

Listed Investment Companies (LICs)

SECTOR REPORT

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Monthly LIC update – top picks

- The following report contains a LIC sector update and performance review of our coverage list for the month of July 2016. The table on page three provides a current update of the overall sector 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:** Average underlying NTA growth for large cap LICs increased 5.9% in July 2016. We maintain our investment view that large cap LICs continue to offer attractive entry points. Australian Foundation Investment Company (AFI) and BKI Investment Company (BKI), on both an absolute and relative basis (compared to one and three year historical averages) are currently our top picks. Both AFI and BKI are trading at an estimated 0.5% premium to NTA. Elsewhere, trading at an estimated 6.9% discount to NTA, Diversified United Investment (DUI) is a top value pick.
- **Mid-capitalisation:** During July WAM Leaders (WLE) deployed a significant amount of capital, with cash currently representing 39.4% of the portfolio (June cash weighting 63.0%). WLE also provided greater visibility on the underlying portfolio, disclosing top 10 holdings. In line with previous commentary, the initial portfolio has a mid-cap focus with >50% of the deployed portfolio invested in securities outside the ASX top 20 and within the ASX100. Trading at an estimated 3.9% premium to NTA, WLE remains a top pick. Elsewhere, trading at an estimated 8.4% discount to NTA, Perpetual Equity Investments' (PIC) NTA increased 6.1% during July.
- **Small capitalisation:** Contango Microcap (CTN) and Acorn Capital (ACQ) continue to outperform the ASX Small Ordinaries Accumulation Index up 9.4% in FY17-to-date, with TSR of 15.0% and 14.5% respectively. NTA growth for CTN has been driven from top holdings such as Catapult Group (CAT), Mayne Pharma Group (MYX), HUB24 (HUB) and Saracen Minerals (SAR). In July, two of ACQ's unlisted investments reach liquidity events with Range International (RAN) and Australis Oil & Gas (ATS) listing on the ASX. Range International, up 45.0% since listing, is currently ACQ's top holding at 6.4% of the portfolio and has been a key contributor to ACQ's 16.6% NTA growth during July. Both CTN and ACQ remain top picks, trading at estimated 6.3% and 17.8% discounts to NTA respectively.
- **International:** Magellan Flagship Fund (MFF), holding an underlying portfolio comprising blue-chip American corporations such as Visa, Mastercard, Lowe's and Wells Fargo is currently trading at an estimated 7.4% discount to NTA (0.0% post option adjustment) and is a top pick. Holding 9.7% of its portfolio in St Barbara (SBM), Hunter Hall Global Value Fund (HHV) performed strongly in July with NTA growth of 5.7%. HHV is currently trading at an estimated 4.7% discount to NTA with a 4.6% dividend yield (fully franked). Elsewhere, Global Value Fund (GVF) with a 4.6% fully franked dividend yield is now trading in-line with its NTA.
- **Specialty:** Bailador Technology (BTI) added a new company to its portfolio in July - DocsCorp. DocsCorp is a provider of cloud and desktop productivity software for document management. The software provides an integrated, easy-to-use platform that enables the processing, review, manipulation and publishing of workflows. Whilst new additions to the BTI portfolio will help decrease concentration risk, an exit from an existing holding or a revaluation uplift will be the catalyst for a re-rating, in our view. Elsewhere, Bluesky Alternative Access Fund (BAF) increased its NTA by 0.3% in July, driven primarily by its Blue Sky Water Fund allocation (19.8% of the portfolio). BAF is currently trading at a 10.7% premium to NTA.

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Disclosure

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

Baillieu Holst Ltd has acted in a corporate advisory role for WLE and earned fees in relation to that activity in the past 12 months.

