

Premiums Rising Again

What are LICs?

Listed investment companies are essentially listed equivalents of mutual funds, with some significant differences. The more established LICs tend to charge lower fees than their unlisted counterparts and are closed end funds – investors buy and sell the LIC vehicle so the LIC managers don't need to buy stock at the top of a Bull market or sell stock at the bottom of a Bear market. It also means that LIC share prices may deviate significantly from their underlying NTA.

Summary of Recommendations

This report covers 33 LICs, comprising 16 established companies and 17 newer listings. Charts showing 10 year price and NTA trends for the established LICs are shown in Appendix 1. Their top 20 holdings are shown in Appendix 2.

The weighted average premium to liquidation NTA of the established LICs was **10.0%** at the end of January. This is well below the 10 year average of **13.0%**. The smaller and riskier LICs continue to languish at large discounts to NTA.

A comparison of premium to liquidation NTA and long-term NTA growth reveals that **CIN, AUI and WAM** have the strongest long-term growth, with **CIN** and **WAM** offering the best value. Note that **WAM** has topped the total return tables covering the last 10, 5, 2 and 1 year periods. **MLT** and **DUI** offer the best value among the larger, conservative LICs.

Amongst the newer LICs, **ALF** and **CAM** have the best track records of NTA growth over the last five years and **CAM** is trading at the second largest discount to NTA (the average discount of the newer LICs is 13.6%). **CTN** also has a good NTA growth track record and offers a better yield (see table on page 6).

23 February 2011

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Summary Table

Company	Code	Current Price 21.02.11 \$	Current NTA (pre-tax on unreal. gains)	Current NTA (after tax on unreal. gains)	Prem. (Disc.) to NTA %	Prem. (Disc.) to liq. NTA %	Estimated 2011 DPS ¢	Estimated 2011 Yield %	Estimated 10 Year Compnd Return % p.a.	5 Year Compnd Return % p.a.	2 Year Compnd Return % p.a.	Market Cap \$M
Aust. Foundation	AFI	4.83	4.90	4.23	-1.4	14.2	21.0	4.3	10.2	5.4	17.1	4,934
Aberdeen Leaders	ALR	1.33	1.37	1.32	-2.9	0.8	9.5	7.1	8.2	4.0	20.1	80
Amcil	AMH	0.68	0.78	0.74	-12.8	-8.1	2.2	3.2	n.a.	7.9	24.6	144
Argo Investments	ARG	6.35	6.33	5.69	0.3	11.6	26.0	4.1	10.1	2.7	14.7	3,853
Aust. United Invest.	AUI	7.00	7.43	6.48	-5.8	8.0	25.5	3.6	10.6	2.9	23.2	734
Brickworks Investm	BKI	1.26	1.40	1.32	-10.4	-4.9	5.8	4.6	n.a.	3.5	27.3	528
Carlton Investments	CIN	17.62	21.71	18.92	-18.8	-6.9	67.0	3.8	12.2	3.6	20.8	467
Djerriwarrh Invest.	DJW	4.22	3.61	3.47	16.9	21.6	26.0	6.2	7.4	5.5	20.3	885
Divers. United. Inve	DUI	3.00	3.20	2.85	-6.3	5.3	13.0	4.3	9.2	3.1	19.9	492
Ironbark Capital	IBC	0.49	0.56	0.56	-13.5	-13.4	3.0	6.2	2.0	3.1	17.1	69
Mirrabooka	MIR	1.86	1.90	1.76	-2.1	5.7	10.0	5.4	n.a.	7.3	29.0	255
Milton	MLT	16.50	17.52	16.11	-5.8	2.4	73.0	4.4	9.7	1.0	14.1	2,024
Platinum Capital	PMC	1.40	1.30	1.30	7.9	7.9	9.0	6.4	4.4	-1.1	16.3	229
Templeton Global	TGG	0.80	0.97	0.97	-17.5	-17.5	0.0	0.0	-2.4	-8.2	8.6	116
WAM Capital	WAM	1.64	1.76	1.68	-6.9	-2.4	9.5	5.8	12.7	9.0	43.7	171
Whitefield Capital	WHF	2.96	3.35	3.41	-11.6	-13.2	17.0	5.7	4.5	-0.2	25.0	183
All Ords Accum. Ind	XAOAI	35988							8.7	5.2	27.6	

Why Buy LICs?

For conservative investors wishing to match or possibly beat the long-term returns of the All Ordinaries Index, especially those with a limited amount of capital, a number of LICs can provide the necessary spread of investments. Although many investors focus on whether a LIC is trading at a discount or premium to net tangible asset backing (NTA), in reality, the better performing LICs trade at a premium and the poor performers often trade at deep discounts.

The most important criterion in the evaluation of a LIC is its track record. Those with the best long-term performances (measured by total return, dividend and NTA growth) are the ones likely to give the best future returns. However, given the lack of track record of the newer LICs, a closer focus on investment philosophy, NTA backing and the investment manager's skill are most important in making a valuation call.

LICs that rely on a theme are unlikely to out-perform the market over the long term, but can provide strong returns over a short to medium term time frame. Gearing (e.g. Aberdeen Leaders) is potentially a positive when markets are moving higher but can be a negative when Bear markets prevail.

Global and Theme LICs

Templeton Global (TGG), Platinum Capital (PMC) and the newer Global Mining Investments (GMI), Linq Resources (LRF), Magellan Flagship Fund (MFF) and Hunter Hall Global (HHV) have a global spread of investments and may be appropriate for investors wishing to diversify beyond Australia. Of these, Platinum has the ability to apply derivatives to protect against loss. Templeton is still suffering from its heavy exposure to the U.S. and European equity markets and continues to under-perform. AMP Capital China Fund provides exposure to China A shares. Djerriwarrh (DJW) specialises in purchasing local option stocks and writing call options against them. Other stocks with a specific focus include Contango (CTN), which mainly targets domestic microcaps, and Australian Enhanced Income Fund (AYF), which invests in hybrid and other debt securities.

