

Half-Year Review to  
31 December 2014



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.

## CONTENTS

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

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 a steady stream of fully franked dividends and enhancement of capital invested.



# HALF-YEAR IN SUMMARY

---

## PROFIT FOR THE HALF-YEAR

---

**\$19.8m**

Down 10.7% from 2013

---

---

## TOTAL 6 MONTH SHAREHOLDER RETURN

---

**+1.2%**

Share price plus dividend

---

---

## NET OPERATING RESULT

---

**\$21.7m**

Down 5.1% from 2013

---

---

## MANAGEMENT EXPENSE RATIO

---

**0.42%** Annualised

0.39% in 2013

---

---

## FULLY FRANKED INTERIM DIVIDEND

---

**10¢**

Unchanged

---

---

## TOTAL PORTFOLIO

---

**\$863.5m**  
Including cash at 31.12.14

\$904.0 million in 2013

---

---

## TOTAL 6 MONTH PORTFOLIO RETURN

---

**-1.4%**

S&P/ASX 200 Accumulation Index +2.5%

---

# REVIEW OF OPERATIONS AND ACTIVITIES

## Profit and Dividend

Profit for the half-year to 31 December 2014 was \$19.8 million, compared with \$22.2 million over the corresponding period last year. The profit figure last year included demerger dividends of \$1.6 million received from Amcor and Brambles.

Net operating result for the half-year was \$21.7 million, 5.1 per cent down from \$22.8 million in the previous corresponding period. In the opinion of the Directors, this is a better measure of the Company's performance in deriving ongoing investment, trading and options income from the Company's portfolios.

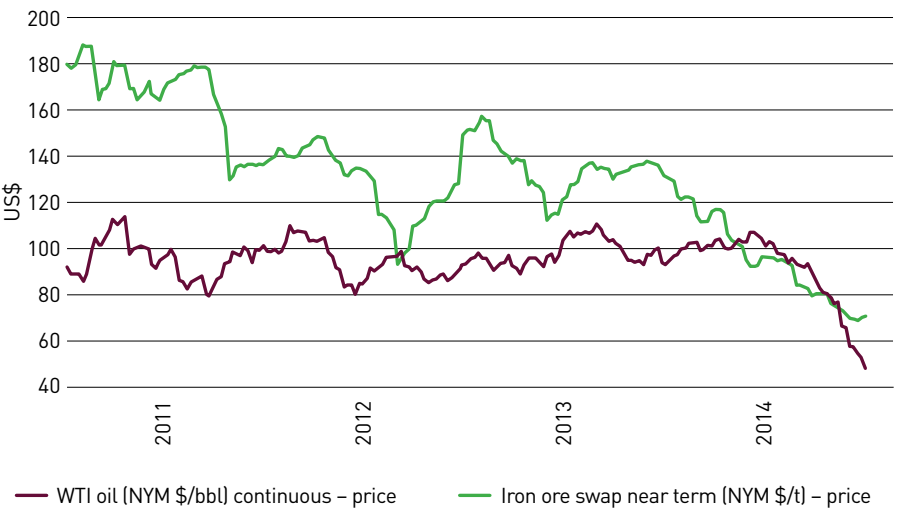
Income from option writing was \$0.9 million ahead of the corresponding period last year as call option coverage over the portfolio was kept on average at close to 40 per cent of the portfolio. Increased market volatility also assisted the Company's option activity.

Djerriwarrh's interim dividend has been maintained at 10 cents per share fully franked.