Sector snapshot

BAILLIEU HOLST - EQUITY RESEARCH Listed Investment Companies Coverage by Sector

Figures as at: 16 August 2016

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	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Australian Foundat.	AFI	5.67	6408.8	24.0	4.2%	6.0%	-1.9%	5.64	0.5%	5.82	1.7%	1.0%	4.3%	3.8%
Argo Investments	ARG	7.59	5179.0	30.5	4.0%	5.7%	1.1%	7.42	2.3%	7.49	0.3%	1.1%	6.4%	3.4%
Australian United In	AUI	7.57	940.1	33.7	4.5%	6.4%	2.3%	8.06	-6.1%	8.10	-8.6%	-7.2%	-4.6%	-5.7%
BKI Investment Ltd	BKI	1.59	942.5	7.3	4.6%	6.5%	-0.1%	1.59	0.5%	1.64	-0.6%	0.0%	4.4%	0.8%
Djerriwarrh	DJW	3.66	804.4	24.0	6.6%	9.4%	-5.6%	3.30	10.8%	3.28	22.6%	27.3%	33.4%	33.4%
Diversified United	DUI	3.47	724.2	14.0	4.0%	5.8%	-1.1%	3.73	-6.9%	3.74	-6.1%	-7.2%	-5.0%	-6.7%
Milton Corporation	MLT	4.29	2775.2	18.6	4.3%	6.2%	0.2%	4.32	-0.8%	4.45	-1.6%	-0.8%	2.1%	1.1%

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	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Australian Leaders	ALF	1.45	402.1	10.0	6.9%	9.9%	0.0%	n.a	n.a	1.33	9.0%	8.4%	5.2%	8.0%
Aberdeen Leaders	ALR	1.06	66.0	5.0	4.7%	6.8%	-3.7%	1.23	-14.3%	1.24	-11.7%	-10.3%	-9.4%	-1.9%
AMCIL Limited	AMH	0.96	244.5	4.0	4.2%	6.0%	-1.5%	0.95	0.9%	0.98	3.1%	1.4%	-2.2%	-1.7%
Cadence Capital	CDM	1.25	341.9	11.0	8.8%	12.6%	-2.0%	1.16	7.9%	1.14	11.8%	11.6%	12.4%	5.6%
Contango Inc Gen Ltc	CIE	0.96	77.4	2.0	2.1%	3.0%	-1.0%	1.03	-7.2%	1.04	-6.3%	-6.9%	n.a	n.a
Carlton Investments	CIN	32.27	858.8	111.0	3.4%	4.9%	-0.1%	37.43	-13.8%	36.79	-12.2%	-12.2%	-11.2%	-11.0%
Future Gen Ltd	FGX	1.13	282.0	4.0	3.5%	5.1%	-1.7%	n.a	n.a	1.20	-4.4%	-3.9%	-2.6%	n.a
Mirrabooka Invest.	MIR	2.79	440.7	15.0	5.4%	7.7%	-2.8%	2.41	15.9%	2.38	20.6%	16.5%	12.5%	12.2%
Perpetual Equity Ltd	PIC	0.98	243.5	1.3	1.3%	1.9%	2.6%	1.07	-8.4%	1.07	-10.7%	-9.5%	-7.0%	n.a
Qv Equities Limited	QVE	1.20	259.0	1.5	1.3%	1.8%	9.6%	1.17	3.0%	1.16	-5.8%	-3.2%	-3.5%	n.a
WAM Capital Limited	WAM	2.30	1084.5	14.3	6.2%	8.9%	3.1%	2.00	14.9%	1.97	13.4%	13.5%	10.7%	8.5%
WAM Leaders Limited	WLE	1.17	416.2	0.0	0.0%	0.0%	0.4%	1.13	3.9%	1.12	4.4%	n.a	n.a	n.a
Wealth Def Equ Ltd	WDE	0.79	98.7	1.0	1.3%	1.8%	3.9%	0.90	-12.1%	0.90	-15.2%	-14.3%	n.a	n.a
Whitefield Ltd	WHF	4.32	364.5	25.5	5.9%	8.4%	0.7%	4.85	-10.9%	4.89	-12.3%	-11.3%	-7.7%	-6.5%

