	na	na	0.3%	na	na	na
GVF	Global Value Fnd Ltd	6.0%	11.0%	1.2%	7.0%	7.6%	-4.1%	na	na	na
HHV	Hunter Hall Global	-17.4%	-11.1%	-4.6%	6.0%	11.3%	-9.0%	12.9%	18.4%	-11.3%
MFF	MFF Capital Inv Ltd	15.1%	8.6%	-14.9%	18.3%	11.5%	-9.1%	21.2%	20.8%	-4.4%
PAF	Pm Capital Asian Ops	14.3%	25.8%	-9.1%	7.0%	7.4%	-10.3%	na	na	-9.9%
PAI	Platinum Asia Ltd	14.2%	13.2%	-5.7%	na	na	-1.7%	na	na	na
PGF	Pm Capital Fund	19.0%	35.1%	-11.3%	8.9%	7.9%	-10.9%	na	na	-9.5%
PMC	Platinum Capital Ltd	16.4%	15.3%	2.3%	5.0%	3.2%	8.4%	14.2%	18.3%	5.1%
TGG	Templeton Global	15.8%	22.0%	-10.7%	6.0%	4.4%	-8.6%	14.8%	18.0%	-8.4%
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	8.3%	3.9%	6.4%	na	10.9%	na	na	na	na
BTI	Bailador Tech Inv	-8.5%	-23.9%	-12.3%	na	na	na	na	na	na
LSX	Lion Selection Grp	-2.6%	33.3%	-5.5%	-14.1%	4.6%	-24.3%	na	na	na
MA1	Monash Absolute	-10.7%	-19.0%	-6.0%	na	na	na	na	na	na
SNC	Sandon Capital Ltd	8.4%	24.8%	-3.8%	5.7%	4.9%	na	na	na	-4.6%
TOP	Thorney Opp Ltd	21.4%	14.8%	-6.2%	19.6%	na	na	na	na	-4.6%
URB	URB Investments Ltd	-2.9%	-3.2%	2.3%	na	na	na	na	na	na
WAA	WAM Active Limited	8.6%	1.9%	6.6%	7.3%	-0.1%	4.0%	7.9%	6.8%	0.9%
WMK	Watermark Fund Ltd	1.9%	2.7%	1.1%	2.9%	3.8%	-4.1%	na	na	-3.4%

Source: Bloomberg, Company announcements, Baillieu Holst

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