AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Djerriwarrh Investments Limited (ASX: DJW)

Update Report

8 November 2023

INDEPENDENT
INVESTMENT RESEARCH

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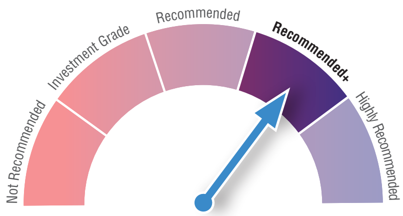
Contents

Djerriwarrh Investments Limited (ASX: DJW) - Update Report

Note: This report is based on information provided by Australian Investment Company Services Ltd (AICS) as at 30 June 2023.

Rating



Key Investment Information (as at 30 September 2023)	
ASX Code	DJW
Share Price	$2.85
Pre-tax NTA* per share	$3.06
Shares on Issue (m)	262.3m
Market Cap ($m)	$747.5m
Trailing 12-month Dividend Yield (Net)	5.18%
Trailing 12-month Dividend Yield (Grossed-Up)	7.39%
Dividend Frequency	Semi-annual
Listing Date	June 1995
Structure	Listed Investment Company (LIC)
IIR Investment Classification	Australian Large Cap
Investment Manager	Internal
Fees:	
Management Fee (p.a.)**	0.40%
Performance Fee	na

*NTA includes tax on realised gains but not tax on unrealised gains.
**Management Expense Ratio (MER) for FY23 period.

Key Exposure	
Underlying Exposure	The portfolio provides exposure to an actively managed portfolio Australian and New Zealand listed companies with a focus on large cap companies, with an option overlay.
FX Exposure	The Company is primarily exposed to domestic securities and therefore has little to no direct foreign currency exposure.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

PRODUCT SUMMARY

Djerriwarrh Investments Limited (ASX: DJW) is a listed investment company (LIC) that commenced trading on the ASX in June 1995. The Company seeks to provide a level of fully franked income that is higher than the S&P/ASX 200 Index. The Company seeks to achieve this through an investment in a portfolio of Australian and New Zealand listed stocks with additional income provided through the use of options (predominantly call options). While the primary objective is to provide an enhanced income to the market, the Company also seeks to deliver capital growth over the long-term which is delivered through NTA growth. The investment philosophy of the Company is built on taking a medium-to-long term view on companies with an emphasis on identifying and investing in quality companies that are likely to sustainably grow their earnings and dividends over time. The Company can invest in any stock on the Australian and New Zealand stock exchanges, however given the investment objective the Company is focused on ASX-listed stocks in the S&P/ASX 200 Index. The portfolio is typically heavily weighted to large cap (top 50) stocks as these stocks tend to have a liquid and sizable options market. Income generated by the underlying investments of the Company is supplemented by income generated from options. The Company writes options over a portion of its investments and generates income from the option premium that the Company receives from selling the options. The Company has a target option coverage of 30% to 40% of the portfolio. The level of option coverage is actively managed and will vary depending on the market conditions. The Company has a service agreement with Australian Investment Company Services Ltd (AICS), which is 75% owned by Australian Foundation Investment Company (ASX: AFI) and 25% owned by Djerriwarrh Investments Limited (ASX: DJW). AICS is responsible for the administration and operations of the Company including the management of the portfolio. The Company has a relatively low management fee with a management expense ratio (MER) of 0.40% for the FY23 period. No performance fees are paid by the Company.

INVESTOR SUITABILITY

An investment in DJW is suitable for those investors seeking a regular fully franked income stream above that offered by the market. The Company is most suited to an investor that will derive the full benefits of fully franked dividends and requires an enhanced income stream. Given the enhanced income mandate, an investment in DJW is not suited for those seeking to generate alpha over the market. The portfolio will be diversified with the portfolio typically comprising 50 to 70 stocks. The portfolio is focused on large cap stocks and therefore may increase an investors exposure to large cap stocks held through other investments. As such, investors should be cognisant of the level of existing exposure to large cap stocks before making an investment in the Company.

