

Milton Corporation Ltd (MLT)

Listed Managed Investments

September 2018 Quarterly Review

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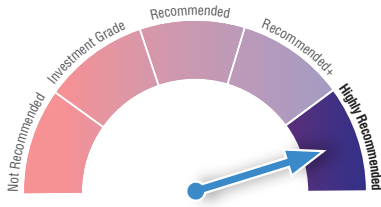
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 21 November 2018	4.33
Market cap (\$M)	2,879.2
Shares on issue (M)	664.9
Options on issue (M)	0.0
Shares traded (\$M p.a)	226.3
12-month L/H (\$)	4.29/4.83
Listing date	April 1962

Fees

Management Expense Ratio (%)	0.14
Performance incentives (%)	na

Premium/Discount to Pre-tax NTA

As at 30 September 2018	-2.9%
3 year average	-0.5%

Dividend Yield*

	%
FY16	4.44ff
FY17	4.12ff
FY18	4.08ff

*Based on FY end data.

Largest Shareholders

	%
Washington H Soul Pattinson & Company Limited	3.8
Higlett Pty Ltd	3.8

As at 30 September 2018

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, interest-bearing securities and real property.

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 61.5% allocated to ASX top 50 stocks at 30 September 2018 and 75.1% allocated to top 100 stocks. The portfolio tends to be overweight the big four banks. At September-end the portfolio had a 23.5% weighting to the big four banks compared to a benchmark index weighting of 19.2%. While the banks continue to be the largest weighting in the portfolio, the allocation to banks has continued to decline over the last five years. The portfolio's largest holding is in Westpac (ASX:WBC), which at a 9.3% weighting is significantly above the All Ordinaries Index weighting of 4.9%. The company holds a significant overweight position in SOL, one of the largest shareholders of the company. We note that SOL has been a significant contributor to the portfolio over the 12 months to September-end, with SOL's share price increasing 61% over the period. 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.

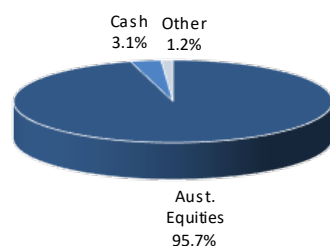
INDEPENDENT INVESTMENT RESEARCH COMMENTS

MLT is the third largest LIC on the ASX with a market cap of \$2.9 billion. It offers investors access to a portfolio of ASX-listed securities and other investments at low cost, with a management fee of just 0.14%. 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. While the portfolio will vary from the performance of the benchmark index (ASX All Ordinaries Accumulation Index) over shorter periods, over the long-term the portfolio has performed largely in line with the market. The company has a long history and has achieved its goal of providing a growing dividend stream over time. During the September quarter, Brendan O'Dea took over the role of Managing Director, succeeding Frank Gooch who retired. The company declared a final FY18 dividend of 10.2 cents per share, up 2% on the pcp. This takes the full year dividend to 19 cents per share, a 1.6% increase on FY17 and record high dividend for the company. The dividend increase was largely a result of the increased dividend income received by the company over FY18. The portfolio has underperformed the broader market over the short-term due to the underweight position in the resource and healthcare sectors and the overweight position to financials, which have been a drag on the market. While management recognise the difficulties faced by the banks, the investment team continue to believe the banks provide exposure to key macro economic trends and it is expected that they will continue to be a prominent part of the portfolio. The company continues to trade at a discount to pre-tax NTA. We view discounts to provide a good entry point for prospective investors.

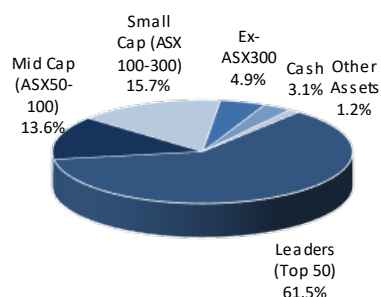
SECTOR BREAKDOWN

Sector	30 Jun (%)	30 Sep (%)
Banks	29.0	28.2
Other Financials	12.4	12.2
Consumer Staples	10.1	9.6
Consumer Discretionary	4.4	4.0
Materials	9.9	10.4
Energy	8.0	9.6
Industrials	6.5	7.5
Telecommunications	1.9	2.4
Healthcare	5.0	5.1
Real estate	3.4	3.3
Utilities	2.8	2.7
Information Technology	0.7	0.7
Other shares	0.0	0.0
Cash	4.2	3.1
Other assets	1.7	1.2

Asset Weighting



Size Weighting



Board of Directors

Robert Millner	Chairman (Non-Executive)
Frank Gooch	Managing Director (Executive), Retired 1 August 2018
Brendan O'Dea	Managing Director (Executive), Effective from 1 August 2018
Ian Pollard	Director (Non-Executive)
Graeme Crampton	Director (Non-Executive)
Justine Jarvinen	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	Sep Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	3.0	11.6	9.7	7.1
Peer Group Median (pre-tax NTA plus dividends), %*	1.5	11.8	9.4	7.1
ASX All Ords Acc Index (%)	1.9	14.7	12.4	8.4
Out/Under performance of index (%)	1.1	-3.0	-2.7	-1.3
Share Price + Dividends (%)	2.6	7.4	7.2	7.7
Tracking Error (%)	1.7	2.2	2.9	2.8

