

Premiums Continue to Fall

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 17 established companies and 16 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 **9.2%** at the end of August. This is well below the 10 year average of **12.5%**. 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 **AUI, CIN and MLT** have the strongest long-term growth, with **CIN** offering the best value. **WAM** is even cheaper but carries more risk. The proposed merger of **MLT** and **CHO** has resulted in a relatively cheap **MLT** share price (see table and chart on p.4).

Amongst the newer LICs, **CAM, ALF** and **GMI** have the best track records of NTA growth over the last five years and all are trading at significant discounts to NTA. **CTN** also has a good track record of NTA growth and is trading at close to a 30% discount to liquidation NTA (the average discount is 18%).

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Summary Table

Company	Code	Current Price 20.09.10 \$	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	4.69	4.50	3.93	4.2	19.3	21.0	4.5	10.3	6.9	0.6	4,752
Aberdeen Leaders	ALR	1.27	1.29	1.26	-1.6	0.8	9.5	7.5	7.5	6.4	-2.6	77
Amcil	AMH	0.65	0.71	0.69	-9.2	-6.5	2.5	3.9	n.a.	n.a.	6.8	128
Argo Investments	ARG	5.76	5.84	5.32	-1.4	8.3	26.0	4.5	9.8	3.4	-4.7	3,502
Aust. United Invest.	AUI	6.52	6.76	5.95	-3.6	9.6	26.0	4.0	10.7	5.5	-0.5	666
Brickworks Investm	BKI	1.20	1.32	1.27	-9.1	-5.5	5.5	4.6	n.a.	4.2	5.9	505
Choiseul Invest.	CHO	4.68	4.78	4.18	-2.1	12.0	21.5	4.6	9.7	3.2	1.0	453
Carlton Investments	CIN	17.05	19.98	17.47	-14.7	-2.4	68.0	4.0	11.4	3.9	7.2	452
Djerrriwarrh Invest.	DJW	3.99	3.41	3.33	17.0	19.8	26.0	6.5	7.1	6.7	5.1	853
Divers. United. Inve	DUI	2.81	2.96	2.63	-5.1	6.8	13.0	4.6	9.4	5.5	-2.1	453
Ironbark Capital	IBC	0.46	0.52	0.52	-13.2	-11.8	3.2	7.0	2.7	2.5	4.4	64
Mirrabooka	MIR	1.65	1.72	1.62	-4.1	1.9	10.0	6.1	n.a.	3.9	4.3	224
Milton	MLT	16.03	16.60	15.19	-3.4	5.5	73.0	4.6	9.8	2.6	-2.0	1,595
Platinum Capital	PMC	1.39	1.24	1.24	11.3	11.3	10.0	7.2	6.2	-0.2	16.1	227
Templeton Global	TGG	0.76	0.93	0.93	-18.3	-18.3	0.0	0.0	-3.0	-7.1	-11.3	111
WAM Capital	WAM	1.31	1.61	1.57	-18.6	-16.5	8.0	6.1	10.8	6.3	17.3	136
Whitefield Capital	WHF	2.95	3.22	3.34	-8.4	-11.7	17.0	5.8	5.1	0.8	4.0	175
All Ords Accum. Ind	XAOAI	33321							8.1	5.0	2.7	

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.

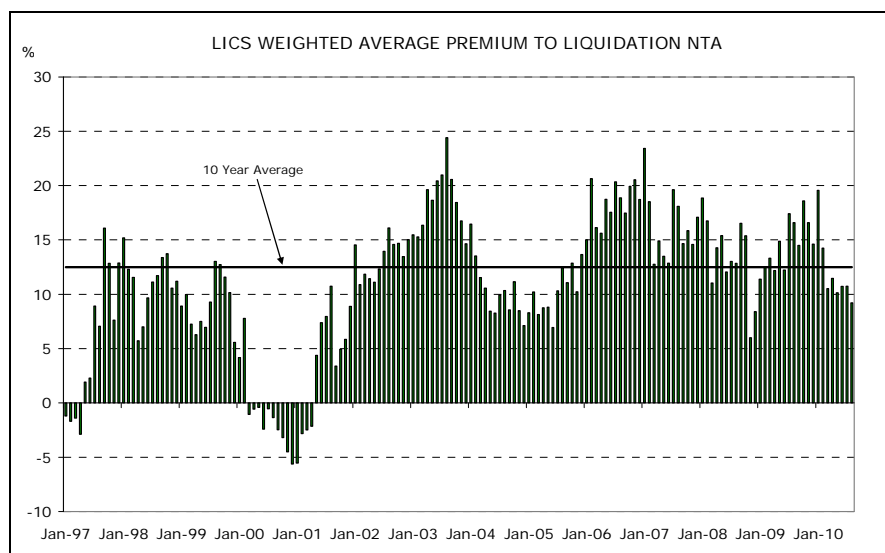
Recent News

As a result of the price falls and deep discount to NTA, many of the newer LICs have implemented share buyback programs (ALF, CYA, ELI, GMI, HHV, HIP, KAT, LRF, MFF, PRV and WIL). Several of the older LICs have also initiated buyback programs (AFI, ALR, CIN, DJW, IBC, TGG and WHF). PRV has just announced a share purchase plan, allowing investors to purchase up to \$7,500 worth of shares (5% discount) and a closing date of 8th October.

Milton and Choiseul are planning to merge, with CHO shareholders being offered MLT shares (the number depending on the relative NTA of each company, adjusted for dividend payments) and a special dividend (in late December) of up to 16c per share. Benefits include greater liquidity and lower management expense ratio (currently 0.17%). INE has bought back 90% of its capital (at \$0.604 per share) but the future of the remaining assets is unclear at this stage. We have temporarily removed INE from this report as a wind-up is a strong possibility. VTP has also carried out a capital return, representing 95% of capital. This was followed by a 1 for 20 share consolidation. VTP's market capitalisation is now just \$4.7m.

