

Listed Investment Companies (LICs)

Reporting Season Overview

With the reporting season drawing to a close, we thought it was timely to review the winners and losers of the LICs. The standout performers included MLT, AUI, ARG, AFI, SYL, CIN, CHO and MIR. With most LICs trading significantly above NTA and looking expensive, we highlight recently listed WIL as our preferred pick.

Table 1 : Results overview

Company	ASX Code	FY03 Result	increase/ decrease on pcp
Milton	MLT	\$36.4m	32.7%
Aust. United Investment	AUI	\$12.9m	30.6%
Argo Investments	ARG	\$74.6m	21.9%
Aust. Foundation	AFI	\$102.8m	19.0%
Sylvastate	SYL	\$0.6m	17.0%
Carlton Investments	CIN	\$16.2m	15.8%
Choiseul Investments	CHO	\$10.9m	9.1%
Mirrabooka Investments	MIR	\$2.95m	9.1%
Diversified United	DUI	\$7.4m	6.2%
Djerriwarrh Investments	DJW	\$28.5m	0.7%
Technology Investment Fund	TIF	(\$2.4m)	92.0%
Platinum Capital	PMC	(\$2.3m)	-111.0%
Wilson Investments Taurine	WIT	(\$1.7m)	-131.0%
Pacific Strategic Investments	PSI	(\$0.4m)	-134.1%
Aberdeen Leaders	ALR	(\$3.3m)	-173.8%
International Wine Investment	IWI	(\$18.6 m)	-521.5%
Templeton Global Growth	TGG	(\$22.9m)	-732.0%

Sources: ABN AMRO Morgans, IRESS

In recognition of outstanding results in difficult market conditions

The majority of LICs reported strong results this reporting season. The main themes coming out of this reporting season were that profits increased because of sound investment decisions, investee companies increasing their dividend payments and special dividends received from recent demergers. Outstanding results were achieved by MLT, AUI, ARG, AFI, SYL, CIN, CHO and MIR.

With prices above NTA, are LICs expensive?

On the whole, LICs have outperformed the broader market. The majority are now trading at cyclical highs to their NTAs and we would recommend taking part profits in selective stocks (DJW, PMC). However, LICs with sustainable dividend yields, attractive capital management initiatives, well regarded management and strong track records remain an attractive investment for obtaining a diversified portfolio and offer an alternative to managed funds. We recommend that LICs be included as part of a balanced portfolio for investors with a long term view.

LIC to highlight – Wilson Investment Fund (WIL)

A recently listed LIC we recommend is Wilson Investment Fund (WIL). It is managed by an experienced and well regarded team and the shares are trading roughly inline with NTA. What we also find attractive about this LIC is that investors can buy the listed options (WILO) providing additional upside.

Listed_Investment_Companies
Aug03

Analyst

Belinda Moore
+61 7 3334 4532
bmoore@abnamromorgans.com.au

What is the meaning of a LIC's Net Tangible Asset Backing

LICs have a definable market value in their share price but also provide another measure to determine fair value through the regular publication of their net tangible assets (NTA). A LIC's NTA per share is a figure that provides an indication of what each share is worth if all holdings were sold and all liabilities were paid, including tax. A LIC's NTA is measured relative to its share price. As a rule of thumb a LIC should trade in line with its post-tax NTA.

With prices above NTA, are LICs expensive?

With the majority of the LICs trading at their historical highs some of them look expensive compared to their NTA. Overtime we would expect them to trade more inline with their NTA. This causes us to recommend investors consider taking part profits. Companies trading at a significant premium to NTA include AFI, ARG, DJW, WAM, CHO and PMC. Some LICs deserve to trade at a premium to NTA because of their excellent returns, respected management and outperformance in weak markets. However, two companies trading at a historically high premium to NTA are Djerriwarrh Investments (DJW) and Platinum Capital (PMC). Both are popular because of their high dividend yields. We would recommend investors take part profits on these stocks as they don't have the strong results to justify trading at such a premium. For this reason, investors should look more into the business of a LIC than just focusing on NTA. Table 4 shows the significant premium some LICs are trading at compared to their NTA. MLT, AUI and DUI remain attractively priced.

