

HALF-YEAR REVIEW  
TO 31 DECEMBER 2017

A Focused Portfolio of Australian Equities

# Contents

- 1 Half-Year in Summary
- 2 About the Company
- 4 Review of Operations and Activities
- 13 Top 20 Investments
- 14 Income Statement
- 15 Balance Sheet
- 16 Summarised Statement of Changes in Equity
- 17 Holdings of Securities
- 23 Major Transactions in the Investment Portfolio
- 24 Company Particulars
- 25 Shareholder Meetings

---

AMCIL manages a focused portfolio covering large and small companies in the Australian equity market. As a result, small companies by market size can have an equally important impact on portfolio returns as larger companies in the Australian market.

---



## Half-Year in Summary

---

### Profit for the Half-Year

\$2.6m

Up 9.1% from 2016

---

---

### Management Expense Ratio

0.66% Annualised

0.64% in 2016

---

---

### Total 6 Month Shareholder Return

1.2%

Share price plus dividend

---

---

### Total Portfolio

\$254.6m

Including cash at 31 December 2017

\$242.0 million in 2016

---

---

### Total 6 Month Portfolio Return

8.4% Including  
franking\*

S&P/ASX 200 Accumulation Index

9.2% including franking\*

---

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

# About the Company

## Investment Objectives

AMCIL is a medium to long-term investor in the Australian equity market. Its investment approach is to construct a focused portfolio in which large and small companies can have an equally important impact on investment returns.

The number of holdings in the portfolio depends on market conditions and investment opportunities. The Company aims to provide shareholders with:

- attractive returns through strong capital growth in the portfolio over the medium to long term; and
- the generation of fully franked dividend income.

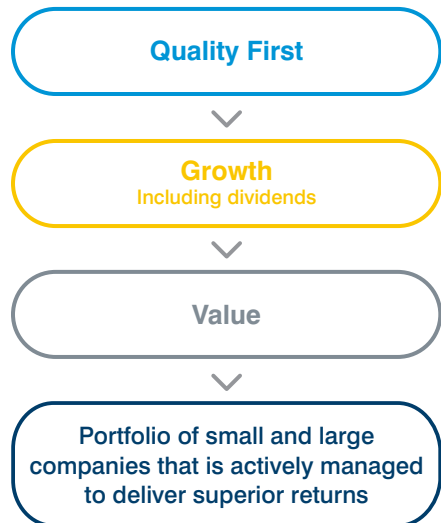
## Approach to Investing

We seek to create a diversified portfolio of quality companies which are likely to sustainably grow their earnings and dividends over this medium to long-term time frame.

Our assessment of quality includes criteria such as the board and management, financial position, margin creation as well as some key financial metrics such as the level of gearing in the balance sheet, product margins and cash flow. The structure of the industry and a company's competitive position in its industry are also important indicators of quality. Linked to this assessment of quality is the ability of companies to grow earnings over time, which ultimately should produce good dividend and capital growth.

Recognising value is also an important aspect of AMCIL's investment approach. Our assessment of value tries to reflect the opportunity a business has to prosper and thrive over the medium to long term.

## How AMCIL Invests – What We Look For in Companies



Given the focused nature of the portfolio, AMCIL is more active in managing the holdings. Our preference is that positions will be held for the long term. However, in managing the risk in the portfolio, the Company is prepared to scale back or exit holdings completely if the investment case alters markedly, the position becomes too large in the portfolio or share prices become excessively high. In managing the portfolio in this way, we believe AMCIL

can offer investors returns in excess of the S&P/ASX 200 over the long term. Given the greater concentration of the portfolio, there may be periods when the performance of AMCIL can vary quite markedly from the Index. The objective is to deliver outperformance over the medium to long term.

From time to time, the Company also uses options written against some of its investments and a small trading portfolio to generate additional income.

The other important feature to note is AMCIL's dividend policy, of maximising the distribution of available franking credits each year. As a result, the amount of fully franked dividends are likely to fluctuate from year to year.