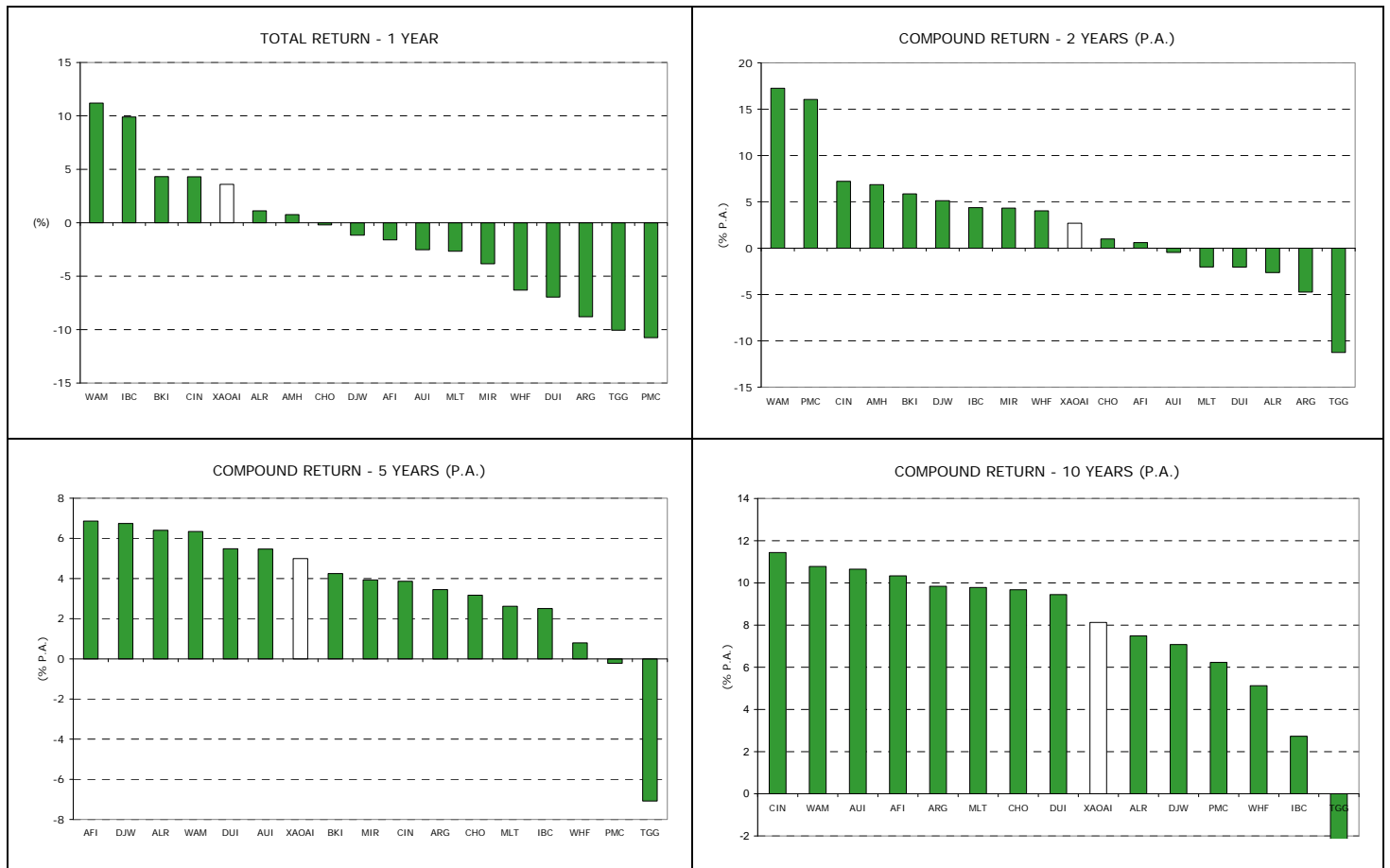
Established LICs

The trend of weighted average premiums since January 1997 is shown in the chart below, based on month-end prices. Over the last few months the index has fallen sharply and is currently **9.2%**, well below the 10 year average of **12.5%**.



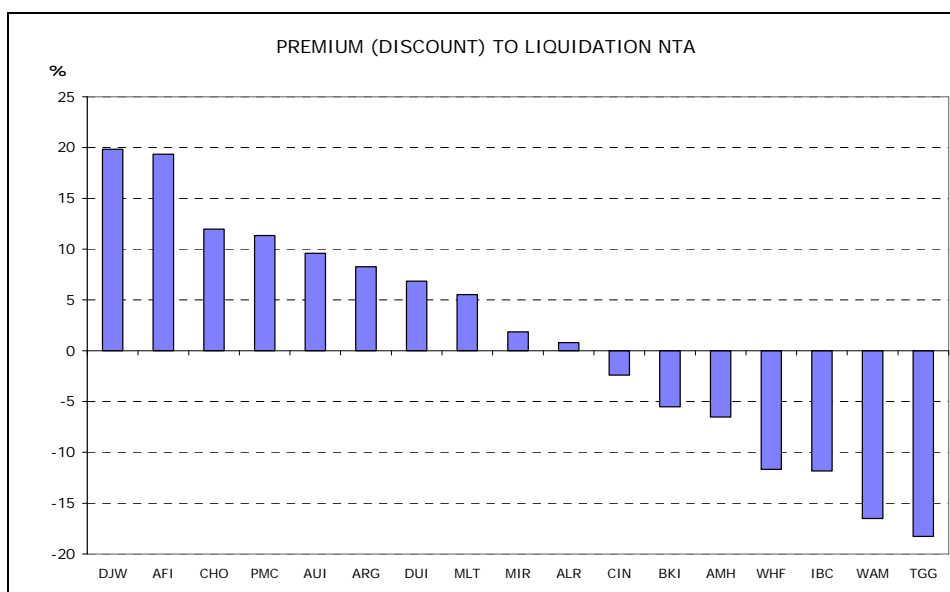
Total Return Performances

In terms of total returns, the best long-term performer (10 years) is Carlton Investments (CIN) with an annualised return of 11.4%. AFI was the best performer over the last five years while WAM Capital recorded the best return over the last two years and one year.