RECOMMENDATION

Independent Investment Research (IIR) has maintained its **Recommended Plus** rating for Djerriwarrh Investments Limited (ASX: DJW). After a period of dividend declines and portfolio underperformance, DJW recalibrated the options strategy, repositioned the portfolio to achieve the enhanced yield objective as well as provide the potential for capital growth, and amended the dividend policy to align the dividends with the Net Operating Result per share. The changes made have been a positive for the Company. The revised dividend policy of paying out a dividend broadly in line with the Net Operating Result per share has the potential for the dividend to go up and down, however IIR views the policy to be a much more prudent and sustainable approach to dividend payments and provides the potential for the Company to generate capital growth through the reinvestment of capital gains, in addition to delivering an enhanced yield. The dividend has improved over the last two financial periods as the Net Operating Result has improved, however there's no getting around the fact that dividends remain below historical levels with the Net Operating Result per share still below the highs reached in FY15, and the Company has some way to go to make up for the underperformance in previous years. While we have maintained the rating as a result of the renewal of a number of the Directors on the Board combined with the expected positive impacts of the changes implemented in recent years, the rating will be impacted by a number of things including: (1) the ability of the Company to consistently deliver an enhanced yield to the market; (2) the ability of the Company to deliver NTA growth over the long-term to shareholders; (3) the Company implementing the new dividend policy effectively and not supplementing the dividends unsustainably with realised capital gains and retained earnings to maintain the dividend; and (4) effective management of the options overlay to ensure the portfolio performance is not substantially hindered by options positioning.

SWOT

Strengths

- The Company promotes alignment of interest with Executives incentives incorporating both short-and-long term hurdles and Executives are required to use at least 25% of the pre-tax amount of any incentive that vests to purchase shares in DJW and/or the other LICs serviced by Australian Investment Company Services Ltd (AICS).
- The senior members of the investment team are highly experienced with the investment team having the benefit of the overlay of the Investment Committee, which comprises all seven board members. The IC plays an active role in the oversight of the portfolio with he IC meeting at least once a month to review the portfolio and the decision made by the Portfolio Manager.
- The Company has in-house options expertise providing the ability to actively manage the option positions and option exposure of the portfolio. As is highlighted in the below report, there are risks associated with the use of options and the level of option income will be determined by a range of factors.
- The Company has a highly diverse shareholder base of over 16,000 shareholders as at 30 June 2023.
- The fees are competitive when compared to its peers. The Company not paying a performance fee is considered a key positive and reduces fee leakage for investors.

Weaknesses

- Paying out an unsustainable level of dividends for a prolonged period of time ultimately resulted in the Company having to cut the annual dividend over the period FY16 to FY21, which resulted in a declining level of dividend income for shareholders and saw the share price re-rate from the substantial premiums at which it was trading. The Company has recalibrated the strategy and the dividend policy which is expected to result in the Company delivering a more sustainable dividend with the potential for NTA growth over the long-term.
- The level of options coverage during FY19 was significant with the income generated not supporting the high level of coverage. This had a negative impact on the performance of the portfolio during this period. IIR believes the Company has learned significant lessons from this experience with the options strategy being reset since to avoid such circumstances.
- The combination of moving from a substantial premium to a discount and the lower dividend income received by shareholders has resulted in DJW shareholder return over the 5 and 10 year period to 30 June 2023 being the lowest of the peer group.

Opportunities

- An investment in the Company provides the opportunity to generate a fully franked dividend above that of the market. This may be appropriate for an investor that derives a benefit from franking credits and is seeking an enhanced yield.
- The Company is trading at a discount which provides opportunities for investors to access the strategy at an attractive price. We expect that the discount will narrow as the market gains confidence in the recalibration of the options strategy and the execution of the amended dividend policy.

Threats

- The options overlay provides enhanced income but potentially at the expense of capital growth. In strong markets in particular, the portfolio performance is likely to lag the market with options more likely to be exercised in a strong market environment. Over the 12 years from 30 June 2011 to 30 June 2023, in positive markets based on rolling 12-month returns, the portfolio has only outperformed the market in 14.2% of periods, highlighting the impact of the option overlay strategy on capital growth.

- The options strategy requires active management and a deep understanding of the implications of different market conditions to strike a balance between generating an enhanced income while also providing for capital growth. In the event the Company does not get the balance right, this can be detrimental to the portfolio performance and shareholder returns.
- There are a number of investment options that provide an enhanced income stream in the listed managed investments market. As such, the Company will need to consistently deliver on its primary objectives to be competitive in the market and narrow the discount.
- A large portion of the Net Operating Result is from dividend income received from companies in the portfolio. In the event, the income received from dividends and distributions declines substantially, this will likely impact the dividend payment. We note the Company does have some Retained Profits that can be used to supplement the dividend if need be.

OVERVIEW & UPDATE

DJW has a track record of over 25 years with the Company listing on the ASX in June 1995. The Company seeks to provide an enhanced level of fully franked income that is higher than the S&P/ASX 200 Index. The Company seeks to achieve this through an investment in a portfolio of Australian and New Zealand listed stocks with additional income provided through the use of options. While the primary objective is to provide an enhanced income stream to the market, the Company also seeks to deliver capital growth over the long-term which is delivered through NTA growth.

