

## Listed Investment Companies

Quarterly Update

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### Premiums to NTA Subside

The premiums to NTA of the established LICs have eased considerably over the last quarter, although a few continue to look expensive. Best value appear to be Australian Foundation (AFI) which is now trading at a single digit premium.

### New Floats Become a Flood

We have documented 13 new LIC floats, either recently listed or close to listing, since the successful float of the Wilson Investment Fund in August 2003. The spate of new listings is partly being driven by fund manager frustration with the inflexible structure of open-end trusts; demand-driven buying at market peaks and redemption driven selling at market lows is not a recipe for making money.

The new listings provide a range of investment themes that can be combined to provide a balance between domestic and offshore, small and large capitalisation and industrials versus resources. See table on p. 5.

### Recent News

Argo has initiated a 1 for 10 renounceable rights issue at \$4.40 to raise a maximum of \$179m. The issue went ex-rights on the 23<sup>rd</sup> February and rights trading ceases on the 17<sup>th</sup> March.

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Company	Code	Current	Current	Current	2004	10 Year	5 Year	2 Year	MCAP			
		Price	NTA	NTA	Prem. (Disc.)					Estim. DPS	Total	Total
		(25.02.04)	on unreal. gains	(after tax)	%	Yield	Frank.	Return	Return	Return	\$M	
Aust. Foundation	AFI	3.27	3.28	2.96	10.5	13.8	4.2	100	142.9	43.4	11.5	2945.5
Aberdeen Leaders	ALR	0.96	1.03	1.03	-6.8	4.0	4.2	100	109.4	26.9	-12.0	57.3
Argo Investments	ARG	4.99	4.62	4.11	21.4	18.5	3.7	100	196.9	71.6	21.9	2050.9
Aust. United Invest.	AUI	4.40	4.40	3.92	12.2	15.5	3.5	100	147.3	76.0	9.0	353.5
Choiseul Invest.	CHO	21.25	18.65	16.21	31.1	64.0	3.0	100	275.5	112.4	31.8	335.8
Carlton Investments	CIN	13.00	13.75	12.27	5.9	44.0	3.4	100	244.0	79.0	37.0	343.5
Djerriwarrh Invest.	DJW	3.40	3.21	3.07	10.7	21.5	6.3	100	n.a.	23.2	5.5	533.6
Divers. United. Invest.	DUI	1.92	1.97	1.77	8.5	7.5	3.9	100	117.7	54.6	0.2	192.0
Ironbark Capital*	IBC	0.57	0.57	0.57	-0.3	2.5	4.4	100	51.4	11.8	-2.9	51.5
Milton	MLT	13.55	13.32	11.80	14.8	50.0	3.7	100	282.4	79.2	17.6	894.0
Platinum Capital	PMC	2.30	1.69	1.66	38.6	15.0	6.5	100	n.a.	181.1	19.8	265.4
Technology Invest.	TIF	0.41	0.53	0.53	-22.6	1.0	2.4	0	n.a.	n.a.	-26.8	33.8
Templeton Global	TGG	1.18	1.18	1.25	-5.4	3.0	2.5	100	83.6	-9.4	-28.3	119.4
WAM Capital	WAM	1.62	1.52	1.42	14.1	8.5	5.2	100	n.a.	n.a.	45.7	83.3
Whitefield Capital	WHF	3.15	3.28	3.08	2.3	12.8	4.1	100	148.6	46.4	-5.9	129.9
All Ordinaries Index	XAOAI	18056			14.6**		4.1**		130.1	45.2	7.6	

\* Formerly BT Equities; \*\* Average weighted by market cap.

## Why Buy LICs?

For investors wishing to at least match the long-term returns of the All Ordinaries Index, a number of Listed Investment Companies (LICs) can provide the necessary spread of investments. Several of the better-performing LICs have significantly out-performed the All Ordinaries Accumulation Index over the last five or ten years.

Although many investors focus on whether an 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. Selecting a LIC on the basis of size of discount to NTA is therefore likely to disappoint.

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. LICs that rely on a theme, such as high technology, are unlikely to out-perform the market over the long term. Gearing is a positive when markets are moving higher but is a big negative when Bear markets prevail (eg. Aberdeen Leaders).

The other factor to consider is yield. Most LICs currently offer around 4%. Our calculations are based on estimated yields for 2004.

