

Sector Report Listed Investment Companies

March 2015

Listed Investment Companies

LICs continue to find favour as equity markets run hot and yield seeking trends intensify. In calendar 2014, the average grossed up yield paid from Zenith's rated LIC managers was 8.6% (net 6.3%). However, the average premium/discount to pre-tax NTA was 9.0%; up from 6.1% the previous year, highlighting that the yield seeking is coming at a substantial price.



Zenith Investment Partners
AFSL License No. 226872

✉ Level 34, 360 Collins Street
Melbourne VIC 3000

☎ (03) 9642 3320

☎ (03) 9642 3319

✉ info@zenithpartners.com.au

🌐 www.zenithpartners.com.au

CONTENTS

1.	INTRODUCTION.....	3
1.1	Background.....	3
1.2	LIC Types.....	3
1.3	Summary of Findings.....	4
2.	KEY ISSUES.....	6
2.1	Plenty of talent, but not much value.....	6
2.2	Demand driving product diversity	8
3.	ZENITH DUE DILIGENCE	10
3.1	Universe Coverage	10
3.2	Universe Filter.....	10
3.3	Qualitative Due Diligence	11
3.4	Ratings Methodology	12
4.	APPROVED LIST	14
4.1	Approved List	14
4.2	Additions to Approved List.....	14
4.3	Ratings Changes to Approved List Funds	15
4.4	Approved List – Fund Details.....	16
4.5	Quality vs. Value Score	17
5.	QUANTITATIVE ANALYSIS – REVIEWED FUNDS	19
5.1	LIC Shareholder Returns (As at 31 January 2015)	19
5.2	Dividends Past 3 Financial Years.....	19
5.3	Liquidity.....	20
5.4	Correlation Matrices	22
	Fund/Index Correlation Table at 30 January 2015	22

1. INTRODUCTION

1.1 Background

This report marks Zenith's second sector review of Listed Investment Companies (LICs). It is important to note that like our Sector Reports and research across the other asset classes, this report is intended to focus only on those LICs we have deemed to be worthy of an investment grade rating. This is in contrast to the numerous broker sector reports on LICs which tend to take an industry wide view of the sector and prevailing valuation metrics. Nonetheless, where relevant, Zenith will include some metrics on the boarder LIC community to provide context.

1.2 LIC Types

LICs are a subset of Listed Managed Investments (LMIs) available on the ASX. Based on the ASX universe, LMIs cover a wide range of strategies and asset classes, including;

- Australian Real Estate Investment Trusts (AREITs);
- Listed Investment Companies & Listed Investment Trusts (LICs & LITs);
- Infrastructure Funds;
- Exchange Traded Products (ETPs); and
- Absolute Return Funds (ARFs)

For the purposes of the Zenith LIC sector review, only LICs, LITs & ARFs are included. Structurally, these investments will either be a company structure (LIC) or a Trust structure (LIT). The inherent difference between the two is that LICs are a company structure (tax paid) and LITs operate under a trust structure. LICs may issue new shares or cancel existing shares similar to any other listed company (but far less frequently than an ETF who use this mechanism to control the share price to NAV ratio), but investors buy and sell them on the ASX. They are in effect similar to a closed-end fund (minus the tax differential) in that the shareholder pool remains static, albeit with a fluctuating market capitalisation and any capital management initiatives. LITs by comparison have an open-ended structure meaning that the number of units on issue can vary and there is typically have a daily market making function and investors can sometimes apply and redeem off-market.

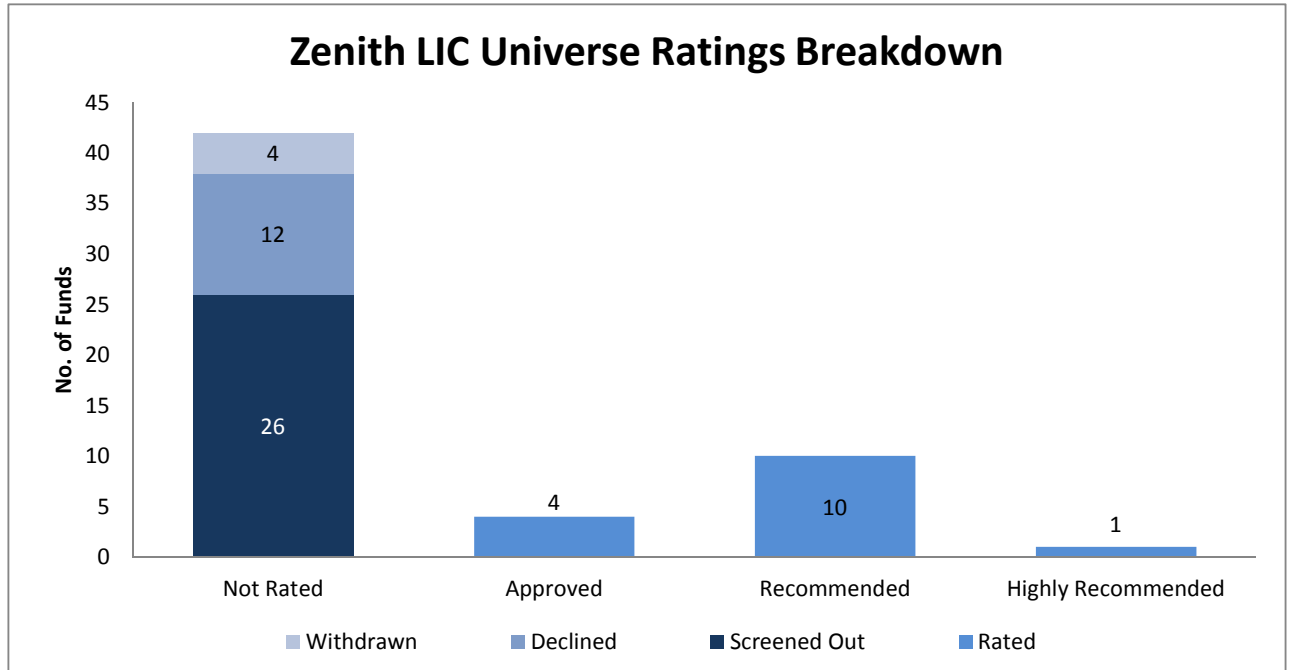
LICs can offer exposures across a range of asset classes including;

- Australian shares
- International shares
- Fixed Income and Cash
- Alternatives

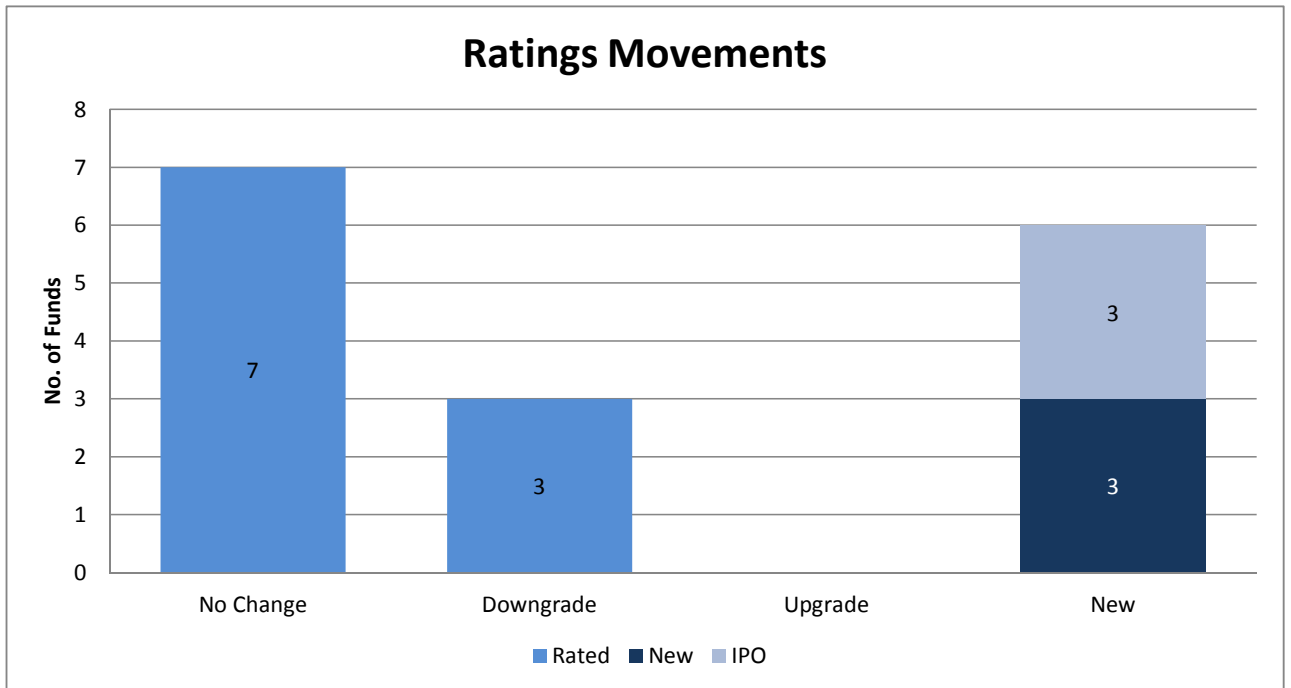
The report highlights some key issues facing the sector and also an outline of the universe screening and qualitative due diligence process that assisted Zenith in constructing its LIC Approved List.