## The Portfolio

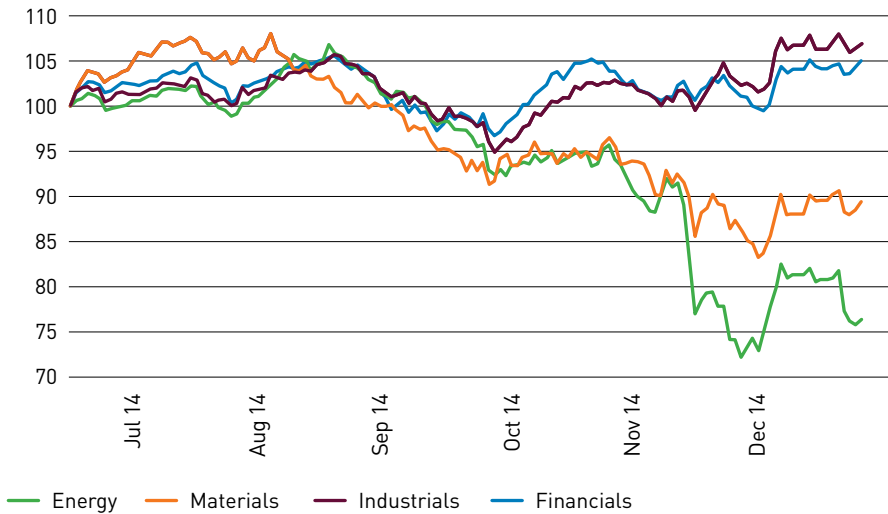
The recent turbulence in commodity and oil markets has seen falls of 8.4 per cent in the materials sector and 17.8 per cent in the energy sector over the six months to

Figure 1: Four year price of oil and iron ore



Source: FactSet.

**Figure 2: Major sector returns – six months to 31 December 2014**



31 December 2014 as the iron ore and oil price fell substantially (Figure 1). In stark contrast, over the same period healthcare is up 24.6 per cent and telecommunications services is up 18.1 per cent. This has presented an interesting and challenging investment environment.

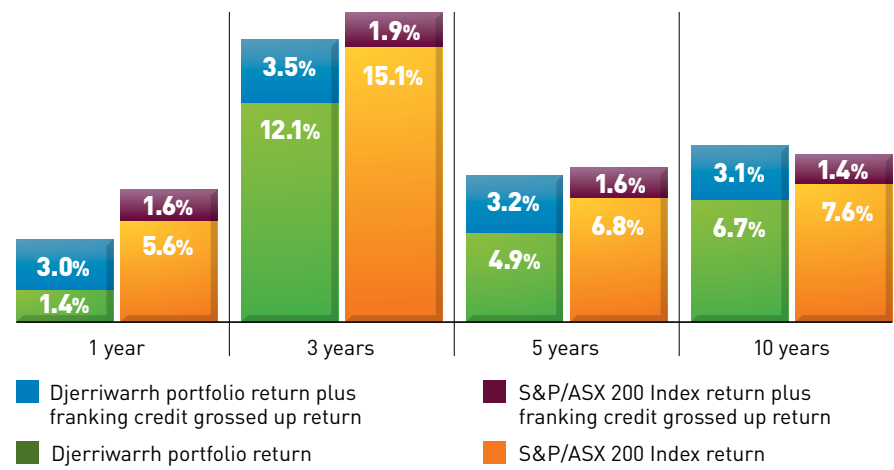
Figure 2 highlights the relative returns of the major sectors of the market in the six months to 31 December 2014.

Djerriwarrh seeks to provide an enhanced level of franking credits through its investment activities. For those investors who can take full advantage of the franking credits, this adds significantly to investor returns. Djerriwarrh's portfolio return including franking for the six months to 31 December 2014 was 0.4 per cent, whereas the S&P/ASX 200 Accumulation Index return including franking was 3.3 per cent (franking added 1.7 per cent to Djerriwarrh's return and 0.8 per cent to the index).

# REVIEW OF OPERATIONS AND ACTIVITIES

continued

**Figure 3: Portfolio performance including grossed up franking benefit to 31 December 2014**



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 an investor can take full advantage of the franking credits.

Over the year the portfolio return was 4.4 per cent whereas the index was 7.2 per cent. Figure 3 highlights the benefit of franking to Djerriwarrh’s returns relative to the index returns. Over the longer term, Djerriwarrh has delivered gains close to and/or ahead of the index but with a higher component of fully franked dividend yield.

Djerriwarrh’s subdued short term portfolio returns have largely reflected an overweight position in some energy stocks including Oil Search, Santos and Woodside Petroleum and the impact of the fall in both oil and iron ore prices on BHP Billiton.

Positive contributors to the portfolio were Commonwealth Bank, Telstra, National Australia Bank, Brambles and Transurban.

