



**Djerriwarrh**  
AUSTRALIAN EQUITIES, ENHANCED YIELD

Half-Year Review to  
31 December 2016

# CONTENTS

- 1 Half-Year in Summary
- 2 Review of Operations and Activities
- 11 Top 20 Investments
- 12 Income Statement
- 13 Balance Sheet
- 14 Summarised Statement of Changes in Equity
- 15 Holdings of Securities
- 18 Major Transactions in the Investment Portfolio
- 19 Major Transactions in the Trading Portfolio
- 20 Company Particulars
- 21 Shareholder Meetings

## The investment goals of Djerriwarrh are:

- ▶ To provide attractive total returns including capital growth over the medium to long term.
- ▶ To pay an enhanced level of dividends.



Djerriwarrh Investments is a listed investment company investing in Australian equities. For stocks where there is an options market the Company often uses options to enhance the income return to investors.

The Company aims to provide shareholders with attractive investment returns through access to an enhanced stream of fully franked dividends and growth in capital invested.

# HALF-YEAR IN SUMMARY

## PROFIT FOR THE HALF-YEAR

**\$12.4m**

▼ Down 41.5% from 2015

## TOTAL 6 MONTH SHAREHOLDER RETURN

**-3.8%**

Share price plus dividend

## NET OPERATING RESULT

**\$16.7m**

▼ Down 34.8% from 2015

## MANAGEMENT EXPENSE RATIO

**0.42%** Annualised

0.45% in 2015

## FULLY FRANKED INTERIM DIVIDEND

**10¢** Per share

Unchanged

## TOTAL PORTFOLIO

P3 **\$789.9m**  
Including cash at 31.12.16

\$790.0 million in 2015

## TOTAL 6 MONTH PORTFOLIO RETURN

**13.2%** Including franking\*

S&P/ASX 200 Index including franking 11.4%

\* Assumes a shareholder can take full advantage of the franking credits.

# REVIEW OF OPERATIONS AND ACTIVITIES

## Profit and Dividend

Profit for the half-year to 31 December 2016 was \$12.4 million, down from \$21.1 million in the previous corresponding period.

The fall in profit was partly a result of the reduction of the dividends received primarily from resource and energy companies in the investment portfolio. This is consistent with expectations in July 2016 when Djerriwarrh announced a reduction in its forecast annual dividend payout.

Income from option activity and the trading portfolio was \$5.0 million, which was behind the contribution generated in the prior corresponding period last year. A large part of the decline was due to the decision to buy back a significant number of 'in-the-money' call option positions to capture more of the potential upside of holdings rather than have the positions exercised. The reduced level of volatility was another factor.

The net operating result for the half-year was \$16.7 million, down 34.8 per cent from \$25.6 million in the previous corresponding period. In the opinion of Directors, this is a better measure of Djerriwarrh's performance in deriving ongoing investment, trading and options income from the Company's portfolios as it excludes the valuation impact of net unrealised losses on open option positions.

Djerriwarrh's interim dividend has been maintained at 10 cents per share fully franked, the same as last year. The Dividend Reinvestment Plan has been reinstated with a 5 per cent discount.

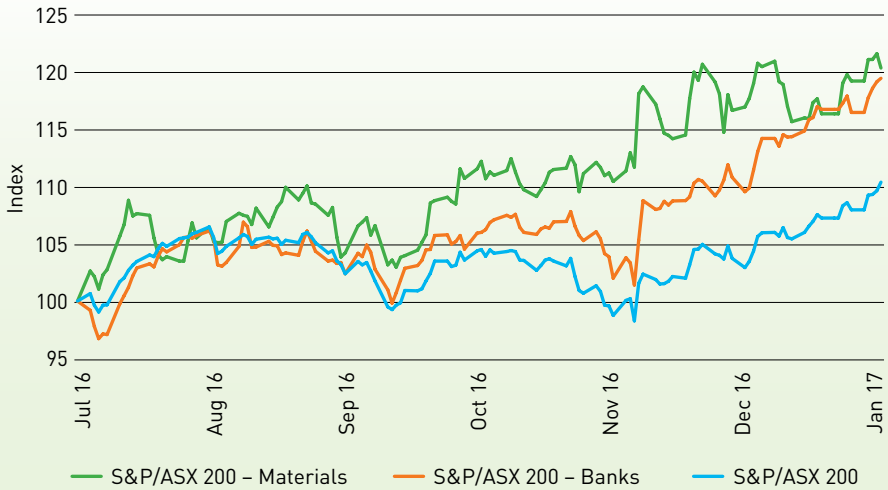
As previously announced, it is the Board's current expectation that the final dividend for the 2016-17 financial year will be 10 cents per share bringing total dividends for the year to 20 cents per share. This forecast remains subject to economic and market conditions.