1.3 Summary of Findings

From an initial universe of 57 Listed Investment Companies: 1 was rated “Highly Recommended”; 10 “Recommended”; 4 “Approved” and 42 “Not Rated”.



Ratings movements from our previous sector review were as follows. This includes several ratings which were undertaken ‘out of cycle’ since our 2014 sector review. This comprises initiation of coverage of new Initial Public Offerings (IPO’s), new candidates to the sector review who have existing vehicles and mid-cycle downgrades.



Fund Name	ASX Code	Category	Rating
Platinum Capital Limited	PMC	International shares	Highly Recommended
Australian Leaders Fund Limited	ALF	Australian shares	Recommended
Blue Sky Alternative Access Fund Limited	BAF	Alternatives	Recommended
Flagship Investments Limited	FSI	Australian shares	Recommended
Perpetual Equity Investment Company Limited	PIC	Australian shares	Recommended
QV Equities Limited	QVE	Australian shares	Recommended
WAM Active Limited	WAA	Australian shares	Recommended
WAM Capital Limited	WAM	Australian shares	Recommended
WAM Research Limited	WAX	Australian shares	Recommended
Watermark Market Neutral Fund Limited	WMK	Australian shares	Recommended
Wealth Defender Equities Limited	WDE	Australian shares	Recommended
Aurora Absolute Return Fund	ABW	Australian shares	Approved
Aurora Property Buy Write Income Trust	AUP	Australian shares	Approved
Ozgrowth Limited	OZG	Australian shares	Approved
Westoz Investment Company Limited	WIC	Australian shares	Approved

2. KEY ISSUES

2.1 Plenty of talent, but not much value

In last year's sector review, Zenith made an in-depth examination of the issues around the ability of LICs to trade away from their underlying NTA. As a quick recap, the LIC structure means that shareholder returns will come from two sources, distributions and capital movements in the underlying portfolio and share price movements which drive the prevailing premium/discount.

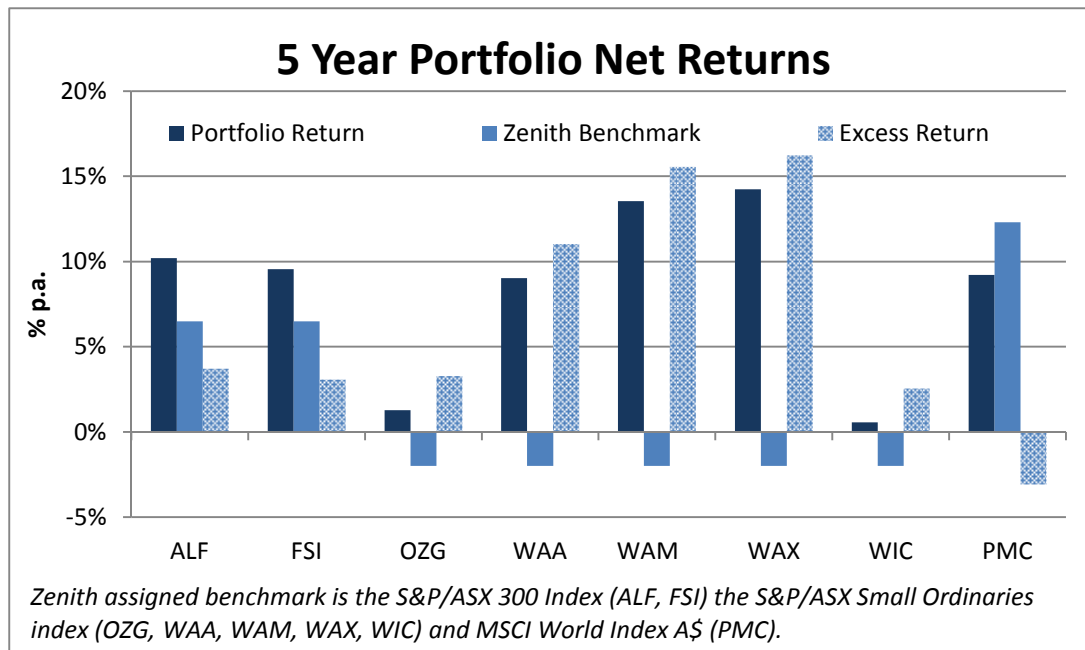
Broadly speaking, the following issues can cause positive or negative movements;

- Investor sentiment from either the broader market and/or the LIC registry;
- Performance;
- Investment management agreement and fees;
- Shareholder's trust in the Board; and their engagement with shareholders and
- Market capitalisation and liquidity.

Long-term performance remains solid

During the course of 2014, the sector at large continued to gain significant attention, driven at least in part by a general continuation of strong equity market results. Zenith's rated LIC managers also continued to turn in predominantly strong long-term results when assessed over the last five years.

The exception were WIC and OZG who while generating solid alpha, turned in relatively low absolute returns due to the broad sell off in their target market.

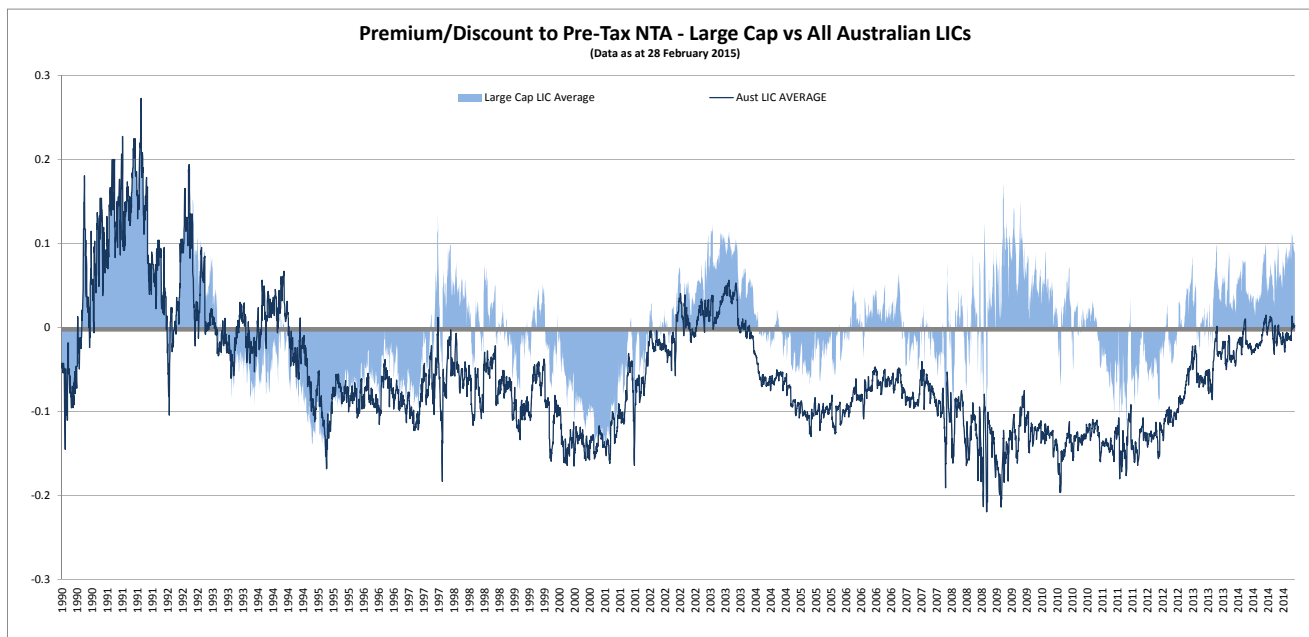


Bull market conditions continuing...

In addition to strong market returns, the continuation of rampant yield seeking behaviour from investors has continued the sector theme of narrowing discounts and rising premiums.

Zenith believes that it is imperative investors in the sector understand the cyclical nature of LICs in terms of the present day environment as well as in their historical context.