Table 2: Premium/Discount to NTA

Company	ASX Code	Current Price (\$)	Current NTA	Premium/ (Discount) to NTA (%)	2003 Financial Year DPS (c)	Div. Yield (% pa)	Fkg	Market Capitalisation (\$m)
Australian LIC's								
Aust. Foundation	AFI	\$ 3.57	3.11	15%	14.25	4.0	100	2841.8
Argo Investments	ARG	\$ 5.05	4.38	15%	18.00	3.6	100	2004.1
Djerriwarrh Investments	DJW	\$ 3.45	2.99	15%	21.50	6.2	100	515.1
WAM Capital	WAM	\$ 1.52	1.33	14%	8.00	5.3	100	72.6
Choiseul Investments	CHO	\$ 19.50	17.59	11%	59.00	3.0	100	309.0
Milton	MLT	\$ 13.50	12.60	7%	48.00	3.6	100	866.4
Diversified United	DUI	\$ 1.95	1.85	5%	7.00	3.6	100	193.8
Aust. United Investment	AUI	\$ 4.26	4.11	4%	14.00	3.3	100	341.9
Whitefield	WHF	\$ 3.25	3.14	4%	12.54	3.9	100	133.8
Sylvastate	SYL	\$ 4.10	3.92	5%	14.80	3.6	100	32.8
Ironbark Capital	IBC	\$ 0.56	0.55	2%	0.00	0.0	0	0.0
Mirraboooka Investments	MIR	\$ 1.20	1.19	1%	5.00	4.2	100	106.0
Aberdeen Leaders	ALR	\$ 0.96	0.97	-1%	2.00	2.1	100	57.9
Wilson Investments Taurine	WIT	\$ 1.00	1.09	-8%	3.80	3.8	100	13.9
Carlton Investments	CIN	\$ 12.00	12.68	-5%	42.00	3.5	100	319.4
Huntley Investment	HIC	\$ 0.64	0.69	-7%	3.00	4.7	100	49.4
Pacific Strategic Investments	PSI	\$ 0.23	0.27	-15%	0.00	0.0	0	17.8
International Wine Investment	IWI	\$ 1.82	2.58	-29%	11.00	6.0	100	119.5
International LIC's								
Platinum Capital	PMC	\$ 2.28	1.65	38%	15.00	6.6	100	237.9
Templeton Global Growth	TGG	\$ 1.20	1.13	6%	0.00	0.0	0	111.5
Bentley Equities	BEL	\$ 0.46	0.45	2%	0.00	0.0	0	18.7
Technology Investment Fund	TIF	\$ 0.49	0.53	-8%	0.00	0.0	14.5	38.8
Prices as at 27 August 2003								
Companies included based on reporting a monthly NTA								
NTA stated at 31 July 2003								

Source: ABN AMRO Morgans

We would recommend investing in the newly listed **Wilson Investment Fund (WIL)**, managed by an experienced and well regarded management team, Geoff Wilson, Matthew Kidman and Karl Siegling which is trading roughly inline with its NTA. What we also find attractive about the stock is that investors can

buy the listed options (WILO) providing additional upside, exercisable at a \$1.00 and by 17 December 2004.

We also recommend investors participate in some of the attractive rights issues, share purchase plans and bonus option issues currently available at a significant discount to their current share prices from AFI, ARG, MIR and TIF. This is a way of investors increasing their holdings at a price more inline with the company's NTA. We set out the terms of these offers under our summary of all the LICs towards the end of this report.

Market overview – LICs Continuing to Outperform

- LICs outperformed the broader sharemarket over the last 12 months by returning approximately 9% compared to the S&P/ASX 200 Accumulation Index returning 3.8% over this period. They have also outperformed most managed funds.
- Australia, US, UK and Europe have all experienced rising markets in recent months after the lows reached in March 2003 as concerns have lessened about the war in Iraq, SARS and potential terrorist attacks. Since the upturn, most LICs have continued to outperform as is evident by the strong run in their share prices since this time. This has shown that they can outperform in both falling and rising markets.
- Due to their strong run, the majority of LICs are trading significantly above NTA and are looking expensive on a historical basis.
- Below we highlight the strong results reported by a number of LICs this reporting season. These results were achieved in volatile and uncertain market conditions. Results were supported by investee companies increasing their dividends and from special dividends received from recent demergers.
- LICs have been popular due to their sustainable dividend yield. The average dividend yield is approximately 4%. This reporting season a number of companies increased their dividends such as ARG, MLT, CHO, IWI and WIT. Some of the highest yielding companies include PMC (6.6%) DJW (6.2%), IWI (6.0%) and WAM (5.3%).

Table 3 : In recognition of outperformance

Company	Accumulated Return 1 year
Technology Investment Fund (TIF)	37.7%
MFS Leveraged Investments (MFS)	37.59%
International Wine Investment Fund (IWI)	26.4%
	Accumulated Return 3 year
MFS Leveraged Investments (MFS)	172.5%
WAM Capital (WAM)	88.2%
Carlton Investments (CIN)	81.2%
	Accumulated Return 5 year
Platinum Capital (PMC)	171.9%
International Wine Investment Fund (IWI)	110.7%
Choiseul Investments (CHO)	109.7%

Sources: ABN AMRO Morgans, IRESS

Accumulated returns taken from 27 August 2003

What is a Listed Investment Company (LIC)?