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	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Acorn Cap Inv Fund	ACQ	1.03	49.9	n.a	n.a	n.a	6.2%	1.25	-17.8%	1.24	-22.0%	-19.2%	-18.3%	n.a
Barrack St Invest	BST	0.97	16.0	1.5	1.5%	1.8%	-1.5%	1.21	-20.0%	1.21	-18.7%	-17.7%	-19.0%	n.a
Contango Microcap	CTN	1.15	189.6	6.3	5.5%	6.4%	6.5%	1.23	-6.3%	1.20	-10.3%	-13.6%	-11.8%	-10.9%
Glennon SML Co Ltd	GC1	1.04	28.0	0.8	0.7%	0.9%	2.0%	1.17	-11.8%	1.16	-12.2%	-8.9%	n.a	n.a
Naos Emerg Opp	NCC	1.15	53.0	6.3	5.5%	7.8%	-0.4%	n.a	n.a	1.32	-12.9%	-8.0%	-11.8%	-11.1%
Ozgrowth Limited	OZG	0.16	55.7	1.0	6.5%	9.2%	5.1%	0.19	-19.9%	0.19	-19.4%	-21.2%	-18.5%	-15.3%
WAM Research Ltd	WAX	1.46	255.2	8.0	5.5%	7.8%	2.1%	1.28	14.3%	1.24	15.2%	13.4%	10.5%	7.1%
Westoz Inv Ltd	WIC	0.88	112.4	7.5	8.5%	12.2%	-1.1%	1.05	-15.9%	1.04	-11.5%	-13.7%	-13.7%	-10.3%
8lp Emerg Co Ltd	8EC	0.99	32.9	0.0	0.0%	0.0%	-2.2%	1.17	-15.6%	1.14	-14.2%	-11.6%	n.a	n.a

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	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Amp Capital China	AGF	0.92	441.1	3.9	4.2%	4.2%	1.1%	1.03	-10.7%	0.98	-7.1%	-12.5%	-20.7%	-20.7%
Argo Global Ltd	ALI	1.89	268.3	0.5	0.3%	0.3%	-5.5%	2.00	-5.8%	2.03	-6.7%	-7.7%	n.a	n.a
Ellerston Asian	EAI	0.82	96.6	n.a	n.a	n.a	-1.4%	n.a	n.a	0.96	-13.2%	-15.4%	n.a	n.a
Ellerston Global Inv	EGI	0.99	74.9	2.0	2.0%	2.9%	0.0%	1.10	-10.2%	1.11	-10.8%	-12.8%	-7.3%	n.a
Future Glb Invest Co	FGG	1.07	297.1	n.a	n.a	n.a	2.4%	n.a	n.a	1.06	-1.6%	-0.5%	n.a	n.a
Global Value Fnd Ltd	GVF	1.09	111.8	5.0	4.6%	6.6%	0.0%	1.09	-0.1%	1.09	-0.1%	-3.9%	-9.6%	n.a
Hunter Hall Global	HHV	1.42	349.9	6.5	4.6%	6.5%	1.8%	1.49	-4.7%	1.51	-7.4%	-8.9%	-12.4%	-12.3%
Magellan Flagship	MFF	1.83	851.7	2.0	1.1%	1.1%	0.3%	1.98	-7.4%	1.98	-7.9%	-6.2%	-6.2%	-4.1%
Pm Capital Asian Ops	PAF	0.93	50.4	n.a	n.a	n.a	0.0%	1.05	-11.3%	1.05	-11.2%	-11.5%	-12.4%	n.a
Platinum Asia Ltd	PAI	0.96	275.6	n.a	n.a	n.a	0.5%	0.97	-2.0%	0.96	-1.2%	-2.0%	n.a	n.a
Pm Capital Fund	PGF	0.84	294.0	1.5	1.8%	2.6%	-1.2%	0.99	-15.6%	1.00	-15.0%	-14.3%	-12.4%	n.a
Platinum Capital Ltd	PMC	1.60	367.1	9.0	5.6%	8.0%	-0.6%	1.48	7.9%	1.49	8.3%	9.4%	14.2%	9.6%
Templeton Global	TGG	1.18	282.5	4.1	3.5%	5.0%	0.9%	1.32	-10.3%	1.31	-10.8%	-9.9%	-11.5%	-8.0%