In the following chart, Zenith has measured the Australian markets most significant LICs (as measured by greatest market cap and longest operating history) as a proxy for sector sentiment using share price vs pre-tax NTA. As a secondary comparison, we have compared this to all Australian LICs.



When viewing the largest end of the market, LICs have continued their relentless march toward cyclical highs. When analysing the trading patterns of the sector as a whole (i.e. not just the largest, most liquid participants), there appears to be a prevailing tendency for LICs to trade at a discount. This should highlight the potential risks of purchasing LICs at a premium, especially before they have built up sizable assets and track records.

Overwhelmingly, LIC investors (as with A-REIT investors where similar behaviour is being exhibited), appear to be overly sanguine to value signals at present. Despite frequent debate as whether the cause is structural (and therefore potentially a 'new normal') or more a function of behavioural finance and momentum, this is a dangerous time for LIC investors. While buoyant conditions provide an opportunity for investors, significant caution is warranted.

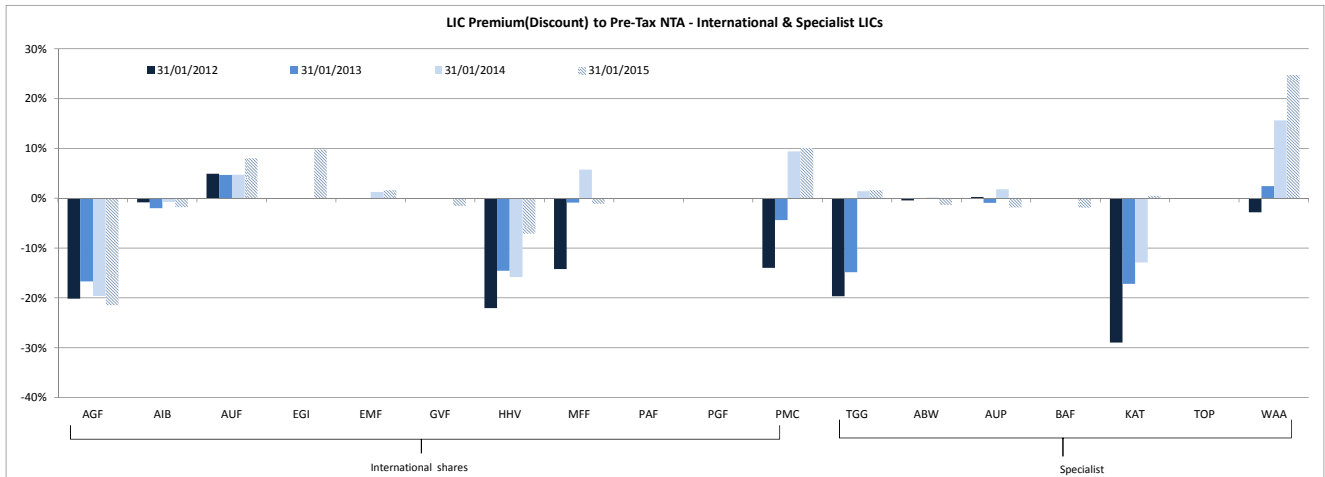
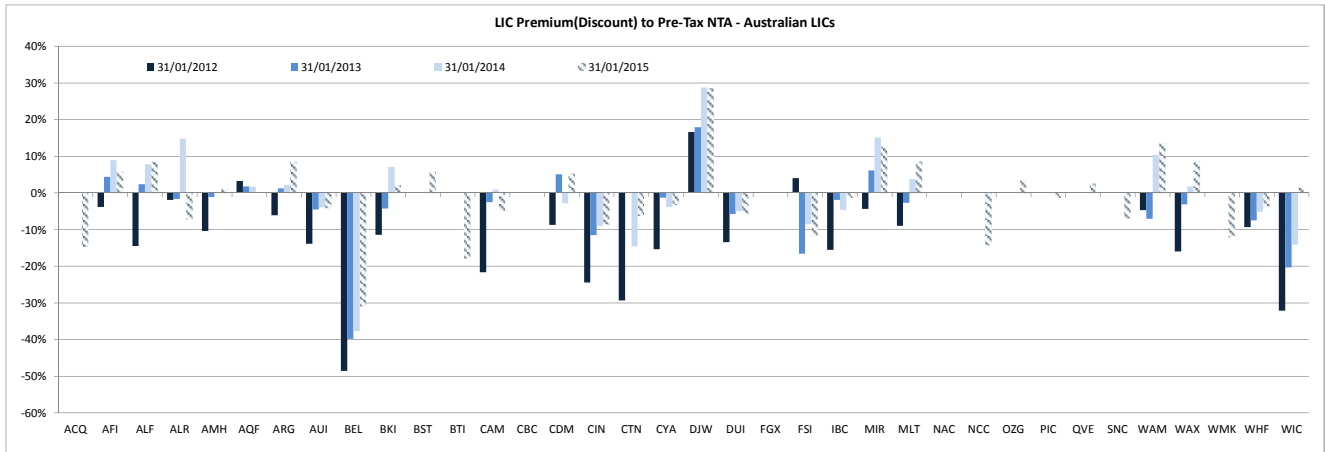
Capital flows into the sector has continued the increased level of interest evidenced in previous years, with the number of new vehicles launched reaching a decade long high in terms of both entrants and capital raised. Calendar 2014 saw a significant uplift on the previous year, with \$1.1bn raised across 12 new LICs versus \$297m in four IPOs for 2013. In addition to new vehicles, existing operators have continued to take advantage of buoyant market conditions to raise additional capital with another \$530m raised during 2014 via various placements and share purchase plans. Investors have also joined the party, with \$130m in options being exercised.

...but storm clouds gathering?

While signals have been generally bullish, year-on-year positive movements in the premium/discount numbers across the sector as a whole appears to have lost momentum since our previous review. In calendar 2012 and 2013, 77% & 75% of all LICs respectively (by number) experienced either a narrowing of discounts, or increases in their premium to pre-tax NTA. Calendar 2014 however saw this figure fall to 51% of LICs experiencing positive movements.

While some LIC managers sometimes 'break the mould' and may sustain premiums for prolonged periods, history both here and overseas would suggest that this is likely to be impermanent.

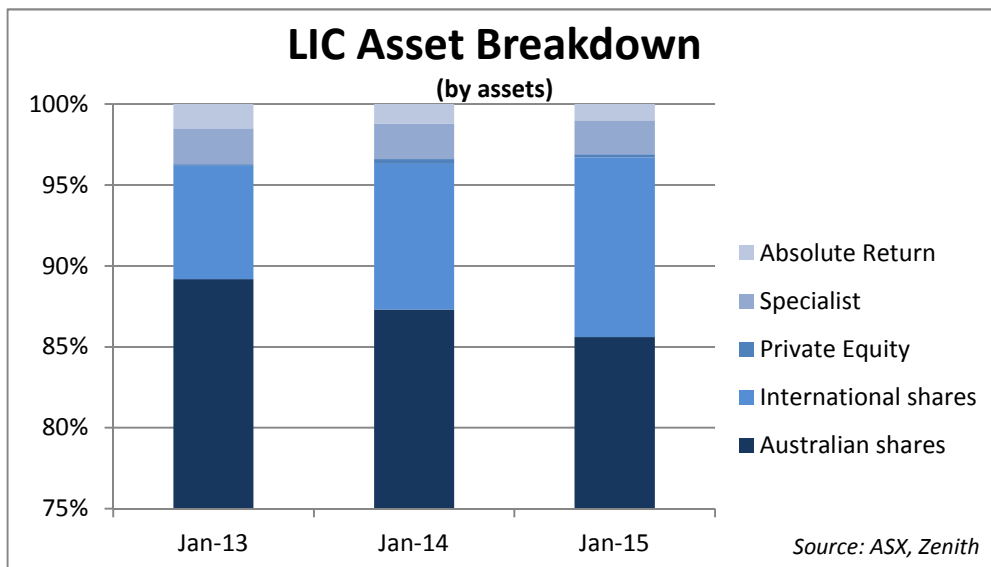
Whether this represents investor fatigue arising from a surge of new LICs entering the market or is a rational response to an over-valuation signal is difficult to determine. However it reinforces our view that investors should exhibit caution if purchasing LICs at anything more than a mild premium simply because it tends to cap potential upside and heightens risk.



Ultimately, whilst Zenith remains supportive of the talents of our rated fund managers as portfolio managers, we remain circumspect of entering a market where premiums are endemic. While we have always advocated a 'through the cycle' approach to investment decisions and portfolio construction, this only makes sense if investors are paying no more than a mild premium to fair vale.

2.2 Demand driving product diversity

Increasing growth and diversity in the market has been strong, particularly in the increase of LIC's offering international exposure.



