

Milton Corporation Ltd (MLT)

Listed Managed Investments

June 2019 Quarterly Review

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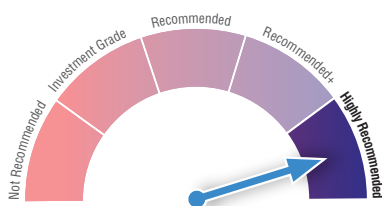
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 14 August 2019	4.67
Market cap (\$M)	3,124.1
Shares on issue (M)	669.0
Options on issue (M)	0.0
Shares traded (\$M p.a)	307.3
12-month L/H (\$)	4.24/4.87
Listing date	April 1962
Fees	
ManagementExpenseRatio(%)	0.14
Performance incentives (%)	na

Premium/Discount to Pre-tax NTA

As at 30 June 2019	-4.3%
3 year average	-1.8%

Dividend Yield*

	%
FY17	4.1ff
FY18	4.1ff
FY19	4.6ff

*Based on fiscal year end data.

Largest Shareholders

	%
Higlett Pty Ltd	3.7
Washington H Soul Pattinson & Company Limited	3.3

As at 30 June 2019

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 the majority allocated to ASX top 50 stocks and ASX top 100 stocks.

The portfolio has a minimal allocation to small and microcap stocks given that these generally don't pay consistent fully franked dividends which can be passed through to the shareholders of MLT in the form of fully franked dividends.

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 past 12 months to quarter-end, with SOL's share price increasing 40% 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. 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.

The portfolio underperformed during the quarter and has underperformed the broader market over one, three and five year periods.

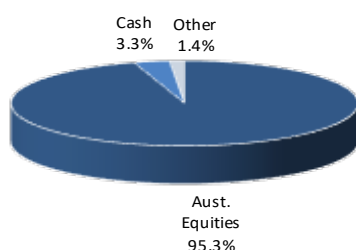
MLT shares remained at a small discount to pre-tax NTA at the end of the quarter and a small persistent discount has evolved over the last few years in part we believe driven by the muted performance of the portfolio versus its benchmark.

MLT announced a final dividend of 10.4 cps fully franked after quarter end, which was up from the previous final dividend of 10.2 cps fully franked. The Company also announced of a special fully franked dividend of 2.5 cps which was paid along with the final dividend. Its first special dividend since FY16.

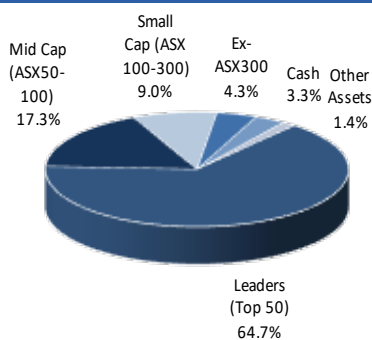
SECTOR BREAKDOWN

Sector	30 Jun (%)	31 Mar (%)
Financials	40.1	34.7
Consumer Staples	6.0	5.9
Consumer Discretionary	7.0	6.6
Materials	11.2	11.2
Energy	8.0	9.6
Industrials	7.5	7.6
Telecommunications	3.2	3.2
Healthcare	5.4	5.2
Real estate	3.4	3.2
Utilities	2.9	3.1
Information Technology	0.7	0.6
Cash	3.3	3.4
Other assets	1.3	1.5

Asset Weighting



Size Weighting



Board of Directors

Robert Millner	Chairman (Non-Executive)
Brendan O'Dea	Managing Director (Executive)
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	Jun Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	5.7	8.8	9.8	7.0
PeerGroupMedian(pre-taxNTAplusdividends),%*	6.5	9.0	9.3	7.0
ASX All Ords Acc Index (%)	7.8	11.0	12.6	9.0
Out/Under performance of index (%)	-2.1	-2.2	-2.8	-2.0
Share Price + Dividends (%)	6.0	7.1	7.9	5.2
Tracking Error (%)	0.9	3.3	2.4	2.9