# Review of Operations and Activities

## Profit and Dividend

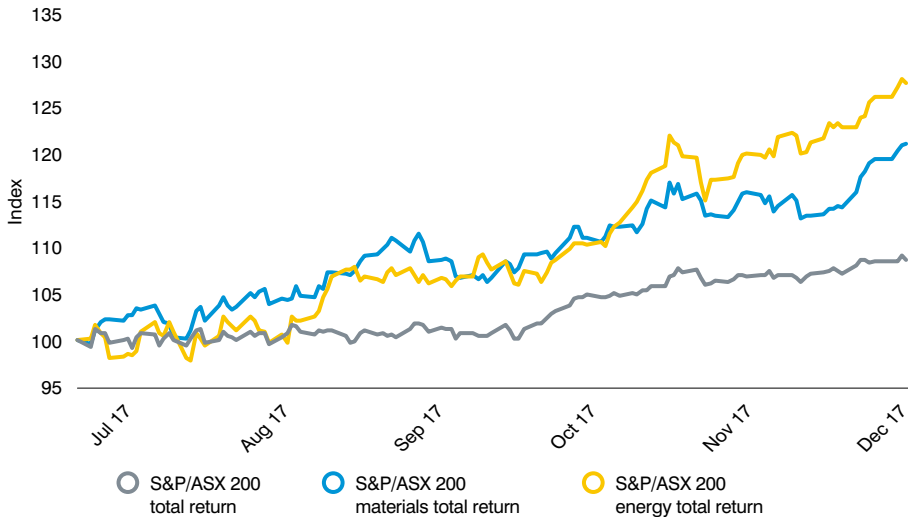
Profit for the half-year was \$2.6 million, up 9.1 per cent from \$2.4 million in the previous corresponding period. This was due to a higher contribution from investment income, which grew to \$4.0 million from \$3.2 million in the corresponding period last year, as AMCIL increased its position in a number of dividend paying stocks, including the large resource companies. The contribution from trading and option portfolios were down \$0.8 million, as a number of call options were bought back and replaced with ones with higher prices expiring in the second half of the financial year.

This was done to capture more of the potential capital gains in the rising market. In line with previous practice, the Board has not declared an interim dividend.

## Portfolio Performance

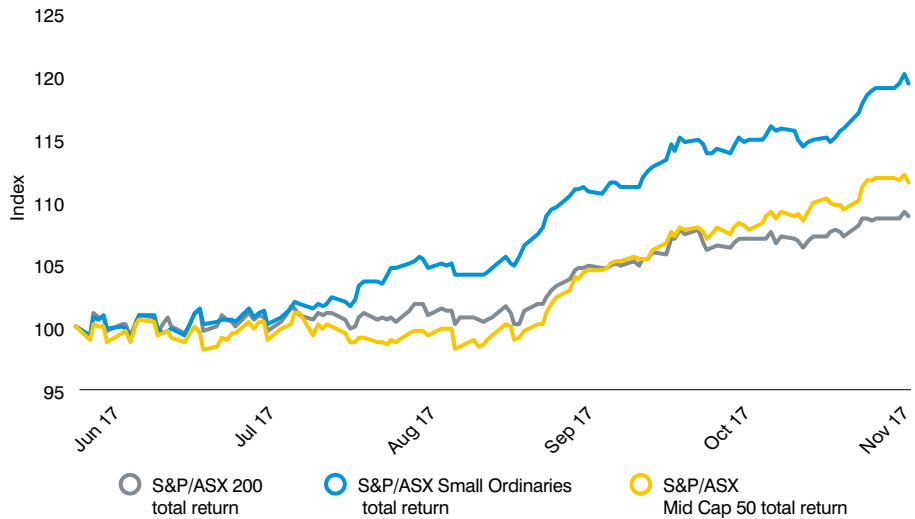
Over the six month period, the energy and materials sectors have driven strong market returns. Energy was up 27 per cent over the period and materials increased 20 per cent (Figure 1). AMCIL's exposure to these sectors is through companies with long-life assets and low cost production. It is consequently underweight in the more speculative components of these sectors.

Figure 1: Energy and Materials Relative to the S&P/ASX 200



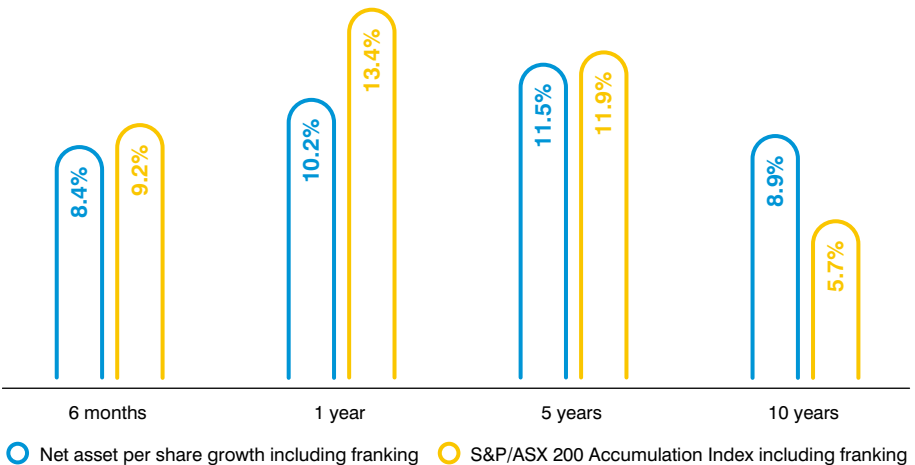
Source: FactSet

Figure 2: Small and Mid Cap Indices Versus the S&P/ASX 200



Source: FactSet

Figure 3: Portfolio Performance – Annualised Returns to 31 December 2017\* Including Franking Credits