A distinct theme which has been ongoing since late 2013 has been a significant increase in the number of entities now operating LICs alongside unlisted managed funds which often utilise a largely parallel investment strategy. Zenith sees this trend as a positive, given that there has tended to be a level of historical animosity between advocates of the two structures regarding their features. Zenith remains of the opinion that the creation of multiple entry points into an investment strategy is a positive, as it seeks to service different consumers with different needs.

This is also operating in conjunction in a slow but steady increase in the number of managers offering investments in managed funds via the ASX mFund platform. Also, the increasing diversity of Exchange Traded Products which are diversifying away from the traditional market cap weighted approach to embrace new and increasingly active strategies is offering more choice to investors wishing to embrace choice without the limitations (and costs) imposed by investment platforms.

Ultimately, it remains to be seen whether or not this re-rating of premium/discounts represents a fundamental shift or just another step in the cyclical phase. It is worth noting however that if we view cycles as likely to undergo mean reversion, current trading performance of the sector is well on the way to approaching another cyclical high. Regardless of the cause and future outcome, Zenith continues to reiterate to users of LICs that while it is an area to monitor particularly when either investing or divesting, movements along the way should rarely take up too much deliberation for long term investors providing entry points are appropriate.

3. ZENITH DUE DILIGENCE

3.1 Universe Coverage

The Zenith 2014 Listed Investment Company Sector Review draws from a universe of 57 eligible investment products.

In this review, we have reviewed LIC offerings across the following categories.

Fund Style	Description
Australian Shares	LICs that track Australian broad based indices such as the S&P/ASX 300 or S&P/ASX 200. This may include LICs focussed on particular GICS segments such as A-REITs.
International Shares	LICs that track international indices such as the S&P 500 in the US.
Absolute Return Funds	LICs whose strategies are designed to deliver positive returns through both positive and negative market conditions.
Alternatives	LICs utilising either real assets or other portfolios with a low expected correlation to the traditional asset classes of equities, bonds and cash.

3.2 Universe Filter

Zenith utilised a detailed quantitative and qualitative screening process to narrow down the universe to the most attractive candidates.

The quantitative screens included:

- The assessment of the level of absolute returns, excess returns, standard deviation (volatility) and consistency of returns, both in the underlying investment portfolio and via shareholder returns;
- Attribution analysis to identify each product’s sources of added value; and
- A review of each manager’s level of funds under management to ascertain whether this would affect future performance.

From a qualitative perspective, we considered factors including:

- The stability, depth and experience of the investment teams;
- Changes of ownership, corporate stability and changes in investment personnel and management;
- The validity and consistency of the investment philosophy and investment process; and,
- Availability and access to the key individuals managing the portfolio.

The initial filter enabled Zenith to screen out a large proportion of the investable universe and concentrate on the funds that we considered having the highest probability of being included on the Approved List. From an initial universe of 57 products, 15 proceeded past the initial filter stage and were invited to participate in Zenith’s Sector Review.

3.2.1 Invitation Declines

The following 18 funds made it past the initial filter but declined Zenith’s invitation to participate in the sector review based on the terms outlined in Zenith’s Manager Agreement.

Fund Name	Category
AMCIL Limited (ASX:AMH)	Australian shares/LIC
Argo Investments Limited (ASX:ARG)	Australian shares/LIC
Australian Foundation Investment Company Limited (ASX:AFI)	Australian shares/LIC
Australian United Investments Limited (ASX:AUI)	Australian shares/LIC
BKI Investment Company Limited (ASX:BKI)	Australian shares/LIC
Cadence Capital Limited (ASX:CDM)	Australian shares/LIC
Century Australia Investments (ASX:CYA)	Australian shares/LIC
Contango MicroCap Limited (ASX:CTN)	Australian shares/LIC
Djerriwarrh Investment Limited (ASX:DJW)	Australian shares/LIC
Emerging Leaders Investments Limited (ASX:ELI)	Australian shares/LIC
Magellan Flagship Fund Limited (ASX:MFF)	International shares/LIC
Milton Corporation Limited (ASX:MLT)	Australian shares/LIC
Mirrabooka Investments Limited (ASX:MIR)	Australian shares/LIC
PM Capital Asian Opportunities Fund Limited (ASX:PAF)	International shares/LIC
PM Capital Global Opportunities Fund Limited (ASX:PGF)	International shares/LIC
Templeton Global Growth Fund Limited (ASX:TGG)	International shares/LIC
Thorney Opportunities Limited (ASX:TOP)	Australian shares/LIC
Whitefield Limited (ASX:WHF)	Australian shares/LIC

3.3 Qualitative Due Diligence

Following Zenith’s initial filtering process, Zenith undertook detailed due diligence on 15 funds that proceeded past the initial filter and elected to participate in Zenith’s review.

The due diligence process requires a meeting between Zenith and the key investment staff involved in managing the product. Where practical, Zenith endeavours to conduct these due diligence meetings face-to-face in the fund manager’s own offices, enabling Zenith to meet a broader range of the fund manager’s investment team and obtain access to information sources used in the underlying analysis, valuation and portfolio management models and risk management systems.

Factors Zenith focussed on in this stage of the research process included the structure of the investment team, information resources, investment philosophy, investment process, portfolio construction and risk management.

In addition, Zenith also conducted a thorough review of all documentation, including investment process questionnaire material and backgrounds of the key investment personnel.

In addition to the investment analytics, Zenith examined processes at the company level with regard to dividend policies, Board composition and strategies utilised to manage any issues around share prices trading away from NTA.

3.3.1 Zenith Manager Meeting Register Table

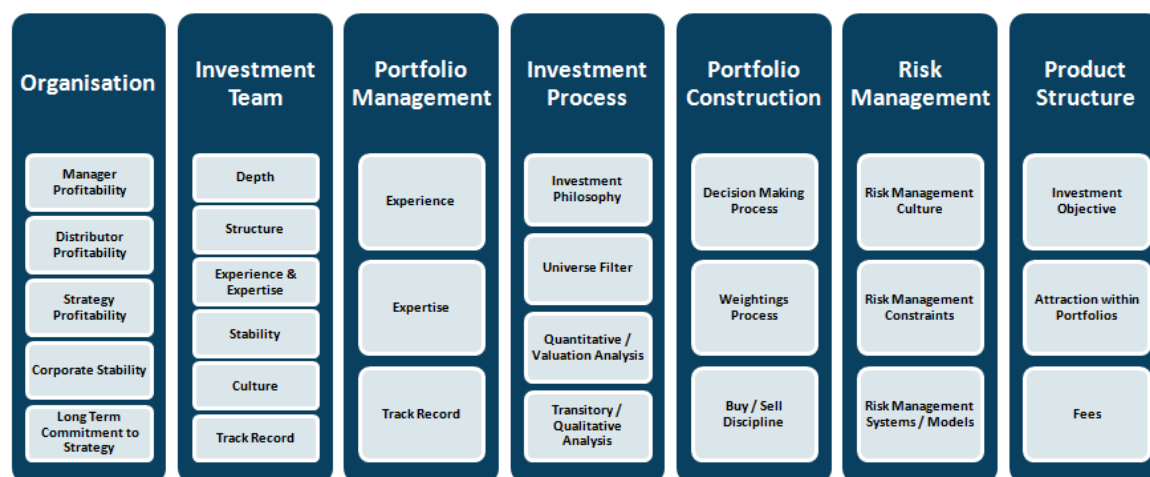
The due diligence meetings took place on the following dates, with the following investment personnel.