The Company participated in the Telstra off-market buy-back. Other major sales were mainly as a result of the exercise of call options in companies that enjoyed strong share price appreciation over the period. This included Telstra, Woodside Petroleum (before the oil price decline), Transurban, Suncorp, CSL and Amcor. These sales generated taxable realised gains of \$29.0 million which are available for distribution in the future.

The largest purchases during the period were in the Commonwealth Bank, the replenishment of some of the Telstra holding, CSL, Cover-More Group (which is new to the portfolio) and Seek.

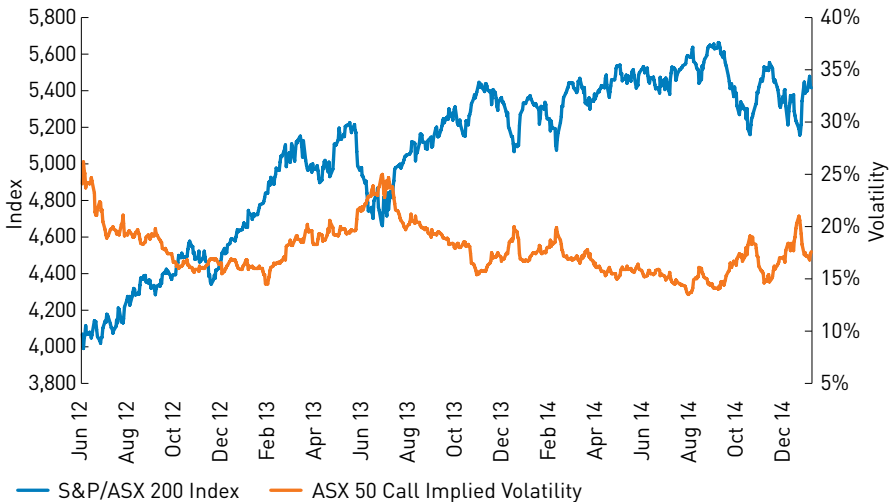
Cover-More Group is a specialist and integrated travel insurance and medical assistance provider. The company holds the leading market position in Australia with over 40 per cent market share through 25,000 active agents. It is also steadily growing its footprint in Asia. Cover-More was established in 1986 and listed on the Australian Securities Exchange (ASX) in December 2013.

## Option Activity

As mentioned previously, a number of call options were exercised particularly in the first three months of the half-year. However, towards the end of the half-year volatility spiked as the market faced some headwinds following the fall in oil and commodity prices (see Figure 4).

This has allowed Djerriwarrh to reposition the option coverage of the portfolio by buying back out of the money options and writing new ones with attractive strike prices and longer maturity dates. This will provide a greater level of flexibility moving into the second half of the financial year to manage the option portfolio to balance the trade-off between capital growth and income.

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



# REVIEW OF OPERATIONS AND ACTIVITIES

continued

The option coverage of the portfolio at 31 December 2014 was 39 per cent after the close of the option expiry at the end of December (Figure 5), which is at the higher end of the normal range. Typically this coverage falls at the option expiry periods, particularly in June and December and is rebuilt in the ensuing months as investment conditions allow.

## Yield and Share Price

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 Index (which is only 80 per cent franked) since the Company was listed.

It should be noted these yields do not take into account the additional franking benefits available to investors.

The attractiveness of Djerriwarrh's relatively high fully franked dividend yield in the current market has, in our view, kept the share price trading at a substantial premium above net asset backing. At 31 December 2014, the premium was 30 per cent. Figure 7 highlights the long term pattern.

