

AUSTRALIAN

RESEARCH

MANAGED INVESTMENTS ANALYSIS

Listed Managed Investments

September 2009 Quarterly Review

Trading conditions for LMIs improve
as equity markets continue to rally over the quarter

EXTRACT

Contents

This is an extract of the Listed Managed Investments September 2009 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 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-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 30 September 2009, DJW outperformed the S&P/ASX 50 Accumulation Index, with portfolio returns (pre-tax NTA plus dividends) increasing 10.9% versus a 10.4% increase by the benchmark index. Over the year to 30 September 2009, DJW has been able to supplement declining dividend income with additional income from option writing, given a higher level of call option coverage over the portfolio and the very large moves in shares prices over the year. DJW indicated it will look to continue to operate with relatively high levels of call option coverage. However, DJW noted that future levels of income could come under pressure, as the overall level of volatility has started to decline and dividend income has been under pressure due to the economic slowdown. Convertible notes totalling \$32M matured on 30 September 2009; \$15.8M was converted into ordinary DJW shares; and the remainder redeemed for cash.

Key investment information



RATING Recommended

Price (\$) 4.49

As at 27 November 2009

Market Cap (\$M) 937.7

Shares On Issue (M) 211.7

Shares Traded (\$M p.a.) 73.0

12-month L/H (\$) 2.95/4.55

Listing Date June 1995

Fees

Management Fee (%) 0.36

Performance Incentives (%) n/a

Pre-Tax NTA Performance Analytics (including dividends)

	S&P/ASX 50 Acc		All Ords Acc	
	1 Yr	3 Yr (p.a.)	1 Yr	3 Yr (p.a.)
Excess Per. (%)	0.49	0.16	3.53	1.04
Beta	1.06	1.01	0.90	0.90
TE (%)	3.15	3.22	4.40	4.07
IR	0.16	0.05	0.80	0.26

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

Dividend Yield (%)

FY07	FY08	FY09
5.40ff	6.19ff	6.19ff

Substantial Unitholders (%)

AFIC	4.1
RBC Dexia Investor Services	0.8

As at 30 September 2009

Company contact



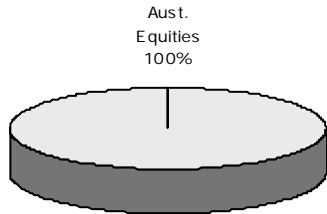
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61 3 9679 1659

www.djerri.com.au

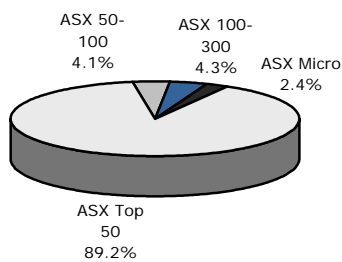
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Sector	Industry Group	Industry	Sub Industry
Financials	Diversified Financials	Capital Markets	Diversified Capital Markets

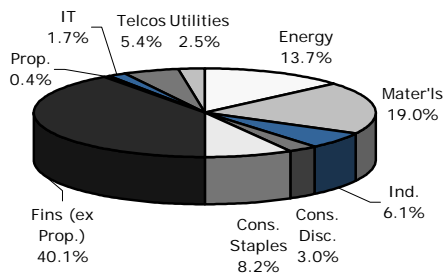
Asset Weighting



Size Weighting



Sector Weighting (Equities Component)



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 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.

DJW's Portfolio (Top 10)

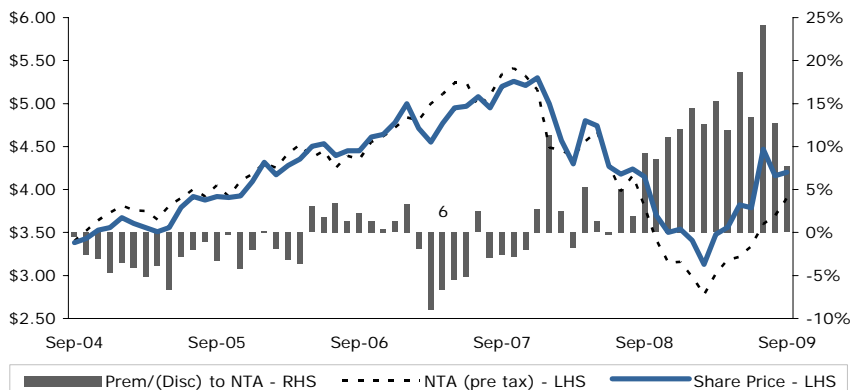
Code	Weighting		2010 Aegis Forecasts			Prem/Disc to Aegis Target (%)
	Portfolio (%)	S&P/ASX 50 (%)	PE (x)	Yield (%)	EPS Gth (%)	
BHP	11.5	14.2	15.5	2.9	(11.2)	(15.6)
WBC	11.3	8.7	13.7	5.2	16.1	(12.9)
NAB	7.0	7.0	13.4	5.4	16.3	(4.1)
CBA	6.3	9.0	14.1	5.2	20.0	(8.3)
TLS	5.4	4.2	9.6	8.9	4.0	(11.4)
WPL	5.2	2.5	24.6	2.2	20.2	(12.0)
ANZ	5.1	6.5	14.3	5.0	13.3	(0.3)
OSH	3.5	0.7	33.8	1.5	0.0	(7.1)
QBE	3.1	2.6	11.1	5.7	0.0	(15.8)
STO	3.0	1.4	33.2	2.9	0.0	(7.4)
Total	61.5	56.9	16.6	4.5	7.9	

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 (%)	1Yr Rtn (%)	3Yr Ann (%)
No Tax (0%)	11.4	6.6	12.3	4.2	9.0	3.1
Super Fund (15%)	9.9	5.3	11.2	3.2	8.0	2.2
AWOTE* (31.5%)	8.1	3.9	10.0	2.2	6.9	1.3
Max Tax Rate (46.5%)**	6.6	2.6	8.9	1.3	5.9	0.5

* 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 2009 unless otherwise specified

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Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aegis.com.au