

## Premiums Decline Sharply

### 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 34 LICs, comprising 16 established companies and 18 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 **4.7%** at the end of April. This is well below the 10 year average of **13.2%**. 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** continue to have the strongest long-term growth, with **CIN** and **WAM** offering the best value. Note that **WAM** has again topped the total return tables covering the last 10, 5, 2 and 1 year periods, and recorded the strongest NTA growth over the last 12 months. **MLT** and **DUI** offer the best value among the larger, conservative LICs. Both are trading at discounts to liquidation NTA. **ARG** also offers good value at present.

Amongst the newer LICs, **ALF** and **CAM** have the best track records of NTA growth over the last five years. **CTN** and **WIC** also have strong NTA growth track records and are trading at substantial discounts to liquidation NTA (see p. 6).

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**Analyst:** Mark Barsdell  
**Phone:** (+612) 6492 3794  
**Email:** mbarsdell@psl.com.au

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### Summary Table

Company	Code	Current Price 23.05.11 \$	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	4.59	4.97	4.28	-7.6	7.2	21.0	4.6	9.0	4.7	8.2	4,729
Aberdeen Leaders	ALR	1.22	1.37	1.30	-10.9	-6.2	9.5	7.8	7.5	2.1	7.3	74
Amcil	AMH	0.67	0.80	0.77	-16.3	-13.0	2.0	3.0	n.a.	7.2	14.3	143
Argo Investments	ARG	5.81	6.31	5.68	-7.9	2.3	26.0	4.5	9.3	1.3	3.9	3,633
Aust. United Invest.	AUI	6.72	7.59	6.59	-11.5	2.0	26.0	3.9	9.4	1.6	14.0	698
Brickworks Investm	BKI	1.22	1.44	1.36	-15.6	-10.7	6.0	4.9	n.a.	2.8	12.2	520
Carlton Investments	CIN	17.30	21.98	19.19	-21.3	-9.8	70.0	4.0	10.6	2.0	15.0	455
Djerriwarrh Invest.	DJW	4.09	3.76	3.62	8.8	13.0	26.0	6.4	6.8	3.8	12.9	876
Divers. United. Inve	DUI	2.85	3.25	2.87	-12.3	-0.7	13.0	4.6	8.5	2.1	12.5	470
Ironbark Capital	IBC	0.48	0.56	0.56	-15.3	-15.5	3.0	6.3	3.0	2.3	15.7	67
Mirrabooka	MIR	1.84	1.95	1.80	-5.9	1.9	10.0	5.4	n.a.	5.7	13.1	249
Milton	MLT	15.85	18.04	16.54	-12.1	-4.2	73.0	4.6	8.5	0.3	9.4	1,973
Platinum Capital	PMC	1.30	1.20	1.20	7.9	7.9	9.0	6.9	3.2	-3.1	-3.3	206
Templeton Global	TGG	0.77	0.95	0.95	-19.5	-19.5	2.0	2.6	-4.2	-9.5	2.6	113
WAM Capital	WAM	1.58	1.75	1.67	-9.5	-5.2	9.5	6.0	12.4	8.5	34.6	165
Whitefield Capital	WHF	2.82	3.29	3.38	-14.3	-16.6	17.0	6.0	3.9	-2.7	6.4	222
All Ords Accum. Ind	XAOAI	35082							7.9	3.5	17.7	

### 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

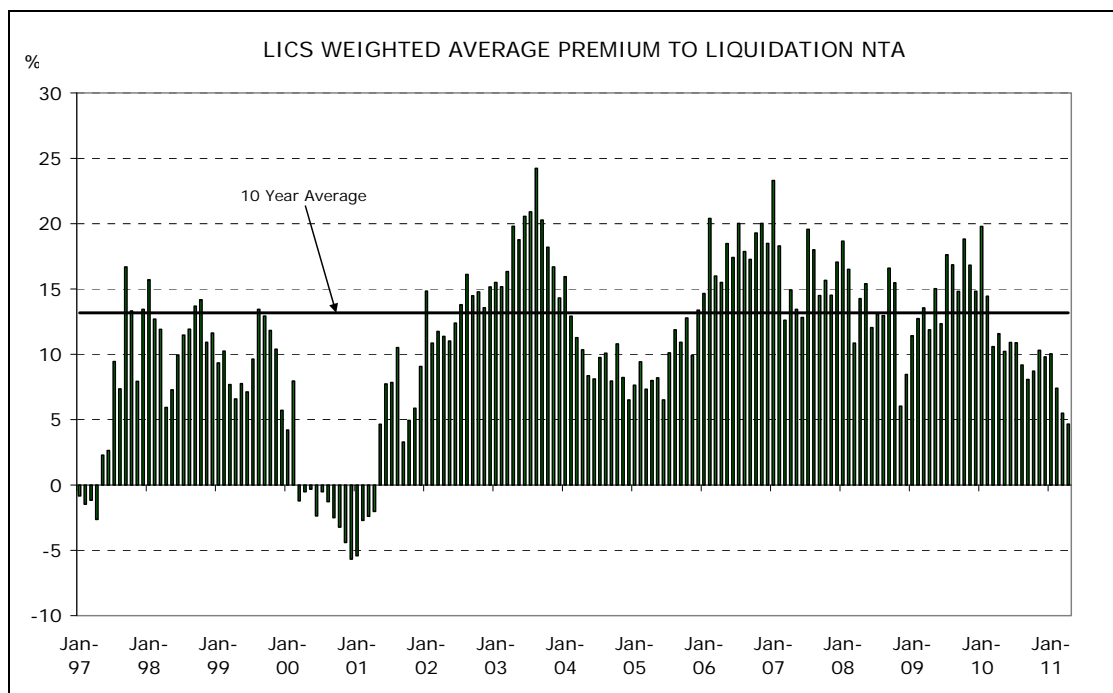
Templeton Global (TGG), Platinum Capital (PMC) and the newer Global Mining Investments (GMI), Linq Resources (LRF), Magellan Flagship Fund (MFF) and Hunter Hall Global (HHV) have a global spread of investments and may be appropriate for investors wishing to diversify beyond Australia. Of these, Platinum 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, 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 and TGG). Whitefield and Sylvastate have now completed their merger, resulting in a market cap. of \$222m for WHF. Milton Corp. is planning to cancel the MLT shares previously held by Choiseul (1.7m) and will send out an information memorandum with the notification of the annual general meeting, which is expected to be held on the 13<sup>th</sup> October. Ironbark Capital is considering a plan to buy back all the outstanding shares in IBC at NTA less costs, on June 30 2015. This would require amending the constitution and then convening a meeting in early 2015 to consider the buyback resolutions.