LICs are similar to managed funds in that they invest (predominantly) in a range of listed companies and distribute the profits from these investments to shareholders. The main difference between managed funds and LICs is that, due to their ASX listing, they have a liquid market for entry and exit from the investment and a readily known market value (through their share price). LICs also have a fixed capital base (a defined number of shares on issue) so are not subject to the fluctuations that can result from new cash coming in from investments or cash going out for redemptions. As such, many LICs take a 'buy' and 'hold' approach to investing. This has two benefits: the first is outperformance in volatile and negative markets (making fewer mistakes than the active trading style favoured by many fund managers) and, secondly, allowing investors access to the concessional capital gains tax rate (for holding for more than a one year period).

Benefits of LIC's

- Excellent way to hold a diversified portfolio within a single investment.
- Gaining exposure to international or specialist markets efficiently.
- Structure enables adoption of a long term investment approach.
- Liquid market for entry and exit from investment.
- Capital appreciation and a consistent stream of income.
- They offer attractive capital management initiatives including share purchase plans, rights issues, bonus issues and dividend reinvestment plans.
- LICs compare favourably to managed funds in their significantly lower management expense ratios (MER's). Most of the larger LICs charge between 0.15% to 0.5% a year for management fees whereas the average fund manager charges 1.0-2.5%. LICs have gained investor's attention for this reason and there has been a switch out of managed funds and we cannot see this turning around in the medium term especially in light their outstanding returns.
- Investors also do not have to pay entry or exit fees to invest in a LIC as you would with a managed fund, although brokerage is applicable.
- There is also no need for LIC's to sell down quality assets in order to pay out shareholders wanting to convert their holdings to cash.
- Easily measurable to Net Tangible Assets (NTA).

In table below we highlight LIC's accumulated returns over a one to ten year period. **We stress that past performance should not be relied upon as indicative of future performance.**

Table 4: LIC's Accumulated Returns

Company	ASX Code	Current Price (\$)	Accumulated 1 Year Return (%)	Accumulated 2 Year Return (%)	Accumulated 3 Year Return (%)	Accumulated 5 Year Return (%)	Accumulated 10 Year Return (%)
Australian LIC's							
Aberdeen Leaders	ALR	\$ 0.96	-10.91%	3.48%	11.18%	41.26%	107.02%
Argo Investments	ARG	\$ 5.05	17.00%	33.80%	69.09%	93.48%	225.84%
Aust. Foundation	AFI	\$ 3.57	13.88%	24.35%	57.38%	66.83%	177.80%
Aust. United Investment	AUI	\$ 4.26	6.02%	9.95%	49.33%	92.22%	185.81%
Carlton Investments	CIN	\$ 12.00	13.42%	43.56%	81.22%	70.93%	229.30%
Choiseul Investments	CHO	\$ 19.50	18.06%	21.31%	74.95%	109.64%	270.84%
Diversified United	DUI	\$ 1.95	9.51%	2.51%	35.44%	94.19%	142.74%
Djerriwarrh Investments	DJW	\$ 3.45	2.09%	9.60%	23.72%	34.73%	n/a
Huntley Investment	HIC	\$ 0.64	14.91%	14.17%	30.00%	56.00%	n/a
International Wine Investment	IWI	\$ 1.82	26.29%	5.10%	62.31%	110.74%	n/a
Ironbark Capital	IBC	\$ 0.56	6.67%	1.47%	1.41%	18.84%	59.35%
MFS Leveraged Investments	MFS	\$ 1.35	37.59%	117.02%	172.50%	83.39%	114.37%
Milton	MLT	\$ 13.50	16.50%	20.08%	70.22%	103.18%	276.94%
Mirrabooka Investments	MIR	\$ 1.20	24.12%	25.30%	n/a	n/a	n/a
Pacific Strategic Investments	PSI	\$ 0.23	9.30%	21.11%	30.61%	n/a	n/a
Sylvastate	SYL	\$ 4.10	2.36%	25.60%	43.94%	83.81%	256.95%
WAM Capital	WAM	\$ 1.52	13.10%	43.20%	88.24%	n/a	n/a
Wilson Investments Taurine	WIT	\$ 1.00	-9.65%	-10.33%	n/a	n/a	n/a
Whitefield	WHF	\$ 3.25	0.28%	-0.41%	33.14%	69.54%	199.53%
International LIC's							
Bentley Equities	BEL	\$ 0.46	-30.00%	-32.10%	-36.19%	9.46%	23.69%
Platinum	PMC	\$ 2.28	4.29%	30.30%	79.47%	171.96%	n/a
Technology Investment Fund	TIF	\$ 0.49	37.70%	-6.58%	-34.15%	n/a	n/a
Templeton Global	TGG	\$ 1.20	-15.17%	-23.86%	-13.71%	-0.30%	94.56%

*price as at 27 August 2003

*n/a means stock was not traded over that period

Source: ABN AMRO Morgans

LIC's can be classified into three main categories:

Australian equities (general), international equities and specialist LICs.