Fund Name	Meeting Dates	Meeting Attendees (From Fund Manager)
Aurora Absolute Return Fund (ASX:ABW)	Wednesday 28 January 2015	John Corr, Sheridan Hure, Andrew Ward, Simon Lindsay, Thomas Gillespie
Aurora Property Buy Write Income Trust (ASX:AUP)	Wednesday 28 January 2015	Andrew Ward, John Corr
Australian Leaders Fund Limited (ASX:ALF)	Monday 19 January 2015	Justin Braitting, Tim Bolger
Blue Sky Alternative Access Fund Limited (ASX:BAF)	Tuesday 27 January 2015	Alexander McNab, Adam Sharplin Andrew Champion
Flagship Investments Limited (ASX:FSI)	Wednesday 10 December 2014	Manny Pohl, Jason Pohl, Jared Pohl
Perpetual Equity Investment Company Limited (ASX:PIC)	Wednesday 10 December 2014	Stephen Barbarich, Vincent Pezzullo
Ozgrowth Limited (ASX:OZG)	Tuesday 16 December 2014	Phil Rees, Dermot Woods, Jay Hughes
QV Equities Limited (ASX:QVE)	Monday, 9 February 2015	Anton Tagliaferro, Simon Conn, Wayne McGauley, Ben van den Tol
WAM Active Limited (ASX:WAA)	Wednesday 10 December 2014	Geoff Wilson, Kate Thorley, Chris Stott, Sarah Maddox
WAM Capital Limited (ASX:WAM)	Wednesday 10 December 2014	Geoff Wilson, Kate Thorley, Chris Stott, Sarah Maddox
WAM Research Limited (ASX:WAX)	Wednesday 10 December 2014	Geoff Wilson, Kate Thorley, Chris Stott, Sarah Maddox
Watermark Market Neutral Fund Limited (ASX:WMK)	Monday 19 January 2015	Justin Braitting, Tim Bolger
Westoz Investment Company Limited (ASX:WIC)	Tuesday 16 December 2014	Phil Rees, Dermot Woods, Jay Hughes
Wealth Defender Equities Limited (ASX:WDE)	Monday, 19 January 2015	John Murray, Dan Bosscher, Charles Magro
Platinum Capital Limited (ASX:PMC)	Tuesday 27 January 2015	Kerr Neilson, Liz Norman

¹ Conducted as part of Zenith's review of the Aurora Fortitude Absolute Return Fund through which ABW gains its investment exposure.

3.4 Ratings Methodology

Zenith's ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors change for each sector and this information should only be used as a guide.



3.4.1 Ratings Bands

Based on the scores assigned by Zenith's analysts, a rating of Highly Recommended, Recommended, Approved or Not Approved) is assigned to each fund. As shown in the following table the ratings are determined based on the overall score out of 100.



4. APPROVED LIST

4.1 Approved List

For a fund to be placed on Zenith's Approved List it needs to achieve a minimum Approved rating. Zenith has elected not to apply fund rankings for its 2015 LIC Sector Review due to the sector universe containing a wide and disparate series of asset classes, and strategies with some sector subsets containing insufficient investment options to determine meaningful rankings. This is potentially subject to change as the universe of LICs continues to grow.

The Funds that achieved representation on Zenith's Approved List are shown below:

Fund Name	Category	Rating
Aurora Absolute Return Fund (ASX:ABW)	Australian shares/LIC	Approved
Aurora Property Buy Write Income Trust (ASX:AUP)	Australian shares/LIC	Approved
Australian Leaders Fund Limited (ASX:ALF)	Australian shares/LIC	Recommended
Blue Sky Alternative Access Fund Limited (ASX:BAF)	Alternatives/LIC	Recommended
Flagship Investments Limited (ASX:FSI)	Australian shares/LIC	Recommended
Ozgrowth Limited (ASX:OZG)	Australian shares/LIC	Approved
Perpetual Equity Investment Company Limited (ASX:PIC)	Australian shares/LIC	Recommended
Platinum Capital Limited (ASX:PMC)	International shares/LIC	Highly Recommended
QV Equities Limited (ASX:QVE)	Australian shares/LIC	Recommended
WAM Active Limited (ASX:WAA)	Australian shares/LIC	Recommended
WAM Capital Limited (ASX:WAM)	Australian shares/LIC	Recommended
WAM Research Limited (ASX:WAX)	Australian shares/LIC	Recommended
Watermark Market Neutral Fund Limited (ASX:WMK)	Australian shares/LIC	Recommended
Wealth Defender Equities Limited (ASX:WDE)	Australian shares/LIC	Recommended
Westoz Investment Company Limited (ASX:WIC)	Australian shares/LIC	Approved

4.2 Additions to Approved List

The following LIC's have been added to the Approved list since our last sector review.

Fund Name	Category	Rating
Blue Sky Alternative Access Fund Limited	Australian shares	Recommended
Perpetual Equity Investment Company Limited	Australian shares	Recommended
QV Equities Limited	Australian shares	Recommended
Wealth Defender Equities Limited	Australian shares	Recommended
Ozgrowth Limited	Australian shares	Approved
Westoz Investment Company Limited	Australian shares	Approved

Blue Sky Alternative Access Fund Limited (ASX:BAF)

BAF provides investors access to a range of alternative asset classes in a LIC structure, including private equity, venture capital, real assets, hedge funds and private real estate. While BAF benefits from the liquidity that comes from being an ASX-listed LIC, investors should be aware that the illiquid nature of the underlying portfolio may create some volatility with respect to monthly valuations. However Zenith maintains our conviction in managements' capabilities in this space and the role a liquid form of alternative investment can potentially play in a diversified portfolio. Zenith rates BAF **RECOMMENDED**.



Perpetual Equity Investment Company Limited (ASX:PIC)

PIC predominantly invests in a diversified portfolio of Australian stocks, to increase flexibility and opportunity set, management may also invest up to 25% in global shares and 25% in cash. The portfolio will be managed by Sydney-based fund manager, Perpetual Limited utilising its long standing and successful value orientated investment style. Zenith rates Perpetual Equity Investment Company Limited **RECOMMENDED**.

QV Equities Limited (ASX:QVE)

QVE provides investors with a quality and value biased exposure to the Australian equities market, intending to invest predominately in a diversified portfolio of Australian ex-20 stocks. The portfolio will be managed by Sydney-based fund manager, Investors Mutual Limited (IML), utilising its long standing and successful value orientated investment style. Zenith believes IML's philosophy is ideally suited to a LIC, given the sector is strongly supported by the SMSF market, which seeks preservation of capital and income. An ex-20 exposure should complement an investors direct stock holdings or an exposure to the traditional LIC's which focus on the top 20 stocks which are predominately financials and resource companies. Zenith rates QV Equities **RECOMMENDED**.

Wealth Defender Equities Limited (ASX:WDE)

WDE is a newly incorporated LIC which will invest in Australian Equities, derivatives and cash. WDE's investment strategy mirrors that of the recently launched Perennial Value Wealth Defender Australian Shares Trust operated by Perennial Value Management. Zenith believes the strategy provides investors with a unique exposure to Australian equities which is intuitively appealing. Through the use of dynamic protection strategies, the strategy aims to construct an asymmetric return/risk profile that is designed to reduce losses in market downturns by approximately 50% whilst allowing for full participation in market upswings. Zenith rates Wealth Defender Equities Limited **RECOMMENDED**.

Ozgrowth Limited (ASX:WIC)

Ozgrowth Limited (ASX:OZG) is a Listed Investment Company (LIC) focussing on concentrated small to micro-cap companies via a high conviction, benchmark unaware style. While the portfolio is relatively unconstrained, management (which are based in Western Australia), seek to focus on companies with a connection to WA in order to exploit greater insight to operations and management. Listing on the ASX in 2008, OZG's portfolio is relatively unconstrained and can hold up to 100% in cash. Zenith rates Ozgrowth Limited **APPROVED**.

Westoz Investment Company Limited (ASX:WIC)

WIC is a Listed Investment Company (LIC) focussing on small to mid-cap companies via a concentrated, high conviction, benchmark unaware style. While the portfolio is relatively unconstrained, management (which are based in Western Australia), seek to focus on companies with a connection to WA in order to exploit greater insight to operations and management. Established as an unlisted investment company in 2005 and listing on the ASX in 2009, WIC's portfolio is relatively unconstrained and can hold up to 100% in cash. Zenith rates Westoz Investment Company Limited **APPROVED**.

4.3 Ratings Changes to Approved List Funds

There has been 3 rating changes in regards to existing funds on the Approved List following the completion of the due diligence for this sector.

Fund Name	New Rating	Previous Rating
Aurora Absolute Return Fund (ASX:ABW)	Approved	Recommended
Aurora Property Buy-Write INcome Trust	Approved	Recommended
Hunter Hall Global Value Limited (ASX:HHV)	Redeem	Approved

Aurora Absolute Return Fund (ASX:ABW)

Zenith downgraded the Aurora Absolute Return Fund from **RECOMMENDED** to **APPROVED**. John Corr and the Aurora investment team continue to be well regarded. However, due to a structural decline in the level of alpha in the underlying strategies deployed by Aurora and the team's inability to adapt to the prevailing environment, Zenith has diminished confidence in Aurora's ability to meet its return objectives.

Aurora Property Buy Write Income Trust

Zenith downgraded the Aurora Property Buy Write Income Trust from RECOMMENDED to **APPROVED**. While Zenith has a high regard for the investment adviser, strategy and track record, there are material risks associated with the market capitalisation of AUP. The vehicle has failed to gather critical mass, with funds under management (FUM) stagnating at \$11.3 million as at 31 December 2014. In Zenith's opinion, this potentially exposes to investors to wind-up risk should there be any large redemptions. Although Aurora has stated that they remain committed to AUP and its growth, Zenith believes that the current FUM level is untenable.