The investment philosophy of the Company is built on taking a medium-to-long term view on companies with an emphasis on identifying and investing in quality companies that are likely to sustainably grow their earnings and dividends over time. The portfolio will typically comprise 50 to 70 stocks. Given the objective of the Company, the investment universe for the Company is the S&P/ASX 200 Index, however the portfolio is typically heavily weighted to large cap (top 50) stocks as these stocks tend to have a liquid and sizable options market.

Income generated by the underlying investments of the Company will be supplemented by income generated from options. The Company writes options over part of its investments and generates income from the option premium that the Company receives from selling the options. The Company can write call and put options, with the focus tending to be on call options. The Company has a target option coverage of 30% to 40% of the portfolio. The option coverage is actively managed with the Company seeking to strike a balance between the additional income generated and the potential capital growth foregone. Further details regarding the options is provided in the Option Income section below.

The Company operates a trading portfolio to take advantage of short-term opportunities identified by the investment team. The trading portfolio will represent no more than 10% of the total portfolio value.

The Investment Committee (IC) plays an important part in the investment process. The IC delegate the portfolio management responsibility to the Portfolio Manager, who is responsible for the stock selection and portfolio construction, within the required risk parameters. The IC meet at least once a month to review and debate the portfolio holdings, with the IC having the ability to veto any decisions made by the Portfolio Manager. To date, there is yet to be a position in which the IC have vetoed, which reflects the robust investment process and philosophy which the Portfolio Manager's across the business are acutely aware of and buy into for the purposes of managing the relevant portfolios.

The Company has a service agreement with Australian Investment Services Company Ltd (AICS), which is 75% owned by Australian Foundation Investment Company Limited (ASX: AFI) and 25% owned by DJW. AICS undertakes the administrative and investment management for the Company as well as the affiliate LICs of Australian Foundation Investment Company Limited (ASX: AFI), AMCIL Limited (ASX: AMH) and Mirrabooka Investments Limited (ASX: MIR). With the Company being internally managed, the Company provides exposure to the investment strategy for a low cost with the Company having an management expense ratio (MER) of 0.40% for the FY23 period.

Option Income

The amount of income received from options will depend on the number of options written and the premium these options receive. The premium received for an option is dependent on a number of factors, including:

- Expected volatility of a stock;
- The exercise price of the stock compared to its current share price;
- Interest rates; and
- Time to expiry.

The options portfolio is actively managed by the investment team with the Company predominantly writing call options with some put options written. Call options provide the option holder the right to buy a company at a specified price, while a put option provides the option holder the right to sell a company at a specified price.

One of the outcomes of generating income from options is that the Company potentially forgoes capital growth. In the event the share price of a company goes up beyond the exercise price of the option and is determined to be in-the-money, the option holder will likely exercise the option resulting in the Manager having to sell those shares to the option holder at the specified price. This results in the portfolio giving up the capital gains that would have been generated if the Company had retained its shares. During periods of strong markets the portfolio is likely to lag the market as it would be expected that options would be exercised. In theory, in weaker markets it would be expected that the portfolio would outperform on a relative basis given the Company generates income from the options written, offsetting the decline in the capital value of the stocks to some degree. This however has not been the reality for DJW, with the Company providing little downside protection in negative markets.

We have provided details of the option income over the last 10 financial years to provide some insight into the mechanics of the portfolio and the contribution of option income to operating revenue. The level of option income in any given year will vary as a result of not only the level of exposure but also the inputs that determine the premium paid. In FY19, the Company had a high level of options exposure with 54.4% of the portfolio exposed to options at 30 June 2019. Markets were strong in 2019 which saw the Company increase the level of option activity to generate additional income, however despite the level of option activity the level of option income generated was the lowest in the last 10 financial year periods. Option income was impacted by the strength of the market, which meant that it was uneconomic to buy back options and move positions to higher exercise prices, combined with inputs that negatively impacted option premiums, including low levels of volatility. The reduction in option income combined with the strong realisation of options and investments by the Company to rebuild positions in companies, saw the portfolio underperform the S&P/ASX 200 Accumulation Index in FY19. This environment highlights the potential impact of the use of options and is why the option activity needs to be actively monitored and balanced in differing market conditions to ensure the portfolio can strike a balance to achieve its objectives of enhanced income and long-term capital growth.

There has been a recalibration of the options strategy since this time combined with a repositioning of the portfolio to strengthen the quality of companies in the portfolio with a focus on capital growth in addition to delivering an enhanced yield.