- The three largest **Australian LICs** are Australian Foundation Investment Company (AFI), Argo Investments (ARG) and Milton Corporation (MLT). They have all outperformed the All Ordinaries Index over the last 20 years due to their excellent management. Companies in their portfolios are generally "blue chips", selected for their profitability, long-term growth prospects and reliable dividend stream.
- **International LICs** include Platinum Capital (PMC), Templeton Global (TGG), Technology Investment Fund (TIF) and BT Global (BTG). For investors who have baulked at the difficulty of trying to buy international shares directly, these LICs offer significant benefits and some of them also hedge the foreign currency risk involved in holding international shares. However these are for investors with a higher risk profile and they have all reported poor results in the recent reporting season.
- Examples of **Specialist LICs** include the International Wine Investment Fund (IWI), MFS Leveraged Investments (MFS) and the Technology Investment Fund (TIF). As these companies usually invest in the one industry segment they offer limited diversification so are most suitable for investors with a higher risk tolerance.

How do I choose a LIC that suits my objectives?

It is important to apply the same principles to investing in a LIC as it is to buying shares directly. The stated philosophy of the fund should match your investment objectives and timeframe. Returns should also be measured not on short term success but over a longer period to ensure they are sustainable. LIC's range significantly in size in terms of their market capitalisation and therefore investors should take this into consideration when comparing one LIC to another.

Summary of Listed Investment Companies

Australian Investment Companies

Aberdeen Leaders Limited (ALR) – ALR invests in blue-chip Australian companies strictly within, or about to enter, the S&P/ASX 50 Leaders Index. Within this index, businesses are selected which are expected to show a combination of superior medium-term earnings and dividend growth. The Company recorded a net loss of \$-3.3m for FY03 down 26.2% on pcp. Due to the markets poor performance the Board has decided to suspend its dividend policy until further notice. ALR's top 5 holdings at 30 June included Rio Tinto, BHP, ANZ, WBC, CBA and Telecom Corp of NZ.

Argo Investments Limited (ARG) – Argo is Australia's second largest LIC, following the successful merger with Bounty Investments Limited and Wakefield Investments Limited. It seeks long-term growth through the maintenance of a diversified Australian industrial share portfolio. Argo's investment approach can be summed up in three words: Safe, Steady, Simple. The Company does not have any borrowings, management fees are among the lowest in the industry and there is a history of regular bonus and rights issues. ARG is offering a share purchase plan at \$4.78 to its investors on the register at 25 August. This is at a significant discount to its current share price. Argo reported a record NPAT of \$76.6m up 21.9%. \$3.2m of this was from the demergers of CSR Limited and WMC Limited. Major stocks held include Macquarie Bank, Milton Corporation, NAB, ANZ, Wesfarmers, Australian United Investment and St George Bank.

Australian Foundation Investment Company (AFI) – AFI is Australia's largest listed investment company and this year is their 75th year of operation. AFI has built a diversified portfolio of investments in substantial, well-managed and financially sound Australian companies. AFI reported a NPAT of \$102.8m up 19% on the pcp. \$6.1m of this result was attributable to special dividends received as part of the demergers of WMC Limited and CSR Limited. A lift in dividends from companies that AFI invested in also contributed to its result. The key positive contributors to AFI's portfolio were from Coles Myer, WBC, WA Newspapers, Incitec and United Energy. AFI maintains stakes in Australia's big four banks, leading retailers and industrial conglomerate Wesfarmers. AFI recently announced plans for a \$300m rights issue to increase the size of its portfolio. AFI's shareholders can subscribe for 1 new share for every 8 they currently hold at \$3 a share which is at a significant discount to AFI's current share price. The rights issue is renounceable, allowing shareholders who do not want to take part to onsell their rights to other investors.

Australian United Investment Company (AUI) – AUI's funds are invested predominately in the shares of companies listed on the ASX. Investments are purchased or subscribed for on the basis of the directors' assessment of their individual prospects for income and growth. The directors do not invest by reference to any pre-determined policy that any particular proportions of the capital will be invested in particular investment sectors. The Company's funds are invested predominantly in Australian listed companies. AUI is a long-term equity investor. NPAT for the full year was \$12.9m up 30.6% on the pcp. The Company attributed the increase in operating profit to the earnings from the investment of the additional \$56m raised through a 1 for 4 rights issue. AUI's top 5 holdings at the 30 June 2003 include NAB, ANZ, WBC, Wesfarmers and Rio Tinto.

