

AUSTRALIAN

# RESEARCH



# Contents

**This is an extract from the Listed Managed Investments  
March 2010 Quarterly Review**

For Advisers Only

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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 which has call options written over part 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-cashflow, 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 aims 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 markets. Over the 12 months to 31 March 2010, DJW underperformed the S&P/ASX 50 Accumulation Index, with portfolio returns (pre-tax NTA plus dividends) increasing 38.3% versus a 40.3% increase by the benchmark index. DJW expects to increase the level of call option coverage in 2H10 as it is guarded about the recent strength in markets. The level of gearing in the portfolio was reduced as bank debt was repaid and the Convertible Notes were redeemed or converted to shares. The cash position was \$40M at 31 December 2009. DJW maintained its 1H10 dividend at 10cps and expects to maintain the final dividend at 16cps.

## Key investment information



**RATING** Recommended

**Price (\$)** 4.25

As at 20 May 2010

**Market Cap (\$M)** 902.8

**Shares On Issue (M)** 212.4

**Shares Traded (\$M p.a.)** 80.6

**12-month L/H (\$)** 3.61/4.85

**Listing Date** June 1995

### Fees

**Management Fee (%)** 0.36

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

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

	S&P/ASX		All Ords	
	50 Acc	3 Yr	Acc	3 Yr
	1 Yr	(p.a.)	1 Yr	(p.a.)
Excess Per. (%)	(1.96)	(0.63)	(5.68)	0.70
Beta	0.89	0.97	0.88	0.89
TE (%)	4.00	3.59	3.75	4.29
IR	(0.49)	(0.18)	(1.51)	0.16

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

### Dividend Yield (%)

FY07	FY08	FY09
5.14ff	5.90ff	5.90ff

### Substantial Unitholders (%)

AFIC	4.1
RBC Dexia Investor Services	0.9

As at 31 March 2010

### Company contact



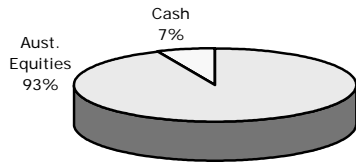
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Sector	Industry Group	Industry	Sub Industry
Financials	Diversified Financials	Capital Markets	Diversified Capital Markets

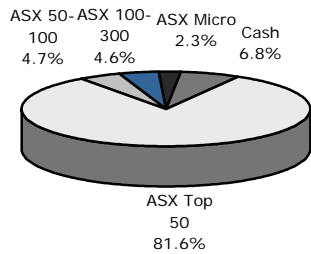
**Asset Weighting**



**Other Data**

Options: None on issue.  
 Dividend policy: DJW looks to pay an enhanced fully franked dividend.  
 Capital management policy: DJW has a buyback arrangement in place to buy back shares if trading at a discount to NTA.  
 LIC tax concessions: Yes  
 DRP available: Yes, at a 5% discount to the current market price.

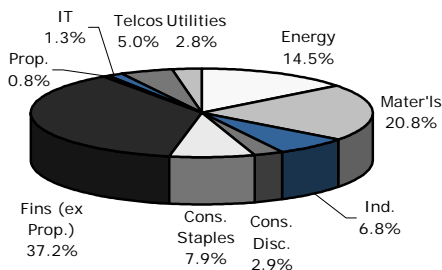
**Size Weighting**



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

Code	Weighting		2010 Aegis Forecasts			Prem/Disc to Aegis Target (%)
	Portfolio (%)	S&P/ASX 50 (%)	PE (x)	Yield (%)	EPS Gth (%)	
BHP	13.6	15.5	17.6	2.3	(9.6)	(11.5)
WBC	10.4	8.6	13.5	5.2	27.0	(19.1)
NAB	6.1	6.1	12.5	5.8	11.6	(2.2)
CBA	5.8	9.4	14.3	5.0	29.2	(8.5)
WPL	5.5	2.5	24.8	2.3	10.4	(13.8)
TLS	5.0	3.6	9.1	9.5	0.4	(18.8)
ANZ	4.0	6.7	14.1	5.0	19.7	(4.0)
OSH	3.9	0.7	38.7	1.6	(13.3)	(9.9)
STO	3.1	1.3	31.7	2.9	(9.1)	(1.2)
QBE	2.8	2.3	10.7	5.8	8.4	(23.7)
	<b>60.3</b>	<b>56.6</b>	<b>17.6</b>	<b>4.3</b>	<b>7.8</b>	

**Sector Weighting (Equities Component)**

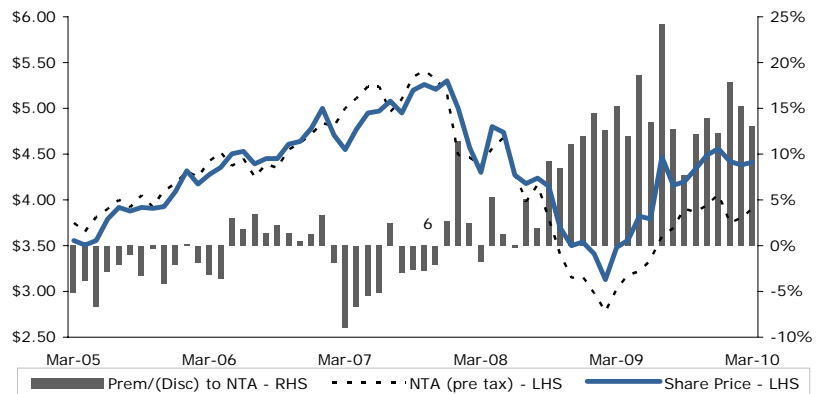


**Tax-Based Returns on Share Price and Dividends**

Fund	Fund		S&P/ASX 50 Acc		All Ords Acc.	
	1Yr Rtn (%)	3Yr Ann (%)	1Yr Rtn (%)	3Yr Ann (%)	1Yr Rtn (%)	3Yr Ann (%)
No Tax (0%)	37.9	7.7	42.2	0.4	45.8	(1.1)
Super Fund (15%)	36.2	6.4	41.1	(0.5)	44.7	(1.9)
AWOTE* (31.5%)	34.3	4.9	39.8	(1.4)	43.5	(2.8)
Max Tax Rate (46.5%)**	32.7	3.6	38.6	(2.3)	42.4	(3.6)

\* 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 31 March 2010 unless otherwise specified

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