

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Milton Corporation Ltd (MLT)

Listed Managed Investments

June 2017 Quarterly Review

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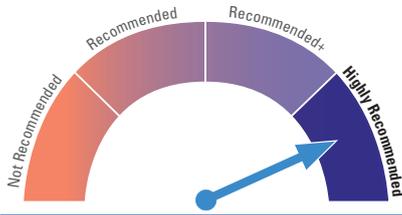
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 4 August 2017	4.57
Market cap (\$M)	2,979.5
Shares on issue (M)	652.0
Options on issue (M)	0.0
Shares traded (\$M p.a)	246.2
12-month L/H (\$)	4.14/4.65
Listing date	April 1962

Fees

Management Expense Ratio (%)	0.12
Performance incentives (%)	na

Premium/Discount to Pre-tax NTA

30 June 2017	0.0%
3 year average	1.0%

Dividend Yield

	%
FY15	4.07ff
FY16	4.44ff
FY17	4.12ff

Largest Shareholders

	%
Washington H Soul Pattinson & Company Limited	4.6
Higlett Pty Ltd	4.2

As at 30 June 2017

COMPANY OVERVIEW

MLT is a listed investment company that was listed on the ASX in 1958. It is a long-term investor in a portfolio of companies, trusts, fixed-interest securities, real property and, on occasion, other investment companies.

INVESTMENT OBJECTIVE

MLT's objective is to provide investors with a growing, fully franked dividend income stream over time and long-term capital appreciation, through exposure to ASX-listed companies that are well managed, have a profitable history and carry expectations of sound dividend growth.

STYLE AND PROCESS

MLT uses bottom-up fundamental analysis to identify attractive investments. The company has a long-term focus, therefore portfolio churn is low and capital profits are reinvested. MLT combines in-house and external research to develop company models. The investment team has a focus on liaising with the company management to gauge the quality of management. Investment proposals are ratified by an investment committee, which consists of most of the board and the chief executive.

PORTFOLIO CHARACTERISTICS

MLT's portfolio is weighted towards large cap stocks with 62.5% allocated to top 50 stocks at 30 June 2017. It also has a modest exposure to small-caps which grew over the quarter from 7.3% to 11.8% of the portfolio. The portfolio tends to be overweight banks, with a 35.1% weighting, and underweight resource stocks. The portfolio's largest holding is in WBC, which at a 10.8% weighting is significantly above the All Ordinaries Index weighting of 5.8%. In fact, MLT holds overweight positions in seven of its top ten holdings. The company has a significant 5.2% weighting in investment company, SOL. MLT takes high conviction positions in companies it has identified as attractive, and as such, the portfolio may have a higher tracking error than some of its peers over the longer term.

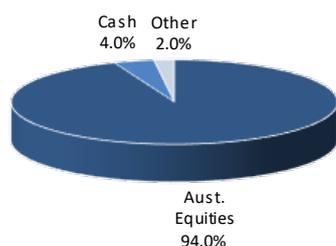
INDEPENDENT INVESTMENT RESEARCH COMMENTS

MLT is the third largest LIC on the ASX with a market cap of \$3.0b. It offers investors access to a portfolio of ASX-listed securities and other investments at low cost, with a management fee of just 0.12%. The company has a multi-decade history with a highly experienced board and investment team and a proven, well established investment process. Board and investment team turnover rates are very low, creating considerable stability. MLT has underperformed the market over a one-year period reflecting its underweight position in the strongly performing resources sector. Over the long-term, the portfolio has performed better than the ASX All Ordinaries Accumulation Index and over the ten years to 30 June 2017 has delivered an average annual rolling return of 6.1% compared to the benchmark index average annual rolling return of 5.2%. The company has a long history and has achieved its goal of providing a growing dividend stream over time. MLT declared a final FY2017 dividend of 10 cents per share, fully franked, taking the full year dividend to 18.7 cents per share, fully franked, up from the prior year dividends of 18.6 cents per share. At 30 June 2017, the shares were trading at pre-tax NTA, compared to a three-year average premium to pre-tax NA of 1.0%. This offers a reasonable entry point for long-term investors looking for exposure to a low-cost, well managed, diversified portfolio of Australian equities.

SECTOR BREAKDOWN

Sector	31 Mar (%)	30 Jun (%)
Banks	35.1	32.8
Consumer Staples	9.3	8.7
Materials	4.3	1.8
Energy	7.3	7.0
Commercial Services	2.0	2.4
Diversified Financials	7.1	7.5
Insurance	4.6	4.9
Telecommunications	3.2	3.0
Healthcare	3.7	4.2
Retailing	2.9	2.8
Real estate	2.9	3.0
Capital goods	1.2	1.4
Transport	2.5	2.7
Utilities	2.9	3.0
Metals & Mining	4.1	4.1
Other shares	2.1	2.0
Cash	3.1	4.0
Other assets	1.7	2.0