\* Annualised returns other than six month figure. Assumes an investor can take full advantage of the franking credits. AMCIL's portfolio return is also 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 or tax.

## Review of Operations and Activities continued

During the half-year, BHP, Oil Search, Iluka Resources and Rio Tinto were strong contributors to portfolio performance.

AMCIL also seeks to have smaller companies make an equally important impact on portfolio returns as larger companies. In this context, there were strong contributions from Lifestyle Communities, Objective Corporation, CYBG (Clydesdale Bank), Treasury Wine Estates and Fisher & Paykel Healthcare.

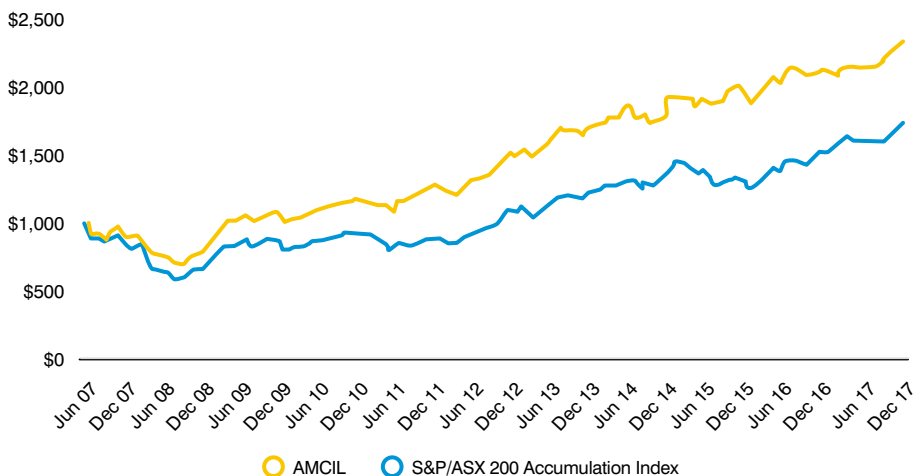
AMCIL's total portfolio return over the half-year was 6.9 per cent. Given AMCIL's dividend policy seeks to maximise the

distribution of franking credits, including those arising from taxable realised gains, it is appropriate to add franking credits to total returns.

On this basis, assuming the full benefit of franking credits, AMCIL's portfolio delivered a return of 8.4 per cent, whereas the S&P/ASX 200 Accumulation Index return was 9.2 per cent on the same basis over the half-year (Figure 3).

Figure 4 highlights the cumulative return of AMCIL's portfolio, including the benefit of franking credits, over a 10 year period.

**Figure 4: Ten Year Portfolio Performance of AMCIL Including Dividends and Franking Credits**



Note assumes an investor can take full advantage of the franking credits.





Energy  
sector up

27%

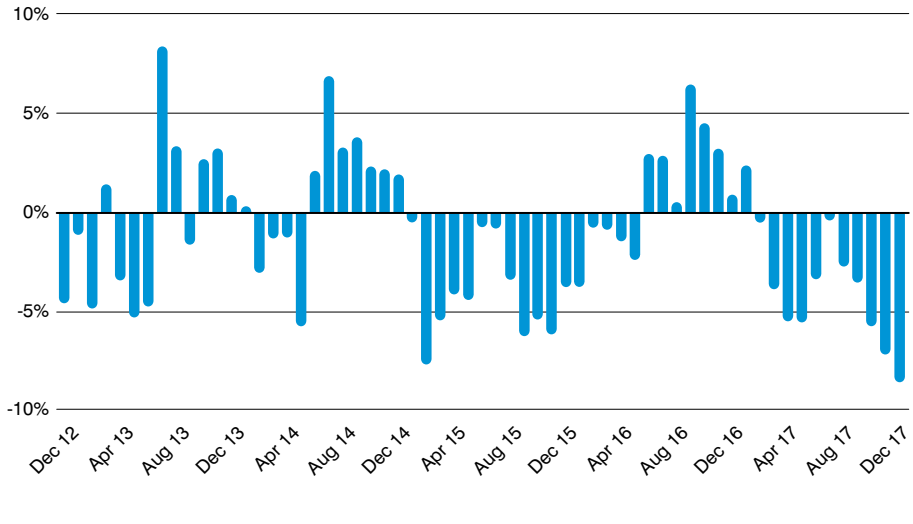
“

*Over the six month period, the energy and materials sectors have driven strong market returns. AMCIL's exposure to these sectors is through companies with long-life assets and low cost production.*