Premium/Discount to Liquidation NTA

The premiums and discounts in the table below are based on prices at the close of trading on the 20th September and reported NTAs at the end of August. Investors continue to avoid the smaller LICs. The best value of the quality established LICs is now Milton, following the merger talks with Choiseul – both are currently managed by Milton.



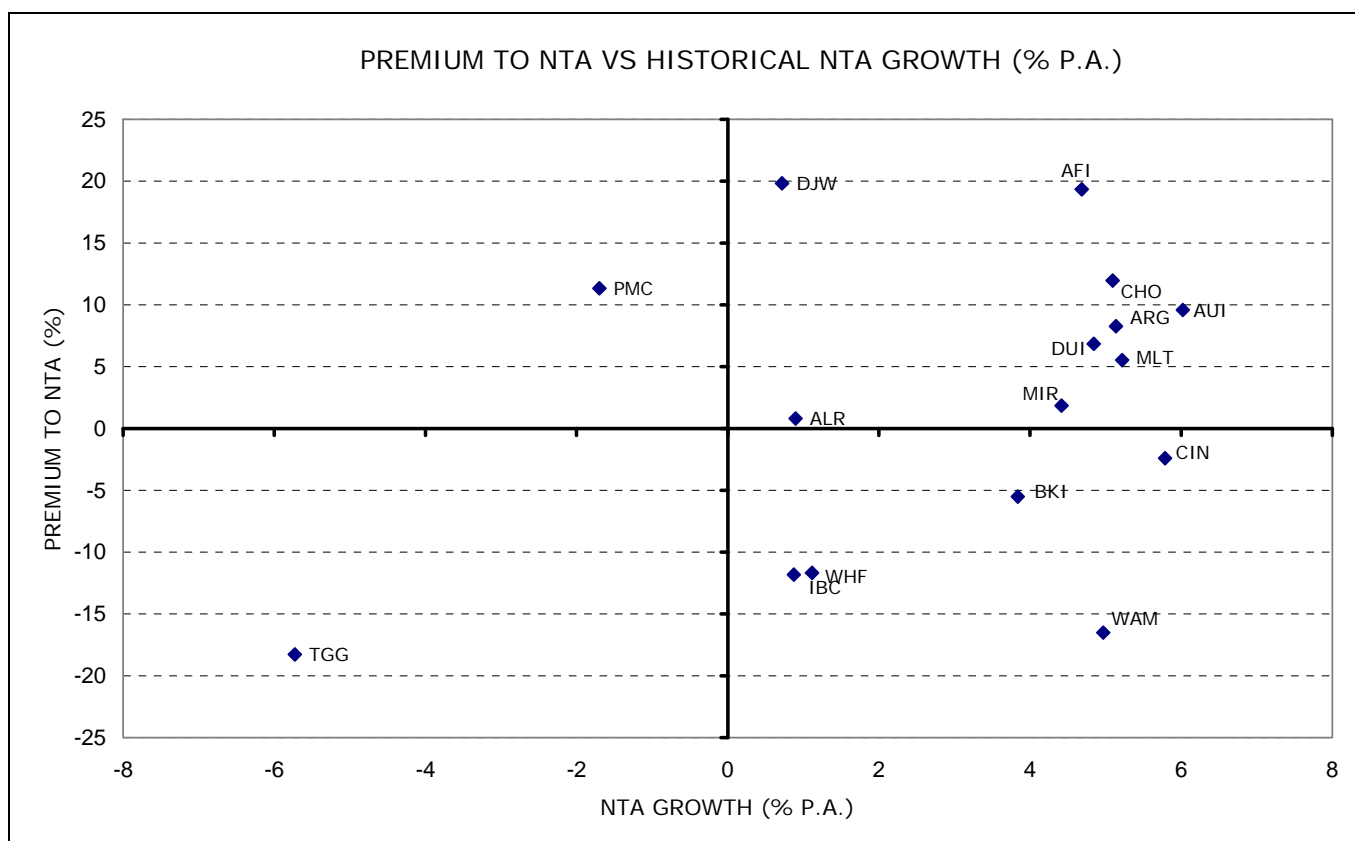
Premium to NTA vs Usual Premium to NTA

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 September 20 closing prices and August 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 stocks on this valuation basis are **MLT** and **ARG**. **PMC** appears to be good value but has a poor record of NTA growth. **WAM** also looks attractive and does have a good track record of NTA growth but has some riskier investments (see Appendix 2). **AFI** and **DJW** continue to look expensive.

Company	Code	Current Prem./Disc.	Usual Prem./Disc.	% Points Difference
Milton	MLT	5.5	15.8	-10.3
Templeton Global	TGG	-18.3	-8.2	-10.1
Argo	ARG	8.3	18.2	-9.9
Platinum Capital	PMC	11.3	19.3	-7.9
WAM Capital	WAM	-16.5	-9.7	-6.9
Whitefield	WHF	-11.7	-5.6	-6.0
Diversified United Invest	DUI	6.8	11.8	-4.9
Aust. United Invest.	AUI	9.6	14.2	-4.6
Choiseul	CHO	12.0	16.2	-4.3
Mirrabooka	MIR	1.9	5.4	-3.6
Ironbark Capital	IBC	-11.8	-9.7	-2.2
Aberdeen Leaders	ALR	0.8	2.6	-1.8
Carlton Investments	CIN	-2.4	-1.1	-1.3
Aust. Foundation	AFI	19.3	18.2	1.2
Djerriwarrh	DJW	19.8	14.0	5.8

Premium to NTA vs NTA Growth

AUI leads the pack of high quality LICs in terms of NTA growth over a 10 year period. However, CIN is not far behind and is trading at a 2.4% discount to liquidation NTA, compared to AUI's 9.6% premium. WAM also has strong growth and currently offers excellent value, although it tends to invest in smaller stocks and therefore carries more risk. AFI and DJW are clearly expensive.