Carlton Investments (CIN) - CIN has a policy of investing in established blue chip stocks to obtain high levels of income through fully franked dividends. The company adopts a strategy of investing in shares in solid, well managed companies. CIN does not act as a share trader or invest in speculative stocks. CIN posted a net profit of \$16.2m, up 15.8% on the pcp. The Company increased dividends 20% this financial year. Their largest portfolio holdings are NAB, Amalgamated Holdings, WBC, ANZ, St George Bank and AGL and BHP.

Choiseul Investments (CHO) – CHO's objective is to invest funds for the long term in a diversified portfolio to generate an increasing income stream for distribution to shareholders in the form of fully franked dividends and capital appreciation. Day to day management is conducted by Milton Corporation subject to the direction of the Board of CHO. CHO's investments are benchmarked against the All Industrials and All Ordinaries Index. For the full year to 30 June 2003, Choiseul posted a NPAT of \$10.9 million, a 9.1% increase on the pcp. Including special dividends of \$0.9m, NPAT increased to \$11.9m. The increased profit was attributable to investing in companies that increased their dividends such as NAB, Wesfarmers, Perpetual Trustees, St George Bank and W H Soul Pattinson. Core holdings include NAB, Washington H Soul Pattinson, Milton Corporation, CBA, St George Bank and QBE Insurance.

Diversified United Investment (DUI) - DUI invests in a diversified portfolio with the objective of obtaining solid income and longer-term capital gain with an acceptable level of risk. DUI was spun out of AUI in 1991 to offer investors a more diversified portfolio that included overseas shares and fixed-interest investments. DUI has recently confirmed that the boards of both DUI and AUI had discussed a merger but have stated that there were no immediate plans. DUI currently invests in Australian equities 90%, fixed interest securities 3%, listed property securities 6% and short term deposits 1%. The Company has paid an increased dividend every year since listing in 1991. For FY03, NPAT increased 6.2% to \$7.4m. Its major portfolio holdings are ANZ, NAB, CBA, Woodside, Tabcorp Holdings, Westpac and QBE Insurance.

Djerriwarrh Investments Limited (DJW) – DJW is an active value based manager. DJW's objective is to provide attractive returns to its shareholders through dividends and capital growth. DJW also acts as a sub-underwriter and trader of equity securities, exchange-traded options and similar securities. DJW has issued 21.2m convertible notes at \$4.00 each which are interest bearing at 7.5% pa and redeemable at face value on 30 September 2004 or converted into ordinary shares on a 1:1 basis on 30 September 2003, 31 March 2004 or 30 September 2004. There is currently a buy back program on these convertible

notes. DJW posted a NPAT of \$28.5m, up marginally from last year's \$28.3m. The result included \$2 million of special dividends received as part of recent demergers. Profit from option trading was down \$0.4m from last year and the profit from their trading account was down \$3.4m. DJW had an average of approximately 40% of the portfolio covered by options during the year and indicated that it will continue to have a high level of its portfolio being covered by call options. The portfolio has its major weightings in NAB, CBA, Telstra, BHP and AMP.

Huntley Investment Company Limited (HIC) - HIC focuses on long term investment in securities. HIC invests in a diversified portfolio of blue-chip, growth and speculative stocks, where performance is benchmarked against the All Ordinaries Accumulation Index. In addition, HIC invests in futures and options for hedging purposes and, where appropriate, in interest bearing deposits. HIC posted a net loss of \$989,000 for the six months to December 2002, compared to a net loss of \$147,000 for the pcp. HIC will announce its full year results in early September. HIC's major holdings as at 31 July included AGL, Wesfarmers, Auspine Limited, STW Communications Group, Alinta, Record Investments and Australian Pipeline Trust.

International Wine Investment Fund (IWI) - IWI has a spread of investments ranging from vineyards and wine services to integrated wine companies and distribution and retail. IWI invests directly into Australia, France, Germany, UK and USA, and indirectly into Argentina, Chile, Italy, NZ, South America and Spain. Berren Asset Management Limited is its Manager. IWI announced an FY03 \$18.6m loss but said its underlying business profit rose 6.2% to \$6.84m. The bottom-line result was distorted by a \$14.1m tax expense related to the capital gain on BRL Hardy shares. A \$8.15m write down was made on NSW wine producer Reynolds. During the year the wine fund lost its biggest investment, BRL Hardy, to a takeover by US-based Constellation Brands for \$142m in cash and \$50m in Constellation scrip. The Wine Fund is currently finalising investments in national and regional wine groups where numerous opportunities continue to be identified. Major Australian holdings of the portfolio include Foster's, McGuigan Simeon Wines, Evans & Tate, Southcorp and Reynolds Wines.