Hunter Hall Global Value Limited (ASX:HHV)

In September 2014 Zenith downgraded all of Hunter Hall's retail equity funds (including HHV) to **REDEEM**. This decision was driven by the continued decline in Hunter Hall's asset base, poor fund performance from both an absolute and peer relative perspective and ongoing instability within the investment team.

4.4 Approved List – Fund Details

The below table sets out the key information on each LIC on the Approved List. This information includes the strategy utilised, the reference index, market capitalisation, management fee, Premium/Discount to Pre-Tax NTA and distribution frequency. All data is as at 28 February 2015.

Fund Name	Portfolio/Strategy Bias	Reference Index	Market Cap. (\$m)	Base Mgt Fee (% p.a.)	Premium/Discount to NAV	Distribution Frequency
Listed Investment Companies - Australian Shares						
Aurora Absolute Return Fund (ASX:ABW)	Market Neutral	S&P/ASX 300 Accum Index ¹	28.8	1.49%	0.5%	Quarterly
Aurora Property Buy Write Income Trust (ASX:AUP)	A-REIT, Active Derivatives	S&P/ASX 200 A-REIT Accum Index	11.7	2.05%	-2.8%	Quarterly
Australian Leaders Fund Limited (ASX:ALF)	Long/Short, Variable Beta	All Ords Accum Index	354.1	1.00%	9.4%	Semi Annual
Flagship Investments Limited (ASX:FSI)	Mid Cap, Active - High Conviction	All Ords Accum Index	37.4	- ²	13.8%	Semi Annual
Perpetual Equity Investment Company Limited (ASX:PIC)	Small/Micro Cap, Active - High Conviction	S&P/ASX Small Ordinaries Accum Index	248.2	1.00%	1.0%	Semi Annual
Ozgrowth Limited (ASX:OZG)	Mid Cap, Active - High Conviction	S&P/ASX 300 Accum. Index	57.8	1.00%	-5.9%	Semi Annual
QV Equities Limited (ASX:QVE)	Mic Cap, Active, Value	S&P/ASX 300 Accum. Index	202.2	0.90% ⁴	5.8%	Semi Annual
WAM Active Limited (ASX:WAA)	Mid/Small/Micro Cap, Active - High Conviction, Growth	All Ords Accum Index	39.0	1.00%	11.4%	Semi Annual
WAM Capital Limited (ASX:WAM)	Mid/Small/Micro Cap, Active - High Conviction, Growth	All Ords Accum Index	715.0	1.00%	16.3%	Semi Annual
WAM Research Limited (ASX:WAX)	Mid/Small/Micro Cap, Active - High Conviction, Growth	All Ords Accum Index	175.4	1.00%	10.4%	Semi Annual
Watermark Market Neutral Fund Limited (ASX:WMK)	Market Neutral	RBA Cash Rate	74.9	1.00%	9.0%	Semi Annual
Westoz Investment Company Limited	Large/Mid/Small Cap, Active Derivatives	S&P/ASX 300 Accum. Index	129.3	0.98%	Yet to commence trading	Semi Annual
Wealth Defender Equities Limited (ASX:WDE) ³	Mid/Small Cap, Active - High Conviction	S&P/ASX 300 Accum. Index	N/A	1.00%	N/A	Semi Annual
Listed Investment Companies - International Shares						
Platinum Capital Limited (ASX:PMC)	Long/Short, Variable Beta	MSCI All Country World Net Index (A\$)	410.98	1.50%	5.4%	Semi Annual
Listed Investment Companies - Alternatives						
Blue Sky Alternative Access Fund Limited (ASX:BAF)	Alternatives (Real Assets, Hedge Funds, Private Equity, Real Estate)	N/A	64.00	1.20%	10.4%	Annual

¹ Also utilises the RBA Cash Rate as a secondary performance benchmark. ² Performance fee only. ³ Yet to commence trading. ⁴ On the first \$150m



4.5 Quality vs. Value Score

It is important to recognise that Zenith’s ratings applied to LIC’s (and other Exchange Traded Products) do not explicitly take into account share prices vs. NTA and do not represent a buy/sell recommendation based on a LICs valuation. Rather they reflect our conviction regarding the quality of the investment manager and their ability to execute their investment strategy and achieve their goals. A LIC which holds an investment grade rating means that Zenith considers it suitable for potential inclusion in a portfolio, but not necessarily at any price.

Zenith recognises that our inherent view should not be eclipsed by the price paid to access the strategy. As stated previously, we advocate caution when buying LICs at a premium, regardless of the quality of the underlying investment. To aid potential users in making this decision, Zenith uses an algorithm which is designed to encapsulate our conviction in each of our rated LICs versus the prevailing premium/discount to NTA.

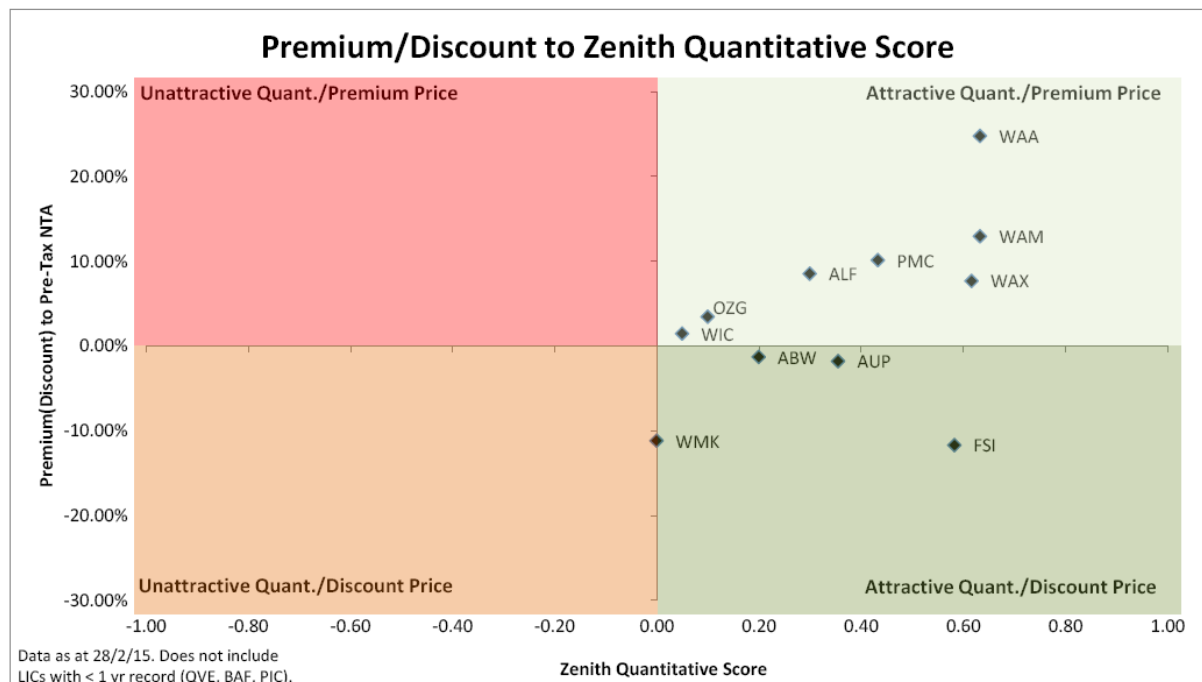
The Zenith Quantitative Score (ZQS) generates a quantitative absolute score principally driven by the following inputs.

Factor	Time Period Assessed	Source Data
Average pre-tax NTA growth	5 year average	Monthly pre-tax NTA
Excess Return	1, 3, 5 years + inception	Monthly net portfolio returns data. Each LIC is benchmarked to its relative index. ¹
Sharpe Ratio		
Information Raio		

¹ If deemed appropriate, Zenith may assign a benchmark index based on our own determination of the best fit to the investment strategy. NOTE: Each factor is weighted according to Zenith’s proprietary scoring model, with return series < 5 years weighted accordingly.

It should be reiterated that this analysis only examines our universe of LICs which hold Investment Grade ratings (hence the quality bias) and should be used in conjunction with the analysis contained within the individual ratings reports on each LIC and with the latest available premium/discount figures.

It should also be recognised that these LICs represent a range of investment strategies and as such this does impact some of the results. For example, AUP’s buy write strategy means it will lag momentum driven markets while providing protection on the downside.