## Global and Theme LICs

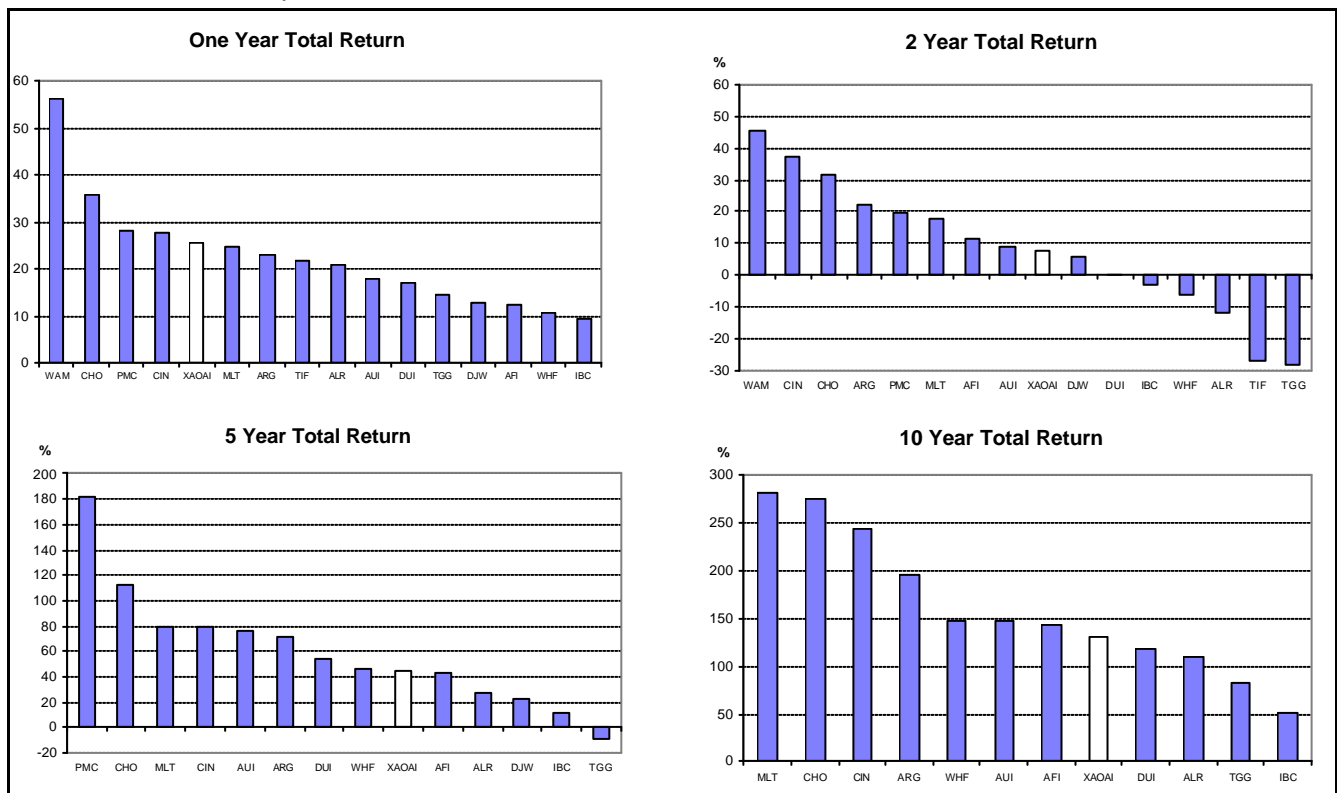
Templeton Global (TGG) and Platinum Capital (PMC) have a global spread of investments and are appropriate for investors wishing to diversify beyond Australia. PMC has the strongest track record of the two, out-performing its peers over the last five years through careful stock selection and the application of derivatives to protect against loss. Templeton (TGG) is still suffering from its heavy exposure to the U.S. and European equity markets.

A theme LIC focusing on local investments, Djerriwarrh (DJW) specialises in purchasing option stocks and writing call options against them. It still trades at a 10% premium to NTA (after tax on unrealised gains) despite a relatively poor track record of NTA growth and total return to investors.

Technology Investment Fund (TIF) is struggling to garner investment support after being heavily mauled in the aftermath of the dot com boom.