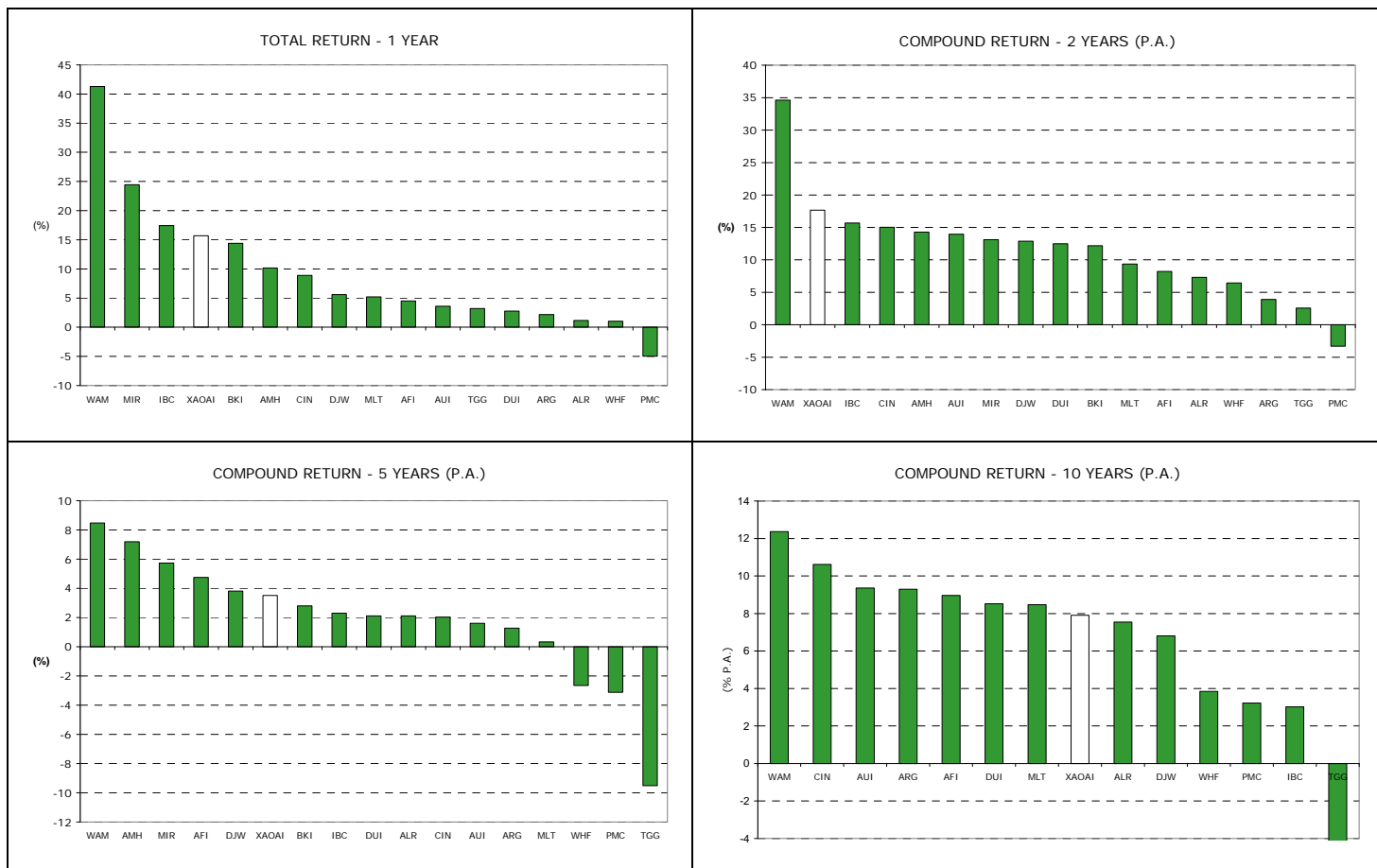
## Established LICs

The trend of weighted average premiums since January 1997 is shown in the chart below, based on month-end prices. The index is in a steep downtrend and is currently 4.7%, well below the 10 year average of 13.2%.



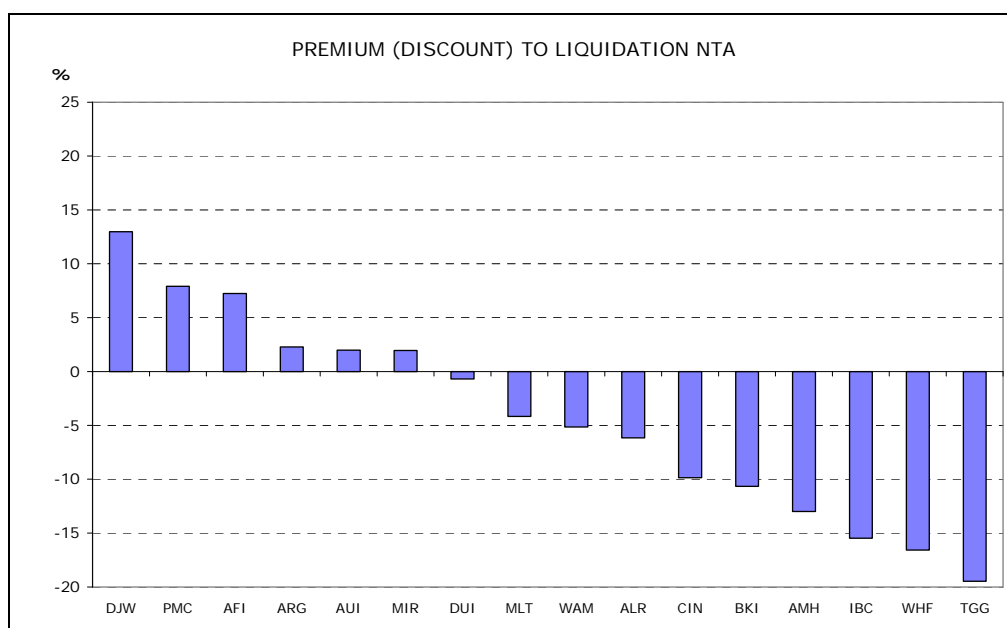
## Total Return Performances

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 PMC was the worst performer over the last 1 and 2 year periods and the second worst over the last five years.



### Premium/Discount to Liquidation NTA

The premiums and discounts in the table below are based on prices at the close of trading on the 23rd May and reported NTAs at the end of April. Investors continue to avoid the smaller LICs. The best value of the larger, conservative LICs are Milton, Diversified United Investments and Argo.