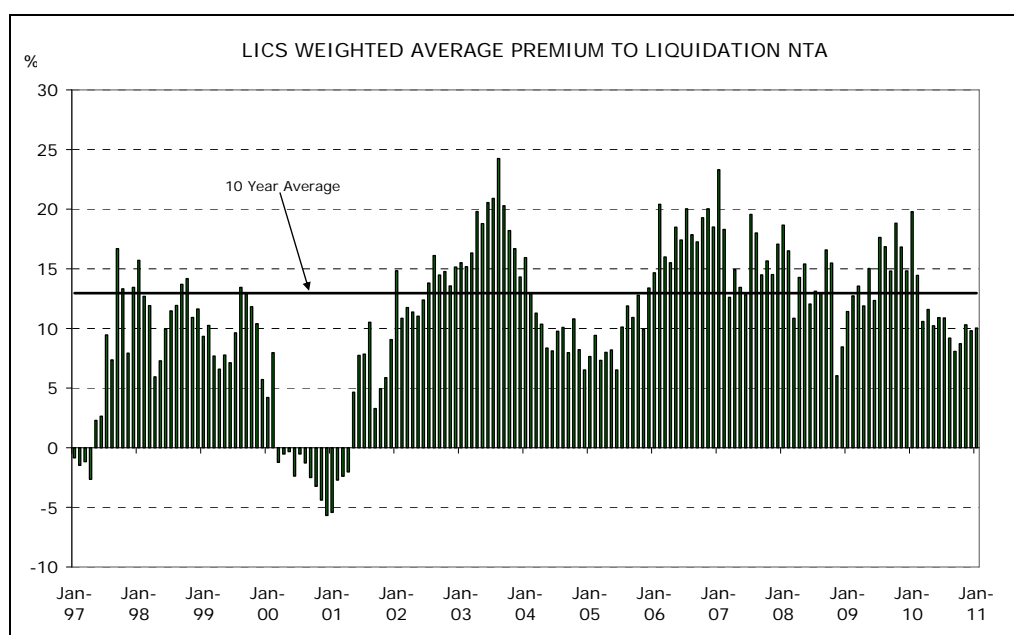
Recent News

As a result of the price falls and deep discount to NTA, most of the newer LICs have implemented share buyback programs. Several of the older LICs have also initiated buyback programs (AFI, ALR, AMH, CIN, DJW, TGG and WHF). Milton and Choiseul have now merged under the Milton banner, creating a significant investment vehicle with a market cap. in excess of \$2 billion. Whitefield and Sylvastate are also planning to merge their respective portfolios. Sylvastate shareholders will be offered WHF shares, the ratio being largely based on their respective NTAs at 31 March. Argo has initiated a share purchase plan with a record date of 21 February and a closing date of 31 March. Existing shareholders can purchase up to 15,000 shares at a maximum price of \$6.21.

Clime Capital has just announced a 1 for 20 bonus issue for shareholders with an ex-entitlement date of 28 February and a record date of 4th March. The issue is likely to generate 2 million shares. Century Australia has cancelled 91.7m shares in an off market buyback. As a result, the market cap. has dropped from \$141m to \$62m.

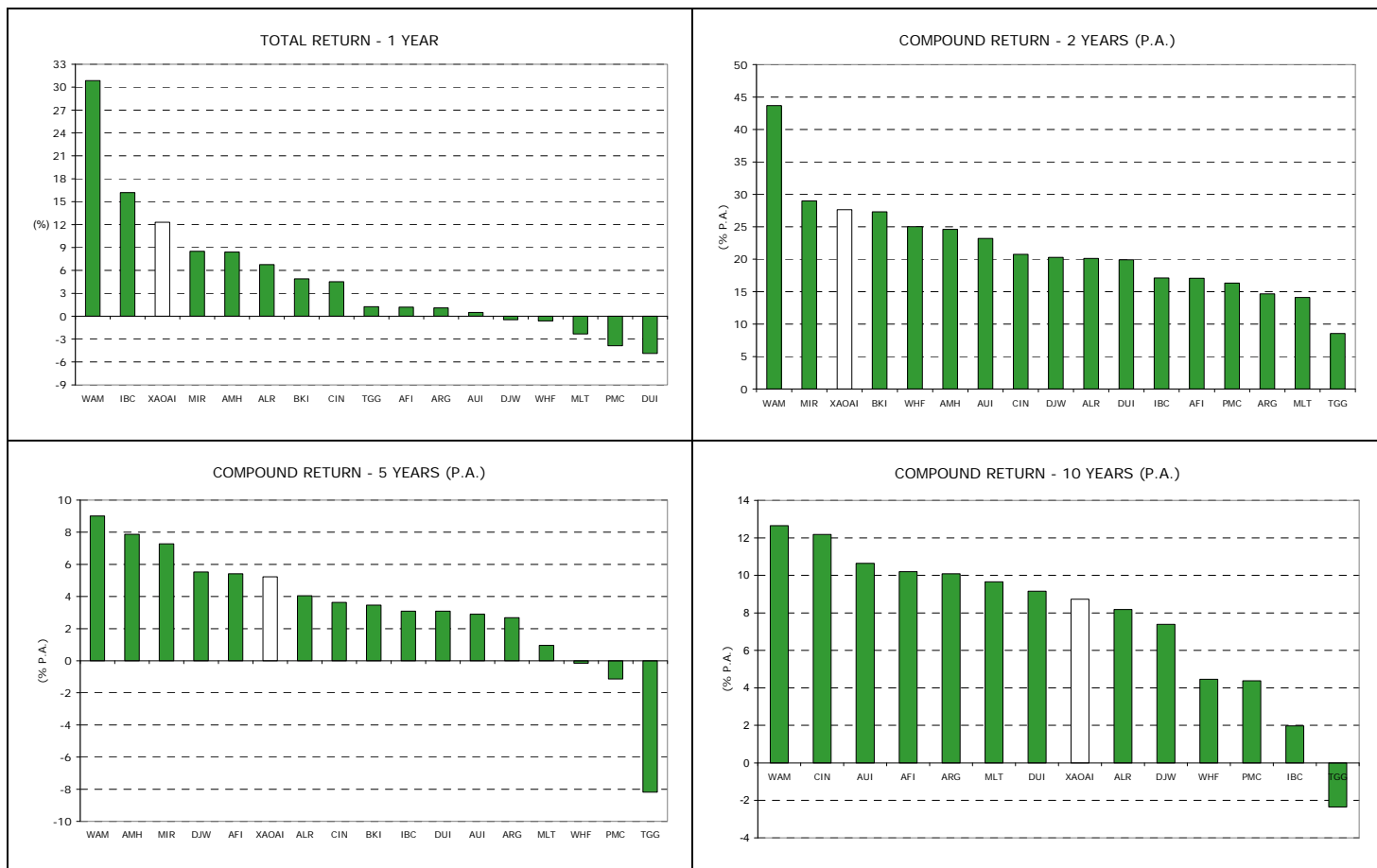
Established LICs

The trend of weighted average premiums since January 1997 is shown in the chart below, based on month-end prices. The index is starting to stabilise after falling sharply and is currently 10.0%, well below the 10 year average of 12.7%.



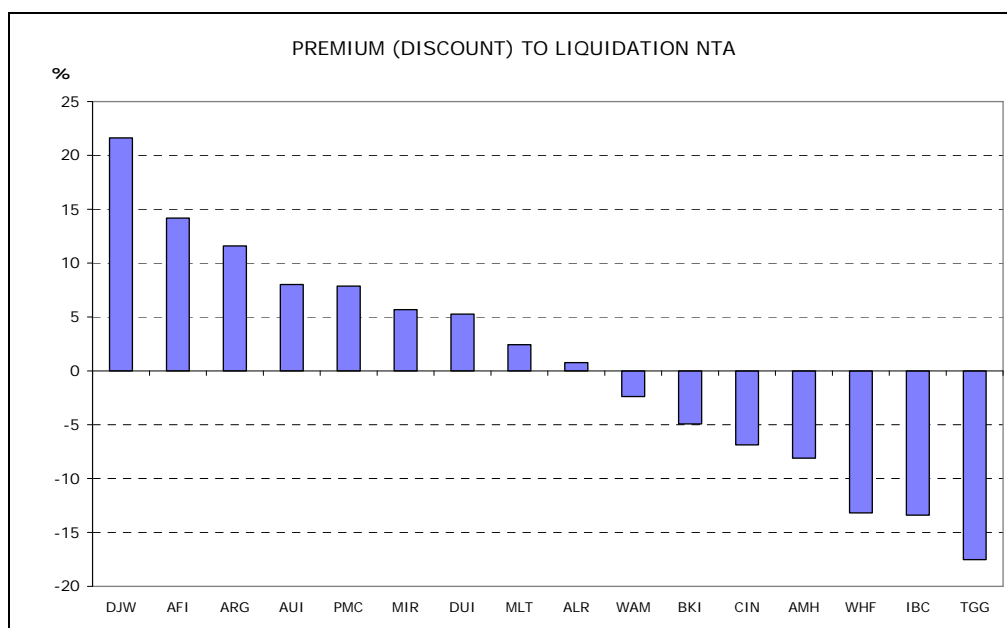
Total Return Performances

In terms of total returns, the best long-term performer (10 years) is WAM Capital (WAM) with an annualised return of 12.7%. WAM was also the best performer over the last five, two and one year periods. Note that Templeton Global was the worst performer over the last 10, 5 and 2 year periods.