## Milton, Choiseul and Platinum the Most Consistent Long-Term Performers

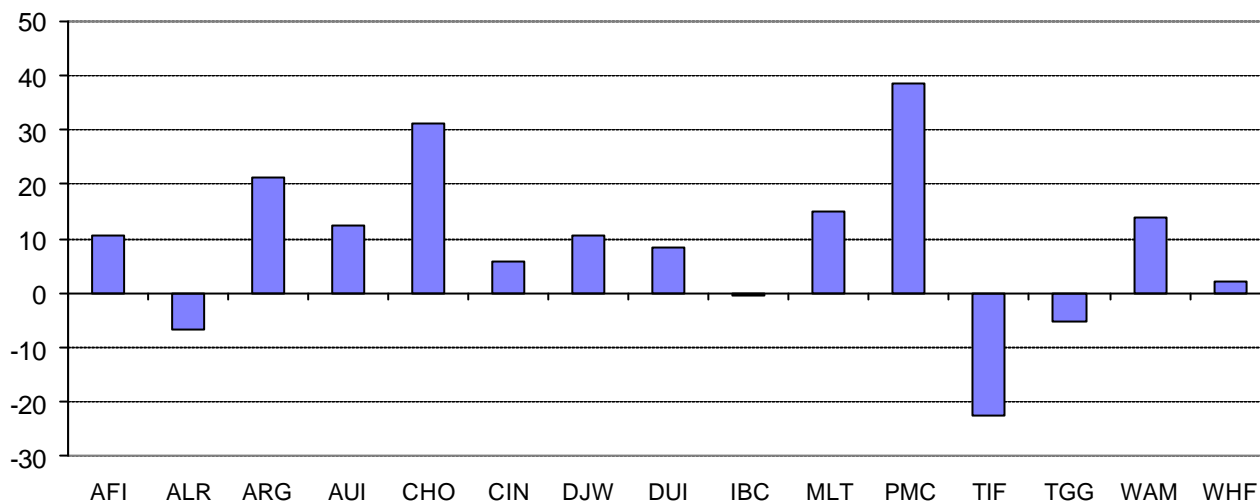
In terms of total returns, the most consistent performers over the last 10 years have been Milton and Choiseul (both managed by Milton). PMC was the top performer over the last 5 years and WAM Capital over the last two years. The top performer over the last twelve months has also been WAM Capital (WAM), which is a trading fund that invests mainly in domestic shares.



## Premium/Discount to NTA

There is still a large spread in premium/discount to NTA, from 38.6% for PMC to -22.6% for TIF. The size of the premium generally correlates closely with the performance of the fund. ALR cut two of its 2003 quarterly dividends due to the combined impact of market weakness and gearing on returns. TIF and TGG have both suffered from exposure to offshore investments.

### Premium (Discount) to Current NTA

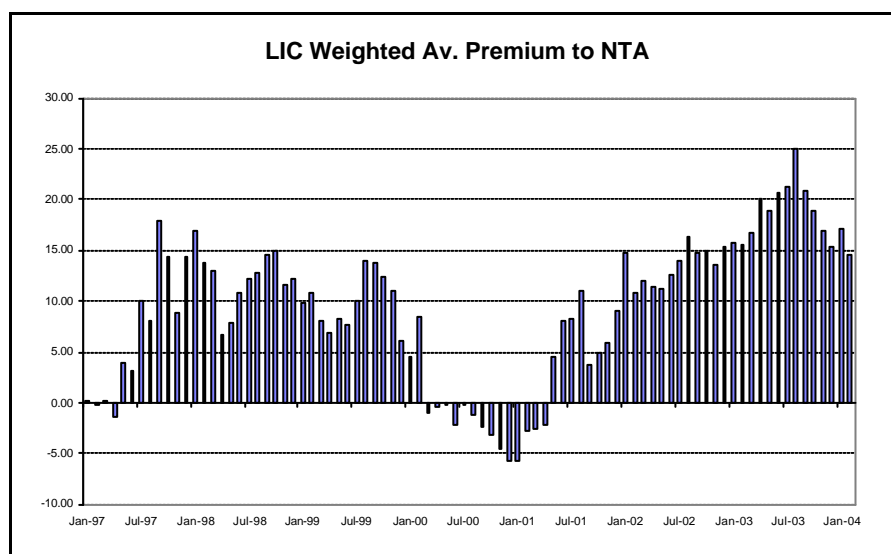


## Premium to NTA vs Usual Premium to NTA

Although the premiums to NTA have fallen over the last few months, most LICs still enjoy higher than average premiums. The average premiums over NTA (including tax on unrealised earnings) since February 1999 are shown in the table below, along with the current premiums. Based on this analysis, Australian Foundation appears to be good value whereas Choiseul and Platinum Capital look very expensive.