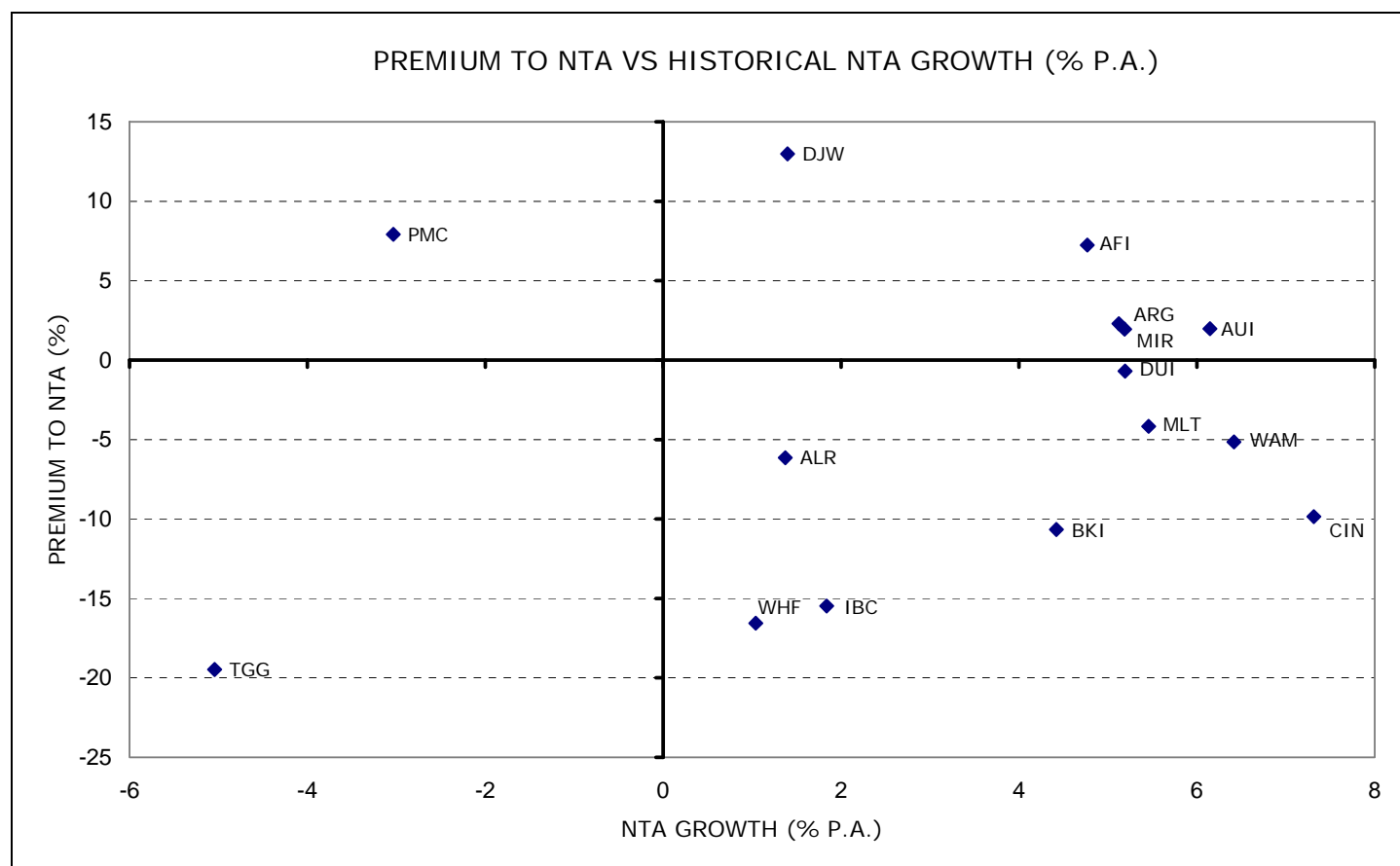
## Premium to NTA vs Usual Premium to NTA

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 May 23 closing prices and April 30 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**. **ARG** also looks very good value. **DJW** continues to look expensive. WAM does not look attractive on this basis as the market appears to be re-rating it as a result of strong price and NTA performance over the last couple of years.

Company	Code	Current Prem./Disc.	Usual Prem./Disc.	% Points Difference
Milton	MLT	-4.2	12.8	-17.0
Argo	ARG	2.3	16.9	-14.6
Aust. Foundation	AFI	7.2	18.6	-11.4
Diversified United Invest	DUI	-0.7	10.6	-11.3
Aust. United Invest.	AUI	2.0	13.1	-11.2
Whitefield	WHF	-16.6	-7.0	-9.6
Aberdeen Leaders	ALR	-6.2	2.7	-8.8
Platinum Capital	PMC	7.9	16.5	-8.6
Templeton Global	TGG	-19.5	-10.9	-8.5
Carlton Investments	CIN	-9.8	-2.7	-7.2
Ironbark Capital	IBC	-15.5	-10.3	-5.2
Mirrabooka	MIR	1.9	5.6	-3.6
Djerriwarrh	DJW	13.0	14.8	-1.8
WAM Capital	WAM	-5.2	-10.7	5.5

## 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, MLT, ARG or DUI. WAM also has strong growth and still offers excellent value. DJW and PMC are clearly expensive.



**NTA Growth, Last 12 Months**

<b>Company</b>	<b>Code</b>	<b>12 Months NTA Growth</b>	
WAM Capital	WAM	6.4	WAM continues to perform strongly.
Ironbark Capital	IBC	4.1	
Mirrabooka	MIR	4.0	
Aust. United Invest.	AUI	1.9	
Carlton Investments	CIN	1.2	
Milton	MLT	0.7	
Brickworks Investment	BKI	0.4	
Aust. Foundation	AFI	0.0	
Diversified United Invest.	DUI	0.0	
Djerriwarrh	DJW	-1.4	
Argo	ARG	-1.4	
Templeton Global	TGG	-2.8	
Whitefield	WHF	-4.5	
Aberdeen Leaders	ALR	-6.5	
Platinum Capital	PMC	-11.5	

**Historical Dividend Growth Rates**

		<b>Compound Dividend Growth (% p.a.)</b>	<b>Years</b>	
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 18 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 Mgt.	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
WAM Active	WAA	MAM Pty Ltd	Wide range in size and sector, ASX.
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