NTA Growth, Last 12 Months

Company	Code	12 Months NTA Growth	
WAM Capital	WAM	6.6	Companies with offshore exposure performed relatively poorly (PMC and TGG).
Carlton Investments	CIN	1.4	
Brickworks Investment	BKI	0.8	
Aust. United Invest.	AUI	0.3	
Aust. Foundation	AFI	-0.3	
Ironbark Capital	IBC	-0.6	
Milton	MLT	-0.8	
Diversified United Inves	DUI	-1.1	
Mirrabooka	MIR	-1.2	
Argo	ARG	-1.8	
Whitefield	WHF	-3.2	
Choiseul	CHO	-3.9	
Djerriwarrh	DJW	-4.0	
Aberdeen Leaders	ALR	-6.0	
Templeton Global	TGG	-7.9	
Platinum Capital	PMC	-10.7	

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 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 16 floats since late 2003. Most of these companies offered shares at \$1.00.

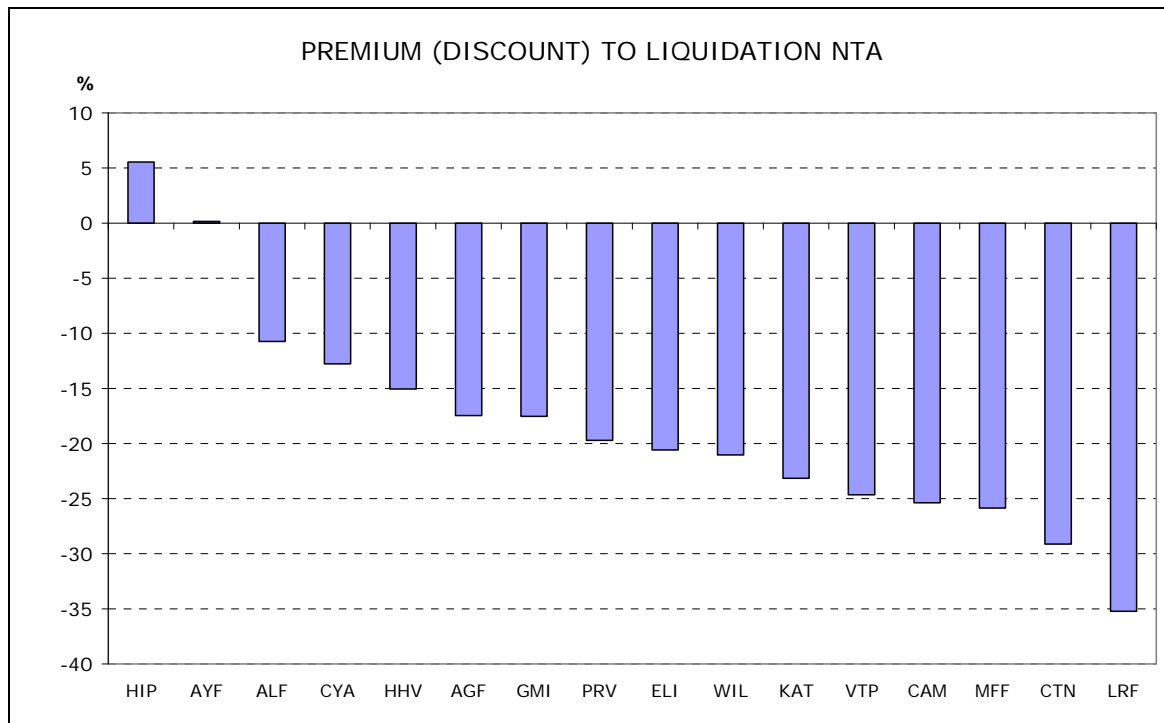
Company	Code	Manager	Focus
AMP Cap. China Growth Fund	AGF	AMP Capital	Investing in China A shares
Australian Leaders Fund	ALF	KWB Capital	At least 70% of the fund in the ASX100
Aust. Enhanced Income Fund	AYF	Elstree Investment Mgt.	Debt securities, esp. hybrids
Clime Capital	CAM	Clime Asset Mgt.	Value based, partly quantitative
Century Aust. Invest.	CYA	452 Capital (Peter Morgan)	ASX300
Contango Microcap	CTN	Contango Asset Mgt.	Microcaps
Emerging Leaders Inv.	ELI	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 Mgt.	Long-term Australian equities, > \$10m mcap.
Katana Capital	KAT	Classic Capital	ASX 300 stocks.
LinQ Resources	LRF	LinQ Capital	Small to medium size resource companies
Magellan Flagship Fund	MFF	Magellan Asset Mgt.	50 Large global companies; value focus
Premium Investors Gp.	PRV	Treasury Group	Several fund managers
Van Eyck Three Pillars	VTP	Van Eyck Research	ASX 300 stocks.
Wilson Investment Fund	WIL	WAMI	Mainly cheap industrials on ASX