”

# Review of Operations and Activities continued

Figure 5: Share Price Relative to Net Asset Backing



## Share Price Performance

At 31 December 2017, the share price (at 89 cents) was trading at a discount of 9 per cent to the net asset backing per share, down from a 3 per cent discount at the start of the six month period.

Figure 6 outlines the benefit of compound returns and the value of AMCIL's investment approach given the relative total share price return (including dividends) from an investment of \$1,000 in AMCIL over 10 years versus the return from the combined S&P/ASX 200 Index.

## Changes to the Portfolio

It was a challenging investment environment over the period as quality companies with good growth prospects generally traded at very high levels. AMCIL through this time looked for opportunities to generate enhanced income from selling call options against part of the portfolio. This activity covered a number of holdings, including Westpac Banking Corporation. The Company also added Rio Tinto to the portfolio early in the half-year, as well as building on the position in BHP. Westfield Corporation (now subject to a takeover offer) was added to the portfolio during price weakness.

A number of other new stocks were also added to the portfolio. The largest of these were AGL Energy, Boral and EQT Holdings (Equity Trustees).

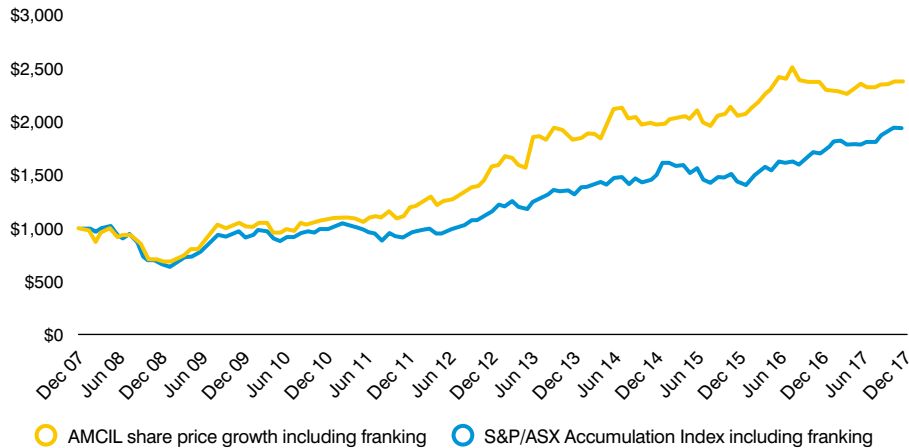
Of the smaller companies added:

- **Xero** is a software company that develops cloud-based online accounting software for small and medium sized businesses. Its key markets are in New Zealand, Australia and the United Kingdom.
- **Bingo Industries** engages in the provision of waste management for domestic and commercial businesses. It operates through the collections, post collections and other segments.

The collections segment refers to the hire of bins and collection of building, demolition, industrial and commercial waste. The post collections segment relates to facility centres which recycle or dispose of collected construction waste. The other segment mainly includes manufacture and supply of bins.

Holdings were sold where the investment case had become less compelling against our original investment thesis or because of high valuation levels. Major sales included the complete disposal of holdings in QBE Insurance, TPG Telecom, ResMed and Mayne Pharma. The position in Treasury Wine Estates was reduced.

**Figure 6: Performance of an Investment of \$1,000 in AMCIL Shares Including Dividends and the Full Benefit of Franking Credits Over the 10 Years to 31 December 2017**



Note assumes the reinvestment of dividends. This chart calculates the benefit of franking credits at the time dividends are paid for both AMCIL and the Index. In practice, there is a timing difference between receipt of the dividend and the realisation of the franking benefit in the following tax year.

## Review of Operations and Activities continued



Materials investment  
increased to

20.8%

“

Over the six months to 31 December 2017, the major changes have been an increase in banks from 11.4 per cent to 15.1 per cent and materials from 14.9 per cent to 20.8 per cent.