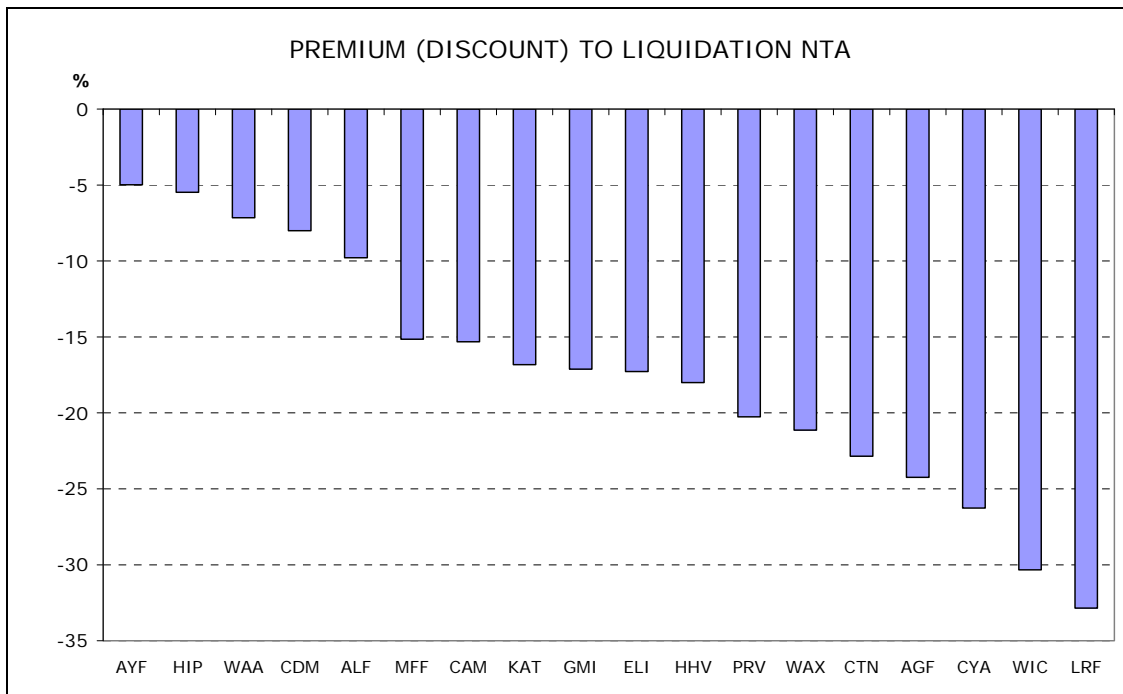
Company	Code	Listing Date	Current Price (23/05/11)	Adjusted Initial NTA	Current (30 April) Liquidation NTA	Premium to NTA (%)	2011 Estimated Dividends ¢	2011 Estimated Yield (%)	2011 Estimated Franking (%)	Market Cap. (Mill.)
AMP Capital China	AGF	22.12.06	0.75	0.96	0.99	-24.2	3.0	4.0	0	264.3
Australian Leaders	ALF	10.02.04	1.29	0.88	1.43	-9.8	8.5	6.6	100	85.2
Australian Enhanced Income	AYF	17.10.06	6.65	9.78	7.00	-5.0	50.0	7.5	0-55	22.1
Clime Capital	CAM	3.02.04	1.05	0.84	1.24	-15.3	4.0	3.8	100	59.6
Cadence Capital	CDM	4.12.06	1.24	1.14	1.35	-8.0	5.0	4.0	100	34.4
Century Australia	CYA	8.04.04	0.71	0.90	0.96	-26.3	9.2**	11.5	100	56.1
Contango Microcap	CTN	25.03.04	1.17	0.85	1.51	-22.8	8.0	6.9	100	172.8
Emerging leaders Investment	ELI	26.06.06	0.91	0.96	1.10	-17.3	8.0	8.8	100	36.5
Global Mining	GMI	8.04.04	1.21	0.95	1.46	-17.1	6.0	5.0	100	233.1
Hunter Hall Global	HHV	19.03.04	0.84	0.98	1.02	-18.0	6.0	7.1	100	226.0
Hyperion Flagship	HIP	20.12.00	1.33	1.11	1.41	-5.5	8.5	6.4	100	33.1
Katana Capital	KAT	23.12.05	0.86	0.95	1.03	-16.8	4.3	4.9	100	34.2
LinQ Resources Fund	LRF	20.01.05	0.94	0.98	1.40	-32.9	3.0	3.2	0	175.7
Magellan Flagship Fund	MFF	19.12.06	0.70	0.99	0.83	-15.2	0.0	0.0	0	244.5
Premium Investors	PRV	27.11.03	0.74	0.99	0.93	-20.3	5.0	6.8	100	70.6
WAM Active	WAA	11.01.08	1.07	0.99	1.15	-7.1	7.0	6.6	100	17.1
WAM Research Ltd.	WAX	19.08.03	0.75	0.95	0.94	-21.1	5.8	7.7	100	88.8
Westoz Investment Co.	WIC	16.09.09*	1.05	1.00	1.51	-30.3	10.0	9.5	100	129.0

\* WIC initial NTA based on June 2005 NTA

\*\* Includes special of 6.2c.