Figure 5: Option coverage of the portfolio

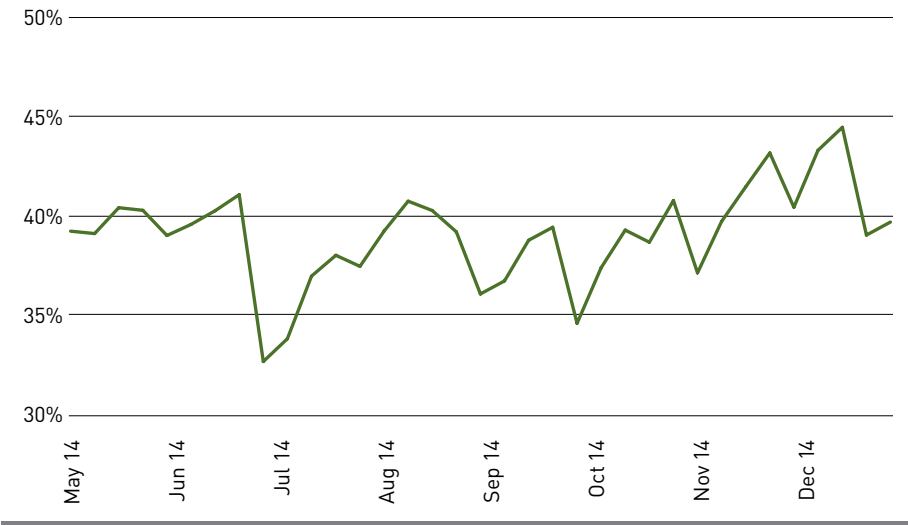




Figure 6: Relative dividend yield of Djerriwarrh and the market

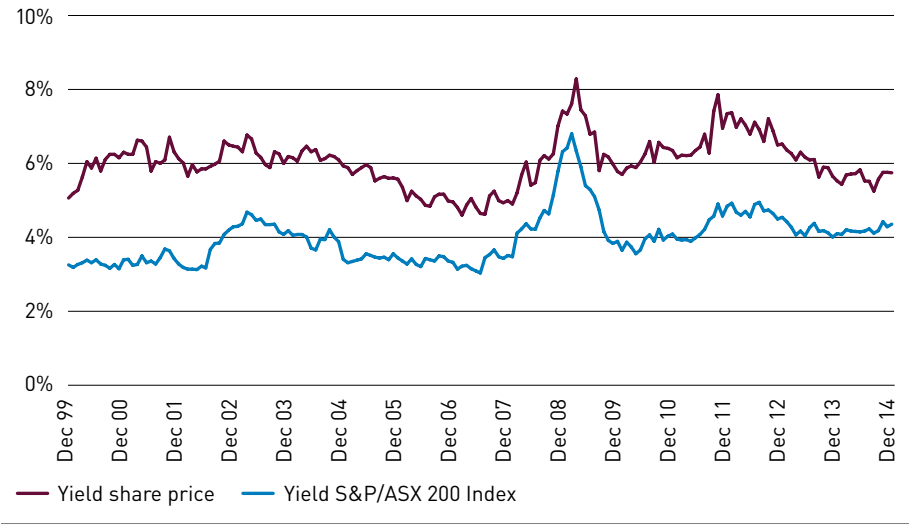
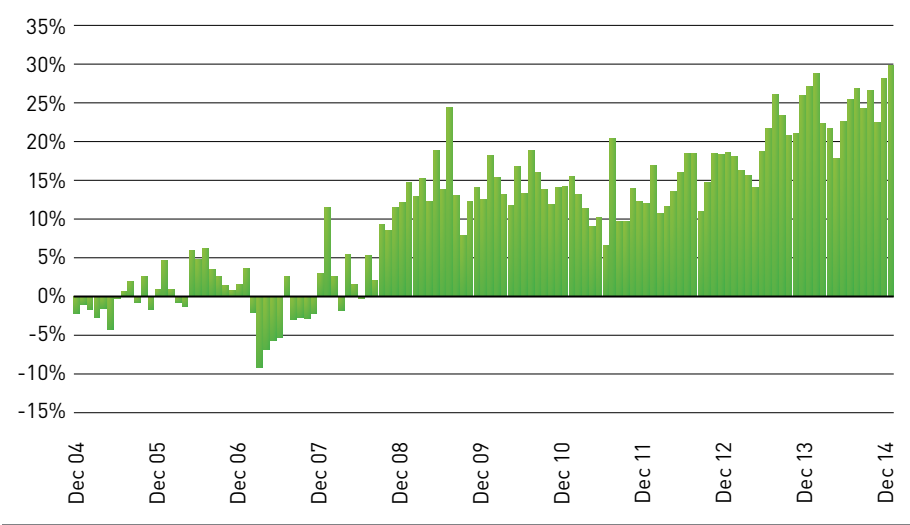


Figure 7: Share price premium/discount to net asset backing



# REVIEW OF OPERATIONS AND ACTIVITIES

continued

## Outlook

The outlook for growth in the United States appears positive. However, economic conditions elsewhere look less certain. This has negatively impacted commodity markets that are important to Australia's economy. In addition, uncertainty about the timing of higher interest rates in the United States and poor financial conditions in Europe have led to an increase in market volatility. We expect this uncertainty to continue at least in the short term.