”

**Figure 7: Investment by Sector as at 31 December 2017**

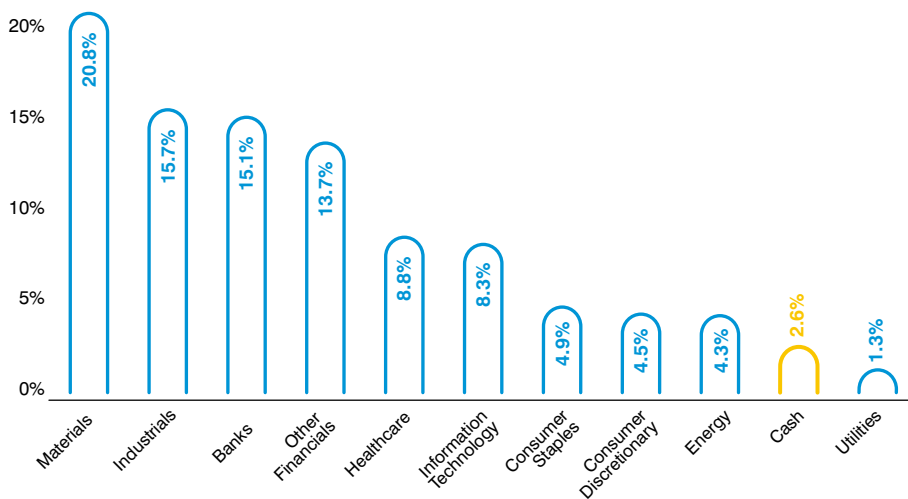


Figure 7 highlights the profile of the portfolio by various sectors of the market. Over the six months to 31 December 2017, the major changes have been an increase in banks from 11.4 per cent to 15.1 per cent, materials from 14.9 per cent to 20.8 per cent and other financials (which includes Westfield Corporation) from 11.8 per cent to 13.7 per cent. Cash has fallen from 6.1 per cent of the portfolio to 2.6 per cent, and there was also a reduction in telecom services from 2.5 per cent to a nil holding (because of the complete disposal of TPG Telecom and Telstra from the portfolio).

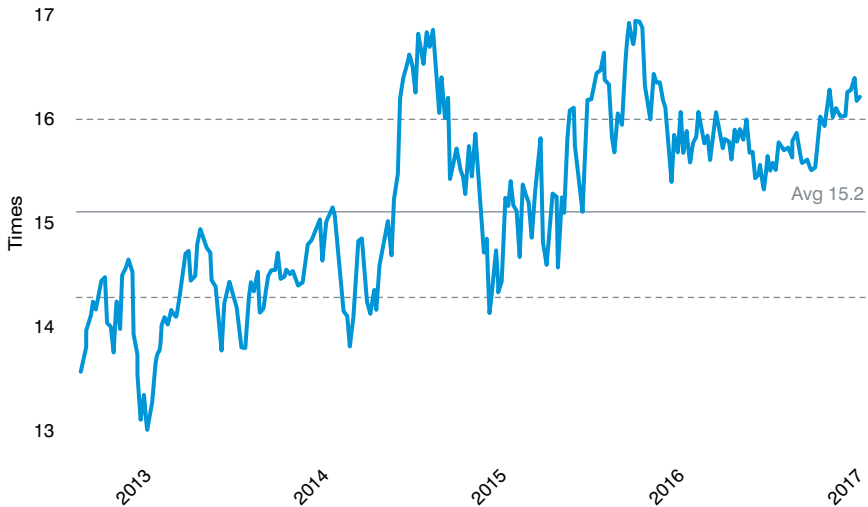
## Moving Forward

AMCIL is close to fully invested. Current market conditions make it difficult to find great value in the quality companies AMCIL looks to invest in. We will be patient and look for any market opportunities to adjust the portfolio.

The company reporting season will provide a useful guide to company expectations moving into the second half of the financial year and whether these expectations justify the present high level of valuations that many are trading at.

# Review of Operations and Activities continued

Figure 8: S&P/ASX 200 Price Earnings Ratio



Source: FactSet

## Directorship Matters

As previously announced in September 2017, Ross Barker retired as Managing Director and Chief Executive Officer on 31 December 2017. Mark Freeman who was previously the Chief Investment Officer of AMCIL, became the Managing Director and CEO of AMCIL on 1 January 2018.

Prior to becoming Chief Investment Officer of AMCIL (and the other Investment Companies) in 2007, Mr Freeman was a Partner with Goldman Sachs JBWere, advising the Investment Companies on their investment and dealing activities.

He has a profound knowledge and depth of experience with investment markets and has a strong understanding of the Company's direction, policies and processes.