Summary Table

Company	Code	Listing Date	Current Price (20/09/10)	Adjusted Initial NTA	Current (31 August) Liquidation NTA	Premium to NTA (%)	2011 Estimated Dividends ¢	2011 Estimated Yield (%)	Franking (%)	Market Cap. (Mill.)
AMP Capital China	AGF	22.12.06	0.85	0.96	1.03	-17.5	8.5	10.0	0	286.5
Australian Leaders	ALF	10.02.04	1.08	0.88	1.21	-10.7	8.0	7.4	100	70.9
Australian Enhanced Income	AYF	17.10.06	6.35	9.78	6.34	0.2	50.0	7.9	0-55	21.6
Clime Capital	CAM	3.02.04	1.00	0.88	1.34	-25.4	4.0	4.0	100	40.2
Century Australia	CYA	8.04.04	0.82	0.97	0.94	-12.8	8.0	9.8	100	140.0
Contango Microcap	CTN	25.03.04	0.90	0.85	1.27	-29.1	7.0	7.8	100	135.1
Emerging leaders Investment	ELI	26.06.06	0.81	0.96	1.02	-20.6	8.0	9.9	100	32.1
Global Mining	GMI	8.04.04	1.11	0.95	1.34	-17.5	5.0	4.5	100	212.0
Hunter Hall Global	HHV	19.03.04	0.85	0.98	0.99	-15.1	6.0	7.1	100	227.3
Hyperion Flagship	HIP	20.12.00	1.43	1.11	1.36	5.5	8.5	5.9	100	37.7
Katana Capital	KAT	23.12.05	0.72	0.95	0.94	-23.2	3.0	4.2	100	29.1
LinQ Resources Fund	LRF	20.01.05	0.68	0.98	1.05	-35.2	3.0	4.4	0	165.0
Magellan Flagship Fund	MFF	19.12.06	0.63	0.99	0.84	-25.9	0.0	0.0	0	218.5
Premium Investors	PRV	27.11.03	0.73	0.99	0.90	-19.7	5.0	6.9	100	65.1
Van Eyck Three Pillars	VTP	28.01.04	0.88	0.82	1.17	-24.7	0.0	0.0	100	4.8
Wilson Investment Fund	WIL	19.08.03	0.72	0.98	0.91	-21.1	5.2	7.2	100	84.6

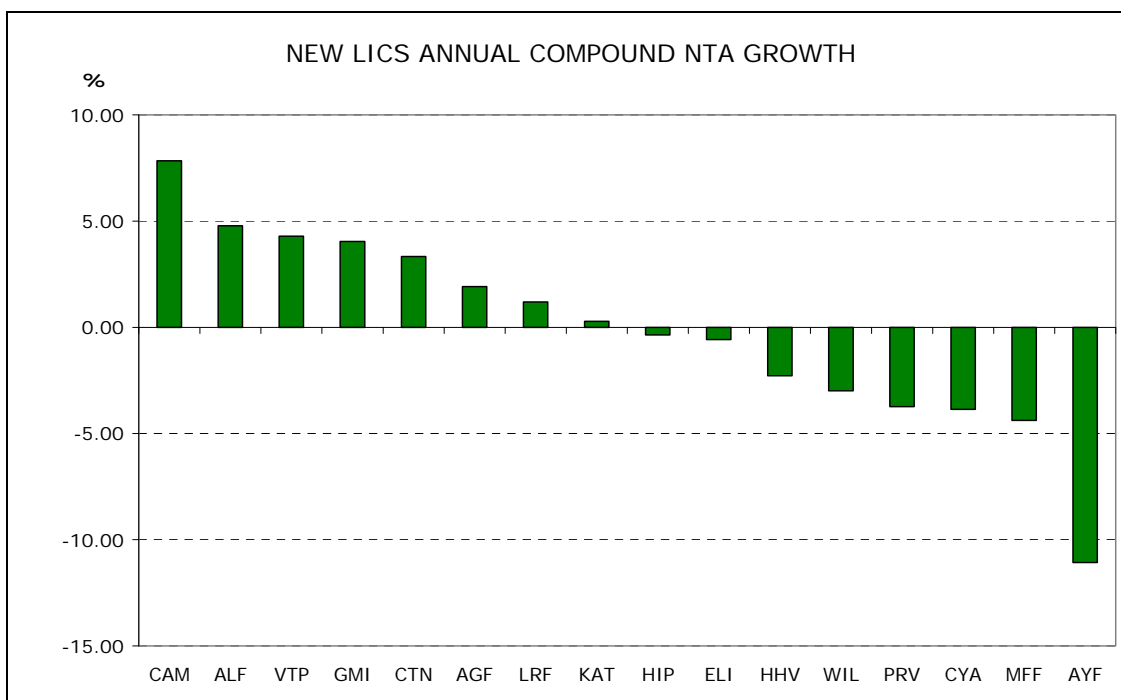
Premium to Liquidation NTA

The biggest discounts are carried by Linq Resources Fund and Contango Microcap (see chart below). The only premiums are carried by Hyperion Flagship Investments, a small company that invests in a broad range of Australian equities, and Australian Enhanced Income Fund, which invests in hybrids and other debt securities.