## Market Comments

The Australian equity market rose strongly during the six months to 31 December 2016. Previously underperforming sectors such as banks and resources staged a recovery through the period (up 19.4 per cent and 23.2 per cent respectively) as expectations about global growth improved, particularly out of the United States, and the subsequent rise in longer bond yields was also seen to benefit the financial sector (Figure 1).

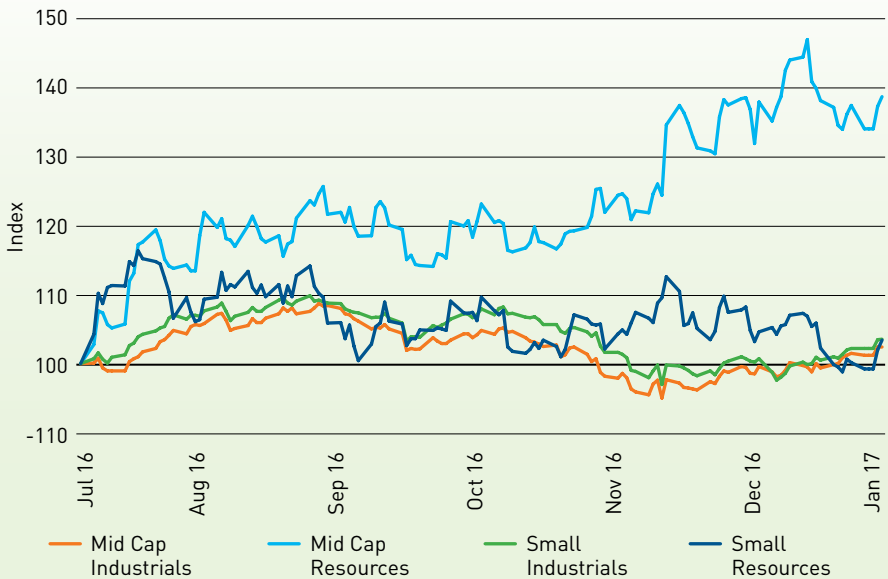
In contrast, the small and mid cap industrial market retraced some of its recent gains as investors reassessed the valuations of a number of these companies, many of which had been trading at unrealistically high levels. In some cases this decline was further accentuated by strong growth expectations being dampened by disappointing company updates (Figure 2).