Premium/Discount to Liquidation NTA

The premiums and discounts in the table below are based on prices at the close of trading on the 21st February and reported NTAs at the end of January. Investors continue to avoid the smaller LICs. The best value of the larger, conservative LICs are Milton and Diversified United Investments.



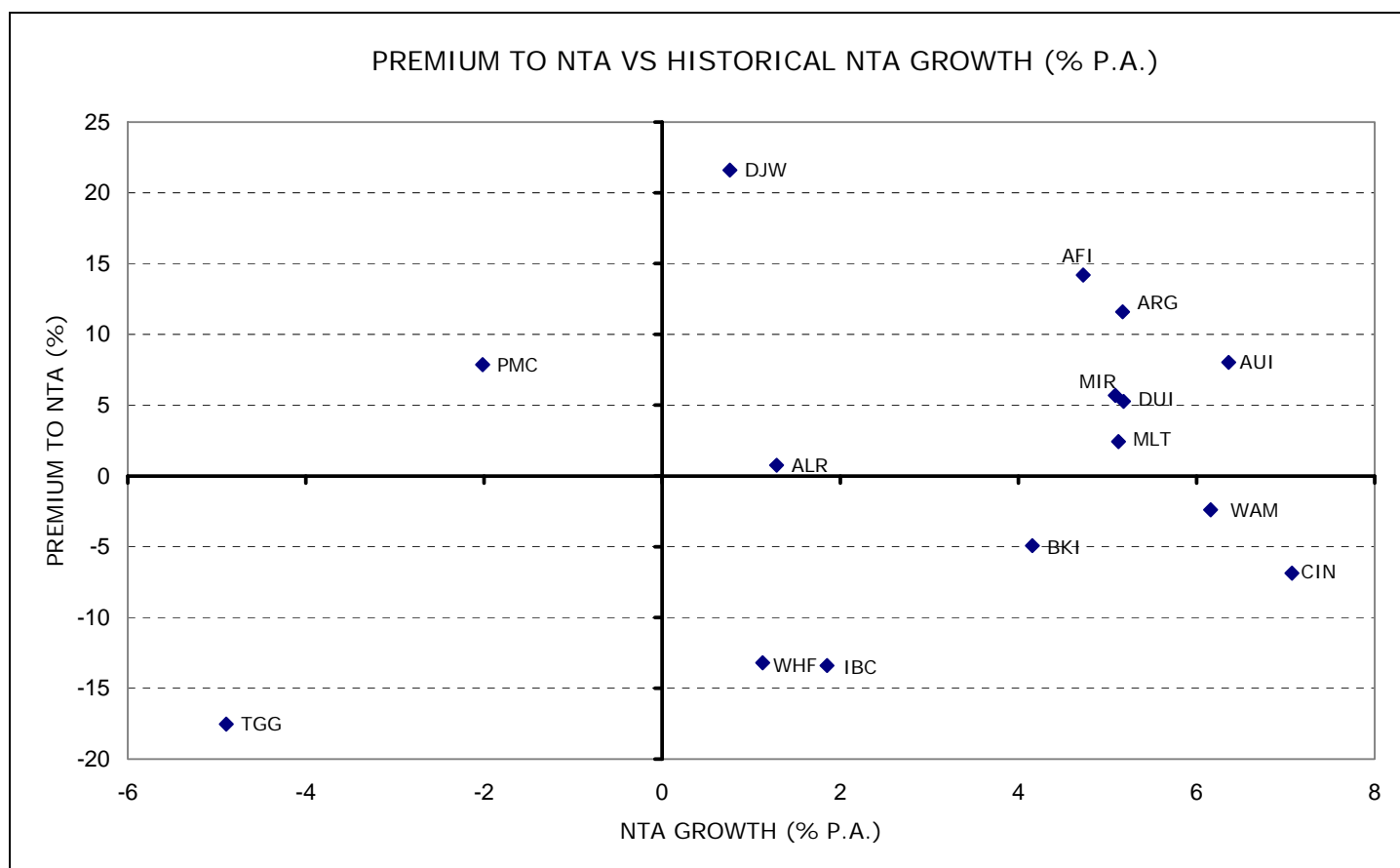
Premium to NTA vs Usual Premium to NTA

The average premiums over NTA (including tax on unrealised earnings) over the last five years are shown in the table below, along with the premiums based on February 21 closing prices and January 31 NTA. The historical premiums or discounts factor in size, risk and performance, so a significant departure from the 'normal' level indicates a possible price aberration. Our preferred stock on this valuation basis is **MLT**. **WHF** also appears to be good value but has a poor record of NTA growth. **DJW** continues to look expensive. Although **WAM** does not look attractive on this basis, it is still trading at a discount to liquidation NTA.

Company	Code	Current Prem./Disc.	Usual Prem./Disc.	% Points Difference
Milton	MLT	2.4	14.4	-12.0
Platinum Capital	PMC	7.9	17.5	-9.7
Templeton Global	TGG	-17.5	-9.7	-7.9
Whitefield	WHF	-13.2	-6.4	-6.8
Diversified United Invest	DUI	5.3	11.3	-6.0
Argo	ARG	11.6	17.6	-6.0
Aust. United Invest.	AUI	8.0	13.9	-5.9
Carlton Investments	CIN	-6.9	-2.0	-4.9
Aust. Foundation	AFI	14.2	18.8	-4.6
Ironbark Capital	IBC	-13.4	-10.1	-3.3
Aberdeen Leaders	ALR	0.8	2.7	-2.0
Mirrabooka	MIR	5.7	5.4	0.3
Djerriwarrh	DJW	21.6	14.6	7.0
WAM Capital	WAM	-2.4	-10.5	8.1

Premium to NTA vs NTA Growth

CIN leads the pack of high quality LICs in terms of NTA growth over a 10 year period. However, CIN has a large exposure to Amalgamated Holdings (34.9% of its portfolio) so conservative investors may prefer AUI. WAM also has strong growth and still offers excellent value. DJW is clearly expensive.