The Board wishes to record their deep appreciation to Mr Barker for his 16 years of outstanding service as Managing Director and Chief Executive Officer during which time he made a significant contribution to the Company. Mr Barker will remain on the Board of AMCIL as a Non-Executive Director.

# Top 20 Investments

As at 31 December 2017

Includes investments held in both the investment and trading portfolios.

## Valued at Closing Prices at 29 December 2017

		Total Value \$'000	% of the Portfolio
1	BHP*	15,750	6.4
2	Lifestyle Communities	11,600	4.7
3	Westpac Banking Corporation*	11,302	4.6
4	National Australia Bank*	11,041	4.5
5	Commonwealth Bank of Australia*	10,400	4.2
6	CSL*	9,210	3.7
7	Qube Holdings*	7,833	3.2
8	Mainfreight	7,504	3.0
9	Oil Search*	7,088	2.9
10	Transurban Group	6,719	2.7
11	James Hardie Industries*	6,459	2.6
12	Amcor*	6,096	2.5
13	IRESS*	5,787	2.3
14	CYBG*	5,744	2.3
15	Computershare*	5,680	2.3
16	Seek*	5,655	2.3
17	Westfield Corporation*	5,574	2.2
18	Freedom Foods Group	5,180	2.1
19	Iluka Resources*	5,036	2.0
20	Brambles	5,035	2.0
<b>Total</b>		<b>154,694</b>	

As a percentage of total portfolio (excludes cash)

62.4%

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



# Income Statement

For the Half-Year Ended 31 December 2017

	Half-Year 2017 \$'000	Half-Year 2016 \$'000
Dividends and distributions	3,996	3,184
Revenue from deposits and bank bills	128	125
Net gains/(losses) on trading portfolio	(920)	(123)
Other income	-	6
<b>Total income</b>	<b>3,204</b>	<b>3,192</b>
Finance costs	(25)	(25)
Administration expenses	(808)	(775)
<b>Profit before income tax expense</b>	<b>2,371</b>	<b>2,392</b>
Income tax expense	195	(40)
<b>Profit for the half-year</b>	<b>2,566</b>	<b>2,352</b>
	<b>Cents</b>	<b>Cents</b>
Earnings per share	0.99	0.92

# Balance Sheet

As at 31 December 2017

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
<b>Current assets</b>		
Cash	6,732	14,991
Receivables	265	832
Trading portfolio	-	516
<b>Total current assets</b>	<b>6,997</b>	<b>16,339</b>
<b>Non-current assets</b>		
Investment portfolio	250,385	231,024
Deferred tax assets	231	-
<b>Total non-current assets</b>	<b>250,616</b>	<b>231,024</b>
<b>Total assets</b>	<b>257,613</b>	<b>247,363</b>
<b>Current liabilities</b>		
Payables	256	249
Options written portfolio	2,563	641
Tax payable	63	2,074
<b>Total current liabilities</b>	<b>2,882</b>	<b>2,964</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	-	140
Deferred tax liabilities – investment portfolio	20,958	15,473
<b>Total non-current liabilities</b>	<b>20,958</b>	<b>15,613</b>
<b>Total liabilities</b>	<b>23,840</b>	<b>18,577</b>
<b>Net assets</b>	<b>233,773</b>	<b>228,786</b>
<b>Shareholders' equity</b>		
Share capital	174,748	171,658
Revaluation reserve	35,582	27,120
Realised capital gains reserve	5,931	9,427
Retained profits	17,512	20,581
<b>Total shareholders' equity</b>	<b>233,773</b>	<b>228,786</b>

# Summarised Statement of Changes in Equity

For the Half-Year Ended 31 December 2017

	Half-Year 2017 \$'000	Half-Year 2016 \$'000
Total equity at the beginning of the year	228,786	221,293
Dividends paid	(9,029)	(8,914)
Shares issued		
– Dividend Reinvestment Plan	3,101	3,113
Costs of share issues	(11)	(11)
Total transactions with shareholders	(5,939)	(5,812)
Profit for the half-year	2,566	2,352
Revaluation of investment portfolio	14,033	7,921
Provision for tax on revaluation	(5,673)	(2,438)
Revaluation of investment portfolio (after tax)	8,360	5,483
Total comprehensive income for the half-year	10,926	7,835
Realised gains on securities sold	87	5,877
Tax (expense)/credit on realised gains on securities sold	(189)	(1,612)
Net realised gains on securities sold	(102)	4,265
Transfer between revaluation reserve and realised gains reserve	(374)	(3,758)
Transfer between revaluation reserve and retained profits*	476	(507)
Total equity at the end of the half-year	233,773	223,316

\* This figure, representing realised gains or losses on investments sold that are non-taxable due to the difference between accounting gains and taxable gains, is transferred to accumulated profits and is available for distribution, subject to the Company's dividend policy.