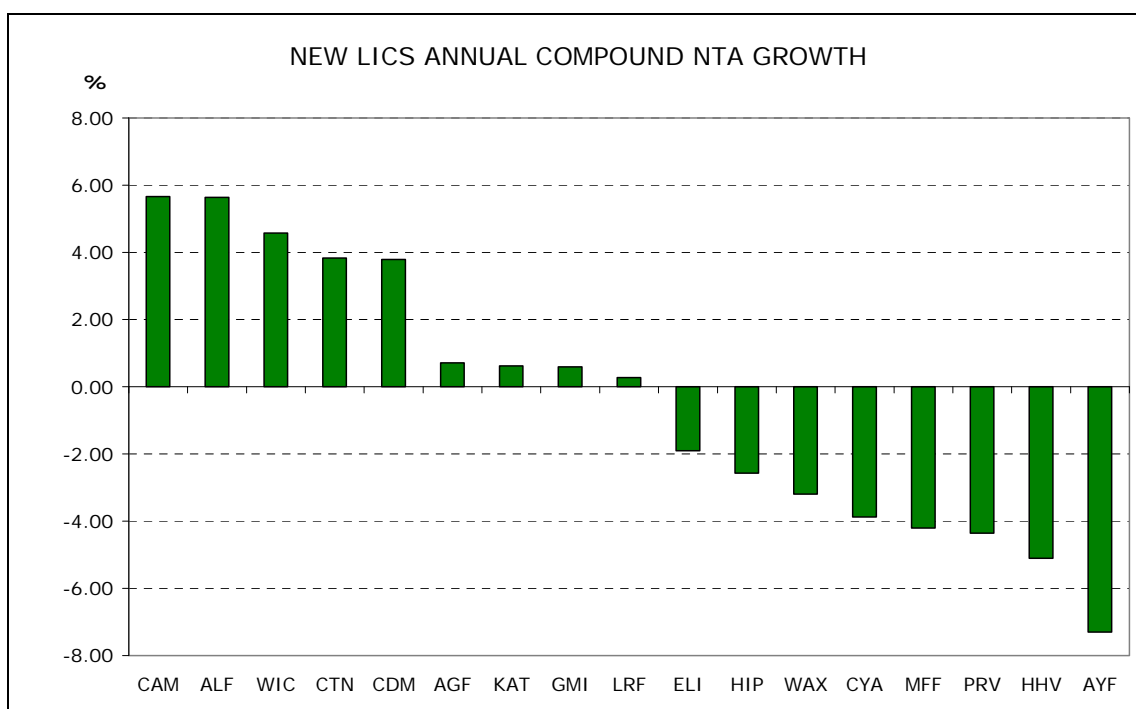
### Premium to Liquidation NTA

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



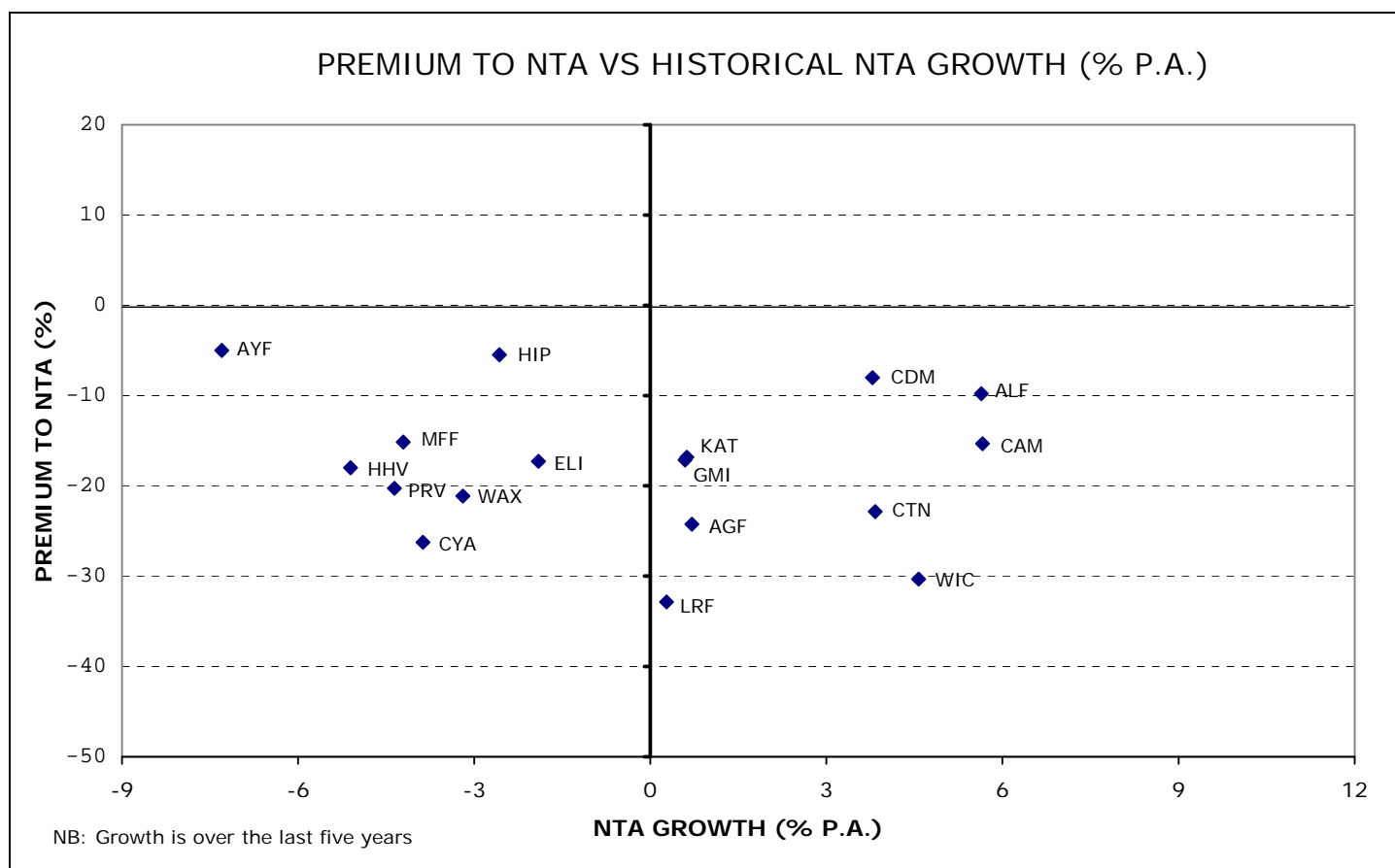
### New LICs NTA Growth

In the chart below, the NTA growth represents the annualised growth over the last five years. The strongest growth stocks have been Clime Capital, the Australian Leaders Fund and Westoz. We have excluded WAM Active as there is only three years of NTA data available. Note that although Westoz was only listed in 2009, we have NTA data going back to June 2005.



## 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. WIC, CTN, CAM and ALF currently offer 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 (23.05.11)	2010 Yield (%)	Franking (%)	Total Return (%)
SPDR ASX200	STW	27.08.01	2,546.4	44.34	3.0	71.3	11.91
SPDR ASX50	SFY	27.08.01	258.5	45.63	4.1	57.8	11.68
SPDR ASX200 Prop. Tr. Fund	SLF	18.02.02	290.9	7.84	6.6	0.9	10.27

*Note: the exchange is AXW not ASX.*

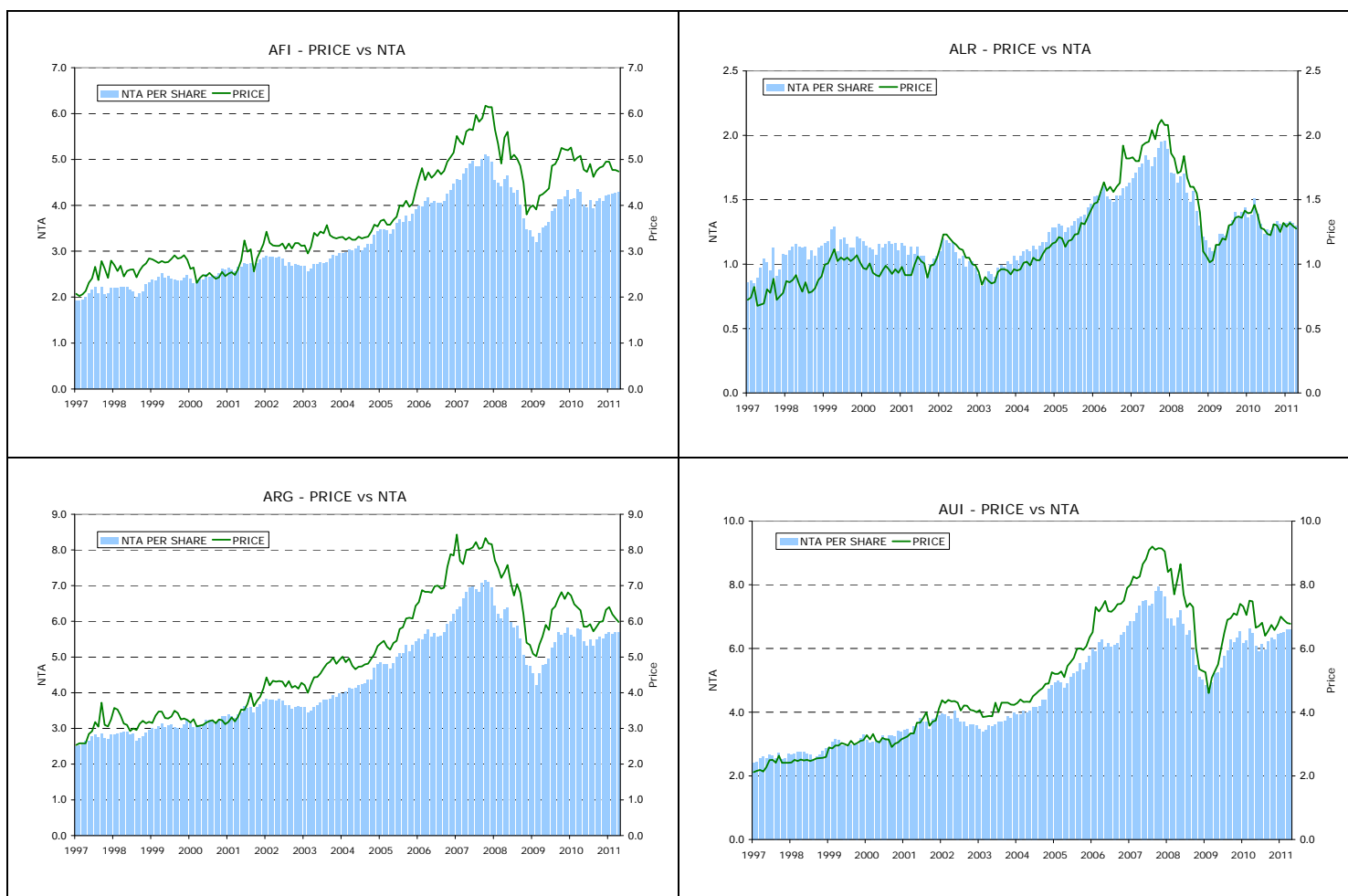
More recently, Australian Index Investments (AII) offers a range of sector-specific funds targeting financials (banking, finance and real estate), financials excluding A-REITS, resources (including energy), REITS, metals and mining, industrials (capital goods and commercial services) and energy. The table below gives the codes and source indices.