**Figure 1: Bank and resources relative to the S&P/ASX 200 Index**



Source: FactSet

**Figure 2: Small and mid cap market, sector movements**

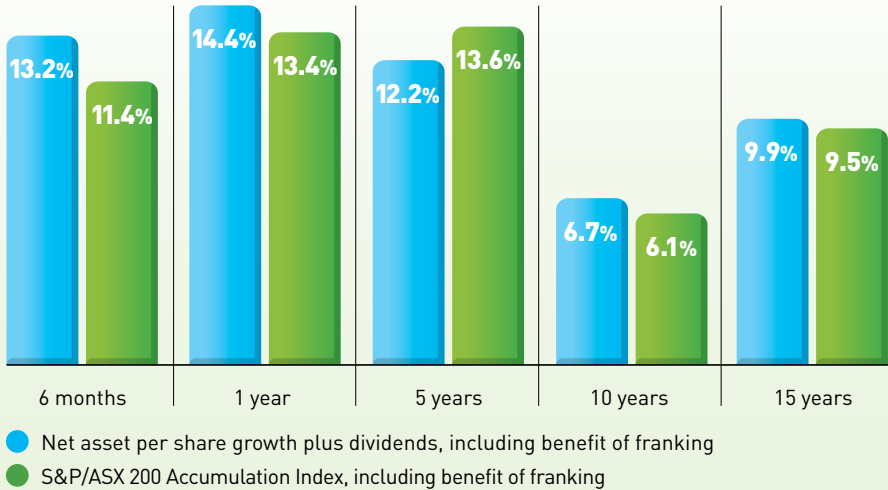




# REVIEW OF OPERATIONS AND ACTIVITIES

continued

**Figure 3: Portfolio performance to 31 December 2016\***



Note: Djerriwarrh's net asset per share growth plus dividend series is calculated after management fees, income tax and capital gains tax on realised sales of investments. It should be noted that Index returns for the market do not include management expenses and tax.

The franking benefit assumes a shareholder can take full advantage of the franking credits.

\* Annualised returns other than six month figure.

## Portfolio Returns

Djerriwarrh's portfolio return including franking for the six months to 31 December 2016 was 13.2 per cent, whereas the S&P/ASX 200 Accumulation Index return including franking was 11.4 per cent (franking added 2.1 per cent to Djerriwarrh's return and 0.8 per cent to the Index). For the year to 31 December 2016, the portfolio return was 14.4 per cent whereas the Index was 13.4 per cent calculated on the same basis including franking (Figure 3).

Given Djerriwarrh's option activities can limit some of the capital growth of the portfolio in strongly rising markets, the short term performance is encouraging. It is reflective of the repositioning of the portfolio, the bias towards larger companies (given this is where the most active options markets are) and the decision to buy back selected 'in-the-money' call options to maintain holdings into the recent market strength.





# REVIEW OF OPERATIONS AND ACTIVITIES

continued

## Portfolio Adjustments

Whilst Djerriwarrh's portfolio is invested predominantly in larger companies, one of the recent aims has been to look for opportunities in companies outside of the top 50 by adding smaller companies that have the ability to grow over time given their market positioning. In this context, new companies added to the portfolio during the period were NetComm Wireless, Isentia Group and Wellcom Group.

Brief descriptions of the largest of the new additions to the portfolio are outlined below:

- **NetComm Wireless** engages in the development and sale of communication devices. It operates through Machine to Machine (which allows direct communication between devices) and Broadband segments. The Machine to Machine segment designs and develops 3G/4G wireless broadband network and connectivity. The Broadband segment manufactures and sells mobile internet gateways.
- **Isentia Group**, formerly known as Media Monitors, is a media intelligence group headquartered in Sydney, with locations in New Zealand, South East Asia and Greater China. It tracks and monitors news published from newspapers, magazines, journals, television, radio, internet and social networking sites for corporate clients. This monitoring includes content analysis and evaluation of media.

- **Wellcom Group** is an Australian production and content management company. Wellcom offers its clients a range of services including graphic design and cross-media adaptations, 3D and 2D illustration, photography and creative retouching, online and digital services, TVC production, video and animation, pre-media, image and asset libraries, and online workflow processes. Wellcom offers its pre-media and data management services in Australia, the United Kingdom, New Zealand and Asia.

On the other side of these purchases was a further reduction in positions in energy stocks such as Oil Search, Woodside Petroleum and Santos, given the recent rebound in the oil price and the expectation that further price growth in oil is limited. Djerriwarrh also lightened its holding in BHP Billiton (some through the exercise of call options), ASX because of option exercises and completely sold out of Integral Diagnostics.