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

# Holdings of Securities

As at 31 December 2017

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

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

Code	Company Name	Principal Activities	Number Held '000	Market Value \$'000
AGL	AGL Energy	An integrated energy company providing electricity, gas, solar and renewable energy	140	3,410
ALQ*	ALS	Provider of analytical laboratory services to mining, life sciences, energy and industrial clients	475	3,313
AMC*	Amcor	Global packaging company	399	6,096
AMP*	AMP	Major Australasian financial services organisation	550	2,852
APE	AP Eagers	Operator of a national footprint of motor vehicle dealerships representing a broad range of car and truck brands in Australia	245	1,949
ARB	ARB Corporation	Manufacturer and distributor of four-wheel drive vehicle accessories in Australia and internationally	150	2,810
AUB	AUB Group	Investor in a network of small to medium Australian insurance brokers	225	2,970
BHP*	BHP	Diversified international resources company	550	15,750
BIN	Bingo Industries	Engages in the provision of waste management for domestic and commercial businesses	488	1,246

## Holdings of Securities continued

As at 31 December 2017

Code	Company Name	Principal Activities	Number Held '000	Market Value \$'000
BKW	Brickworks	Australia's largest manufacturer of bricks and pavers, with other investments in property development and listed equities	225	3,346
BLD	Boral	Engages in the provision of building and construction materials	400	3,116
BXB	Brambles	Global provider of supply chain management and logistics solutions	500	5,035
CAR*	Carsales.com	The largest online automotive classifieds business in Australia. They also have interests in leading online automotive classified businesses in Brazil, South Korea, Malaysia, Indonesia, Thailand and Mexico	222	3,166
CBA*	Commonwealth Bank of Australia	Banking and wealth management services	130	10,400
CGF	Challenger Limited	Financial services company providing life insurance, annuities and funds management	325	4,560
CPU*	Computershare	Provides stock registration and transfer services to companies listed on various stock markets globally, as well as providing technology services for stock exchanges, investor services for shareholders and employee share plan management and the provision of bankruptcy, class action and mortgage servicing activities for various corporate clients globally	355	5,680

Code	Company Name	Principal Activities	Number Held '000	Market Value \$'000
CSL*	CSL	Biopharmaceutical company that researches, develops, manufactures and markets products to treat and prevent serious human medical conditions	66	9,210
CWW	ClearView Wealth	Life insurance company with associated offerings in wealth management and financial advice	2,743	4,073
CYB*	CYBG PLC	A leading mid-sized United Kingdom retail and SME bank with long established operations across its core regions	1,000	5,744
DLX	DuluxGroup	Engages in the manufacture and market of paints, coatings and home improvement products	254	1,948
EQT	EQT Holdings Limited	Provider of private client, trustee, estate administration and funds management services	165	3,290
EXP	Experience Co	Adventure tourism operator providing skydiving, rafting and reef cruising services in Australia and New Zealand	2,796	2,404
FNP	Freedom Foods Group	Specialist producer of allergen-free foods, with related packaging and marketing interests in dairy and seafood	1,000	5,180
FPH*	Fisher & Paykel Healthcare Corporation	Designs, manufactures and markets a range of medical devices used in respiratory care and the treatment of obstructive sleep apnoea	330	4,164

## Holdings of Securities continued

As at 31 December 2017

Code	Company Name	Principal Activities	Number Held '000	Market Value \$'000
HSO	Healthscope	One of Australia's leading private hospital operators through the ownership and operation of private hospitals and medical centres	1,900	3,990
ILU*	Iluka Resources	Miner of zircon and titanium-based mineral sands products with an additional iron ore production royalty	500	5,036
IPL*	Incitec Pivot	Manufacturer and supplier of fertiliser and industrial explosives	1,100	4,192
IRE*	IRESS	Provider of share market and wealth management information systems	500	5,787
JHX*	James Hardie Industries	Building materials company focused on fibre cement products, predominantly in the United States	290	6,459
LIC	Lifestyle Communities	Developer, owner and manager of independent living communities for elderly citizens	2,000	11,600
MFT (NZX)	Mainfreight	Provider of managed warehousing and international and domestic freight forwarding services	325	7,504
NAB*	National Australia Bank	Banking and wealth management services	375	11,041
NTC	Netcomm Wireless	Delivers advanced broadband and wireless devices which empower businesses, people and machines to connect to the internet	337	405
NUF	Nufarm	Agricultural chemical company that manufactures and sells crop protection and seeds treatment products globally	220	1,923



