

## Three LIC's We Love

We are at an interesting stage in the cycle, with the ASX 200 hovering around recent highs, global equities looking expensive, and calls for boom and bust from different forecasters and commentators.

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At Affluence we know we don't know the future, but we can assess current opportunities. Below are three LIC's we believe show great potential. As at 3 May 2017, all are significant holdings in our LIC portfolio.

### Australian Equity Performance Fund Limited (ASX code: AEG)

This LIC is managed by Bennelong Long Short Equity Management, who have a very enviable track record over the last 15 years. It was first listed in December 2015 and the investment strategy is very similar to the unlisted Bennelong Long Short Equity Fund, which has delivered over 16% per annum returns since 2002. Even more impressive, during the GFC in 2008 and 2009, the unlisted fund delivered returns of 12% and 24% respectively.

The Bennelong Long Short Equity Management strategy invests primarily in the ASX 100 using a market neutral pairs strategy. Each pair contains one long and one short position and are selected from the same market sector. Whilst in an ideal environment each stock's position will make a positive return, it is the relative performance of the pair that is important. The Portfolio usually comprises 50 to 80 securities with 25 to 40 pair trades and cash on deposit.

The company announced in April the pending retirement of Richard Fish, who was the founder and co-portfolio manager of the strategy. While this is a risk with a boutique manager, we believe the remaining investment staff have the skills and processes to continue to execute the strategy effectively. We are also encouraged to see that Richard will continue to hold his shares in the investment manager, and his substantial investment in the strategy.

For well-deserved reasons, post IPO this LIC traded at a very strong premium to NTA (over 20%). However, calendar year 2016 was one of their worst years in their history at negative 13% compared to the ASX 200 delivering 12%. Currently, AEG is trading at a 6% discount to NTA, which we believe represents excellent value. Virtually all market neutral and long short funds have lagged the market over the past 12 months, as is to be expected during strong market rallies. However, we expect the tables to turn when the inevitable downturn comes along, and very few have a record such as Bennelong Long Short Equity in navigating rough waters.

## MFF Capital Investments Limited (ASX code: MFF)

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This LIC is managed by Chris Mackay who is a co-founder of Magellan with Hamish Douglass. As per the 2016 annual report, Chris and his associates owned more than 10% of MFF (the BRW Rich List names Chris as having wealth of over \$600 million).

Previously, this LIC was known as the Magellan Flagship Fund, however the name was changed to MFF Capital Investments in 2016. Magellan Financial Group was originally the manager of MFF.

Recently there has been a widening of the relationship, with Magellan still providing research and other services, however the fees payable to Magellan have been reduced considerably, with Chris Mackay being the managing director and portfolio manager. The LIC employs some gearing, and is currently invested mostly in large, liquid US equities.

It currently has a market capitalisation of circa \$900 million, and is likely to be \$1 billion by the end of the year when the options expire (currently well in the money). The performance has been excellent, and the managers interests are definitely aligned with investors. Despite all this, it currently trades at more than a 20% discount to NTA, and more than a 15% discount to diluted NTA (post option exercise).

Given the chance to invest alongside a legendary investor such as Chris Mackay, and at a 15% plus discount, we believe this is the best global equity exposure available.

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## Century Australia Investments Limited (ASX code: CYA)

Wilson Asset Management have recently taken over as investment manager, with a \$75 million capital raising currently underway. Wilson's had built a major stake in the LIC through their other LIC's, and recently succeeded in being named investment management to the LIC. As part of this change of manager, the Board is allowing a buy back at Net Asset Value for those investors who wish to exit, and launching the capital raising.

Given the current corporate activity (buy back and capital raising), CYA is trading at or very close to NTA. We believe the opportunity is for this vehicle to trade at similar levels to other Wilson LIC's. Based on Wilson's presentation, two of their existing LIC's are trading at substantial premiums (WAM at 27% and WAX at 23%), one at a moderate premium (WAA at 8%), and WLE at around NTA (short term headwinds due to upcoming option expiry and limited dividend profile).

If in the future CYA does not perform as expected, we believe it is likely that one of the larger Wilson LIC's (either WAM or WLE) would acquire or merge with CYA and provide investors an acceptable exit mechanism. Either way, you get access to the excellent performance of Wilson Asset Management, without having to pay a premium to NTA for the privilege.

## Before you invest, read this!

We encourage you to do your own research before investing in any LIC. Remember, a great LIC and a great manager is only part of the story. We also like to make sure they're trading at the right price and that the assets they are investing in are not themselves overvalued. We explain how we do this in our [LIC Guide](#), but in the end it's up to you to make the investment decision that's right for you, in conjunction with your financial advisor if you have one.

Take care and all the best with your investing.