

AUSTRALIAN

# RESEARCH

MANAGED INVESTMENTS ANALYSIS

## Listed Managed Investments

September 2008 Quarterly Review

EXTRACT

Recessionary fears cause market to tumble

# Contents

This is an extract from the Listed Managed Investments September 2008 Quarterly Review

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# Djerriwarrh Investments Ltd (DJW)



LMI Type	Investment Assets	Investment Area	Investment Sectors
Listed Investment Company	Listed Companies	Australia	Diversified

## Company Details

DJW is an LIC that invests in Australian equities, with a focus on the top 50 companies on the ASX. Its stock portfolio is generally similar to that of its stablemate, AFIC. It enhances total income by writing call options on up to 50% of the stocks held in its portfolio (buy-write strategies). DJW is active in corporate governance and generally votes on proxies.

## Board

B Teele (Chairman), R Barker, G Kraehe, T Campbell, A Guy, J Paterson, P Barnett

## Investment Philosophy

DJW's investment philosophy is built on taking a medium- to long-term view of value, adopting a 'buy-and-hold' investment strategy for stocks.

## Style and Process

DJW's style is best characterised as a bottom-up, index-unaware, 'buy-and-hold', value-biased style with respect to its stock holdings. The objective of DJW is to provide investors with an enhanced, fully franked dividend yield and capital growth. The portfolio is split into two parts: a long-term investment portfolio and a smaller trading portfolio, which may represent up to 10% of the portfolio. The portfolio is more actively managed than its counterpart, AFIC, in that the manager seeks to undertake 'buy-write' strategies for between 20% and 50% of the investment portfolio in order to generate higher income. DJW prefers to buy stocks with strong management, good free-cash flow, strong sustainable margins and an ability to pay increasing franked dividends. Dividends are chiefly sourced from operating profits, but can come out of realised gains. In analysing companies, DJW uses external brokers and spends time with management (particularly the CEO) and seeks the opinion of its investment committee at weekly investment meetings.

## Investment Team

Bruce Teele, BSc, BCom: Chairman; Ross Barker, BSc(Hons), MBA, Grad Dip SIA: Managing Director; Mark Freeman, BCom, MBA, ASIA: Chief Investment Manager; Alan Dunn, BEc, BCom, CFA: Senior Investment Analyst; Kieran Kennedy, BCom, CPA: Investment Analyst

## Aegis Comments

DJW is designed to generate relatively stable returns and enhanced, fully franked income. The Fund's discretionary buy-write strategy is integral to achieving this objective. The nature of the strategy is such that DJW is well placed to outperform in flat markets, but may underperform in strong market environments. Over the 12 months to 30 September 2008, DJW has outperformed the S&P/ASX 50, with portfolio returns (pre-tax NTA plus dividends) decreasing 24.3%, compared to a 25.9% decline by the index. This is a turnaround from its underperformance over FY08. The option-writing strategy has partially offset the declining capital value of the portfolio. High market volatility has buoyed option premiums, resulting in option profits climbing toward the end of the September quarter. While option coverage remained strong during the quarter it was down from FY08's peaks. The Fund has some borrowing capacity available, which it intends to use to invest in selected companies that it views as good long-term value at current prices.

## Key investment information



**RATING** Recommended

**Price (\$)** 3.10

As at 24 November 2008

**Market Cap (\$M)** 636.8

**Shares On Issue (M)** 205.4

**Shares Traded (\$M p.a.)** 68.4

**12-month L/H (\$)** 3.10/5.36

**Listing Date** June 1995

### Fees

**Management Fee (%)** 0.26

**Performance Incentives (%)** n/a

### Pre-Tax NTA Performance Analytics (including dividends)

	S&P/ASX		All Ords Acc	
	50 Acc	3 Yr	1 Yr	3 Yr
	1 Yr	(p.a.)	1 Yr	(p.a.)
Excess Per. (%)	1.57	(0.78)	2.26	(0.97)
Beta	0.98	0.93	0.90	0.89
TE (%)	3.75	3.26	4.59	3.54
IR	0.42	(0.24)	0.49	(0.27)

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and will understate portfolio performance.