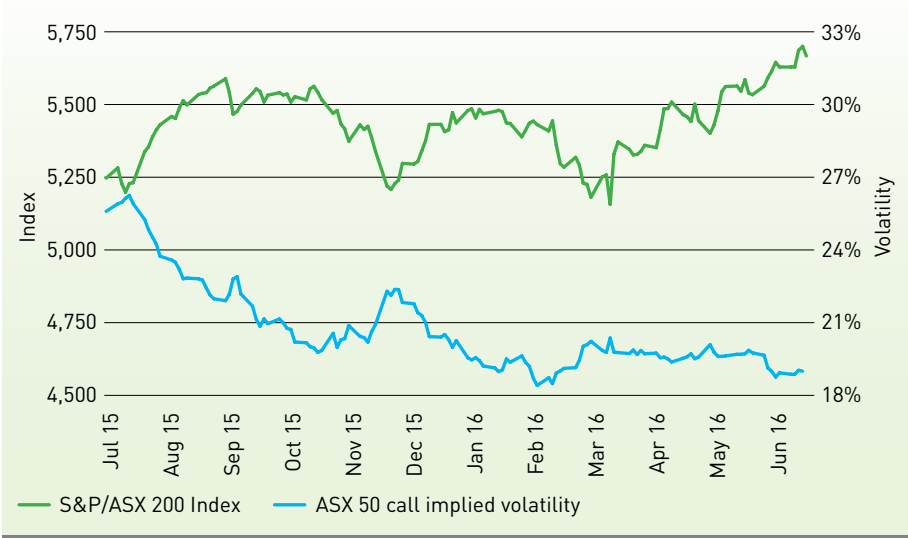
The composition of the portfolio in terms of the split between large, mid and small companies is now broadly consistent with the Index.

In the trading portfolio, which is available for short term opportunities, the profitable sale of ASG occurred because of a takeover.

# REVIEW OF OPERATIONS AND ACTIVITIES

continued

**Figure 4: S&P/ASX 200 Index versus market volatility**



## Option Activity

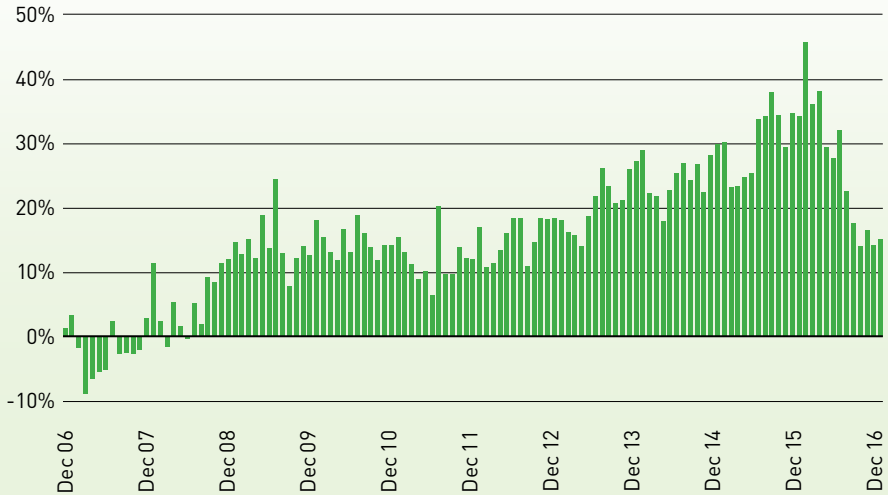
Through the six month period where the market produced strong capital returns market volatility was driven lower (Figure 4). In this environment option coverage was kept towards the upper end of the Company’s indicative range through the period.

At the 31 December 2016 option coverage was just over 40 per cent of the portfolio. We remain comfortable with this position particularly given where the market is currently trading.