NTA Growth, Last 12 Months

Company	Code	12 Months NTA Growth	
WAM Capital	WAM	7.6	WAM and MIR continue to perform strongly.
Mirrabooka	MIR	6.0	
Carlton Investments	CIN	5.2	
Aust. United Invest.	AUI	5.2	
Ironbark Capital	IBC	4.9	
Diversified United Inves	DUI	4.0	
Aust. Foundation	AFI	2.7	
Brickworks Investment	BKI	1.6	
Milton	MLT	1.4	
Argo	ARG	1.2	
Djerriwarrh	DJW	-0.6	
Platinum Capital	PMC	-1.3	
Whitefield	WHF	-1.7	
Templeton Global	TGG	-1.8	
Aberdeen Leaders	ALR	-2.9	

Historical Dividend Growth Rates

		Compound Dividend Growth (% p.a.)	Years	
WAM Capital	WAM	9.9	10	WAM Capital, Diversified United and Australian United Investments have the best long-term (10-year) track records of dividend growth. Note WAM is off a relatively low base. Note also that Templeton Global has not paid any dividends since FY2007.
Mirrabooka	MIR	9.7	8	
Diversified United Inves	DUI	8.4	10	
Aust. United	AUI	7.9	10	
Carlton Investments	CIN	7.5	10	
Choiseul	CHO	6.7	10	
Aust. Foundation	AFI	5.7	10	
Argo Investments	ARG	5.5	10	
Aberdeen Leaders	ALR	5.2	10	
Milton	MLT	5.1	10	
Djerriwarrh	DJW	2.7	10	
Ironbark	IBC	1.7	10	
Amcil	AMH	0.0	5	
Platinum Cap.	PMC	-1.7	10	
Sylvastate	SYL	-1.9	10	
Templeton	TGG	-100.0	10	

Newer LICs

In the table below we provide details of 17 floats since late 2003. Most of these companies offered shares at \$1.00.

Company	Code	Manager	Focus
AMP Capital China Growth Fund	AGF	AMP Capital	Investing in China A shares
Australian Leaders Fund	ALF	KWB Capital	At least 70% of the fund in the ASX100
Australian Enhanced Income Fund	AYF	Elstree Investment Mgt.	Debt securities, esp. hybrids
Clime Capital	CAM	Clime Asset Mgt.	Value based, partly quantitative
Cadence Capital	CDM	Cadence Asset Management	Australian shares mainly from ASX 300.
Century Aust. Invest.	CYA	452 Capital (Peter Morgan)	ASX300
Contango Microcap	CTN	Contango Asset Mgt.	Microcaps
Emerging Leaders Inv.	ELIS	Ausbil Dexia	Domestic, high-growth, small-mid caps
Global Mining Invest.	GMI	Bell Potter Funds Mgt.	Global resources companies
Hunter Hall Global Value	HHV	Hunter Hall Invest. Mgt.	Global equities, any size.
Hyperion Flagship	HIP	Hyperion Asset Magt.	Long-term Aust. Equities, >\$10m mcap.
Katana Capital	KAT	Classic Capital	ASX 300 stocks
LinQ Resources Fund	LRF	LinQ Capital	Small to medium size resources companies
Magellan Flagship Fund	MFF	Magellan Asset Management	The 50 most attractive global stocks
Premium Investors Gp.	PRV	Treasury Group	Several fund managers
Westoz Investment Co.	WIC	Westoz Funds Mgt.	Mainly West. Aust. stocks outside top 100
WAM Research Ltd	WAX	MAM Pty Ltd	Mainly small to medium industrials on ASX

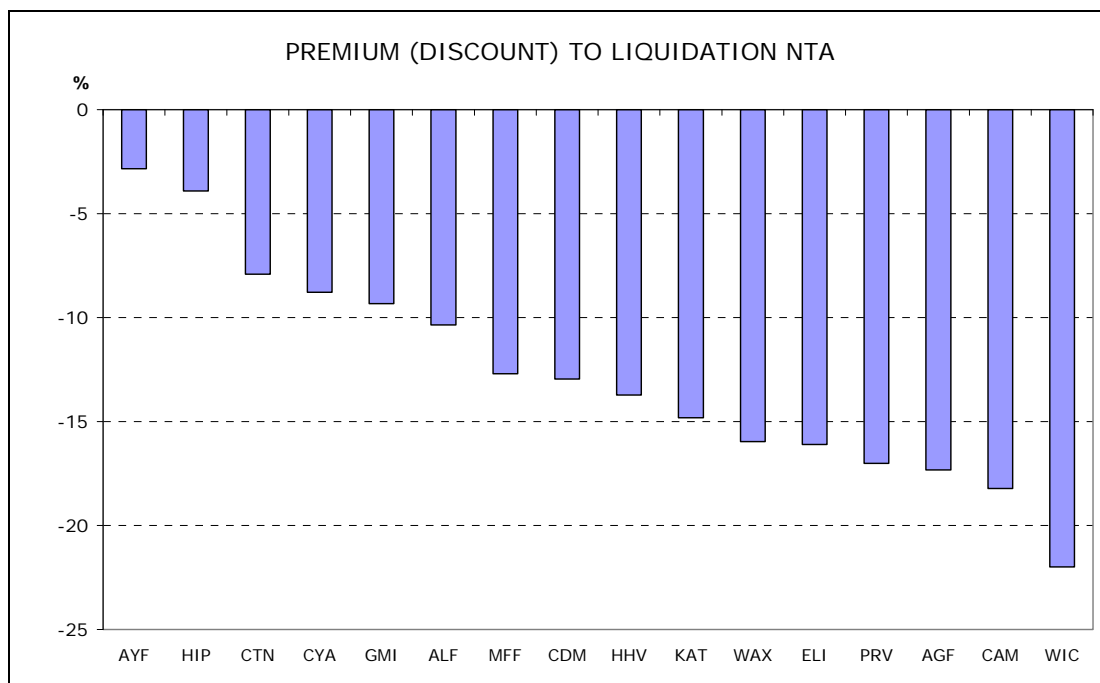
Summary Table

Company	Code	Listing Date	Current Price (21/02/11)	Adjusted Initial NTA	Current (31 January) Liquidation NTA	Premium to NTA (%)	2011	2011	Franking (%)	Market Cap. (Mill.)
							Estimated Dividends ¢	Estimated Yield (%)		
AMP Capital China	AGF	22.12.06	0.84	0.96	1.01	-17.3	3.5	4.2	0	281.4
Australian Leaders	ALF	10.02.04	1.26	0.88	1.40	-10.4	8.0	6.4	100	80.4
Australian Enhanced Income	AYF	17.10.06	6.66	9.78	6.86	-2.8	50.0	7.5	0-55	21.6
Clime Capital	CAM	3.02.04	1.06	0.88	1.29	-18.2	4.0	3.8	100	56.6
Cadence Capital	CDM	4.12.06	1.12	1.16	1.28	-13.0	4.0	3.6	100	30.9
Century Australia	CYA	8.04.04	0.80	0.90	0.88	-8.8	9.2**	11.5	100	63.2
Contango Microcap	CTN	25.03.04	1.40	0.85	1.52	-7.9	7.0	5.0	100	199.6
Emerging leaders Investm	ELI	26.06.06	0.99	0.96	1.18	-16.1	8.0	8.1	100	39.6
Global Mining	GMI	8.04.04	1.36	0.95	1.50	-9.3	6.0	4.4	100	259.9
Hunter Hall Global	HHV	19.03.04	0.88	0.98	1.02	-13.7	6.0	6.8	100	239.4
Hyperion Flagship	HIP	20.12.00	1.35	1.11	1.41	-3.9	8.5	6.3	100	36.9
Katana Capital	KAT	23.12.05	0.89	0.95	1.04	-14.8	3.0	3.4	100	35.5
LinQ Resources Fund	LRF	20.01.05	1.02	0.98	1.40	-27.1	3.0	2.9	0	191.1
Magellan Flagship Fund	MFF	19.12.06	0.74	0.99	0.84	-12.7	0.0	0.0	0	258.5
Premium Investors	PRV	27.11.03	0.79	0.99	0.95	-17.0	6.0	7.6	100	75.4
WAM Research Ltd.	WAX	19.08.03	0.80	0.95	0.95	-16.0	5.6	7.0	100	94.8
Westoz Investment Co.	WIC	16.09.09*	1.16	1.00	1.49	-22.0	10.0	8.6	100	144.6