Zenith's rated universe displays similar results to last year's sector review. Much of the group continues to trade on cyclically high levels when compared to the value of their underlying assets. Solid evidence of investment skill over the longer term remains evident however the sector continues to be relatively devoid of 'bargains'. The best relative value in comparison to peers in our view remains FSI which holds a similar result to last year although the discount has deepened slightly. However it should be taken into account that this discount is likely to be denied from FSI's small market cap and comparatively limited free float (i.e. high level of persistence). Those LICs in the upper right quadrant still represents strong performance attributes but remain expensive. It should be recognised that the ZQS is not necessarily an indicator of future absolute returns, but rather an indicator of performance, value add and strong strategy execution.

5. QUANTITATIVE ANALYSIS – REVIEWED FUNDS

5.1 LIC Shareholder Returns (As at 31 January 2015)

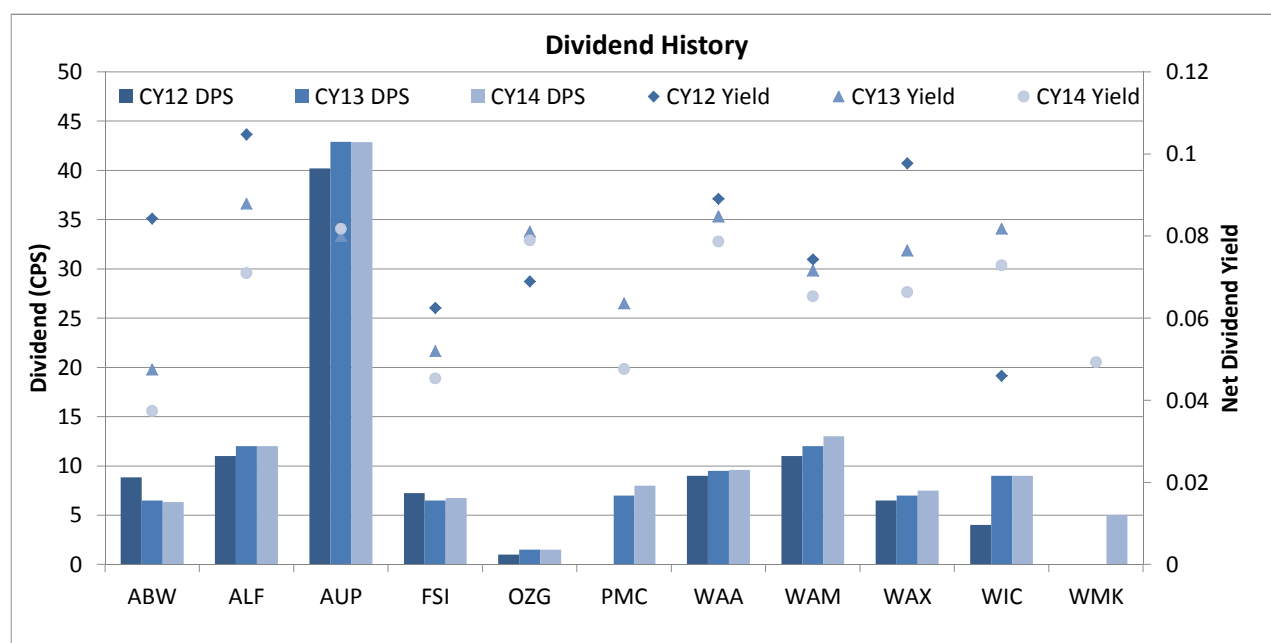
Note: shareholder returns are the sum of share price + dividends on a reinvestment basis.

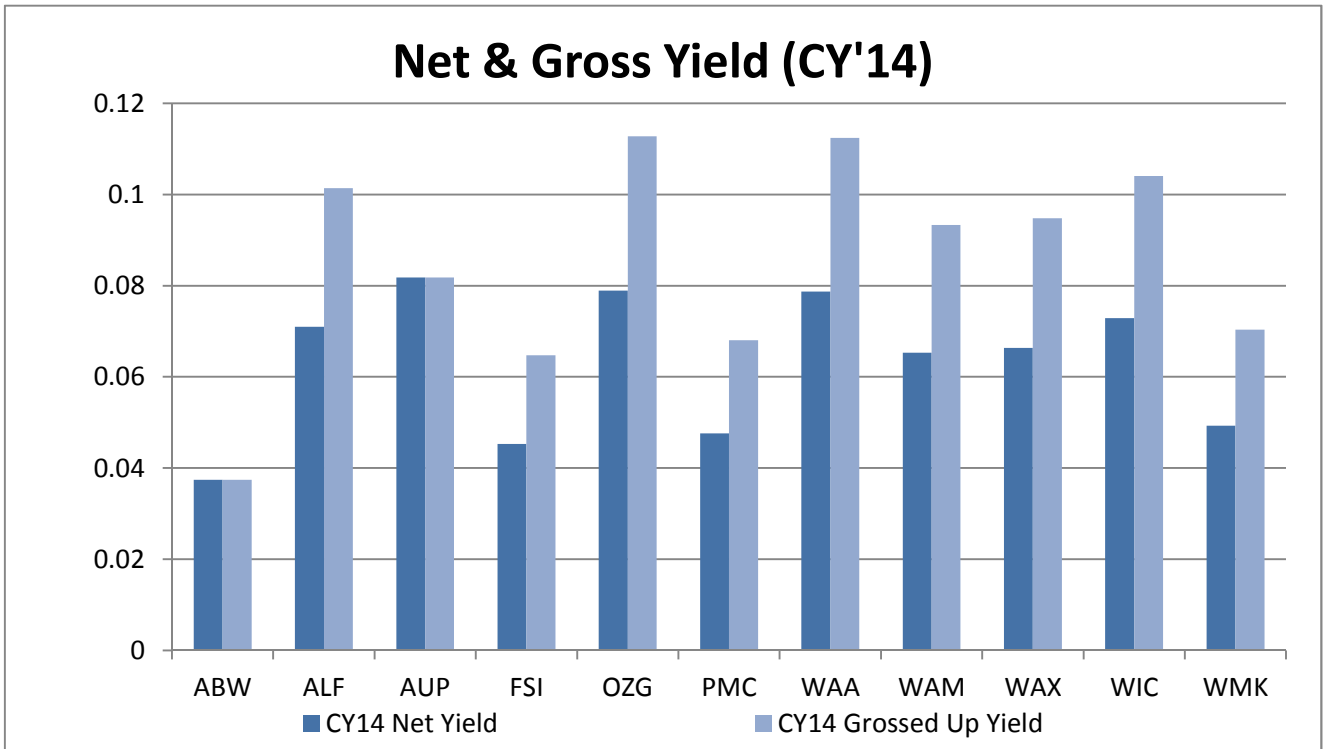
Fund Name	1 Yr (% p.a.)	3 Yrs (% p.a.)	5 Yrs (% p.a.)	7 Yrs (% p.a.)	10 Yrs (% p.a.)	Since Inception (% p.a.)
Listed Investment Companies - Australian Shares						
Aurora Absolute Return Fund (ASX:AWB)	- 0.62	3.17	4.79	1.75	-	3.14
Aurora Property Buy Write Income Trust (ASX:AUP)	13.61	12.50	9.77	7.02	-	2.11
Australian Leaders Fund Limited (ASX:ALF)	- 8.79	18.16	13.65	14.08	11.61	10.86
Flagship Investments Limited (ASX:FSI)	- 0.64	8.03	5.95	4.88	7.34	7.33
Ozgrowth Limited (ASX:OZG)	- 13.79	- 1.94	3.02	- 0.39	-	- 0.39
Perpetual Equity Investment Company Limited (ASX:PIC)	-	-	-	-	-	- 1.53
QV Equities Limited (ASX:QVE)	-	-	-	-	-	9.28
WAM Active Limited (ASX:WAA)	7.00	14.87	12.33	9.54	-	9.50
WAM Capital Limited (ASX:WAM)	9.18	18.36	17.11	11.35	11.07	14.30
WAM Research Limited (ASX:WAX)	10.64	27.35	19.46	10.81	8.97	7.75
Watermark Market Neutral Fund Limited (ASX:WMK)	- 11.82	-	-	-	-	- 7.64
Westoz Investment Company Limited (ASX:WIC)	- 2.57	11.44	6.48	-	-	5.63
Listed Investment Companies - International Shares						
Platinum Capital Limited (ASX:PMC)	6.53	30.79	7.36	7.82	4.19	9.77
Listed Investment Companies - Alternatives						
Blue Sky Alternative Access Fund (ASX:BAF)	-	-	-	-	-	- 6.00

5.2 Dividends Past 3 Financial Years

Dividend yields have remained relatively healthy between 2012-2014 albeit yield compression remains in evidence. Interim reporting for 1HY15 has been generally positive with most of Zenith's rated LICs either maintaining or growing dividends. The exception has been ALF which saw the interim dividend lower than the previous period and a reduced guidance.