*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

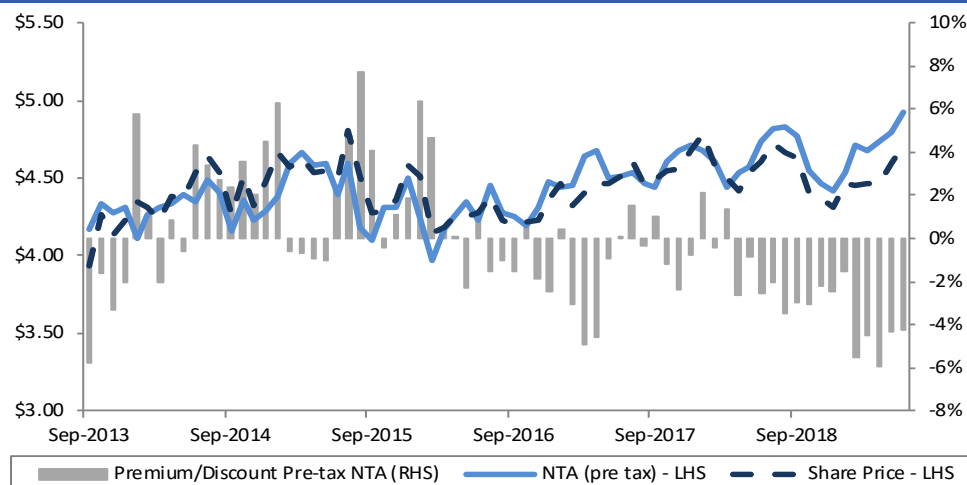
- ◆ Dividend policy – Target payout is 90% to 95% of underlying profit (excludes special dividends).
- ◆ Capital management policy – MLT generally offers a share purchase plan which allows shareholders to invest up to A\$15,000 in new shares. It may also acquire unlisted investment companies to expand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

MLT's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
WBC	9.1	4.8
CBA	7.9	6.9
SOL	6.1	0.2
BHP	5.1	5.4
CSL	3.9	5.0
NAB	3.9	3.9
WES	3.2	2.1
WOW	3.0	2.1
ANZ	3.0	3.7
MQG	2.8	2.0
	48.0	36.2

Source all figures: MLT/Independent Investment Research/IRESS. All data as at 30 June 2019 unless otherwise specified.

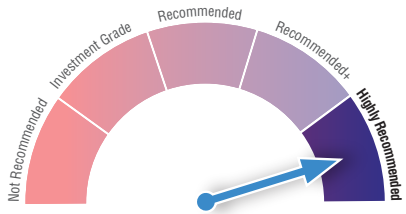
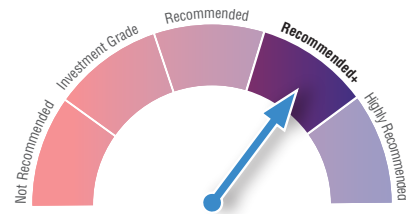
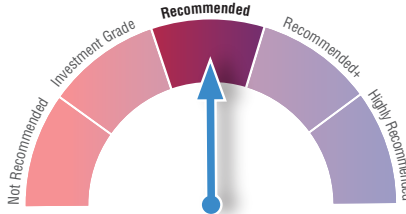
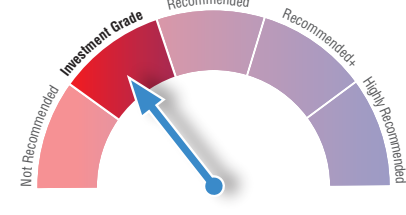
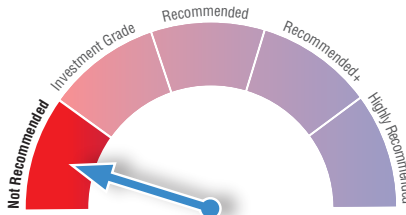
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

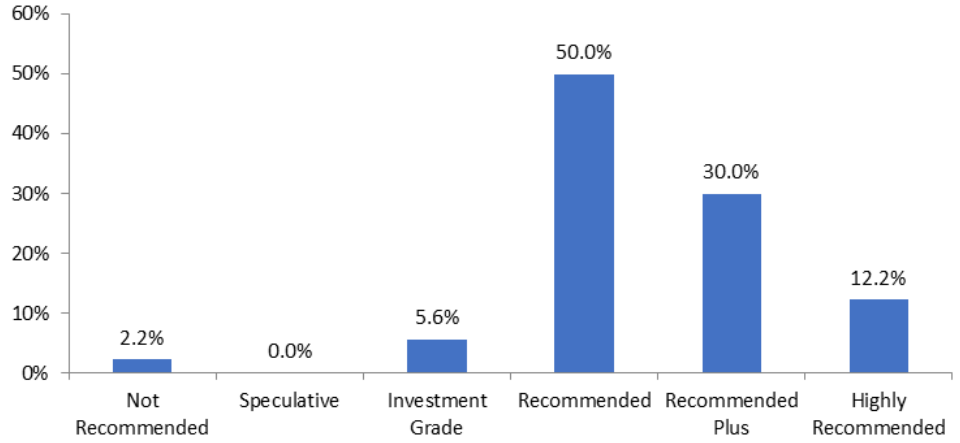
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
Highly Recommended	83 and above
	<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>
Recommended +	79–83
	<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>
Recommended	70–79
	<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>
Investment Grade	60-70
	<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>
Not Recommended	<60
	<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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