A volatile market can present attractive opportunities to pursue option activity, including buy and write strategies for Djerriwarrh. However, we will be very selective given many of the quality companies that are potentially attractive from a yield perspective are also trading at relatively high prices given the current low interest rate outlook in Australia.

Djerriwarrh's cash position at 31 December 2014 was \$46.6 million with \$75 million of debt drawn down. Further lines of credit are available if required. This position provides the necessary flexibility to take advantage of any attractive investment opportunities should they occur.

## Directorship Matters

Mr Peter Barnett, a Director of the Company, retired from the Board at the conclusion of the Company's Annual General Meeting held on 6 October 2014.

Mr Barnett had been a Director of the Company since October 2007. The Board wishes to record its deep thanks to Mr Barnett for his invaluable contribution to Board deliberations over the past seven years and wishes him well for the future.



# TOP 20 INVESTMENTS

As at 31 December 2014

Includes investments held in both the investment and trading portfolios.

## Valued at closing prices at 31 December 2014

	Total Value \$ Million	% of Portfolio
1 BHP Billiton*	73.2	9.0
2 Commonwealth Bank of Australia*	71.0	8.7
3 Westpac Banking Corporation*	65.8	8.0
4 National Australia Bank*	52.9	6.5
5 Australia & New Zealand Banking Group*	52.5	6.4
6 Telstra Corporation*	37.6	4.6
7 Oil Search*	31.0	3.8
8 Wesfarmers*	29.0	3.6
9 Rio Tinto*	25.0	3.1
10 Woodside Petroleum*	23.8	2.9
11 Brambles*	19.9	2.4
12 AMP*	19.1	2.3
13 Woolworths*	18.8	2.3
14 QBE Insurance Group*	15.6	1.9
15 AGL Energy*	15.0	1.8
16 Origin Energy*	14.4	1.8
17 Santos*	13.0	1.6
18 Transurban Group*	11.9	1.5
19 Mirrabooka Investments	11.7	1.4
20 Coca-Cola Amatil*	11.3	1.4
<b>Total</b>	<b>612.5</b>	

As percentage of total portfolio value (excludes cash)

75.0%

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

# INCOME STATEMENT

For the half-year ended 31 December 2014

	Half-Year 2014 \$'000	Half-Year 2013 \$'000
Dividends and distributions	19,057	20,477
Revenue from deposits and bank bills	660	869
<b>Total revenue</b>	<b>19,717</b>	<b>21,346</b>
Net gains on trading portfolio	348	212
Income from options written portfolio	8,091	7,235
<b>Income from operating activities</b>	<b>28,156</b>	<b>28,793</b>
Finance costs	(2,448)	(2,601)
Administration expenses	(1,867)	(1,763)
<b>Operating result before income tax</b>	<b>23,841</b>	<b>24,429</b>
Income tax	(2,166)	(1,590)
<b>Net operating result</b>	<b>21,675</b>	<b>22,839</b>
<b>Net capital gains/(losses) on investments</b>		
Net losses on open options positions	(2,692)	(1,000)
Net gains on 'puttable instruments' and non-equity investments	26	75
Tax credit on above	800	277
	(1,866)	(648)
<b>Profit for the half-year</b>	<b>19,809</b>	<b>22,191</b>
	<b>Cents</b>	<b>Cents</b>
<b>Net operating result per share</b>	<b>9.92</b>	<b>10.45</b>
<b>Profit for the half-year per share</b>	<b>9.06</b>	<b>10.15</b>