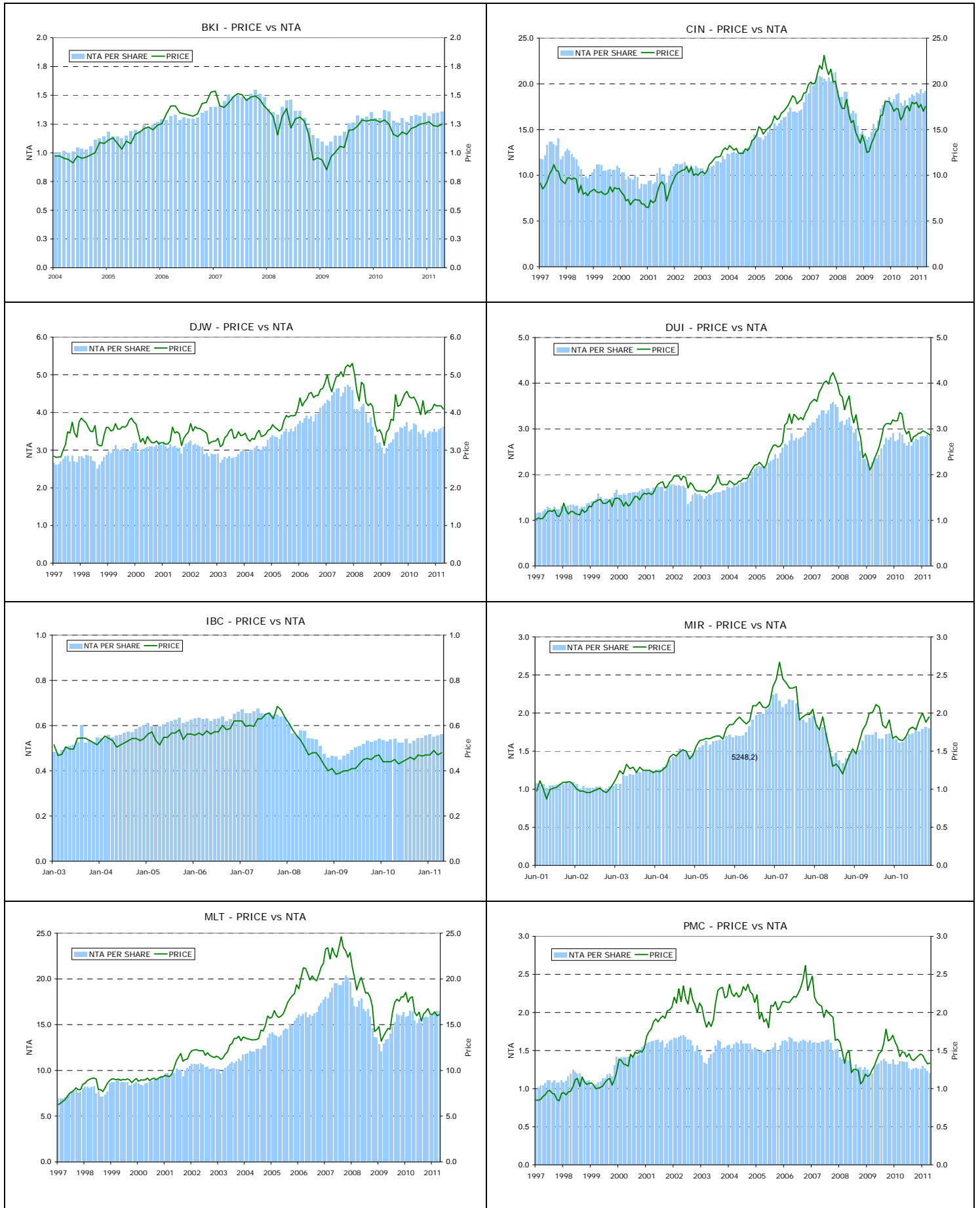


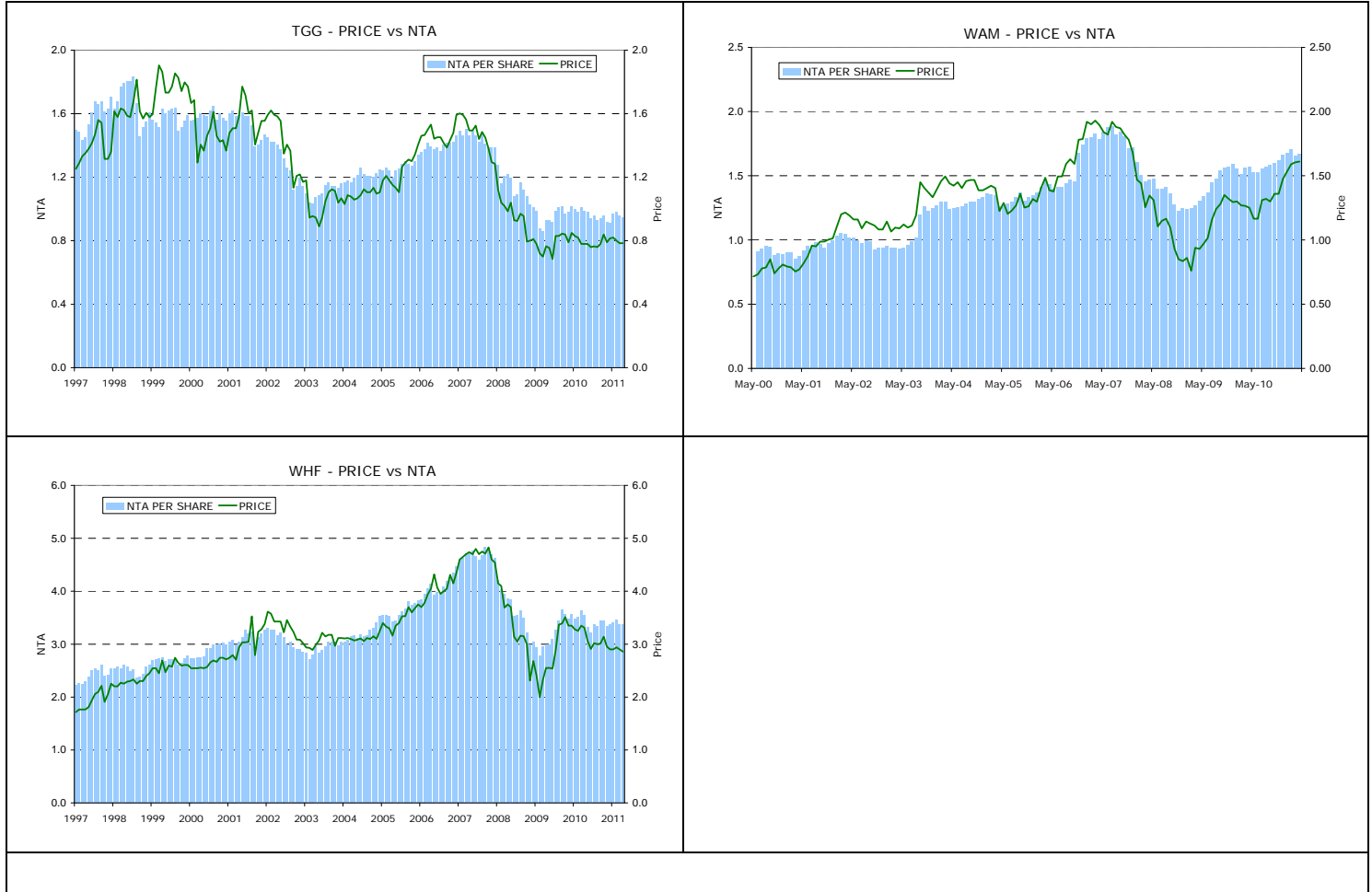
Aii Sector ETF	ASX Code (.AXW)
Aii S&P/ASX 200 Financials	FIN
Aii S&P/ASX 200 Financials x-A-REITS	FIX
Aii S&P/ASX 200 Resources	RSR
Aii S&P/ASX 200 Metals & Mining	MAM
Aii S&P/ASX 200 Industrials	IDD
Aii S&P/ASX 200 Energy	ENY

### APPENDIX 1.

The charts on the following pages show the share price and NTA/share trends over the last 14 years for the established LICs. Last entries represent 30.04.11 for both price and NTA.







**Appendix 2. Top 20 Portfolio Holdings**

31.03.11	31.12.10	31.03.11	30.04.11	31.12.10	30.04.11	31.12.10	31.03.11	31.12.10	31.03.11	30.04.11
<b>AFI</b>	<b>ALR</b>	<b>AMH</b>	<b>ARG</b>	<b>AUI</b>	<b>BKI</b>	<b>CIN</b>	<b>DJW</b>	<b>DUI</b>	<b>MIR</b>	<b>MLT</b>
BHP	BHP	BHP	BHP	BHP	NHC	AHD	BHP	BHP	ILU	WBC
WBC	QBE	HDF	WBC	RIO	BHP	NAB	WBC	WPL	CPB	CBA
CBA	CBA	CBA	RIO	ANZ	NAB	WBC	CBA	RIO	HDF	BHP
RIO	RIO	WBC	WES	WPL	CBA	BHP	ANZ	ANZ	OSH	SOL
NAB	WOW	NAB	ANZ	CBA	WBC	CBA	NAB	CBA	AWC	NAB
WES	WBC	TCL	CBA	WBC	WES	ANZ	WPL	WBC	AIX	CPB