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	3 Mth Ave Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem
Blue Sky Alt Access	BAF	1.25	159.9	3.0	2.4%	3.4%	-0.4%	1.13	10.7%	1.13	11.1%	7.0%	-2.1%	n.a
Bailador Tech Inv	BTI	1.10	106.4	n.a	n.a	n.a	-3.1%	1.17	-6.4%	1.17	-3.4%	1.0%	-13.3%	n.a
Lion Selection Grp	LSX	0.30	31.5	n.a	n.a	n.a	-1.7%	n.a	n.a	0.39	-23.1%	-16.4%	-28.6%	-29.1%
Monash Absolute	MA1	0.98	50.9	n.a	n.a	n.a	0.0%	n.a	n.a	0.98	-0.6%	n.a	n.a	n.a
Sandon Capital Ltd	SNC	0.86	39.8	5.0	5.8%	8.3%	3.6%	n.a	n.a	0.99	-16.5%	-15.2%	-11.1%	n.a
Thorney Opp Ltd	TOP	0.61	102.4	0.5	0.8%	1.2%	-2.4%	n.a	n.a	0.65	-4.4%	-6.6%	-7.3%	-4.2%
WAM Active Limited	WAA	1.20	42.1	0.5	0.4%	0.6%	6.7%	1.06	12.7%	1.06	5.9%	0.7%	0.4%	4.6%
Watermark Fund Ltd	WMK	1.05	94.3	6.0	5.7%	8.2%	1.5%	n.a	n.a	1.05	-1.9%	-2.4%	-6.1%	n.a

Source: IRESS, Bloomberg, company reports and Baillieu Holst estimates

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Corporate Activity

- Future Generation Fund (FGX) options:** On 16 September 2016 FGX has ~118.7 million options expiring with a \$1.10 exercise price. In FIG.1 we illustrate the dilution impact on the NTA of FGX from July (\$1.20).

FIG.1: FGX OPTION DILUTION IMPACT

Percentage of options exercised	Number of issued shares	Dilution impact on estimated NTA	Estimated dilution impact
25%	29,505,515	\$1.19	-0.9%
50%	59,011,031	\$1.18	-1.6%
75%	88,516,546	\$1.18	-2.3%
100%	118,022,061	\$1.17	-2.8%

Source: Baillieu Holst estimates, company reports

- As shown, on a fully diluted basis, the impact on its current NTA is not overly material. The \$1.10 exercise price represents a 3.1% discount to FGX's current share price of \$1.14. Given the value of the option as well as exercised options being entitled to FGX's FY16 final dividend of 2.0 cents, we would advocate exercising FGX options.
- WAM Capital (WAM) Share Purchase Plan:** On 25 July 2016, WAM announced a Share Purchase Plan (SPP) and Placement. Eligible shareholders will have the opportunity to acquire up to \$15,000 worth of ordinary WAM shares.
- Details:** The SPP will be offered at a fixed price of \$2.14 with the new shares entitled to the fully franked final dividend of 7.25 cents (paid 28 October 2016).

FIG.2: WAM CAPITAL SHARE PURCHASE PLAN ESTIMATES

WAM SPP Details

SPP issue price	\$2.14
WAM share price (16 Aug 2016)	\$2.30
SPP issue price discount to current price	-6.96%
Current WAM estimated NTA	\$2.00
Current share price premium to estimated NTA	14.90%
SPP issue price premium to estimated NTA	7.00%

Source: Baillieu Holst estimates, company reports

- Overall:** As the SPP issue price is above our current WAM NTA estimate, any issuance of new shares will be accretive for WAM's NTA. Although the SPP issue price is at an absolute premium, on a relative basis for WAM, the offer is attractive to existing shareholders given: 1) the entry point is 7.0% below the current share price; 2) the SPP issue price represents a 7.0% premium to NTA which is below its current estimated trading premium (14.9%). The issue price also represents a discount to WAM's one year historical average (10.7% premium to NTA); and 3) the new SPP shares are entitled to the 7.25 cent final dividend (fully franked). This dividend alone represents a 3.4% dividend yield.