# BALANCE SHEET

As at 31 December 2014

	31 Dec 2014 \$'000	30 June 2014 \$'000
<b>Current assets</b>		
Cash	46,605	18,354
Receivables	1,046	24,448
<b>Total current assets</b>	<b>47,651</b>	<b>42,802</b>
<b>Non-current assets</b>		
Investment portfolio	823,850	876,944
Deferred tax assets	480	-
Shares in associate	934	864
<b>Total non-current assets</b>	<b>825,264</b>	<b>877,808</b>
<b>Total assets</b>	<b>872,915</b>	<b>920,610</b>
<b>Current liabilities</b>		
Payables	658	1,675
Tax payable	10,541	13,683
Borrowings – cash advance facilities	75,000	75,000
Interest rate hedging contracts	1,853	1,939
Options written portfolio	6,977	5,575
<b>Total current liabilities</b>	<b>95,029</b>	<b>97,872</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	-	399
Deferred tax liabilities – investment portfolio	8,459	23,196
<b>Total non-current liabilities</b>	<b>8,459</b>	<b>23,595</b>
<b>Total liabilities</b>	<b>103,488</b>	<b>121,467</b>
<b>Net assets</b>	<b>769,427</b>	<b>799,143</b>
<b>Shareholders' equity</b>		
Share capital	634,225	634,225
Revaluation reserve	79,214	100,901
Realised capital gains reserve	7,425	15,658
Retained profits	50,416	50,298
Interest rate hedging reserve	(1,853)	(1,939)
<b>Total shareholders' equity</b>	<b>769,427</b>	<b>799,143</b>

# SUMMARISED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2014

	Half-Year 2014 \$'000	Half-Year 2013 \$'000
Total equity at the beginning of the half-year	799,143	756,177
Dividends paid	(34,974)	(34,974)
Total transactions with shareholders	(34,974)	(34,974)
Profit for the half-year	19,809	22,191
Revaluation of investment portfolio	(20,693)	74,769
Provision for tax on revaluation	6,056	(22,602)
Revaluation of investment portfolio (after tax)	(14,637)	52,167
Net movement in fair value for interest rate swaps	86	461
Total comprehensive income for the half-year	5,258	74,819
Realised gains on securities sold	15,757	10,509
Tax expense on realised gains on securities sold	(8,689)	(4,329)
Net realised gains on securities sold	7,068	6,180
Transfer from revaluation reserve to realised gains reserve	(7,068)	(6,180)
Total equity at the end of the half-year	769,427	796,022

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

# HOLDINGS OF SECURITIES

As at 31 December 2014

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
AGL*	AGL Energy	1,130	15,031
AIO*	Asciano	796	4,769
ALQ	ALS	387	2,076
AMC*	Amcor	552	7,207
AMH	AMCIL	10,599	9,380
AMP*	AMP	3,497	19,082
ANZ*	Australia & New Zealand Banking Group	1,644	52,537
APA*	APA Group	1,065	7,836
ASX*	ASX	240	8,779
AWC	Alumina	3,718	6,674



Code	Company Name	Number Held '000	Market Value \$'000
AZJ*	Aurizon Holdings	965	4,408
BHP*	BHP Billiton	2,496	73,224
BLD*	Boral	828	4,307
BXB*	Brambles	1,917	19,890
CBA*	Commonwealth Bank of Australia	847	70,989
CCL*	Coca-Cola Amatil	1,220	11,282
CPU*	Computershare	582	6,814
CSL*	CSL	107	8,992
CTX*	Caltex Australia	125	4,191
CVO*	Cover-More Group	1,875	3,571
FDC*	Federation Centres	1,000	2,821
FLT*	Flight Centre Travel Group	65	2,115
US listed	Twenty-First Century Fox	216	10,118
HSO*	Healthscope	702	1,893
#	Hexima	280	0
IAG*	Insurance Australia Group	850	5,263
ILU*	Iluka Resources	360	2,140
IPL*	Incitec Pivot	3,134	9,793
JHC*	Japara Healthcare	2,270	4,676
JHX*	James Hardie Industries	378	4,802