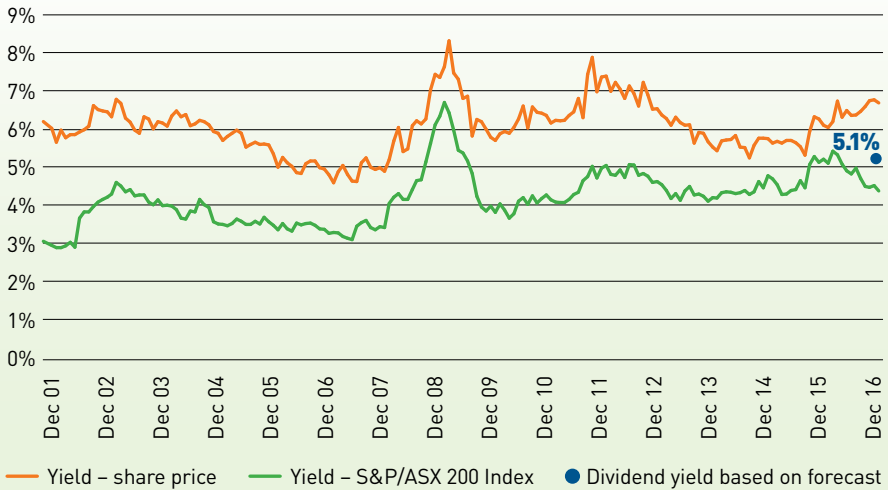
Following Djerriwarrh rebasing the dividend to 20 cents per share (down from 26 cents last financial year), the share price premium has fallen to 15 per cent at 31 December 2016, well down from recent highs (Figure 5). Following this move to a more sustainable dividend level the Board has reintroduced the Dividend Reinvestment Plan.

Figure 6 highlights the relative dividend yield on Djerriwarrh shares (which are fully franked) in comparison to the dividend yield on the S&P/ASX 200 Leaders Index (which is only 80 per cent franked) since the Company was listed.

**Figure 5: Share price premium/discount to net asset backing**



**Figure 6: Relative dividend yield of Djerriwarrh shares and the market**



# REVIEW OF OPERATIONS AND ACTIVITIES

continued

It should be noted these yields are historical. Based on the forecast total dividend of 20 cents for the financial year to 30 June 2017, the current yield on the share price is 5.1 per cent fully franked versus the yield on the S&P/ASX 200 of 4.2 per cent.

## Moving Forward

As we move into the second half of the financial year with the domestic market trading at close to post GFC highs, option coverage is likely to remain relatively high as we believe the market is expensive.

Our expectation is that dividend income from the companies Djerriwarrh invests in will remain under pressure given challenging economic conditions are likely to persist in Australia. However, there may be some improvement in dividends from resource companies following the recent rise in commodity prices.

The other key factor for Djerriwarrh is the level of volatility in the market. While this has declined of late, our expectation is that this could well increase over coming months with the change of administration in the United States and interest rates rising further and as geopolitical factors play out. A lift in volatility would benefit Djerriwarrh's option income.

# TOP 20 INVESTMENTS

As at 31 December 2016

Includes investments held in both the investment and trading portfolios.

## Valued at closing prices at 30 December 2016

	Total Value \$ Million	% of Portfolio
1 Commonwealth Bank of Australia*	64.1	8.3
2 Westpac Banking Corporation*	54.9	7.1
3 National Australia Bank*	48.6	6.3
4 Australia and New Zealand Banking Group*	45.1	5.9
5 BHP Billiton*	35.6	4.6
6 Telstra Corporation*	30.9	4.0
7 CSL*	26.7	3.5
8 Wesfarmers*	25.1	3.3
9 Rio Tinto*	21.9	2.8
10 Brambles*	20.3	2.6
11 Oil Search*	15.2	2.0
12 QBE Insurance Group*	14.0	1.8
13 James Hardie Industries*	12.6	1.6
14 Amcor*	12.5	1.6
15 Mirrabooka Investments	12.4	1.6
16 Woolworths*	12.3	1.6
17 Woodside Petroleum*	12.2	1.6
18 AMP*	11.7	1.5
19 Seek*	11.6	1.5
20 Qube Holdings*	11.4	1.5
<b>Total</b>	<b>499.2</b>	

As a percentage of total portfolio value (excludes cash)

64.8%

\* Indicates that options were outstanding against part of the holding.