* WIC initial NTA based on June 2005 NTA ** Includes special of 6.2c.

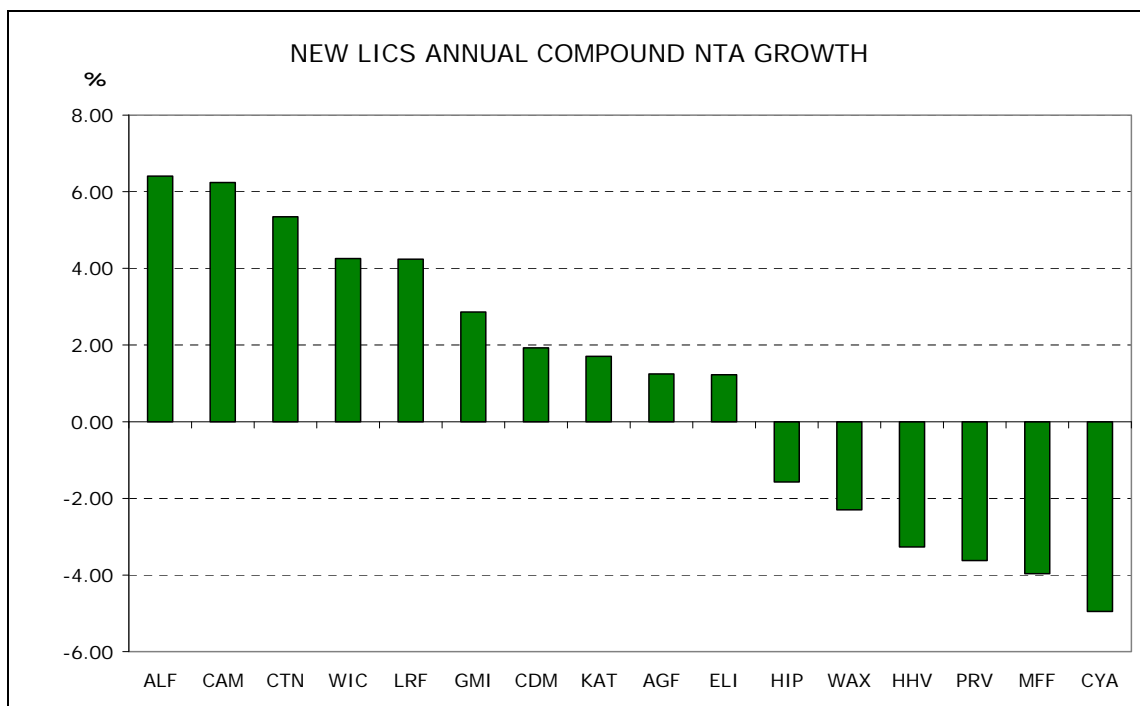
Premium to Liquidation NTA

All these LICs are trading at discounts to liquidation NTA, with the biggest discounts carried by Westoz Investment Co. and Clime Capital (see chart below). The Enhanced Income fund and Hyperion Flagship Investments continue to carry the smallest discounts.



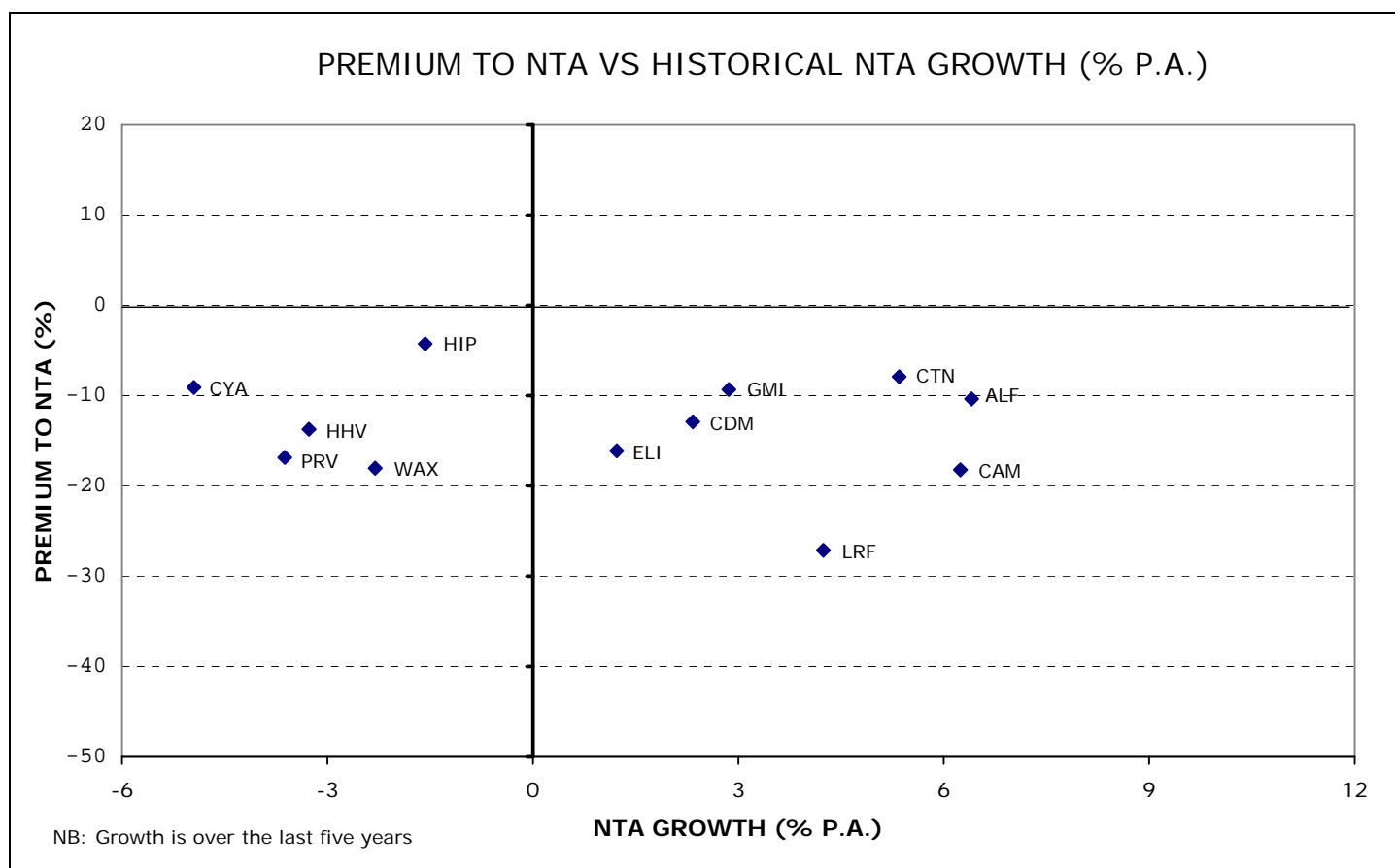
New LICs NTA Growth

In the chart below, the NTA growth represents the annualised growth over the last five years. The strongest growth stocks have been the Australian Leaders Fund, Clime Capital and Contango Microcap. Note that Clime capital (CAM) trades at the second largest discount to liquidation NTA despite having the second strongest NTA growth over the last five years.