Option Income & Exposure

Financial Year	Option Income ($m)	Income From Operating Activities ($m)	% Operating Income from Options	Option Exposure as at 30 June
FY14	14.4	54.4	26.4%	33.0%
FY15	14.1	57.9	24.3%	46.9%
FY16	16.1	55.1	29.2%	45.0%
FY17	10.9	44.2	24.8%	36.1%
FY18	11.7	46.2	25.3%	39.3%
FY19	6.4	45.8	13.9%	54.4%
FY20	7.7	37.2	20.7%	37.1%
FY21	12.1	40.2	30.2%	39.6%
FY22	12.5	49.7	25.2%	33.9%
FY23	14.8	50.7	29.3%	36.4%

Board and Investment Team Update

The Board comprises 7 Directors, all of which are highly experienced and provide a complimentary skill set to the Board of DJW. All 7 Directors are on the Investment Committee. The Investment Committee play an important part of the investment process, meeting at least once a month to review the portfolio and investment decisions made by the Portfolio Manager.

There has been some turnover of the Board in recent years with some of the long standing Directors stepping down. Of significance was the departure of John Paterson, who was the Chair of DJW for a number of years, who stepped down during the FY23 period. We view the renewal of the Board as a positive.

The newest member of the Board is Geoff Roberts, who was appointed in July 2022. Geoff has over 35 years' finance experience, including as Group Chief Financial Officer of SEEK Limited, Managing Partner of Deloitte Victoria, and as Group Chief Financial Officer of AXA Asia Pacific Holdings Limited. Geoff was appointed to the Board of Walter and Eliza Hall Institute of Medical Research in September 2022, JB Hi-Fi Limited in January 2021 and the Melbourne Cricket Club Committee in March 2019.

A number of the Directors currently or historically sit on a number of boards. Any directors on the Investment Committee with conflicts of interest do not take part in the decision-making process on relevant issues.

Board

Name	Position	Independence	Appointed to Board	Investment Committee Member (Yes/No)
Graham Goldsmith	Chairman	Independent	Apr-13	Yes
Mark Freeman	Managing Director	Non-Independent	Jan-18	Yes
Bruce Brook	Director	Independent	Aug-21	Yes
Kathryn Fagg	Director	Independent	May-14	Yes
Geoff Roberts	Director	Independent	Jul-22	Yes
Alice Williams	Director	Independent	May-10	Yes
Karen Wood	Director	Independent	Jul-16	Yes

The investment team is highly experienced with team having an average of 17.8 years experience and an average tenure of 7.7 years with AICS. The newest Portfolio Manager additions to the senior ranks is the two Portfolio Manager's responsible for the International portfolio within AFI. The international portfolio was only established three years ago.

Brett McNeil is the Portfolio Manager responsible for the DJW portfolio. Brett is supported by the broader team. Brett is one of the newer additions to the investment team, joining AICS in 2019 as a Portfolio Manager for DJW. Brett has 21 years experience in the investment management industry. Prior to joining AICS, Brett spent 14 years at Antares Capital as a Portfolio Manager and Analyst. During his time at the business, Brett has recalibrated the option strategy and adjusted the portfolio to focus on providing an enhanced income to shareholders while also providing capital growth over the long-term.

Investment Team

Name	Position	Responsibility	Tenure with AICS (years)	Industry Experience (years)
Mark Freeman	Chief Executive Officer & Managing Director	AMH	16	28
David Grace	Portfolio Manager	AFI	6	17
Kieran Kennedy	Portfolio Manager	MIR	18	23
Brett McNeil	Portfolio Manager	DJW	4	21
Rosie Malcolm	Portfolio Manager	International	2	24
Andrew Sutherland	Portfolio Manager	International	3	30
Nga Lucas	Investment Analyst	-	11	22
Olga Kosciuczyk	Investment Analyst	-	5	9
Stuart Low	Investment Analyst	-	7	19
Jaye Guy	Investment Analyst	-	2	12

Investment Team				
Jeremy Moore	Dealer	-	22	22
Gilbert Battistella	Graduate Investment Analyst	-	3	3
Nicky Sun	Graduate Investment Analyst	-	2	2

PORTFOLIO POSITIONING

The portfolio is diversified, typically comprising 50 to 70 stocks. In addition to the long positions invested in, the Company has the ability to write options over the portfolio holdings. The Company has an options coverage target range of 30% to 40% of the portfolio with the options coverage level driven by the market dynamics.

The Company does not seek to time the market and therefore will be largely invested at all times. While the portfolio can invest in any stock on the Australia and New Zealand stock exchanges, the portfolio is typically focused on the S&P/ASX 200 Index, with the portfolio typically weighted to large cap (ASX 50) stocks as these stocks tend to have a liquid and sizable options market.