Code	Company Name	Principal Activities	Number Held '000	Market Value \$'000
OCL	Objective Corporation	Provider of information technology software and services	1,395	4,602
OSH*	Oil Search	Oil and gas explorer, developer and producer with assets predominantly in Papua New Guinea	925	7,088
PGC	Paragon Care	A supplier of medical equipment and consumables to the healthcare market	400	320
QUB*	Qube Holdings	Provider of import and export logistics services with national operations	3,027	7,833
REH	Reece	Distributor and retailer of plumbing, building and hardware supplies	265	2,552
RIO*	Rio Tinto	Diversified international resources company	67	4,927
SEK*	Seek	Operator of employment classifieds websites in Australia and offshore with interests in education and training	300	5,655
SHL*	Sonic Healthcare	Specialist diagnostics company providing radiology and pathology services in Australia and overseas	199	4,514
TCL	Transurban Group	Developer and operator of electronic toll roads in Australia and overseas	541	6,719
TPE	TPI Enterprises	One of eight licensed processors worldwide producing Narcotic Raw Material (NRM) for the international pharmaceutical industry	127	278
TWE*	Treasury Wine Estates	Wine company with a number of brands produced in Australia, New Zealand, the United States and Italy sold globally	170	2,432

# Holdings of Securities continued

As at 31 December 2017

Code	Company Name	Principal Activities	Number Held '000	Market Value \$'000
WBC*	Westpac Banking Corporation	Banking and wealth management services	363	11,302
WES*	Wesfarmers	Diversified conglomerate with retailing operations in supermarkets, department stores, home improvement and office supplies. The group also operates businesses involved in coal mining, energy, chemicals, fertilisers, industrial and safety products	115	4,964
WFD*	Westfield Corporation	Provides property management and development solutions. It operates shopping centres offering a variety of foods, fashion, leisure activities and entertainment	630	5,574
WLL	Wellcom Group	Production company providing pre-media, digital asset management and specialty printing services to advertisers, retailers and corporations	1,005	4,261
WPL*	Woodside Petroleum	Producer of liquefied natural gas, domestic gas, condensate, crude oil and liquefied petroleum gas, primarily in Western Australia	115	3,718
XRO	Xero	Develops cloud-based accounting software for small and medium sized businesses in New Zealand, Australia, the United Kingdom and the United States	50	1,433
<b>Total</b>				<b>247,822</b>

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

## Major Transactions in the Investment Portfolio

Acquisitions	Cost \$'000
Rio Tinto	4,960
Westfield Corporation	4,915
BHP	3,812
Westpac Banking Corporation	3,776
Healthscope	3,764
AGL Energy	3,535
Boral	3,127
EQT Holdings	3,000

Disposals	Proceeds \$'000
QBE Insurance*	5,711
TPG Telecom*	4,481
Treasury Wine Estates	4,017
ResMed*	3,217
Mayne Pharma Group*	3,137

\* Complete disposal from the portfolio.

### New Companies Added to the Investment Portfolio

Rio Tinto	Carsales.com
Westfield Corporation	Reece
AGL Energy	DuluxGroup
Boral	Xero
EQT Holdings	Bingo Industries

## **Company Particulars**

### **AMCIL Limited (AMH)**

ABN 57 073 990 735

### **Directors**

Bruce B Teele, Chairman

R Mark Freeman, Managing Director

Ross E Barker

Roger G Brown

Siobhan L McKenna

Rupert Myer AO

Richard B Santamaria

Jonathan J Webster

### **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

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

**Email** [invest@amcil.com.au](mailto:invest@amcil.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 653 916  
+61 3 9415 4224  
(from overseas)

**Facsimile** +61 3 9473 2500

**Website** [investorcentre.com/contact](http://investorcentre.com/contact)

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

### **Securities Exchange Code**

AMH Ordinary shares

## **Shareholder Meetings**

### **Melbourne Shareholder Meeting**

**Time** 1.00pm  
**Date** Wednesday 14 March 2018  
**Venue** ZINC Federation Square  
**Location** Corner of Swanston and Flinders Streets  
Melbourne

### **Canberra Shareholder Meeting**

**Time** 1.00pm  
**Date** Friday 16 March 2018  
**Venue** Hyatt Hotel Canberra  
**Location** 120 Commonwealth Avenue  
Canberra

