

The Australian

Where a steady and secure pace wins the day

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Australia's biggest LICs

Company	Code	Current price, Dec 6 (\$)	Current NTA (pre-tax on unreal gains)	Current NTA (after tax on unreal gains)	Est 2012 DPS (\$)	Est 2011 yield (%)	10-year compnd rtrn (% p.a)	5-year compnd rtrn (% p.a)	2-year compnd return (% p.a)	Market cap (\$bn)
AUST FOUNDATION	AFI	4.14	4.60	4.03	21.0	5.0	102.1	12.4	-2.1	4238
AMP CAPITAL CHINA	AGP	0.675	0.94	0.94	3.0	4.5	N.A.	N.A.	-30.9	233
AUSTRALIAN LEADERS	ALY	1.075	1.38	1.35	9.0	7.8	N.A.	N.A.	20.8	71
ABERDEEN LEADERS	ALR	1.025	1.16	1.16	9.5	9.0	78.3	-3.5	3.3	62
AMCIL	AMH	0.655	0.77	0.75	3.5	5.7	N.A.	N.A.	9.0	136
ARGO INVESTMENTS	ARG	5.18	5.85	5.36	26.0	5.1	95.3	-7.1	-9.0	3227
AUST UNITED INVEST	AUI	5.60	6.87	6.10	26.5	4.7	89.7	-2.8	-2.4	588
AUST ENHANCED INCOME FUND	AYF	6.19	6.37	6.37	50.0	8.4	N.A.	N.A.	13.0	19
BRICKWORKS INVESTMENT	BKI	1.19	1.37	1.31	6.0	5.5	N.A.	5.0	3.5	506
CLIME CAPITAL	CAM	0.935	1.17	1.14	4.5	4.6	N.A.	31.9	25.7	42
CADENCE CAPITAL	CDM	1.20	1.41	1.47	7.0	5.6	N.A.	N.A.	10.1	37
CARLTON INVESTMENTS	CIN	15.69	20.73	18.21	70.0	4.6	122.3	1.3	-0.2	416
CONTANGO MICROCAP	CTN	.93	1.52	1.43	8.0	7.6	N.A.	18.7	11.8	136
CENTURY AUSTRALIA	CYA	0.64	0.85	0.87	5.5	8.5	N.A.	-7.1	-5.4	50
DJERRIWARRH INVEST.	DJW	3.55	3.44	3.40	26.0	7.4	70.7	3.3	-2.4	767
DIVERS. UNITED. INVEST.	DUI	2.29	2.91	2.64	13.0	5.5	80.0	-6.6	-7.6	381
EMERGING LEADERS INV.	ELI	0.77	1.07	1.07	8.3	9.2	N.A.	N.A.	16.7	32
GLOBAL MINING	GMI	.96	1.46	1.39	6.0	5.7	N.A.	1.8	0.5	176
HUNTER HALL GLOBAL	HHV	0.70	0.98	0.98	6.0	8.1	N.A.	-11.7	9.6	178
HYPERION FLAGSHIP	HIP	1.18	1.38	1.31	8.5	6.8	N.A.	-1.8	8.3	29
IRONBARK CAPITAL	IBC	0.465	0.56	0.55	3.5	7.4	30.6	9.3	12.8	66
KATANA CAPITAL	KAT	0.70	1.00	0.98	4.3	5.7	N.A.	-8.1	16.1	27
LINQ RESOURCES FUND	LRF	0.68	1.36	1.36	4.5	6.0	N.A.	32.7	34.1	124
MAGELLAN FLAGSHIP FUND	MFY	0.655	0.74	0.74	0.0	0.0	N.A.	N.A.	3.5	228
MIRRA BOOKA	MIR	1.695	1.85	1.70	10.0	6.3	N.A.	10.6	2.9	231
MILTON	MLT	15.02	16.69	15.65	76.0	5.2	80.3	-9.1	-4.6	1852
PLATINUM CAPITAL	PMC	0.94	1.15	1.15	6.0	6.2	16.1	-30.3	-22.9	156
PREMIUM INVESTORS	PRV	0.675	0.86	0.86	7.0	9.9	N.A.	1.4	15.4	68
TEMPLETON GLOBAL	TGG	0.69	0.89	0.89	2.5	3.6	-38.2	-42.2	-17.8	101
WAM ACTIVE	WAA	1.015	1.13	1.13	8.0	8.0	N.A.	N.A.	20.0	16
WAM CAPITAL	WAM	1.475	1.67	1.63	10.0	7.1	151.6	22.4	28.3	154
WAM RESEARCH	WAX	0.67	0.92	0.92	6.0	8.6	N.A.	-0.9	11.8	80
WHITEFIELD CAPITAL	WHF	2.49	3.09	3.24	17.0	6.7	15.5	-15.2	-2.4	187
WESTOZ INVESTMENT	WIC	0.875	1.43	1.36	10.0	11.0	N.A.	N.A.	0.0	113

Source: Patersons
 Source: The Australian



Quantitative analyst and LIC expert Mark Barsdell. Picture: Aaron Francis

Source: The Australian

AFTER a stellar career representing Australia on the cricket field, Donald Bradman went on to become a leading representative for the growing listed investment companies sector.