# INCOME STATEMENT

For the half-year ended 31 December 2016

	Half-Year 2016 \$'000	Half-Year 2015 \$'000
Dividends and distributions	15,988	20,574
Revenue from deposits and bank bills	85	115
Other revenue	15	29
<b>Total revenue</b>	<b>16,088</b>	<b>20,718</b>
Net gains on trading portfolio	2,273	1,799
Income from options written portfolio	2,696	11,076
<b>Income from operating activities</b>	<b>21,057</b>	<b>33,593</b>
Finance costs	(1,519)	(2,829)
Administration expenses	(1,623)	(1,822)
<b>Operating result before income tax</b>	<b>17,915</b>	<b>28,942</b>
Income tax	(1,252)	(3,388)
<b>Net operating result</b>	<b>16,663</b>	<b>25,554</b>
<b>Net capital gains/(losses) on investments</b>		
Net losses on open options positions	(6,118)	(6,308)
Tax credit on above	1,831	1,900
	(4,287)	(4,408)
<b>Profit for the half-year</b>	<b>12,376</b>	<b>21,146</b>
	Cents	Cents
<b>Net operating result per share</b>	<b>7.62</b>	<b>11.69</b>
<b>Profit for the half-year per share</b>	<b>5.66</b>	<b>9.67</b>

# BALANCE SHEET

As at 31 December 2016

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
<b>Current assets</b>		
Cash	19,512	954
Receivables	961	6,417
Trading portfolio	-	4,575
<b>Total current assets</b>	<b>20,473</b>	<b>11,946</b>
<b>Non-current assets</b>		
Investment portfolio	786,400	752,655
Deferred tax assets	2,376	-
Deferred tax assets – investment portfolio	493	19,295
Shares in associate	1,412	1,148
<b>Total non-current assets</b>	<b>790,681</b>	<b>773,098</b>
<b>Total assets</b>	<b>811,154</b>	<b>785,044</b>
<b>Current liabilities</b>		
Payables	782	2,865
Tax payable	(35)	627
Borrowings – bank debt	75,000	76,500
Interest rate hedging contracts	426	1,110
Options written portfolio	16,040	8,351
<b>Total current liabilities</b>	<b>92,213</b>	<b>89,453</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	-	533
<b>Total non-current liabilities</b>	<b>-</b>	<b>533</b>
<b>Total liabilities</b>	<b>92,213</b>	<b>89,986</b>
<b>Net assets</b>	<b>718,941</b>	<b>695,058</b>
<b>Shareholders' equity</b>		
Share capital	634,225	634,225
Revaluation reserve	49,488	1,677
Realised capital gains reserve	(12,021)	5,295
Interest rate hedging reserve	(426)	(1,110)
Retained profits	47,675	54,971
<b>Total shareholders' equity</b>	<b>718,941</b>	<b>695,058</b>

# SUMMARISED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2016

	Half-Year 2016 \$'000	Half-Year 2015 \$'000
Total equity at the beginning of the half-year	695,058	764,802
Dividends paid	(30,603)	(34,974)
<b>Total transactions with shareholders</b>	<b>(30,603)</b>	<b>(34,974)</b>
Profit for the half-year	12,376	21,146
Revaluation of investment portfolio	59,371	(52,496)
Provision for tax on revaluation	(17,945)	15,639
Revaluation of investment portfolio (after tax)	41,426	(36,857)
Net movement in fair value for interest rate swaps	684	850
<b>Total comprehensive income for the half-year</b>	<b>54,486</b>	<b>(14,861)</b>
Realised losses on securities sold	(7,241)	(1,017)
Tax expense on realised losses on securities sold	856	(1,402)
<b>Net realised losses on securities sold</b>	<b>(6,385)</b>	<b>(2,419)</b>
Transfer from revaluation reserve to realised gains reserve	6,385	2,419
<b>Total equity at the end of the half-year</b>	<b>718,941</b>	<b>714,967</b>

A full set of Djerrivarrh's interim accounts are available on the Company's website.



# HOLDINGS OF SECURITIES

As at 31 December 2016

Details of the Company's portfolios are given below. The list should not be used to evaluate portfolio performance or to determine the net asset backing per share (which is advised to the Australian Securities Exchange each month and recorded on the toll free telephone service at 1800 780 784).