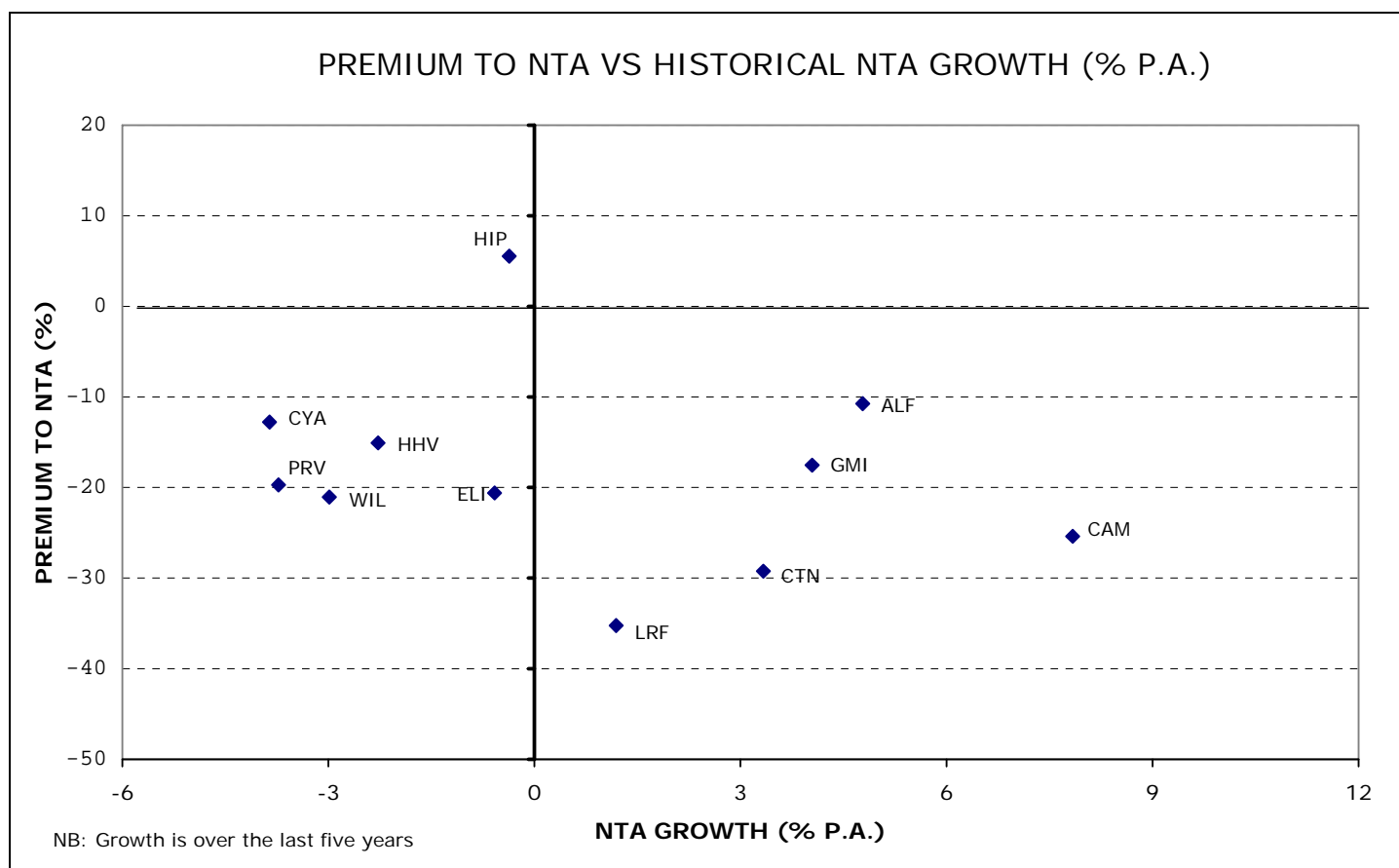
New LICs NTA Growth

In the chart below, the NTA growth represents the annualised growth over the last five years. The strongest growth stocks have been Clime Capital, the Australian Leaders Fund and Global Mining Investments. Note that VTP has carried out a major capital return and 1 for 20 share consolidation.



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 now offer deep discounts to liquidation NTA. Taking into account the historical NTA growth rates, the best value is Clime Capital.



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.

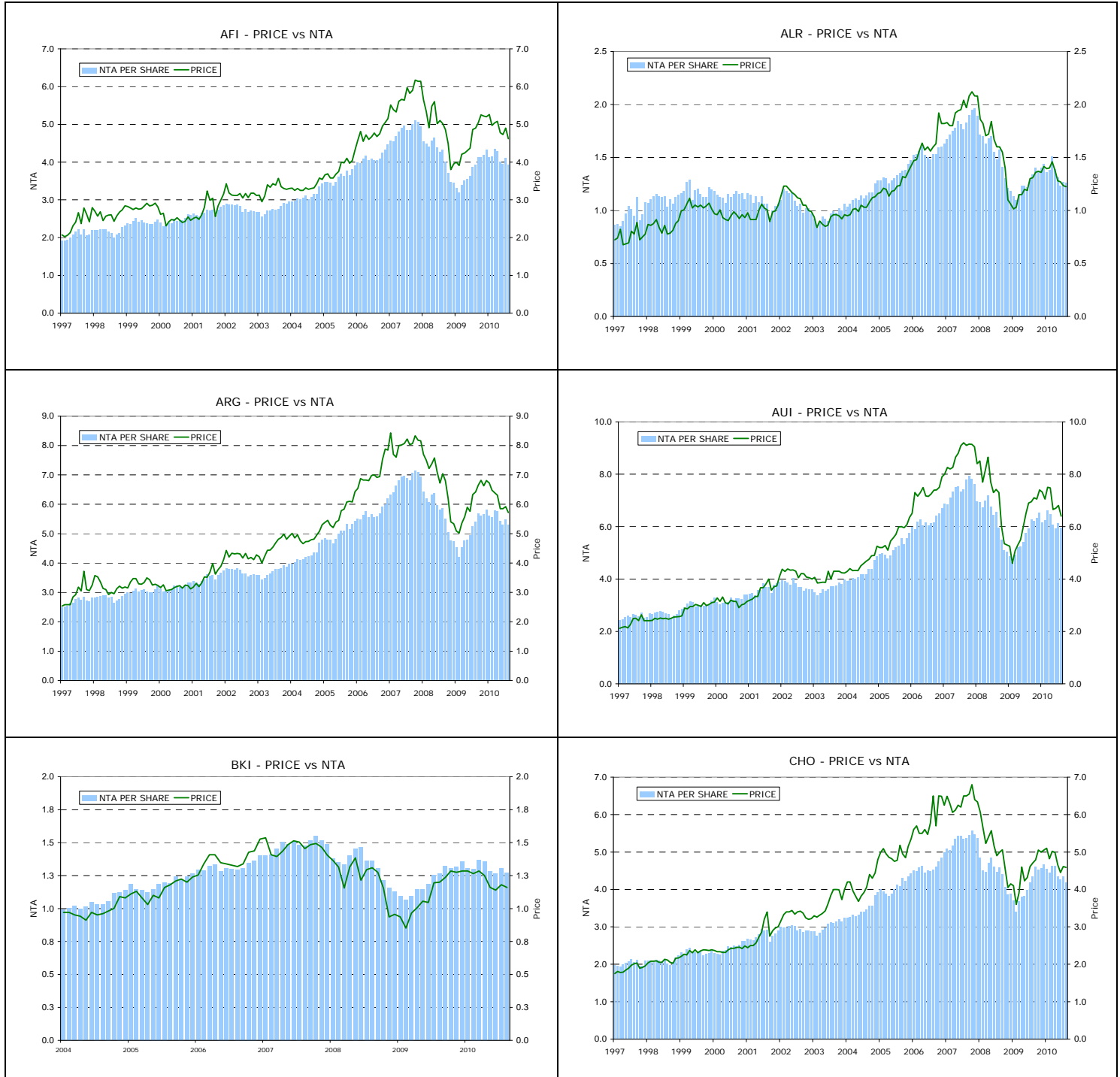
Vanguard also has a domestic fund called the Vanguard Australian Shares Index (VAS), which covers the S&P/ASX 300 index.