Ironbark Capital Limited (IBC) - In January this year, BT Australian Equity Management (BTE) severed all ties with its promoter, administrator and investment manager of almost 15 years, Bankers Trust Australia, following their resignation. The Board was dissatisfied with BT's performance and in the latter part of 2002 the Directors undertook a comprehensive review of Australian Fund Managers with a view to appointing a manager with a proven track record of consistent returns above market indices. They appointed Kaplan Funds Management. At BTE's EGM in April 2003 a special resolution was passed to change the name of the company to "Ironbark Capital Limited". IBC's investment policy is to invest at least 50% of the portfolio in outside of the 50 leaders Index and up to 30% of the portfolio in 'Special Situation' stocks, which may or may not be stocks from inside the 50 Leaders Index. The investment policy also includes investing in listed securities on the ASX and using financial derivatives as an alternative to direct purchase or sales and for the hedging of risk. IBC posted a loss of \$5.39m for the half year to December 2002, compared to a loss of \$3m in the pcp. No interim dividend was declared. IBC will report its full year results in early September. Their top portfolio holdings include NAB,

BHP, National Income Securities, Stapled Floating Rate Debt, Gasnet Australia Trust and APN News & Media.

MFS Leveraged Investments and Securities Trust (MFS) – MFS was established in 1999 and is managed by McLaughlins Financial Services Limited. The Trust primarily invests in mortgage funds, property trusts and direct investments. The Trust has both a short-term and long-term investment strategy, where the short-term strategy includes investing in risk-assessed mezzanine loans secured by mortgages. The Trust is designed to offer investors a higher risk/return through exposure to property linked investments. For the half year ending 31 January 2003, MFS reported a NPAT of \$908 042 representing an increase of 780% against last year's full year result. MFS is due to report its full year results in early October.

Milton Corporation Limited (MLT) – MLT seeks to invest in well-managed companies and trusts with a profitable history and with the expectation of sound dividend growth. Portfolio return is benchmarked against the All Ordinaries Accumulation Index. The Company is not a speculative investor and does not sell its assets to increase profit for distribution to shareholders. Milton posted a net profit of \$36.4m, a 32.7% increase on the pcp. The result included non-recurring income of \$3.3m from special dividends. The increase in profitability is also attributable to the Company's growth strategy of recent acquisitions in unlisted investment companies, J.P.H. Pty Limited and Perry Securities Pty Limited. The portfolio is heavily weighted towards diversified financial services (12.7%) and the banks (39.4%). MLT's largest investments at 30 June are WBC, NAB, CBA, Choiseul Investments, St George Bank and Bank of Queensland.

Mirabooka Investments Limited (MIR) – MIR which listed in 2001, undertakes investment primarily in small and medium sized companies located in Australia and New Zealand. Its objectives are to provide medium to long-term investment gains through holding core investments in selected companies and to provide attractive dividend returns to investors. Although the company's primary investment focus is small to medium sized companies, it does not necessarily sell investments in companies, which become reclassified as large. MIR reported a NPAT of \$2.95m, up 9.1% on the pcp. Over the year the price of MIR shares has moved from trading at a significant discount to NTA to a slight premium. The Company has recently announced a 1:4 rights issue at \$1.00 per share to raise \$22m to fund further investment opportunities. Eligible shareholders had to be on the register at 20 August 2003. Top positive contributions for the year included Gunns, Funtastic, Hills Motorway Group, Macquarie Infrastructure Group, GUD Holdings, APN News & Media (convertible notes), Integrated Group, Nufarm and James Hardie.

Pacific Strategic Investments Limited (PSI) – PSI's portfolio is predominately of ASX listed companies. Pitt Capital Partners manages PSI under a management contract with Republic Securities Limited. PSI has a medium to long-term investment strategy, with investments generally expected to yield returns only after periods greater than 12 months. Investments are targeted as being of either strategic value or growth at value. Strategic value investments are those considered to be promising targets of corporate activity such as takeovers, or which could be made profitable by management, given time. Investments identified as growth at value are those with excellent franchise attributes, which are under priced relative to the market and comparable companies. Investments identified by either the strategic or growth

approach may be classified into any one of: strategic, investment or trading securities by the company. PSI recently reported a net loss compared to a profit of approximately \$1.2m in FY02. PSI declared no dividend.

Sylvastate Limited (SYL) - SYL invests solely in listed Australian shares and property trust units. It holds a diversified portfolio consisting of 43 stocks. Diversity is further enhanced by the company's substantial investment in Whitefield Ltd. Whitefield and Sylvastate are subject to common management. SYL does not gear its investment portfolio and has no debt. SYL's third quarter result was approximately \$1.2m up 18% on the pcp. Its full year results are due to be reported in October. SYL's top 10 investments include Whitfield Limited, NAB, CBA, ANZ, TLS, WBC, QBE Insurance, Macquarie Bank, Perpetual Trustees and Amcor.