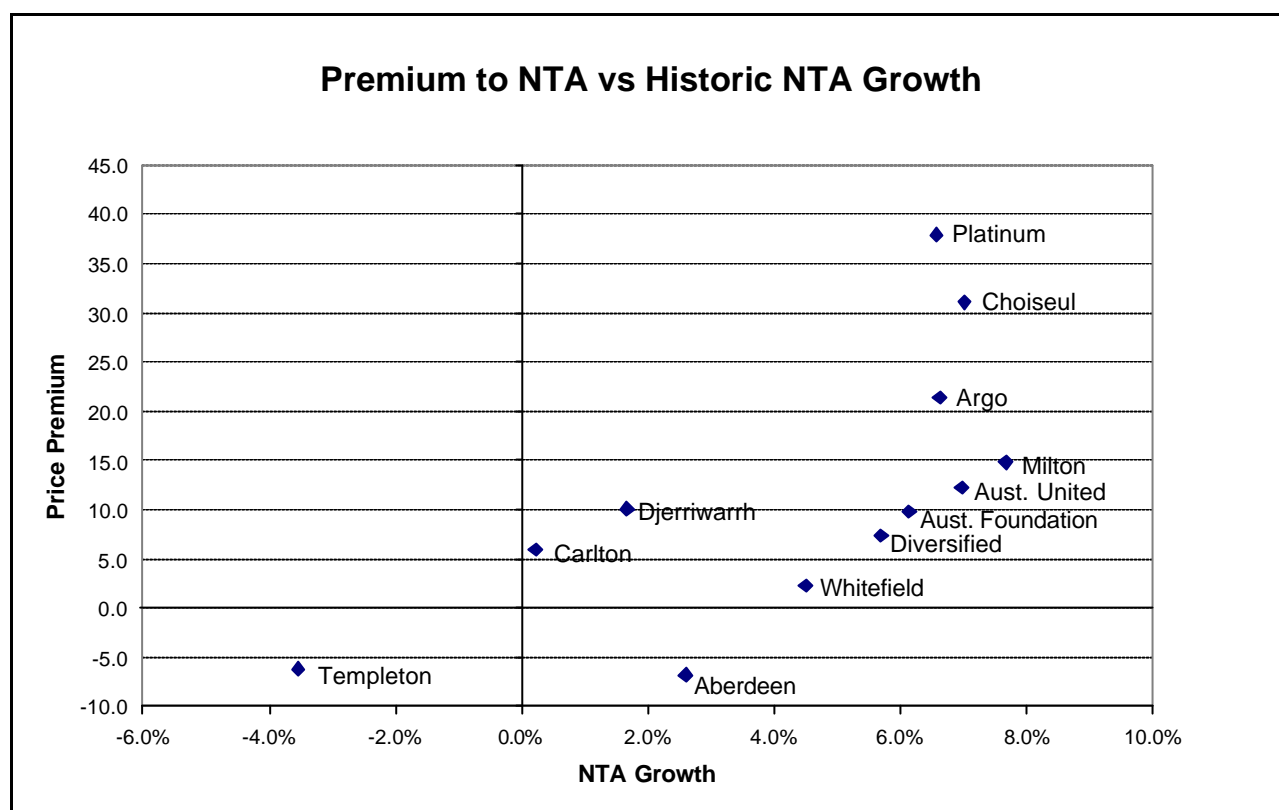
	AFI	ALR	ARG	AUI	CHO	CIN	DUI	DJW	MLT	PMC	TGG	WHF
<b>Usual Premium (%)</b>	10.9	-7.2	10.3	4.5	7.6	-13.4	1.5	13.3	9.5	13.0	1.2	-0.4
<b>Current Premium (%)</b>	9.8	-6.8	21.4	12.2	31.1	5.9	7.3	10.1	14.8	38.0	-6.2	2.3

The trend of weighted average premiums since January 1997 is shown in the chart below. Since our last update the weighted average premium has dropped steadily and quite significantly. This trend is likely to continue if the size of the sector continues to grow at current rates (see Recent Listings section at end of this report).



## Premium to NTA vs NTA Growth

A review of NTA growth rates over the last five years indicates that the better quality LICs have grown their NTA at rates of around 7% p.a., with MLT, CHO and AUI the strongest. A comparison of share price premium to NTA with growth indicates that MLT, AUI, AFI and DUI offer the best value. PMC and CHO demonstrate the worst value.



## Dividend Growth Rates Since 1988

	Compound Dividend Growth (%p.a.)	Years
CIN	19.5	8
PMC	14.0	7
CHO	10.9	15
MLT	10.8	15
WHF	10.5	8
DUI	9.4	10
AFI	8.5	15
ARG	7.6	15
AUI	7.2	15
DJW	1.9	7
ALR	-11.3	5
IBC	-100.0	13
TGG	-100.0	11

In the table we have calculated dividend compound growth rates for most of the LICs in our database. WAM and TIF have been omitted due to their short history.