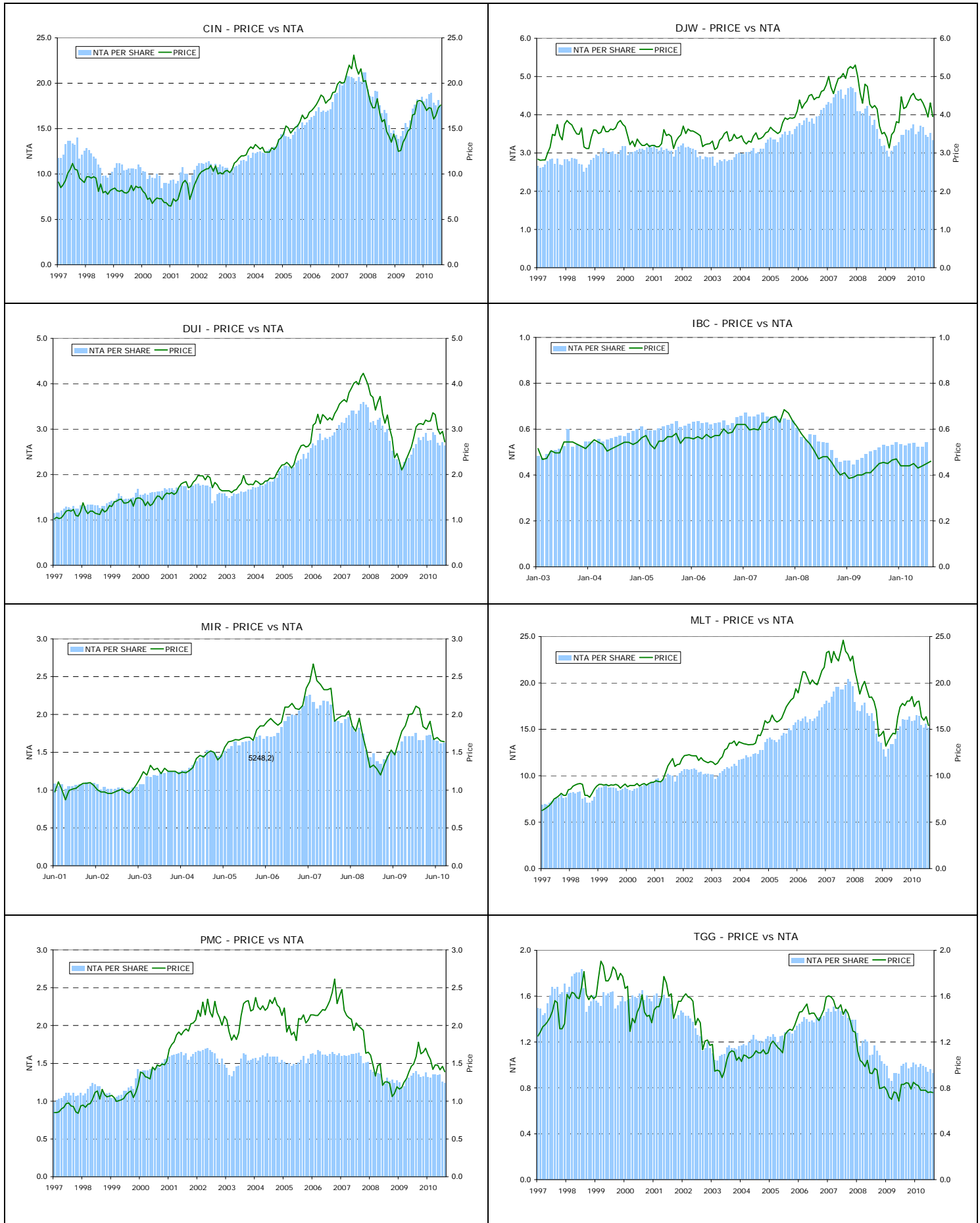
Exchange Traded Funds							Last 12 Months
Company	Code	Listing Date	Market Cap. (\$Mill.)	Current Price (20.09.10)	2010 Yield (%)	Franking (%)	Total Return (%)
SPDR ASX200	STW	27.08.01	2,543.3	43.98	3.1	71.3	0.50
SPDR ASX50	SFY	27.08.01	250.8	45.06	4.1	57.8	0.38
SPDR ASX200 Prop. Tr. Fund	SLF	18.02.02	285.4	8.20	6.3	0.9	0.24