New LICs NTA Premium (Discount) vs NTA Growth

The chart below clearly shows that there is considerable value in the sector. Most of these stocks continue to offer deep discounts to liquidation NTA. Clime Capital stands out as the best value in this sector.



Domestic Exchange Traded Funds

Exchange Traded Funds are listed, managed, open-ended funds (new units are created when you invest in the fund) that invest in a portfolio of securities, which may include Australian shares, international shares, fixed income securities, listed property trusts, or a combination of asset classes. They can be classified as actively managed or passively linked to an index. The three funds shown in the table below are passive funds linked to three of the S&P/ASX indexes (the 200 Leaders, the 50 Leaders and the property trusts from the 200 Leaders index). These index funds provide returns that replicate the performances of the underlying indexes, completely eliminating manager performance risk in the process. Yields are based on the aggregate yields of the component stocks.

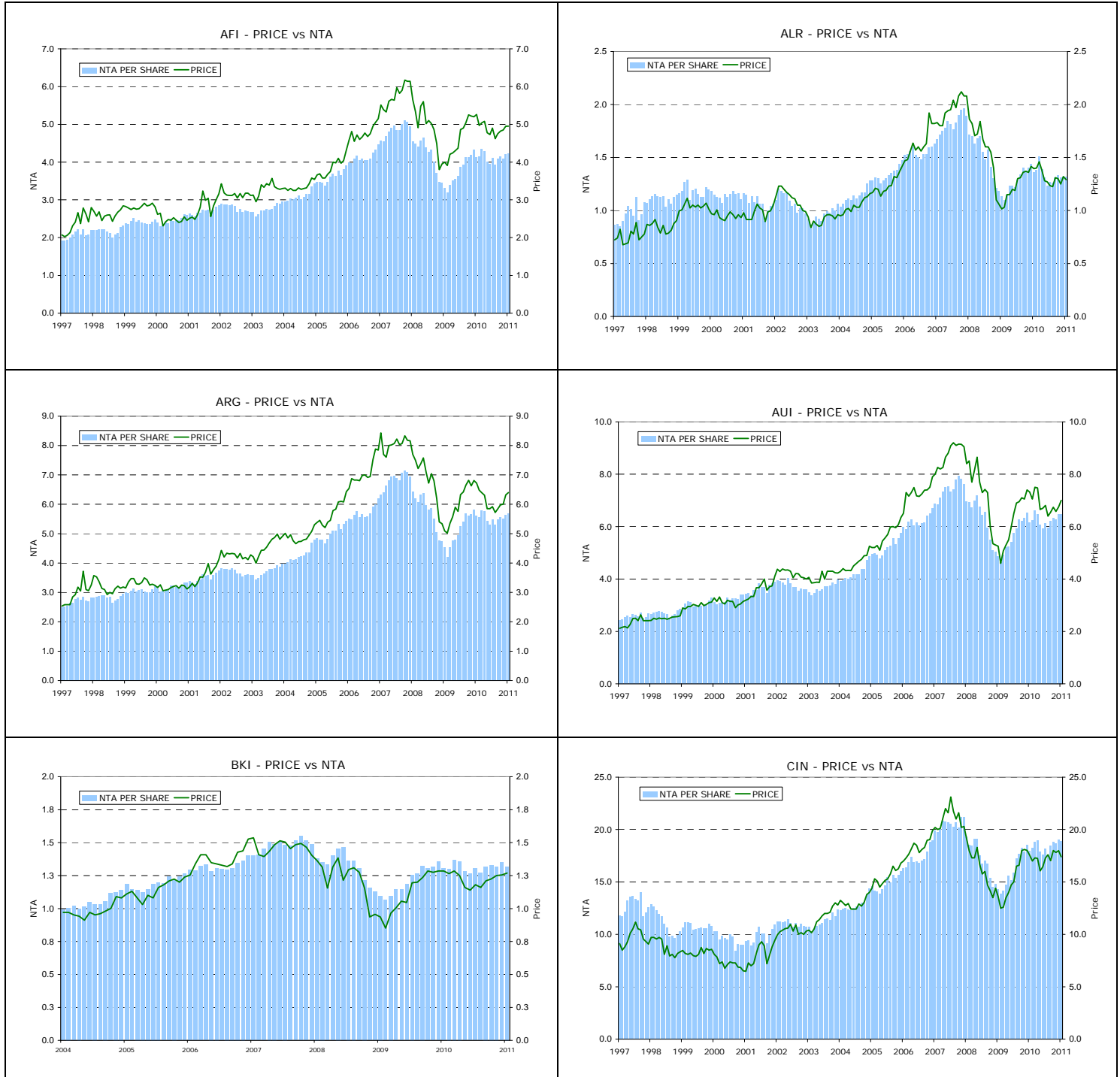
Vanguard also has a domestic fund called the Vanguard Australian Shares Index (VAS), which covers the S&P/ASX 300 index.