Individual holdings in the portfolios may change significantly during the course of the year. In addition, holdings may be subject to call options or sale commitments by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

Unless otherwise stated, the securities in this list are fully paid ordinary shares, trust units, stapled securities or convertible notes.

Code	Company Name	Number Held '000	Market Value \$'000
AAC	Australian Agricultural Company	2,100	3,560
AGL*	AGL Energy	354	7,440
ALQ*	ALS	502	3,017
AMA	AMA Group	2,341	2,306
AMC*	Amcor	846	12,522
AMH	AMCIL	10,599	9,963
AMP*	AMP	2,342	11,703
ANZ*	Australia and New Zealand Banking Group	1,549	45,093
APA*	APA Group	546	4,578
ASX*	ASX	109	5,401
AUB	AUB Group	365	3,833
AWC*	Alumina	2,900	4,985
AZJ*	Aurizon Holdings	810	3,971
BHP*	BHP Billiton	1,481	35,575
BLD*	Boral	603	3,240
BXB*	Brambles	1,651	20,277
CAR*	Carsales.com	180	1,926
CBA*	Commonwealth Bank of Australia	794	64,097
CCL*	Coca-Cola Amatil	670	6,555
CGF*	Challenger	602	6,526
COH*	Cochlear	8	840

# HOLDINGS OF SECURITIES continued

As at 31 December 2016

Code	Company Name	Number Held '000	Market Value \$'000
CPU*	Computershare	177	1,975
CSL*	CSL	267	26,733
CTX*	Caltex Australia	190	5,738
CVO	Cover-More Group	3,458	6,673
CVW	ClearView Wealth	3,274	4,404
CYB*	CYBG PLC	420	1,990
FNP	Freedom Foods Group	359	1,579
FPH*	Fisher & Paykel Healthcare Corporation	301	2,440
HSO*	Healthscope	4,312	9,847
#	Hexima	280	0
IAG*	Insurance Australia Group	1,487	8,775
ILU*	Iluka Resources	320	2,224
INM	Iron Mountain	38	1,676
IPL*	Incitec Pivot	2,931	9,966
IRE*	IRESS	271	3,182
ISD	Isentia Group	800	2,296
JHC*	Japara Healthcare	2,483	5,496
JHX*	James Hardie Industries	589	12,633
LIC	Lifestyle Communities	624	2,478
LNK*	Link Administration Holdings	119	888
MFT	Mainfreight	400	7,976
MIR	Mirrabooka Investments	4,169	12,382
MQG*	Macquarie Group	111	9,390
MYX	Mayne Pharma Group	1,902	2,559
NAB*	National Australia Bank	1,641	48,634
NTC	NetComm Wireless	1,000	2,150
NVT*	Navitas	918	4,543
OFX	OFX Group	1,237	2,078
ORA*	Orora	750	2,213
ORG*	Origin Energy	850	5,307
ORI*	Orica	450	7,671

Code	Company Name	Number Held '000	Market Value \$'000
OSH*	Oil Search	2,150	15,209
PPT*	Perpetual	104	5,016
QBE*	QBE Insurance Group	1,165	13,971
QUB*	Qube Holdings	4,785	11,442
REA*	REA Group	35	1,920
REG*	Regis Healthcare	400	1,781
RHC*	Ramsay Health Care	72	4,879
RIO*	Rio Tinto	380	21,912
RMD*	ResMed	515	4,377
S32*	South32	2,180	5,628
SCG*	Scentre Group	1,080	4,866
SEK*	Seek	785	11,615
SHL*	Sonic Healthcare	346	7,345
SKB	Skydive the Beach Group	1,111	678
STO*	Santos	100	392
SUN*	Suncorp Group	735	9,762
SYD*	Sydney Airport	632	3,743
TCL*	Transurban Group	768	7,810
TLS*	Telstra Corporation	6,125	30,942
TPM*	TPG Telecom	949	6,473
TWE*	Treasury Wine Estates	704	7,461
VCX*	Vicinity Centres	1,100	3,270
VOC	Vocus Communications	365	1,413
WBC*	Westpac Banking Corporation	1,715	54,916
WES*	Wesfarmers	598	25,134
WFD*	Westfield Corporation	910	8,494
WLL	Wellcom Group	400	2,180
WOW*	Woolworths	511	12,264
WPL*	Woodside Petroleum	400	12,166
<b>Total</b>			<b>770,360</b>

\* Indicates that options were outstanding against part or all of the holding.

