

14 September 2016

Company Announcements Office  
Australian Stock Exchange Limited  
Level 4, 20 Bridge Street  
SYDNEY NSW 2000

CENTURY  
AUSTRALIA  
INVESTMENTS LIMITED



Dear Sir/Madam

### MONTHLY NET TANGIBLE ASSETS PER SHARE

The unaudited Net Tangible Asset Backing (“NTA”) for Century Australia Investments Limited (“Century Australia”) is as follows:

	31 August 2016	31 July 2016
<b>NTA per share (cum-dividend)*</b>	<b>91.0 cents</b>	<b>91.0 cents</b>
Deferred tax asset on carry forward realised losses	7.9 cents	7.7 cents
Deferred tax asset/(liability) on unrealised income and gains/losses	(0.6 cents)	(0.9 cents)
<b>NTA per share after all tax balances (cum-dividend)*</b>	<b>98.3 cents</b>	<b>97.8 cents</b>

\*The above figures do not include a provision for the interim dividend of 1.60 cents per share which went ex on 15 September 2016 and is payable on the 30 September 2016.

In addition to the deferred tax asset (DTA) of 7.9 cents per share recorded in the accounts **there is a further \$2.94m or 3.60 cents per share of tax benefit on realised losses which is not carried on the Company’s balance sheet** and is available to be offset against future taxation liabilities.

In total there is approximately \$28.5m of carried forward tax losses as at 31 August 2016. Until all carried forward tax losses are recouped, Century Australia will not be paying tax.

The fact that Century Australia is currently not liable to pay tax means that the level of franked dividends paid is restricted by the level of franking credits received by way of fully franked dividend income. Once the total carry forward tax losses are utilised, Century Australia will return to paying tax on any realised gains. Tax payments will generate additional franking credits from which franked dividends can be paid.

Notes:

1. The Net Tangible Asset Backing calculation is based on the Company’s interpretation of law relating to ASX Listing Rule 4.12.
2. ‘NTA per share after all tax balances’ represents investments at market value, less associated selling costs and less all other accrued expenses.
3. ‘NTA per share’ this is the value per share should the Company be liquidated at the relevant month end.



## PORTFOLIO PERFORMANCE

August 2016	Return	Benchmark	Excess
1 Month	-0.23%	-1.56%	1.33%
1 Year	6.54%	9.69%	-3.15%

## PERENNIAL VALUE MANAGEMENT COMMENTARY

### Market Review

The international markets were mixed with the S&P500 down 0.1%, FTSE100 up 0.9%, Nikkei 225 up 1.9% and the Shanghai Composite up 3.6%. Metal prices eased post their recent rallies, with nickel down 8.6%, copper down 5.2%, gold down 3.4% and iron ore falling 2.8% over the month. The oil price closed up 8.4%, having rallied 21.0% intra-month. The Federal Reserve left rates unchanged and the Reserve Bank of Australia (RBA) reduced rates by 25 basis points to 1.5%, with the Australian Dollar (AUD) finishing the month down 0.5 cents at 75 US cents.

Reporting season was the highlight of the month. As expected, results were generally subdued, with soft revenue growth, an ongoing focus on cost control and weak earnings growth. Industrial earnings were mixed but overall flattish, while bank earnings declined slightly and resource earnings fell sharply on lower commodity prices.

### Portfolio Performance

The Century Australia Investment Portfolio (the Portfolio) fell 0.2% for August, out performing the Index by 1.3%.

The reporting season saw a reversal of the trends of the past twelve months, with many of the “expensive defensive” parts of the market underperforming, having failed to meet the market’s very high expectations of them. Notable examples of stocks which we have not held on the basis of overvaluation include Blackmores (down 21.5%), REA Group (down 9.5%), Transurban (down 8.8%), Brambles (down 8.4%) and CSL (down 8.4%). Interestingly, despite the share price falls, these stocks are still trading on demanding valuations, with FY17 price to earnings (P/E) ratios of 20 to 30 times, suggesting further downside risk.

By contrast, we were pleased to see strong performances from some of the out of favour stocks we hold which we believe offer very good value. Holdings which performed particularly strongly included Downer EDI (up 20.4%) which delivered a solid result in challenging conditions and guided for FY17 profits significantly higher than market forecasts, as it manages the transition from a mining services focus towards public infrastructure and services provision. Ansell (up 17.6%) rallied hard after delivering a result which showed improved organic growth and announcing the potential sale of their consumer products business. Flight Centre (up 14.6%) performed well despite reporting slightly lower earnings as a result of discounting by airlines. Despite this headwind, the company is continuing to invest and expand its global footprint to underpin future growth. Harvey Norman (up 11.2%) outperformed after delivering a very strong result, with profit up 20.0% and the dividend increased by 50.0%.



All of these businesses have strong market positions, good management and are trading at attractive valuations. Further, they are underpinned by strong balance sheets which allowed them to maintain or increase their dividends.

Resource stocks Woodside Petroleum (up 9.6%) and BHP (up 4.7%) performed well. Despite reporting earnings which were down significantly on last year, the large resources companies have achieved significant unit cost and capex reductions. Combined with the recent rally in commodity prices this should see stronger cash generation going forward. CBA (down 4.3%) was the only major bank to report, with flat earnings per share (EPS) and dividends highlighting the earnings pressure the sector is facing, as well as the reason the Portfolio is underweight the banks.

Stocks which detracted from performance included Gateway Lifestyle (down 18.5%) with FY17 guidance lowered following a decision to bring forward the conversion programme of four tourist parks to retirement parks. AGL Energy (down 8.1%) declined after indicating the benefit of stronger wholesale electricity prices is expected to moderate, QBE Insurance (down 7.7%) fell on a rise in Australian claims costs and AMP (down 7.1%) slipped after a disappointing result from the life business. We remain comfortable with the outlook for each of these businesses and note that each has internal initiatives underway to address these issues and improve performance.

During the month we took profits and reduced our holdings in Boral and Navitas following strong share price performances. We also reduced our positions in Telstra and the banks. Proceeds were used to increase our holding in Amcor which continues to deliver good organic and acquisitive growth, demonstrating its model continues to be sound and global opportunities abound. We also increased our holdings in Macquarie Group, BHP and CYBG.

### **Investment Outlook**

In recent months, we have become slightly more cautious about domestic economic conditions and have reduced our overweight positions in the building and construction-related stocks and the banking sector. The Portfolio remains overweight in the large-cap, low-cost, financially-sound resources companies. We have very selectively increased our exposure in REITs and healthcare. Infrastructure remains heavily underweight given that sector's high leverage at a time of historically low interest rates.

The Portfolio continues to exhibit Perennial Value's true to label value characteristics, with the portfolio offering better value than the overall market on each of our four valuation characteristics; price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

**As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.**



## Top 10 Equity Holdings – 31 August 2016

The top ten equity holdings of the Century Australia Portfolio as at 31 August 2016 were as follows:

Security Name	% of Portfolio
Commonwealth Bank	7.0
BHP Billiton Limited	6.7
Westpac Banking Corporation	5.7
ANZ Banking Group Limited	5.2
National Australia Bank	4.7
Wesfarmers Limited	4.6
Telstra Corporation	4.4
Macquarie Group Limited	3.9
Woolworths Limited	3.2
Woodside Petroleum	2.9

At month end, stock numbers were 47 and cash was 3.6%

## Performance returns

August 2016	Return	Benchmark	Excess
1 Month	-0.23%	-1.56%	1.33%
1 Year	6.54%	9.69%	-3.15%
2 Years (p.a)	2.88%	3.03%	-0.15%