As chairman of Argo Investments in the 1980s, the Don ran the business the same way he played cricket: safe and steady, while providing solid long-term returns for investors.

This was very much in keeping with the core philosophy of Argo's founder, chartered accountant Alf Adamson, who had a reputation for profitably buying undervalued companies and holding them for the long term.

Adamson set up Argo in 1946 intending for the company to be traded on the stockmarket as a business focused on investing in other companies, thereby making it a forerunner of today's managed funds.

It was subsequently listed on the Australian Stock Exchange in 1950 and is now Australia's second largest LIC with a market capitalisation of more than \$3 billion.

But the evolution of LICs can be traced further back, starting in 1868 when Foreign & Colonial launched its first investment trust in Britain. It was the first collective investment vehicle and planned to raise pound stg. 1 million to invest in government stock of foreign countries and colonial territories.

In the prospectus it said it aimed "to give the investor of moderate means the same advantages as the large capitalist in diminishing the risk of investing in foreign and colonial government stocks but spreading the investment over a number of different stocks".

The origins of the LIC sector in Australia date back to the 1920s.

The oldest investment company listed is Whitefield, which was incorporated in 1923, originally as an investor in mortgage loans.

Its business has been solely focused on equity investment since 1949, though it didn't list on the ASX until August 1971.

The largest Australian LIC started life in 1928 as Were's Investment Trust.

In 1936 it changed its name to Australian Foundation Investment Trust Ltd and it adopted its present name, Australian Foundation Investment Company, in 1938. It listed on the stockmarket in June 1962.

In 1973 it was used to amalgamate the Capel Court group, which resulted in the takeover of Capel Court Investments, Breton Investments, Clonmore Investments, Haliburton Investments, Jason Investments, Jonathan Investments, National Reliance Investments and Shelbourne Investments. AFIC now has assets of more than \$4.3bn.

But 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, several LICs can provide the necessary spread of investments, says Mark Barsdell, until recently a senior quantitative analyst at stockbroker Patersons.

"Although many investors focus on whether a LIC is trading at a discount or premium to net tangible asset backing, in reality the better performing LICs trade at a premium and the poor performers often trade at deep discounts," he says in the stockbroker's August quarterly report covering 34 LICs, comprising 16 established companies and 18 newer listings.

"Most of the better performing LICs have long-term investment horizons, which provide stability and steady returns. Management expense ratios for the larger established LICs (typically less than 0.3 per cent) are generally much lower than those of unlisted funds."

Barsdell says 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," he says. "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 across the long term but can provide strong returns across a short to medium-term timeframe, according to the Patersons report.

Examples include Templeton Global, Platinum Capital and the newer Global Mining Investments, LinQ Resources, Magellan Flagship Fund and Hunter Hall Global, which 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 US and European equity markets and continues to under-perform," says Barsdell.

"AMP Capital China Fund provides exposure to China A shares.

"Djerriwarrh specialises in purchasing local option stocks and writing call options against them.

"Other stocks with a specific focus include Contango, which mainly targets domestic microcaps, and Australian Enhanced Income Fund, which invests in hybrid and other debt securities."

In terms of total returns, Barsdell highlights WAM Capital as the best long-term performer (10 years) with an annualised return of 12.7 per cent. WAM also was the best performer across the past five, two and one-year periods.

On the downside, Platinum Capital was the worst performer across the past one and two-year periods and the second worst across the past five years.

The report reveals investors were continuing to avoid the smaller LICs, with Brickworks Investments, Carlton Investments and Diversified United Investments providing the best value among the larger, conservative LICs.

Based on August 19 closing prices and July 31 NTA and comparing current premium-discount levels to the historical premium-discount levels, Barsdell says: "Our preferred stocks on this valuation basis are Australian United Investment and Diversified United Investments. Argo Investments also looks very good value.

"WAM Capital 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."

Among the established LICs, WAM Capital, Diversified United and Australian United Investments have the best long-term (10-year) track records of dividend growth.

Barsdell names Carlton Investments as the leader of the pack among high quality LICs in terms of NTA growth over a 10-year period. "However, Carlton has a large exposure to Amalgamated Holdings (34 per cent of its portfolio) so conservative investors may prefer Australian United, Diversified United or Brickworks," he says.

"WAM also has strong growth and still offers excellent value. Djerriwarrh Investments and Australian Foundation look expensive."

Cadence Capital is the best performer across the past 12 months in terms of NTA growth and total return to shareholders.

The best performing new LICs on the basis of annualised NTA growth during the past five years were Cadence Capital, Australian Leaders Fund, Clime Capital, WAM Active and Westoz, according to the report.