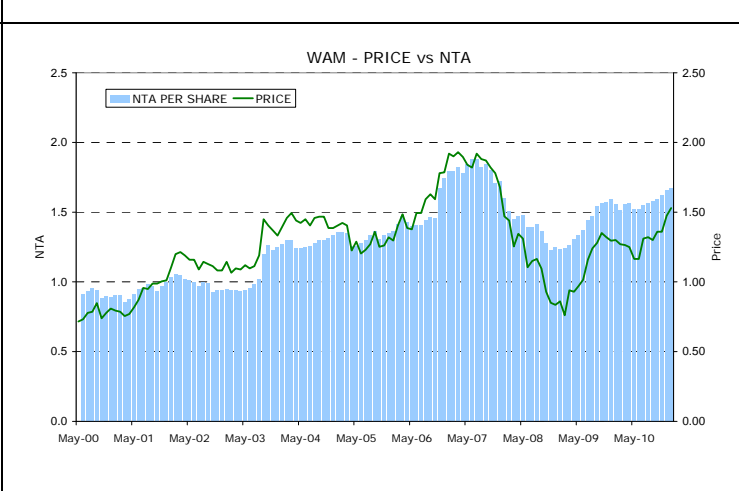
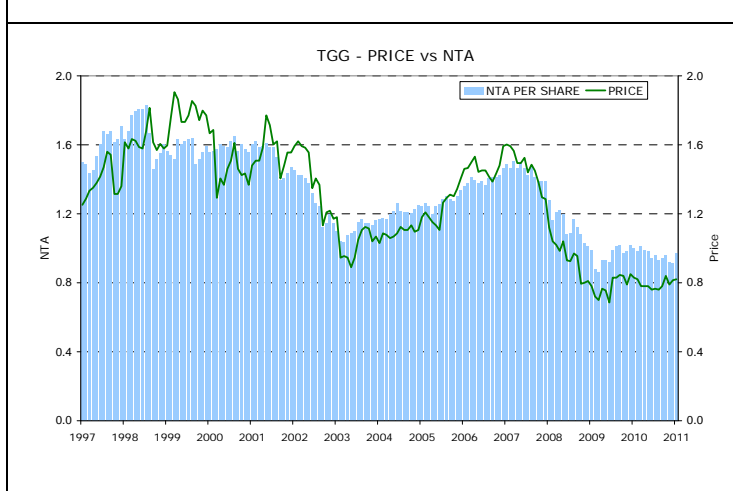
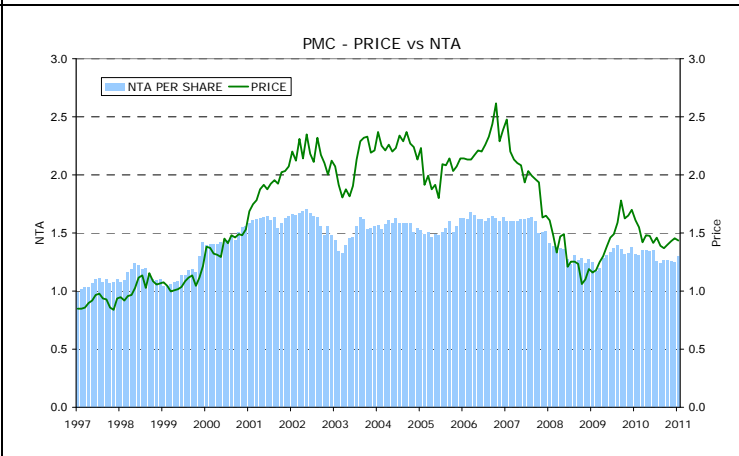
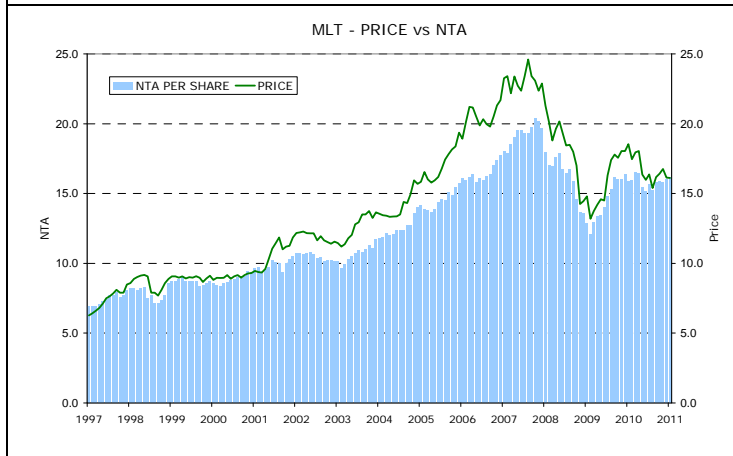
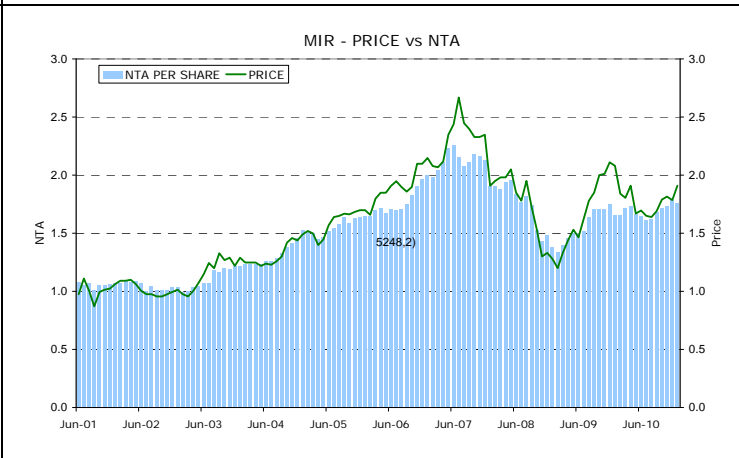
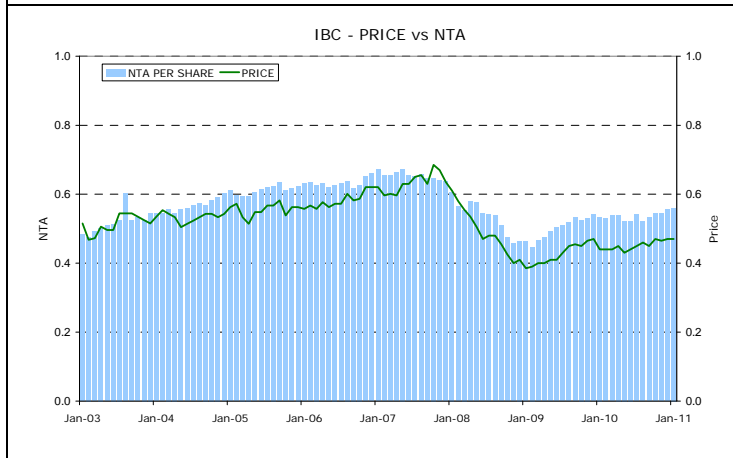
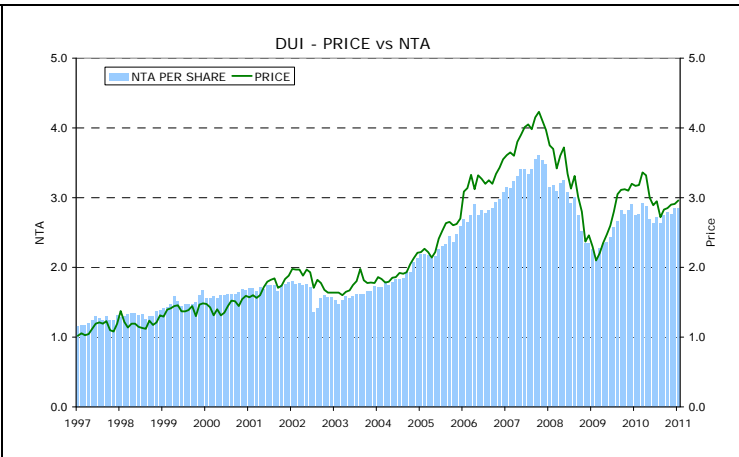
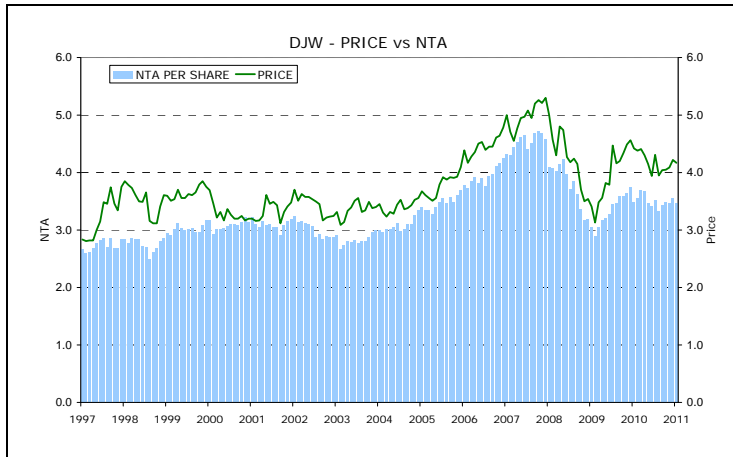
Exchange Traded Funds							Last 12 Months
Company	Code	Listing Date	Market Cap. (\$Mill.)	Current Price (21.02.11)	2010 Yield (%)	Franking (%)	Total Return (%)
SPDR ASX200	STW	27.08.01	2,656.6	46.26	2.9	71.3	9.81
SPDR ASX50	SFY	27.08.01	267.5	47.22	3.9	57.8	8.37
SPDR ASX200 Prop. Tr. Fund	SLF	18.02.02	304.2	8.20	6.3	0.9	9.34