ANZ	ANZ	BKN	NAB	NAB	TLS	WES	TLS	NAB	FWD	WES
WOW	AGK	ANZ	AUI	WES	WOW	AGK	OSH	QBE	IRE	ANZ
TLS	ASX	ILU	MLT	DUI	WPL	ORI	AMP	CSL	TOX	WOW
WPL	WDS	QBE	MQG	WOW	CPB	GOW	STO	WOW	BKN	BOQ
STO	SGT	TLS	WOW	QBE	AGK	RIO	RIO	TAH	CCL	BEN
ORG	CPU	TOX	ORG	ORI	ANZ	BOQ	QBE	AWC	ASZ	QBE
OSH	DJS	REA	TLS	AWC	QBE	TLS	WOW	WES	REA	RIO
QBE	WPL	PPC	WPL	AXA	CCL	ORG	HDF	WDC	AUB	WPL
AMP	MTS	OSH	QBE	ORG	MTS	BEN	ORG	AGK	FBU	BKW
AMC	TTS	AMP	AMP	AGK	WBC prefs	PPT	BXB	SOL	WLL	TLS
TCL	ORI	AIX	ORI	TAH	TPG	STO	TCL	MYS	MRM	AGK
IPL	SPN	CCL	STO	STO	AMP	AMC	SWM	PPT	OST	PPT
CPU	AXA	AMC	CPU	BXB	ARP	CCL	WES	CMJ	EQT	SUN
ORI	IPL	BXB	DUI	WDC	ASX	BSL	CCL	AIX	PPT	STO

31.12.10	31.03.11	31.03.11
<b>PMC</b>	<b>WAM</b>	<b>WHF</b>
Samsung Electronics	RKN	CBA
Bangkok Bank	RHG	WBC
Microsoft	ELI	ANZ
Ecogreen Fine Chem.	TAL	NAB
Shin-Etsu Chem.	MMS	WES
Cisco Systems	SGN	QBE
Johnson & Johnson	RPX	WOW
Henkel A.G.	MYS	TLS
BMW	MSF	MQG
Siemens A.G.	SGI	AIO
Royal Dutch Shell	MAQ	SVW
Allianz A.G.	BRG	NWSLV
Denso Corp.	CCP	MAP
Bank of America	TGA	CSL
Sanofi Aventis	CRZ	TOL
	BKL	FXJ
	RCR	AMP
	IRE	NWS
	ARP	SUN
	SAI	WDC