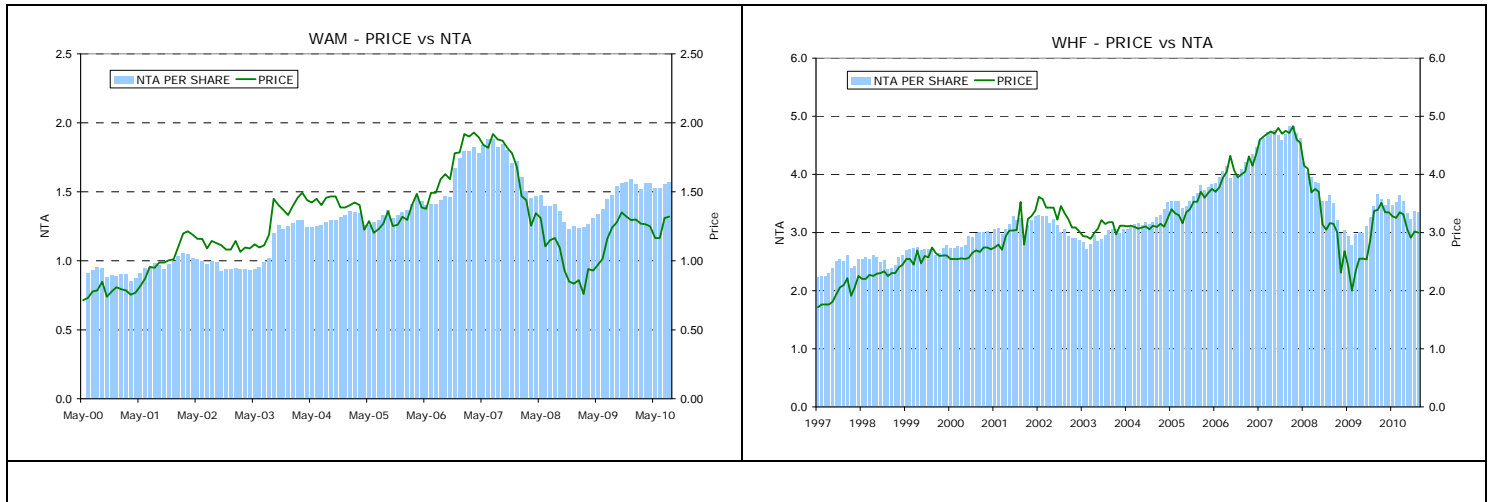
Note: the exchange is AXW not ASX.

APPENDIX 1.

The charts on the following pages show the share price and NTA/share trends over the last 12+ years for the established LICs. Last entries represent 31.08.10 for both price and NTA.







Appendix 2. Top 20 Portfolio Holdings

30.06.10	30.06.10	30.06.10	31.08.10	30.06.10	30.06.10	30.06.10	30.06.10	30.06.10	30.06.10	30.06.10	30.06.10
AFI	ALR	AMH	ARG	AUI	BKI	CHO	CIN	DJW	DUI	IBC	MIR
BHP	BHP	CBA	BHP	BHP	NHC	SOL	AHD	BHP	BHP	BHP	HSP
CBA	QBE	WBC	WBC	RIO	BHP	CBA	NAB	WBC	WPL	CBA Hybrids	HDU
WBC	WBC	BHP	RIO	ANZ	NAB	NAB	WBC	CBA	ANZ	CBA	OSH
RIO	RIO	NAB	WES	WPL	CBA	QBE	BHP	TLS	CBA	NABHA	AIX
WES	CBA	TLS	MQG	WBC	WBC	WBC	CBA	NAB	RIO	WBC	ASZ
NAB	WOW	BKN	MLT	NAB	TLS	BHP	ANZ	WPL	WBC	NAB	CPB
WOW	ANZ	ASG	CBA	WES	WES	MLT	AGK	ANZ	NAB	WOWHB	TOX
TLS	WDC	TOX	NAB	CBA	WOW	BKW	ORI	OSH	QBE	ANZ	IRE
ANZ	WPL	TCL	AUI	DUI	WPL	WES	WES	STO	CSL	ANZPA	CCL
WPL	AGK	QBE	ANZ	WOW	AGK	CPB	GOW	QBE	WOW	TLS	ILU
CPU	SGT	PPC	WOW	QBE	QBE	BOQ	TLS	WOW	WDC	RHC	FWD
STO	ASX	CCL	TLS	ORI	CPB	WOW	BOQ	RIO	TLS	DUE	BKN
QBE	MTS	AMC	ORG	TLS	ANZ	BEN	ORG	AMP	WES	NCM	AWC
AMC	DJS	REA	WPL	AXA	WBC Hybrid	TLS	PPT	TCL	TCL	STO	OST
ORG	TTS	AMP	QBE	ORG	MTS	AGK	BEN	BXB	AGK	ORIPB	REA
OSH	SPN	OSH	ORI	AWC	CCL	MQG	RIO	HDF	CMJ	IAGPA	NUF
ORI	AXA	AIX	WDC	AGK	TPM	MTS	STO	WAN	AWC	FXJPB	PPC
TCL	RHC	MCU	STO	WDC	ASX	SGP	AMC	AXA	MYS	LGL	HAH
AGK	ORI	BXB	FGL	STO	IVC	PPT	CCL	ORG	SOL	AXJHA	EQT
AMP	CPU	ANZ	CPU	TAH	AMP	LEI	BSL	WES	STO	BEN Hybrids	PPT
30.06.10	30.06.10	30.06.10	31.08.10	31.08.10							
MLT	PMC	TGG	WAM	WHF							
WBC	Johnson & Johnson	Microsoft	RKN	CBA							
CBA	Siemens	Samsung Electronics	MMS	WBC							
BHP	Merck	Oracle	HSP	ANZ							
NAB	Cisco Systems	Telenor	RHG	NAB							
SOL	Samsung Electronics	Amgen	MCU	WES							
WES	Microsoft	Vodafone	ORL	WOW							
WOW	Henkel	Sanofi-Aventis	WYL	TLS							
ANZ	China Resources	Singapore Telecom.	SGI	MQG							
CHO	Pal	Total	MYS	QBE							
CPB	Bangkok Bank	Royal Dutch Shell	AWB	AIO							
BOQ	Bayerische Motoren	France Telecom	SGN	FXJ							
BEN	Denso Corp.	Telefonica	ITX	MAP							
WPL	Yahoo	Time Warner Cable	TGA	NWSLV							
RIO	Allianz	China Telecom	IRE	TOL							
BKW	Sanofi-Aventis	Pfizer	REA	SVW							
TLS	Newmont Mining		BKL	CSL							
AGK	Ecogreen Fine Chemicals		AHE	SUN							
CSL	Henderson Land Devel.		MAQ	AMP							
SUN	Little Sheep		CIW	NWSLV							
QBE	Infineon Technologies		PRV	HVN							

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