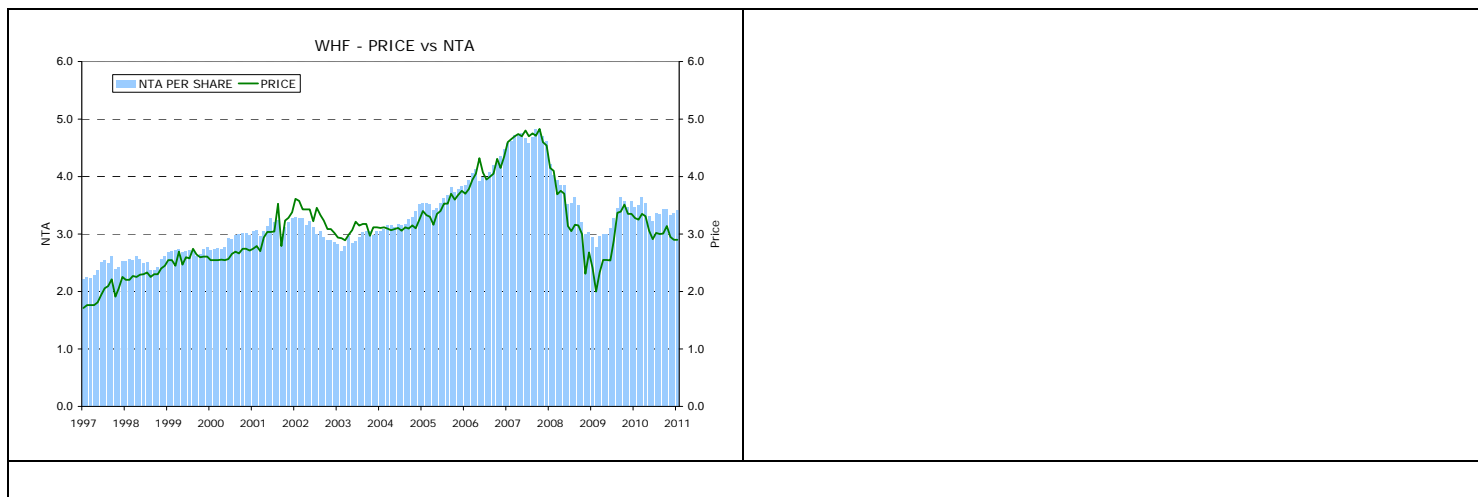
Note; the exchange is AXW not ASX.

APPENDIX 1.

The charts on the following pages show the share price and NTA/share trends over the last 13 years for the established LICs. Last entries represent 31.01.11 for both price and NTA.







Appendix 2. Top 20 Portfolio Holdings

31.12.10	31.12.10	31.12.10	31.12.10	31.12.10	31.12.10	30.06.10	31.12.10	31.12.10	31.12.10	31.12.10
AFI	ALR	AMH	ARG	AUI	BKI	CIN	DJW	DUI	MIR	MLT
BHP	BHP	HDF	BHP	BHP	NHC	AHD	BHP	BHP	ILU	WBC
CBA	QBE	BHP	RIO	RIO	BHP	NAB	WBC	WPL	HDF	CBA
WBC	CBA	CBA	WBC	ANZ	NAB	WBC	CBA	RIO	CPB	BHP
RIO	RIO	WBC	WES	WPL	CBA	BHP	ANZ	ANZ	OSH	SOL
WES	WOW	NAB	AUI	CBA	WBC	CBA	NAB	CBA	AWC	NAB
NAB	WBC	TCL	MLT	WBC	WES	ANZ	WPL	WBC	AIX	WES
ANZ	ANZ	BKN	MQG	NAB	WOW	AGK	WPL	NAB	FWD	CPB
WOW	AGK	ANZ	ANZ	WES	WOW	AGK	WPL	WBC	BKN	WOW
TLS	ASX	QBE	CBA	DUI	WOW	WES	STO	CSL	IRE	ANZ
WPL	WDS	TLS	NAB	WOW	WPL	GOW	QBE	WOW	ASZ	BOQ
OSH	SGT	ILU	WOW	QBE	WPL	TLS	HDF	TAH	TOX	BEN
STO	CPU	PPC	TLS	ORI	WPL	BOQ	WOW	AWC	CCL	QBE
QBE	DJS	TOX	ORG	AWC	WBC	ORG	AMP	WES	REA	RIO
CPU	WPL	ASZ	WPL	AXA	WBC	ORG	AMP	WES	REA	RIO
ORG	MTS	OSH	QBE	ORG	WBC	PPT	BXB	WDC	OST	BKW
AMC	TTS	AIX	ORI	AGK	WBC	BEN	AXA	AGK	PPT	WPL
TCL	ORI	REA	STO	TAH	WBC	CCL	RIO	TCL	SOL	TLN
IPL	SPN	BXB	CPU	STO	WBC	ASX	STO	ORG	MYS	AGK
ORI	AXA	AMC	DUI	BXB	WBC	MLT	AMC	WES	PPT	PPT
AGK	IPL	CCL	FGL	WDC	WBC	IVC	CCL	RIO	CMJ	LEI
						TPG	BSL	WAN	AIX	SUN
31.12.10	31.12.10	31.12.10								
PMC	WAM	WHF								
Samsung Electronics	RKN	CBA								
Bangkok Bank	RHG	WBC								
Microsoft	MMS	ANZ								
Ecogreen Fine Chem.	TAL	NAB								
Shin-Etsu Chem.	PRY	WES								
Cisco Systems	CSR	QBE								
Johnson & Johnson	JHX	WOW								
Henkel A.G.	MYS	MQG								
BMW	SGN	TLS								
Siemens A.G.	FLT	SUN								
Royal Dutch Shell	SGI	AIO								
Allianz A.G.	TGA	NWSLV								
Denso Corp.	PRV	MAP								
Bank of America	SAI	CSL								
Sanofi Aventis	MAQ	FXJ								
	BRG	TOL								
	BKL	AMP								
	IRE	SUN								
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