**1300 582 256**

**patersons@psl.com.au**

**www.psl.com.au**

### Research

Alex Passmore – Head of Research	Phone: (+61 8) 9263 1239	Email: <a href="mailto:apassmore@psl.com.au">apassmore@psl.com.au</a>
Andrew Quin – Research Strategy Coordinator	Phone: (+61 8) 9263 1152	Email: <a href="mailto:aquin@psl.com.au">aquin@psl.com.au</a>
Tony Farnham – Economist	Phone: (+61 2) 9258 8973	Email: <a href="mailto:tfarnham@psl.com.au">tfarnham@psl.com.au</a>

### Oil and Gas

Scott Simpson – Senior Oil & Gas Analyst	Phone: (+61 8) 9263 1679	Email: <a href="mailto:ssimpson@psl.com.au">ssimpson@psl.com.au</a>
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### Metals and Mining

Byron Benvie – Associate Analyst	Phone: (+61 8) 9263 1189	Email: <a href="mailto:bbenvie@psl.com.au">bbenvie@psl.com.au</a>
Rhys Bradley – Associate Analyst	Phone: (+61 8) 9225 2836	Email: <a href="mailto:rbradley@psl.com.au">rbradley@psl.com.au</a>
Andrew Harrington – Coal Analyst	Phone: (+61 2) 8238 6214	Email: <a href="mailto:aharrington@psl.com.au">aharrington@psl.com.au</a>
Tim McCormack – Associate Analyst	Phone: (+61 8) 9263 1647	Email: <a href="mailto:tmccormack@psl.com.au">tmccormack@psl.com.au</a>
Alex Passmore – Head of Research	Phone: (+61 8) 9263 1239	Email: <a href="mailto:apassmore@psl.com.au">apassmore@psl.com.au</a>
Simon Tonkin – Senior Resources Analyst	Phone: (+61 8) 9225 2816	Email: <a href="mailto:stonkin@psl.com.au">stonkin@psl.com.au</a>
Matthew Trivett – Research Analyst	Phone: (+61 7) 3737 8053	Email: <a href="mailto:mtrivett@psl.com.au">mtrivett@psl.com.au</a>
Gary Watson – Associate Analyst	Phone: (+61 8) 9263 1110	Email: <a href="mailto:gwatson@psl.com.au">gwatson@psl.com.au</a>

### Industrials

Jonathan Kriska – REIT Analyst	Phone: (+61 2) 8238 6245	Email: <a href="mailto:jkriska@psl.com.au">jkriska@psl.com.au</a>
Russell Wright – Retail Analyst	Phone: (+61 2) 8238 6219	Email: <a href="mailto:rwright@psl.com.au">rwright@psl.com.au</a>

### Small Cap Industrials

Graeme Carson – Industrial Analyst	Phone: (+61 3) 9242 4076	Email: <a href="mailto:gcarson@psl.com.au">gcarson@psl.com.au</a>
Allan Franklin – Industrial Analyst	Phone: (+61 3) 9242 4001	Email: <a href="mailto:afranklin@psl.com.au">afranklin@psl.com.au</a>
George Galanopoulos – Industrial Analyst	Phone: (+61 3) 9242 4172	Email: <a href="mailto:ggalanopoulos@psl.com.au">ggalanopoulos@psl.com.au</a>
David Gibson – Industrial Analyst	Phone: (+61 8) 9263 1664	Email: <a href="mailto:dgibson@psl.com.au">dgibson@psl.com.au</a>
Ben Kakoschke – Industrial Analyst	Phone: (+61 3) 9242 4181	Email: <a href="mailto:bkakoschke@psl.com.au">bkakoschke@psl.com.au</a>

### Quantitative

Mark Barsdell – Quantitative Analyst	Phone: (+61 3) 9242 4187	Email: <a href="mailto:mbarsdell@psl.com.au">mbarsdell@psl.com.au</a>
Kien Trinh – Quantitative Analyst	Phone: (+61 3) 9242 4027	Email: <a href="mailto:ktrinh@psl.com.au">ktrinh@psl.com.au</a>

### Institutional Dealing

Phil Schofield	Phone: (+61 2) 8238 6223	Email: <a href="mailto:pschofield@psl.com.au">pschofield@psl.com.au</a>
Michael Brindal	Phone: (+61 2) 8238 6274	Email: <a href="mailto:mbrindal@psl.com.au">mbrindal@psl.com.au</a>
Gordon Anderson	Phone: (+61 2) 8238 6276	Email: <a href="mailto:ganderson@psl.com.au">ganderson@psl.com.au</a>
Dan Bahen	Phone: (+61 8) 9263 1274	Email: <a href="mailto:dbahen@psl.com.au">dbahen@psl.com.au</a>
Artie Damaa	Phone: (+61 2) 8238 6215	Email: <a href="mailto:adamaa@psl.com.au">adamaa@psl.com.au</a>
Paul Doherty	Phone: (+61 3) 8803 0108	Email: <a href="mailto:pdoherty@psl.com.au">pdoherty@psl.com.au</a>
Trent Foxe	Phone: (+61 2) 8238 6265	Email: <a href="mailto:tfoxe@psl.com.au">tfoxe@psl.com.au</a>
Peter Graham	Phone: (+61 3) 9242 4129	Email: <a href="mailto:pgraham@psl.com.au">pgraham@psl.com.au</a>
Chris Kelly	Phone: (+61 3) 9242 4078	Email: <a href="mailto:ckelly@psl.com.au">ckelly@psl.com.au</a>
Jason Lal	Phone: (+61 2) 8238 6262	Email: <a href="mailto:jlal@psl.com.au">jlal@psl.com.au</a>
Ben McIlvrde	Phone: (+61 2) 8238 6253	Email: <a href="mailto:bmcilvrde@psl.com.au">bmcilvrde@psl.com.au</a>
Jeremy Nugara	Phone: (+61 3) 8803 0166	Email: <a href="mailto:jnugara@psl.com.au">jnugara@psl.com.au</a>
Trevor Pike	Phone: (+61 3) 8803 0110	Email: <a href="mailto:tpike@psl.com.au">tpike@psl.com.au</a>
Joe Wang	Phone: (+61 8) 9263 1125	Email: <a href="mailto:jwang@psl.com.au">jwang@psl.com.au</a>
Rob Willis	Phone: (+61 7) 3737 8021	Email: <a href="mailto:rwillis@psl.com.au">rwillis@psl.com.au</a>
Sandy Wylie	Phone: (+61 8) 9263 1232	Email: <a href="mailto:swylie@psl.com.au">swylie@psl.com.au</a>

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