WAM Capital Limited (WAM) - WAM is an investment company whose mission is to provide superior returns to its investors over the medium to long term. WAM's investment approach is one that aims to strike a balance between value and growth. WAM aims to invest in companies with strong EPS growth, trading on low PE multiples, in growth industries (with an emphasis on medium sized industrial companies) and with a proven management. WAM is managed by Wilson Asset Management (International) Pty Limited. WAM will also undertake short selling as a way of offering investors potential downside protection. In the half year to 31 December 2002, WAM posted a net profit of \$1.08m compared to \$3.44m in the pcp. The decline in profit was largely due to an unrealised loss on investments of \$0.95m and a 43.4% decline in dividend income to \$0.6m. WAM is due to report its full year's results in early September. Some of the stocks in WAM's portfolio include OFM Investment Group, Macquarie Bank, Select Harvest, Reckon, Coles Myer, RG Capital Radio, ASX, McGuigan Simeon Wines and Promina.

Wilson Investment Fund (WIL) - Wilson Investment Fund buys and holds securities for long term investment purposes and predominantly invests in ASX listed securities. The fund's objective is to achieve a high real rate of return, comprising both income (fully franked dividends) and capital growth. Wilson Investment Fund will focus on active capital management which will involve buy backs when its shares are trading at a sizable discount to its NTA backing. WIL also allows investors to benefit from reduced capital gains tax rates. Its preference is to invest in industrial companies that have a proven track record of profit and dividends and the fund will look to build its portfolio to 30 to 50 stocks. The Manager believes a number of the investee companies will be medium sized, however size will not be a limiting factor for inclusion in the portfolio.

Wilson Investment Taurine Fund Limited (WIT) - WIT primarily invests in listed Australian securities and is managed by WHTM Asset Management Limited. The company's investment strategy centres on diversification via investment in a range of industry sectors. WIT's investment guidelines require the maintenance of holdings in at least 20 different companies, with the majority of funds to be invested in companies with a market value of at least \$10m. The company aims to maintain at least 90% of capital in equity investments at all times, with sector capital allocation to be guided by the weightings used in the determination of the All Ordinaries Index. WIT recently reported a net loss of \$1.7m, an improvement of 131% on the pcp. Its five

major investments at 30 June were Rio Tinto, Flight Centre, Telstra, Macquarie Bank and CBA.

Whitefield Limited (WHF) - WHF holds a diversified portfolio of 69 stocks, where performance is benchmarked against the All Industrials Accumulation Index. WHF's investment objective is to produce a growing and secure income stream in both the long and short term. The company does not intend to gear its portfolio and has no borrowings. WHF's portfolio is heavily weighted towards the banking sector. Its top ten holdings represent 47.8% of the portfolio, and are NAB, WBC, ANZ, Mayne Group, Telstra, CBA, Perpetual Trustees, CSL, Macquarie Bank and Lend Lease.

International Investment Companies

Bentley Equities Ltd (BEL) - BEL was formally BT Global Asset Management. BEL has a diverse list of investments in overseas financial centres. BEL may also invest in international fixed interest securities, international money market securities, derivatives, currency and liquid assets to manage overall risk. From May 1999, the BEL's policy was not to hold any Australian equities. BEL posted a loss of \$3.09m for the half year to December 2002, compared to a loss of \$2.9m in the pcp. No interim dividend was declared. As BT Funds Management resigned as its investment manager in December 2002, the company has been investigating proposals that would enable utilization of the company's franking credits or alternatively the possibility of winding up the company. In the mean time, until BEL makes a final recommendation, it has continued its strategy with a focus on minimizing costs. This has led BEL to invest in the Vanguard International Shares Index Funds and outsource its administration, accounting and company secretarial services to White Funds Management. It holds blue chip stocks listed in North America, Europe, and Japan. The benchmark is now the MSCI World (ex Australia) Accumulation Index. Its top ten holdings include Pfizer, Exxon Mobil, Viacom, Bank of America, Total Fina, Wells Fargo, Honeywell International, Microsoft, Barclays and Novartis.