### Dividend Yield (%)

FY06	FY07	FY08
5.05ff	5.46ff	6.27ff

### Substantial Unitholders (%)

AFIC	4.3
Bruce Teele	0.8

As at 30 September 2008

### Company contact

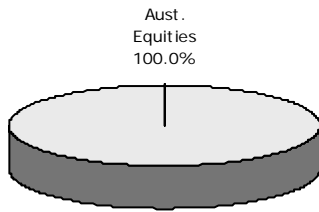


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Sector	Industry Group	Industry	Sub Industry
Financials	Diversified Financials	Capital Markets	Diversified Capital Markets

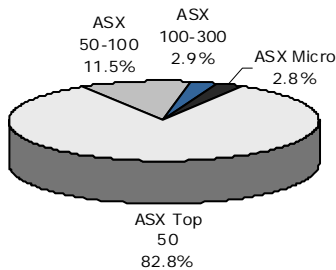
**Asset Weighting**



**Other Data;**

Options	None on issue.
Dividend policy	DJW looks to distribute all dividends and income received such that they are fully franked.
Capital management policy	DJW has a buy-back arrangement in place to buy back shares if trading at a discount to NTA.
LIC tax concessions	Yes
DRP available	Yes, at current market price.

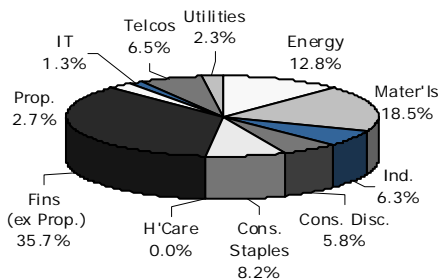
**Size Weighting**



**DJW's Portfolio (Top 10)**

Code	Weighting Portfolio (%)	S&P/ ASX 50 (%)	2009 Aegis Forecasts			Prem/Disc to Aegis Target (%)
			PE (x)	Yield (%)	EPS Gth (%)	
BHP	9.8	12.5	6.8	3.9	50.6	(39.0)
NAB	7.0	6.5	9.9	8.1	2.7	(3.7)
WBC	6.6	6.1	10.3	7.0	5.4	(6.3)
TLS	6.5	6.3	13.4	6.9	5.4	(15.8)
CBA	6.4	8.4	11.7	6.3	1.5	(6.2)
WPL	4.7	2.8	20.2	2.5	(2.5)	(13.4)
ANZ	3.7	5.4	11.6	6.9	3.8	9.4
RIO	3.6	2.9	6.6	2.6	15.0	(39.4)
STO	2.8	1.0	17.1	2.3	0.0	(2.3)
OSH	2.8	na	22.6	2.6	5.4	(3.2)
	<b>53.8</b>	<b>51.8</b>	<b>11.9</b>	<b>5.3</b>	<b>12.3</b>	

**Sector Weighting (Equities Component)**

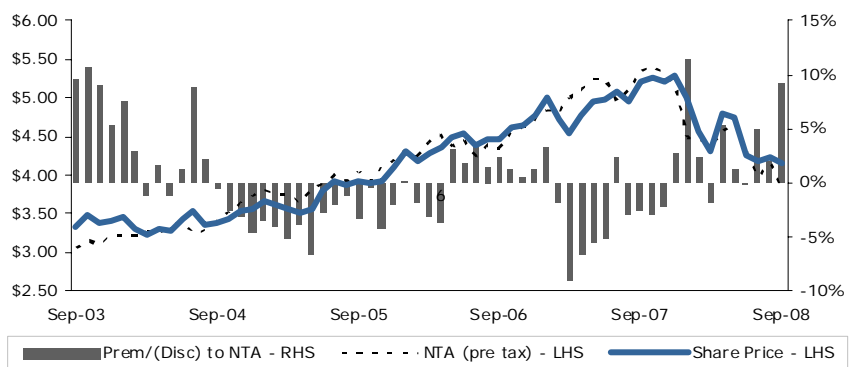


**Tax-Based Returns on Share Price and Dividends**

Fund	S&P/ASX 50 Acc		All Ords Acc.	
	1Yr Rtn (%)	3Yr Ann (%)	1Yr Rtn (%)	3Yr Ann (%)
No Tax (0%)	(13.4)	9.9	(24.8)	5.7
Super Fund (15%)	(14.4)	8.7	(25.4)	4.8
AWOTE* (31.5%)	(15.6)	7.4	(26.2)	3.9
Max Tax Rate (46.5%)**	(16.6)	6.1	(26.9)	2.9

\* Marginal Tax rate for worker on the Average Wage OTE rate + Annualised  
 \*\* Max Tax Rate of 46.5% used from July 2006 (48.5% used prior to July 2006)

**NTA & Share Price Performance**



Source all figures:  
DJW/Aegis Equities Research/IRESS

All data as at 30 September 2008 unless otherwise specified



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