Ironbark (IBC) and TGG both failed to pay any dividends in 2003 due to the poor performance of their respective funds.

ALR paid a severely reduced dividend in 2003, and AFI, PMC and WHF just maintained their dividends in 2003.

All the others continued to increase dividend payments.

## New Floats

In the table below we provide details of 14 new or impending floats. All these companies offered shares at \$1.00. All except Century are offering a free attached option, convertible at \$1.0, which is taken into account in the calculation of premium to NTA. The most successful so far is Income Plus, followed by Clime Capital and GEC Asian Value Fund.

Recent Listings								Prem./			
Company	Code	Listing Date	Current NTA	Current Price (27.02.04)	Option Value	Total	Option Expiry	Disc. to NTA	Market Cap.	Manager	Focus
Brickworks	BKI	12.12.03	1.00	0.98	None	0.98	n.a.	-1.8	167.8	Souls Funds Mgt.	Long-term, domestic securities
Clime Capital	CAM	3.02.04	0.98	0.98	0.087	1.07	15.12.05	8.9	17.3	Clime Asset Mgt.	Value based, partly quantitative
Century Aust. Invest.	tba	tba	n.a.	n.a.	None	n.a.	n.a.	n.a.	n.a.	452 Capital (Peter Morgan)	ASX300
Contango Microcap	CTN	tba	n.a.	n.a.	n.a.	n.a.	30.09.05	n.a.	n.a.	Contango Asset Mgt.	Microcaps
GEC Asian Value Fund	GCA	1.09.03	0.97	0.98	0.08	1.06	27.02.05	8.9	19.4	Growth Equities Corp.	Asian equities excluding Japan
Global Mining Invest.	tba	tba	n.a.	n.a.	n.a.	n.a.	30.11.06	n.a.	n.a.	Bell Potter Funds Mgt.	Global resources companies
Hunter Hall Global Value	HHV	tba	n.a.	n.a.	n.a.	n.a.	30.04.07	n.a.	n.a.	Hunter Hall Invest. Mgt.	Global equities, any size.
Income Plus	IPS	18.12.03	1.04	1.12	0.25	1.37	30.06.06	31.7	53.0	Goldlink Group	Arbitraging gold and fixed interest
MMC Contrarian	MMA	11.12.03	0.99	0.93	0.057	0.99	30.06.05	-0.3	186.0	JV between MMC and HGL	Discount to intrinsic value; any ASX
PPM Investments	tba	tba	n.a.	n.a.	n.a.	n.a.	29.07.05	n.a.	n.a.	Private Portfolio Managers	Ca. 25 ASX stocks for long-term growth
Premium Investors Gp.	PRV	27.11.03	1.00	0.94	0.028	0.97	31.12.04	-2.9	161.9	Treasury Group	Several fund managers
Van Eyck Three Pillars	VTP	28.01.04	0.98	0.99	0.06	1.05	19.05.05	7.1	49.1	Van Eyck Research	ASX 300 stocks; target = 95% invested
Wilson Investment Fund	WIL	19.08.03	1.01	0.99	0.053	1.04	17.12.04	3.3	159.7	WAMI	Mainly cheap industrials on ASX
Wilson Leaders fund	WLS	10.02.04	0.97	0.94	0.051	0.99	17.06.05	2.2	41.5	KWB Capital	At least 70% of the fund in the ASX100
									855.7		

## Recommendations

The best performing funds, in terms of growth in NTA, return to shareholders and dividend growth continue to be PMC, MLT, CHO, ARG and WAM. Although the weighted average premium to NTA of the LIC database has dropped significantly over the quarter, PMC, CHO and ARG are still trading at large premiums to NTA (NTA that includes tax on unrealised gains).

**The best value fund appears to be AFI, which is trading slightly below its historical premium to NTA.**

**CIN** has a strong track record of returns to shareholders but has eroded its NTA over time (partly through return of capital).

**WHF** has a strong track record of dividend growth but total returns to shareholders have been weak over the last two years. NTA growth has also lagged the majority of the other funds.

The geared fund **ALR** remains particularly vulnerable to falling sharemarkets, but could be a strong performer if the local market continues to gain ground.

**TGG** was heavily impacted by the recent 3-year global Bear market in equities and has yet to rise from the ashes. It could also be a strong performer once global equity markets resume a stable uptrend. TIF should be treated as high risk due to its narrow focus on Technology.

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