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

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

OTHER DATA

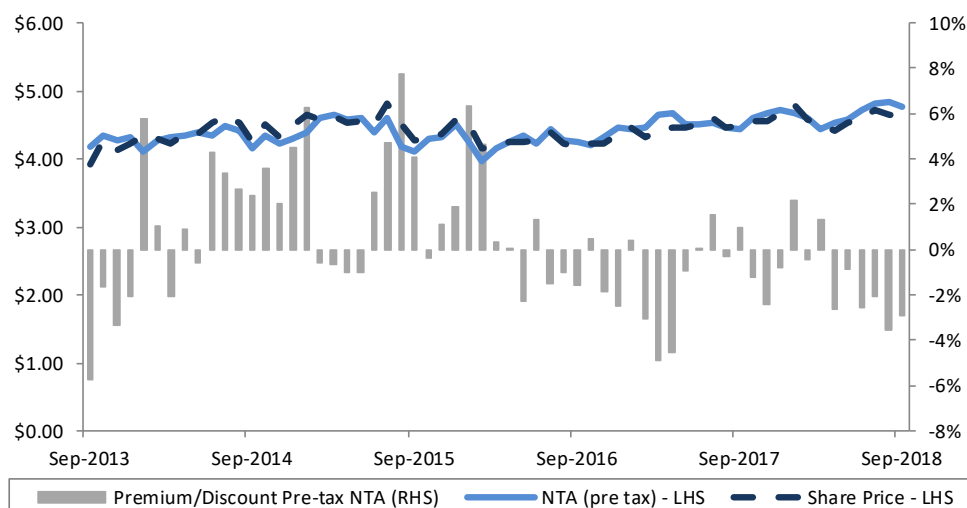
- ◆ **Dividend policy** – Target payout is 90% to 95% of underlying profit (excludes special dividends).
- ◆ **Capital management policy** – MLT generally offers a share purchase plan which allows shareholders to invest up to A\$15,000 in new shares. It may also acquire unlisted investment companies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

MLT's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
WBC	9.3	4.9
SOL	7.5	0.3
CBA	7.0	6.4
WES	4.5	2.9
BHP	4.4	5.7
NAB	4.2	3.9
CSL	3.8	4.7
ANZ	3.0	4.1
MQG	2.6	2.2
WOW	2.6	1.9
Total	48.9	36.8

Source all figures: MLT/Independent Investment Research/IRESS. All data as at 30 September 2018 unless otherwise specified.

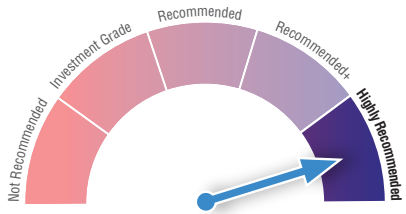
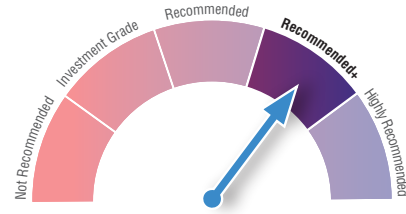
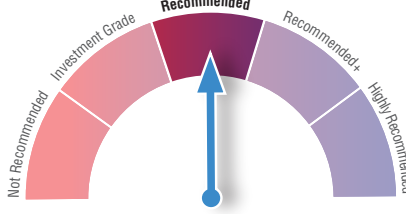
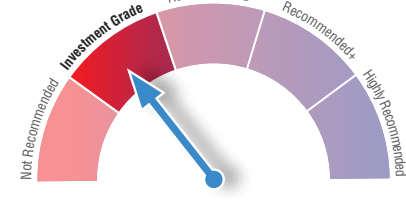
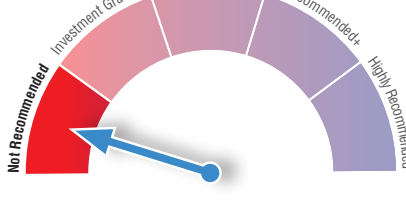
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

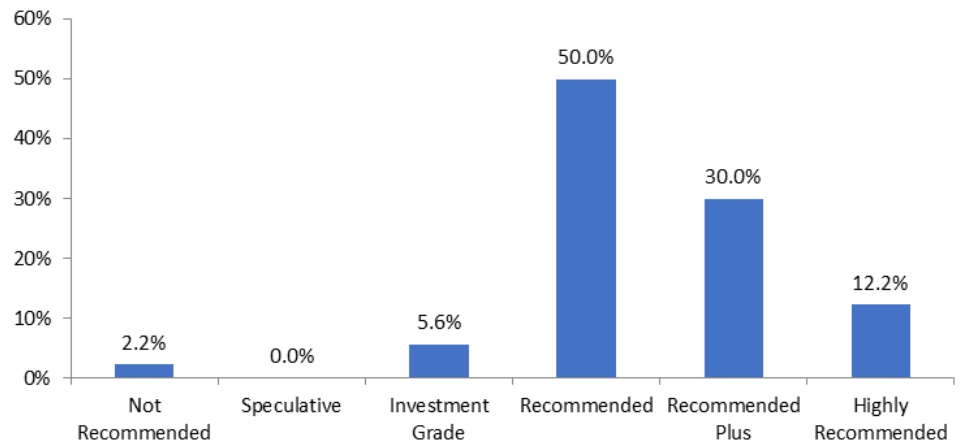
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; 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>79–83</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>70–79</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>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate 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 that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</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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