# Unlisted security.

## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

	Cost
	\$'000
<b>Acquisitions</b>	
NetComm Wireless	2,491
Isentia Group	2,095
Wellcom Group	2,045

	Proceeds
	\$'000
<b>Sales</b>	
BHP Billiton (sales partially a result of the exercise of call options)	6,712
Oil Search	5,467
Woodside Petroleum	2,968
Santos	2,591
ASX (sales as result of the exercise of call options)	2,482
Integral Diagnostics (complete disposal)	2,269

### New companies added to the investment portfolio

- NetComm Wireless
- Cochlear
- Isentia Group
- Link Administration Holdings
- Wellcom Group
- Skydive the Beach Group

## MAJOR TRANSACTIONS IN THE TRADING PORTFOLIO

Sales	Proceeds \$'000
ASG Group <sup>(a)</sup>	5,620
Pacific Brands <sup>(b)</sup>	1,936

(a) Sold while under takeover offer.

(b) Takeover by Hanesbrands.

# COMPANY PARTICULARS

**Djerriwarrh Investments Limited (DJW)**  
ABN 38 006 862 693

## **Directors**

John Paterson, Chairman  
Ross E Barker, Managing Director  
Robert J Edgar  
Kathryn J Fagg  
Graham B Goldsmith  
Andrew F Guy  
Graham J Kraehe AO  
Alice JM Williams  
Karen J Wood

## **Company Secretaries**

Matthew J Rowe  
Andrew JB Porter

## **Auditor**

PricewaterhouseCoopers  
Chartered Accountants

## **Country of Incorporation**

Australia

## **Registered Office and Mailing Address**

Level 21, 101 Collins Street  
Melbourne Victoria 3000

## **Contact Details**

**Telephone** (03) 9650 9911  
**Facsimile** (03) 9650 9100  
**Email** invest@djerri.com.au  
**Website** djerri.com.au

For inquiries regarding net asset backing (as advised each month to the Australian Securities Exchange):

**Telephone** 1800 780 784 (toll free)

## **Share Registrar**

Computershare Investor Services Pty Ltd  
Yarra Falls, 452 Johnston Street  
Abbotsford Victoria 3067

## **Shareholder**

**Enquiry Lines** 1300 653 915  
+61 3 9415 4190 (from overseas)

**Facsimile** (03) 9473 2500

**Website** investorcentre.com/contact

For all enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters, please contact the Share Registrar as above.

## **Securities Exchange Code**

**DJW** Ordinary shares

# SHAREHOLDER MEETINGS

## Melbourne Meeting

**Time** 2.30pm  
**Date** Wednesday 15 March 2017  
**Venue** RACV City Club  
**Location** 501 Bourke Street  
Melbourne

## Adelaide Meeting

**Time** 2.30pm  
**Date** Friday 17 March 2017  
**Venue** Adelaide Convention Centre  
**Location** North Road  
Adelaide

## Sydney Meeting

**Time** 2.30pm  
**Date** Monday 20 March 2017  
**Venue** Four Seasons Hotel  
**Location** 199 George Street  
Sydney

## Canberra Meeting

**Time** 2.30pm  
**Date** Tuesday 21 March 2017  
**Venue** Hyatt Hotel Canberra  
**Location** 120 Commonwealth Avenue  
Canberra

## Perth Meeting

**Time** 2.30pm  
**Date** Monday 27 March 2017  
**Venue** Pan Pacific Perth  
**Location** 207 Adelaide Terrace  
Perth