Asset Weighting



Size Weighting



Board of Directors

Robert Millner	Chairman (Non-Executive)
Frank Gooch	Managing Director (Executive)
John Church	Director (Non-Executive)
Ian Pollard	Director (Non-Executive)
Graeme Crampton	Director (Non-Executive)
Kevin Eley	Director (Non-Executive)

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

PERFORMANCE ANALYTICS

Performance	June Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	-2.80	11.30	5.63	11.21
Peer Group Median (pre-tax NTA plus dividends), %*	-1.28	10.82	5.28	11.22
ASX All Ords Acc Index (%)	-1.54	13.12	6.83	11.60
Out/Under performance of index (%)	-1.26	-1.82	-1.20	-0.39
Share Price + Dividends (%)	2.27	10.01	4.10	12.96
Tracking Error (I)%	2.00	2.22	3.02	3.05

*Australian Large Cap Shares as classified in the IIR monthly LIC report.

OTHER DATA

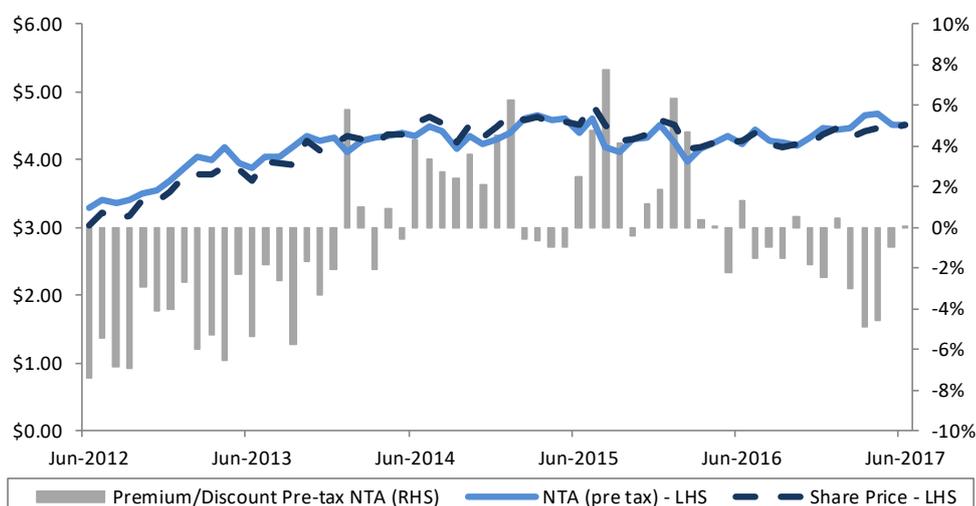
- ◆ **Dividend policy** – Pay out 90% to 95% of underlying profit (excludes special dividends).
- ◆ **Capital management policy** – MLT generally offers a share purchase plan which allows shareholders to invest up to A\$15,000 in new shares. It may also acquire unlisted investment companies to expand its capital base.
- ◆ **LIC tax concessions** – Yes
- ◆ **DRP available** – Yes

MLT's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
WBC	10.8	5.8
CBA	8.8	8.2
SOL	5.2	0.2
NAB	4.8	4.5
WES	3.9	2.6
ANZ	3.3	4.8
BHP	2.9	4.2
BOQ	2.8	0.3
CSL	2.8	3.6
WOW	2.5	1.9
Total	47.8	36.0

Source all figures: MLT/Independent Investment Research/IRESS. All data as at 30 June 2017 unless otherwise specified.

NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

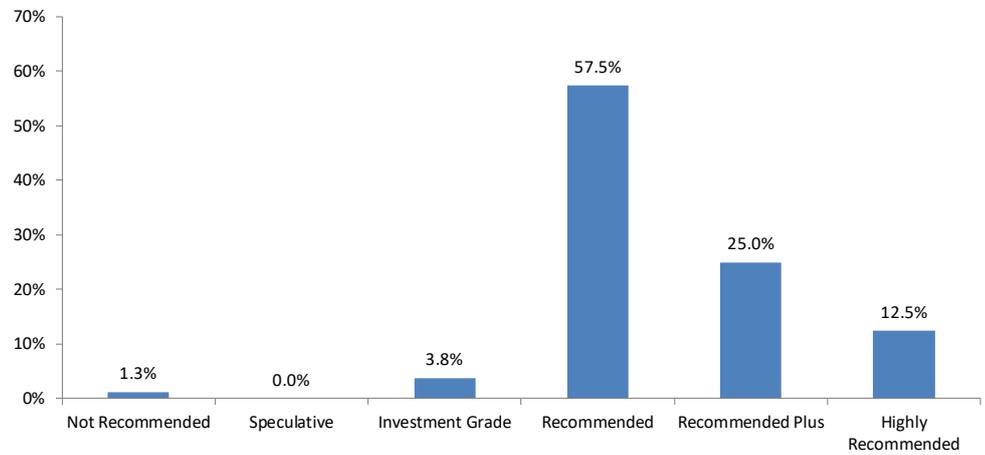
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–82</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>60–78</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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