Monthly performance by sector

FIG.3: LARGE CAPITALISATION TSR

Top Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
DUI	7.3%	AFI	6.9%
AFI	5.5%	DUI	6.7%
AUI	3.5%	AUI	5.0%

Bottom Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
DJW	-1.5%	DJW	0.2%
ARG	1.9%	BKI	1.9%
MLT	2.3%	MLT	3.1%

Source: IRESS, Bloomberg, Baillieu Holst estimates

FIG.4: LARGE CAPITALISATION NTA PERFORMANCE

Top Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
AUI	7.0%	BKI	6.5%
DJW	6.1%	ARG	5.9%
DUI	5.9%	DJW	5.8%

Bottom Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
ARG	5.3%	MLT	4.7%
MLT	5.5%	AFI	4.9%
BKI	5.8%	DUI	5.4%

Source: IRESS, Bloomberg, Baillieu Holst estimates

FIG.5: MID CAPITALISATION TSR

Top Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
MIR	8.2%	MIR	12.3%
WDE	5.6%	AMH	11.0%
CIE	5.4%	ALR	7.3%

Bottom Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
WAM	0.0%	WDE	-7.3%
ALF	0.3%	CDM	-1.9%
QVE	1.4%	CIE	1.6%

Source: IRESS, Bloomberg, Baillieu Holst estimates

FIG.6: MID CAPITALISATION NTA PERFORMANCE

Top Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
ALR	7.8%	CIE	9.2%
CIE	7.6%	WHF	7.9%
WHF	6.5%	ALR	7.7%

Bottom Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
ALF	0.0%	CIN	1.4%
WAX	3.7%	WDE	1.5%
WAM	2.1%	ALF	1.5%

Source: IRESS, Bloomberg, Baillieu Holst estimates

FIG.7: SMALL CAPITALISATION TSR

Top Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
WIC	11.5%	WIC	17.2%
OZG	11.1%	CTN	16.8%
NCC	10.6%	NCC	15.0%

Bottom Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
8EC	0.0%	8EC	0.0%
GC1	2.5%	GC1	4.1%
WAX	5.9%	WAX	8.3%

Source: IRESS, Bloomberg, Baillieu Holst estimates

FIG.8: SMALL CAPITALISATION NTA PERFORMANCE

Top Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
ACQ	16.6%	ACQ	16.8%
GC1	8.6%	GC1	10.1%
OZG	7.5%	CTN	8.7%

Bottom Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
8EC	3.6%	8EC	5.7%
WAX	3.7%	WIC	7.4%
CTN	4.0%	WAX	8.1%

Source: IRESS, Bloomberg, Baillieu Holst estimates

Monthly performance by sector cont.

FIG.9: INTERNATIONAL TSR

Top Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
EGI	8.2%	HHV	17.7%
PAI	7.3%	AGF	11.0%
HHV	4.9%	GVF	8.5%

Bottom Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
MFF	-2.4%	PGF	-7.1%
FGG	-0.9%	FGG	-5.9%
PMC	-0.6%	PMC	-5.8%

Source: IRESS, Bloomberg, Baillieu Holst estimates

FIG.10: INTERNATIONAL NTA PERFORMANCE

Top Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
HHV	5.7%	HHV	7.8%
EGI	4.8%	EAI	7.8%
MFF	3.6%	PAI	6.6%

Bottom Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
AGF	-2.0%	AGF	-1.0%
ALI	-1.2%	TGG	-1.0%
FGG	1.5%	PGF	-0.9%

Source: IRESS, Bloomberg, Baillieu Holst estimates

FIG.11: SPECIALIST TSR

Top Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
WAA	9.2%	BAF	20.2%
TOP	7.8%	TOP	15.7%
BAF	4.2%	LSX	15.4%

Bottom Performers			
July Return		Quarterly Return	
Company	TSR (%)	Company	TSR (%)
LSX	-1.6%	WMK	1.0%
BTI	-0.4%	SNC	1.2%
WMK	1.5%	BTI	6.6%

Source: IRESS, Bloomberg, Baillieu Holst estimates

FIG.12: SPECIALIST NTA PERFORMANCE

Top Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
BTI	8.6%	TOP	9.2%
TOP	8.5%	LSX	8.3%
LSX	5.4%	BTI	7.5%

Bottom Performers			
July Return		Quarterly Return	
Company	NTA Growth (%)	Company	NTA Growth(%)
WMK	0.0%	WMK	1.9%
BAF	0.3%	BAF	3.0%
SNC	4.6%	SNC	6.6%

Source: IRESS, Bloomberg, Baillieu Holst estimates

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