# HOLDINGS OF SECURITIES continued

As at 31 December 2014

Code	Company Name	Number Held '000	Market Value \$'000
MIR	Mirrabooka Investments	4,606	11,746
MQA*	Macquarie Atlas Roads Group	500	1,586
NAB*	National Australia Bank	1,580	52,913
ORG*	Origin Energy	1,242	14,419
ORI*	Orica	509	9,587
OSH*	Oil Search	3,957	31,014
PPCG	Peet 9.5% Convertible Notes	26	2,756
PPT*	Perpetual	92	4,235
QBE*	QBE Insurance Group	1,395	15,565
QUB*	Qube Holdings	2,931	7,045
REC*	Recall Holdings	422	3,030
RHC	Ramsay Health Care	20	1,142
RIO*	Rio Tinto	432	24,950
RMD*	ResMed	550	3,807
SCG*	Scentre Group	1,030	3,584
SEK*	Seek	365	6,100

Code	Company Name	Number Held '000	Market Value \$'000
SHL*	Sonic Healthcare	520	9,568
STO*	Santos	1,587	12,999
SUN*	Suncorp Group	793	11,114
SYD*	Sydney Airport	649	3,001
TCL*	Transurban Group	1,388	11,877
TLS*	Telstra Corporation	6,400	37,615
TOL*	Toll Holdings	1,069	6,250
TPM*	TPG Telecom	460	3,100
TWE*	Treasury Wine Estates	777	3,593
WBC*	Westpac Banking Corporation	1,991	65,757
WES*	Wesfarmers	697	29,002
WFD*	Westfield Corporation	209	1,772
WOR	WorleyParsons	50	504
WOW*	Woolworths	616	18,814
WPL*	Woodside Petroleum	631	23,767
<b>Total</b>			<b>816,873</b>

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

# Unlisted stock.

## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above \$3 Million)	Cost \$'000
Commonwealth Bank of Australia	15,426
Telstra Corporation	10,956
CSL	6,029
Cover-More Group	4,004
Seek	3,094

Disposals (Above \$3 Million)	Proceeds \$'000
Telstra Corporation <sup>(a)</sup>	32,694
Woodside Petroleum	8,202
Transurban Group	7,688
Suncorp Group	6,647
CSL	5,932
Amcor	5,327
APA Group	5,183
AMP	3,810
Toll Holdings	3,417
Caltex Australia	3,396
Oil Search	3,152

(a) Includes \$8.9 million from sale of shares tendered into the off-market share buy-back.

All disposals other than Telstra buy-back and APA Group are as a result of the exercise of call options.

# COMPANY PARTICULARS

## Djerriwarrh Investments Limited (DJW)

ABN 38 006 862 693

### Directors

John Paterson, Chairman

Ross E Barker, Managing Director

Andrew F Guy

Graham B Goldsmith

Graham J Kraehe AO

Kathryn J Fagg

Bruce B Teele

Alice JM Williams

### Company Secretaries

Simon M Pordage

Andrew JB Porter

### Auditor

PricewaterhouseCoopers

Chartered Accountants

### Country of Incorporation

Australia

### Registered Office

Level 21, 101 Collins Street

Melbourne Victoria 3000

### Mail Address

Mail Box 146

101 Collins Street

Melbourne Victoria 3000

## Contact Details

**Telephone** (03) 9650 9911

**Facsimile** (03) 9650 9100

**Email** [invest@djerri.com.au](mailto:invest@djerri.com.au)

**Website** [www.djerri.com.au](http://www.djerri.com.au)

For enquiries 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** [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

For all enquiries relating to shareholding, dividends and related matters, please contact the share registrar as above.

## Australian Securities Exchange Code

**DJW** Ordinary shares

# SHAREHOLDER MEETINGS

## Melbourne Meeting

Time 2.30pm  
Date Monday 16 March 2015  
Venue RACV City Club  
Location 501 Bourke Street  
Melbourne

## Adelaide Meeting

Time 2.30pm  
Date Tuesday 17 March 2015  
Venue Adelaide Festival Centre  
Location King William Road  
Adelaide

## Canberra Meeting

Time 2.30pm  
Date Monday 23 March 2015  
Venue Hyatt Hotel Canberra  
Location 120 Commonwealth Avenue  
Yarralumla

## Sydney Meeting

Time 2.30pm  
Date Tuesday 24 March 2015  
Venue Four Seasons Hotel  
Location 199 George Street  
Sydney

## Perth Meeting

Time 2.30pm  
Date Monday 30 March 2015  
Venue Pan Pacific Perth  
Location 207 Adelaide Terrace  
Perth