Platinum Capital (PMC) - PMC is an Australian-based, global equity fund manager holding a portfolio of international listed securities. PMC's investment strategy is to build a portfolio based on individual stock selections (a 'bottom-up' approach), where performance is benchmarked against the Morgan Stanley Capital International World Accumulation Index (MSCI). PMC is a medium to long-term investor, holdings stocks for 3 to 5 years. When undervalued stocks cannot be found, the funds will remain in cash. PMC short sells shares and indices and actively manages currency. PMC has recently reduced its number of holdings in German stocks after the recovery in their share prices. They have been buying US stocks which will benefit from the devaluation of the US dollar and adding Japanese stocks in the belief that the market has now bottomed in Japan. They have positioned themselves to participate in the Indian market which they believe will develop into a major bull phase. PMC short position of US equities has been unprofitable over the last 6 months while its short position in Japanese bonds is working well. PMC posted a loss of \$2.3m, down 111% on the pcp. Pre-tax net asset value fell 2.3% compared to the Morgan Stanley World Index (MSCI) which fell 18.3% over this period.

Templeton Global Growth Fund (TGG) - The objective of TGG is to provide Australian residents with a well managed and cost effective investment vehicle through which they can gain access to global equity markets. TGG identifies

companies rather than economies. TGG delegates certain investment management functions to Franklin Templeton Investments Australia Limited, which invests in stocks around the world. The fund is benchmarked against the Morgan Stanley Capital International All Country World Free Index. TGG recently posted a net loss of \$22.9m, a fall of 732% from the pcp. The loss was primarily due to net unrealised losses of approximately \$15m on investments. There is no dividend payment for this period. The Company stated that during the reporting period, currency factors had a negative influence on the Australian dollar value of its investment portfolio. TGG's major holdings by country at 30 June were US (28.6%), UK (13.5%), Germany (7.2%), Japan (6.5%), Netherlands (5.8%) and South Korea (4.5%). They have a 2% exposure to the Australian market.

Technology Investment Fund (TIF) - TIF is the first fund dedicated to technology investment, with a disciplined process. TIF invests in a diversified portfolio of technology companies in Australia and the US. The Fund is managed by Gresham Technology Management Limited. TIF recently announced a bonus issue of options and introduced a unit purchase plan. Unit holders on the Company's register on 19 August received one free bonus option for every 1 unit held in the fund. The optionholder then has the option to acquire 1 new fully paid unit for \$0.50, exercisable at any time before their expiry on 20 November 2004. Performance is benchmarked against the Nasdaq and the S&P Technology Index. The manager will not invest more than 10% of the Fund in any one company. The Fund posted a net loss of approximately \$2.4m, an improvement of 92% on the pcp. The Fund did not declare a dividend for the period.

DISCLAIMER - ABN AMRO MORGANS LTD

This report was prepared as a private communication to clients and was not intended for public circulation or publication or for the use of any third party, without the approval of ABN AMRO Morgans Ltd ("ABN AMRO Morgans"). While this report is based on information from sources which ABN AMRO Morgans considers reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect ABN AMRO Morgans judgment at this date and are subject to change. ABN AMRO Morgans has no obligation to provide revised assessments in the event of changed circumstances. ABN AMRO Morgans, its directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions. This report is made without consideration of any specific client's investment objectives, financial situation or needs. Those acting upon such information without first consulting one of ABN AMRO Morgans investment advisors do so entirely at their own risk. It is recommended that any persons who wish to act upon this report consult with an ABN AMRO Morgans investment advisor before doing so. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST

ABN AMRO Morgans and/or its affiliated companies may make markets in the securities discussed. Further, ABN AMRO Morgans and/or its affiliated companies and/or their employees from time to time may hold shares, options, rights and/or warrants on any issue included in this report and may, as principal or agent, sell such securities. ABN AMRO Morgans affiliates may have acted as manager or co-manager of a public offering of any such securities in the past three years. ABN AMRO Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report.

The Directors of ABN AMRO Morgans advise that they and persons associated with them may have an interest in the above securities and that they may earn brokerage, commissions, fees and other benefits and advantages, whether pecuniary or not and whether direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities, and which may reasonably be expected to be capable of having an influence in the making of any recommendation, and that some or all of our Proper Authority holders may be remunerated wholly or partly by way of commission.

RECOMMENDATION STRUCTURE

For stocks which do not fit neatly into a sector paradigm, we show a target price and an absolute recommendation based on the implied upside/downside. A Buy/Sell requires upside/downside of 15% or more; an Add/Reduce requires upside/downside of between 5% and 15%; a Hold implies less than 5% upside/downside. Given the volatility of share prices and our predisposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 6 to 12 months.

The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided that the necessary catalysts are in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value.

For large-cap stocks where there is a clearly defined, broadly-based sector universe our primary recommendation is relative to the sector universe.

REGULATORY DISCLOSURES

ABN AMRO Morgans was the Sponsoring Broker to the initial public offering of the Wilson Investment Fund and received fees in this regard.

PRIVACY

Personal information held by ABN AMRO Morgans Ltd may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local ABN AMRO Morgans Ltd office or to Reply Paid 202, GPO Box 202 Brisbane Qld 4001.