LIC's benefit by being able to source fully franked dividends not only from the underlying investment portfolio but also from any tax paid from its own company profit. In comparison, most managed funds and ETFs can only pay flow-through dividends from their underlying portfolios. This makes quality LICs a strong contender for income generation strategies, particularly on a post-tax basis.

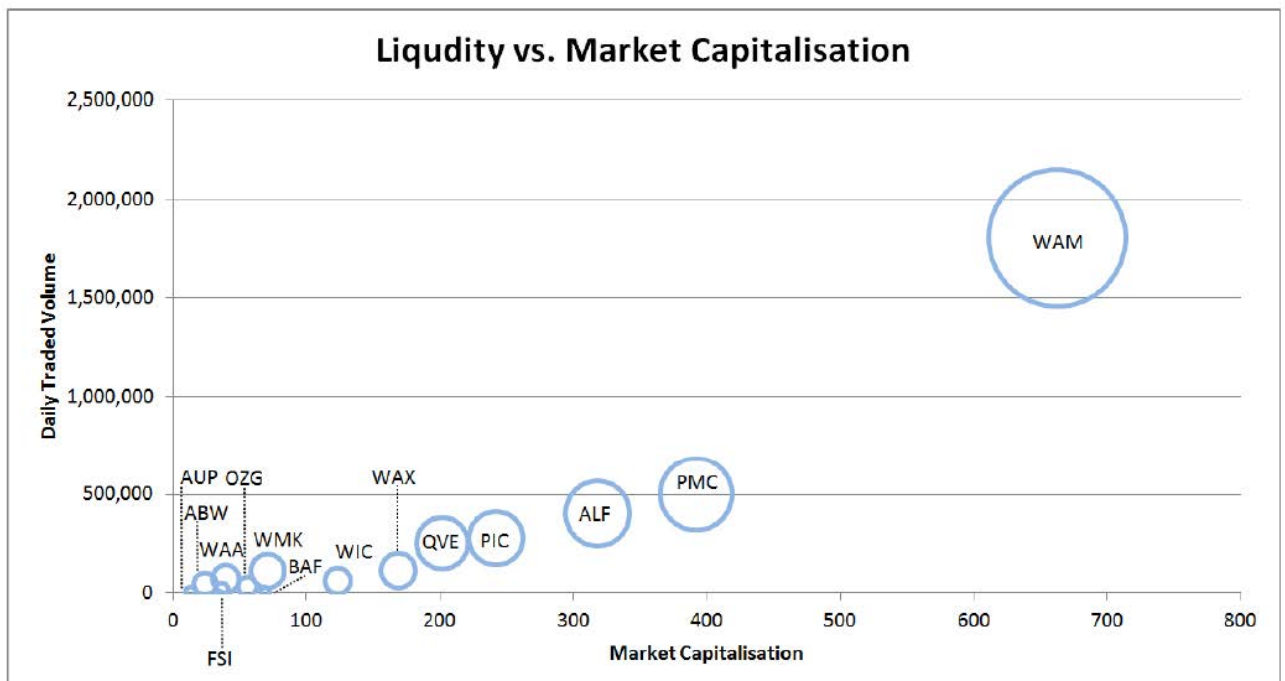




5.3 Liquidity

Regardless of their individual investment merit, potential investors should be highly attuned to the level of market liquidity available in each LIC. Ultimately, overall we see the investment structure as valuable, with many of the LIC's in the marketplace providing access to quality management and strategies. However, outside the very largest LICs (most of which do not currently hold an investment grade rating from Zenith), liquidity can be comparatively limited. Accordingly, Zenith believes that LICs are best suited to patient investors who are willing to accept that entry or exit without making a substantial impact to the market may be a relatively lengthy process amongst those LICs with smaller capitalisation levels.

The following chart and table depicts Zenith's rated universe according to their average daily traded value relative to their market capitalisation. In order to provide a 'normalised' outcome given the relatively low level of trading for some LICs, Zenith has calculated the average daily value as the average of each LICs trades over 5 day, 30 day and 6 month intervals (data as at 28 February 2015).



LIC	Market Cap (\$m)	Daily average value traded
ABW	\$ 23.8	\$ 46,930
ALF	\$ 318.0	\$ 404,248
AUP	\$ 13.0	\$ 8,170
BAF	\$ 69.0	\$ 41,248
FSI	\$ 36.3	\$ 17,317
OZG	\$ 55.7	\$ 34,152
PIC	\$ 242.0	\$ 276,536
PMC	\$ 391.7	\$ 501,156
QVE	\$ 201.3	\$ 254,185
WAA	\$ 39.5	\$ 71,786
WAM	\$ 662.5	\$ 1,802,194
WAX	\$ 168.4	\$ 115,212
WIC	\$ 123.0	\$ 62,164
WMK	\$ 70.8	\$ 112,800

Note: QVE not included as the capital raising is yet to be completed.

5.4 Correlation Matrices

A correlation matrix is a useful tool in assessing the complementarities of various funds with other asset classes. The following table provides the correlation statistics of funds that participated in this review with other asset class indices over the past five years (those funds with insufficient history are noted below). The red shading indicates positive correlation. Green shading indicates negative correlation.

Fund/Index Correlation Table at 30 January 2015

Correlation Table (31/12/2009 to 31/12/2014)		Fund Name/Index and Asset Class								
Fund Name/Index and Asset Class	Australian Equities		Global Equities		Cash and Bonds		Property		Infrastructure	
	S&P/ASX 100 Accumulation Index	S&P/ASX 300 (Accum)	MSCI World ex Aust -\$A	MSCI World ex Aust Hedged -\$A	Bloomberg AusBond Composite Index	Barclays Global Aggregate -\$A (Hdg)	S&P/ASX 300 AREIT	FTSE EPRA/NAREIT Developed Rental Index -\$A (Hdg)	S&P Global Infrastructure Index -\$A (Hdg)	
Australian Shares - LICs										
Aurora Absolute Return Fund	0.42	0.46	0.46	0.12	0.57	0.05	-0.28	-0.10	0.13	0.40
Aurora Property Buy Write Income Trust	0.34	0.60	0.58	-0.07	0.24	-0.07	0.13	0.26	0.86	0.53
Australian Leaders Fund Limited	0.59	0.57	0.60	0.14	0.54	0.12	-0.29	-0.01	0.23	0.36
Flagship Investments Limited	0.32	0.45	0.41	0.01	0.16	-0.04	-0.04	0.02	0.30	0.27
Ozgrowth Limited	0.76	0.58	0.57	0.04	0.41	0.00	-0.17	-0.08	0.29	0.31
WAM Active Limited	0.42	0.49	0.50	0.04	0.38	0.12	-0.17	0.18	0.29	0.43
WAM Capital Limited	0.64	0.59	0.65	0.18	0.58	0.23	-0.22	0.09	0.26	0.50
WAM Research Limited	0.66	0.68	0.68	0.17	0.53	0.08	-0.20	0.09	0.36	0.49
Watermark Market Neutral Fund Limited	0.44	0.51	0.52	-0.16	0.42	0.21	-0.05	0.07	0.22	0.21
Westoz Investment Company Limited	0.67	0.61	0.60	0.10	0.56	0.02	-0.25	-0.08	0.31	0.51
International Shares - LICs										
Platinum Capital Limited	0.30	0.22	0.27	0.52	0.41	0.12	-0.32	-0.14	-0.03	0.17

Correlation Time Period	Fund Name
Five Years	All other LICs
Less than Two Years	Watermark Market Neutral Fund Limited

Contributors:

Fund Reports	
David Smythe	Director
Dugald Higgins	Senior Investment Analyst

Sector Report	
Dugald Higgins	Senior Investment Analyst



(03) 9642 3320



info@zenithpartners.com.au

DISCLAIMER:

This report is prepared exclusively for clients of Zenith Investment Partners (Zenith). The report contains recommendations and advice of a general nature and does not have regard to the particular circumstances or needs of any specific person who may read it. Each client should assess either personally or with the assistance of a licensed financial adviser whether the Zenith recommendation or advice is appropriate to their situation before making an investment decision. The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Opinions expressed may change without notice. Zenith accepts no liability, whether direct or indirect arising from the use of information contained in this report. No part of this report is to be construed as a solicitation to buy or sell any investment. The performance of the investment in this report is not a representation as to future performance or likely return. The material contained in this report is subject to copyright and may not be reproduced without the consent of the copyright owner. Zenith usually receives a fee for assessing the fund manager and product(s) described in this document against accepted criteria considered comprehensive and objective.