The Australian market indices are heavily weighted to the top 50 stocks. Therefore in order to have a meaningful allocation to these stocks, the portfolio needs to have a sizable position. As such, while the portfolio is diversified with 50 to 70 stocks, the portfolio is typically heavily concentrated to the top 20 stocks. At 30 June 2023, the top 20 stocks accounted for 75.6% of the portfolio. It is these stocks that comprise the core investment of the portfolio and account for a large portion of the income generated by the Company.

We note given the options written over a number of stocks in the portfolio, the weighting to stocks in the portfolio will vary regularly as a result of options being exercised.

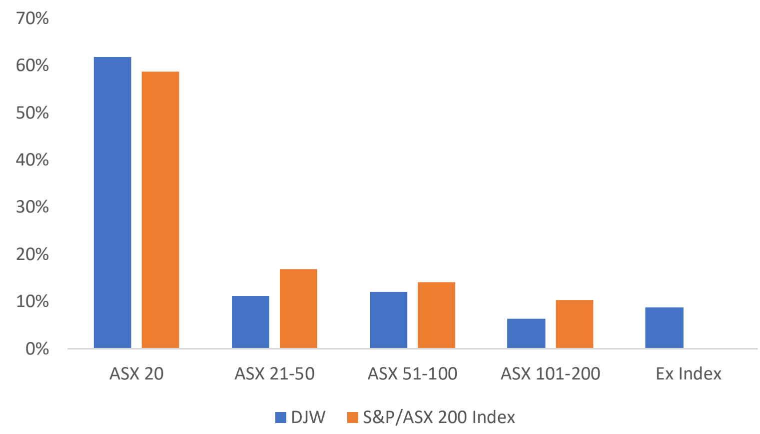
Top 20 Holdings (as at 30 June 2023)

Company Name	Ticker	AFI Portfolio	S&P/ASX 200 Index	Active Weight
BHP Group Limited	BHP	7.4%	9.9%	-2.5%
Commonwealth Bank of Australia	CBA	6.4%	7.3%	-0.9%
Westpac Banking Corporation	WBC	5.7%	3.2%	+2.5%
CSL Limited	CSL	5.7%	5.8%	-0.1%
National Australia Bank Limited	NAB	5.5%	3.6%	+1.9%
Macquarie Group Limited	MQG	5.3%	3.0%	+2.3%
Transurban Group	TCL	5.2%	1.9%	+3.3%
Wesfarmers Limited	WES	4.5%	2.4%	+2.1%
JB Hi-Fi Limited	JBH	3.2%	0.2%	+3.0%
Woolworths Group Limited	WOW	3.2%	2.1%	+1.1%
Coles Group Limited	COL	3.0%	1.1%	+1.9%
EQT Holdings Limited	EQT	2.9%	na	+2.9%
ASX Limited	ASX	2.5%	0.5%	+2.0%
Carsales.Com Limited	CAR	2.3%	0.4%	+1.9%
James Hardie Industries PLC	JHX	2.2%	0.8%	+1.4%
Mirvac Group	MGR	2.2%	0.4%	+1.8%
Telstra Group Limited	TLS	2.2%	2.2%	0.0%
Goodman Group	GMG	2.1%	1.6%	+0.5%
Woodside Energy Group Ltd	WDS	2.1%	2.8%	-0.7%
Region Group	RGN	2.0%	0.1%	+1.9%
		75.6%	**49.2%**	

As has been mentioned in the above report, the portfolio is weighted to large cap (top 50) stocks. At 30 June 2023, 73% of the portfolio was allocated to top 50 stocks, with over 60% allocated to top 20 stocks. Large cap investments will often represent a large weighting in the portfolio given these stocks often have a sizable and liquid options market.

The portfolio includes a small allocation to stocks that are not in the S&P/ASX 200 Index. Among these include DJW's sister companies, AMCIL Limited (ASX: AMH) and Mirrabooka Investments Limited (ASX: MIR). These investments represented 2.4% at 30 June 2023 and provide some additional diversification as well as a fully franked dividend.

Market Cap Exposure (as at 30 June 2023)



Source: DJW, Iress, IIR.

Given the enhanced income objective of the Company, the portfolio is likely to have an overweight exposure to the Financials sector, which is highlighted by the allocations as at 30 June 2023. The Company has exposure to some of the larger more diversified mining companies that pay a regular dividend but there are a number of mining companies that do not fit the investment mandate and therefore the portfolio is typically heavily underweight the Materials sector. At 30 June 2023, the second largest overweight position was to the Consumer Discretionary sector with the Company having overweight positions in WES, ARB and JBH.

Sector Allocation (as at 30 June 2023)

Sector	DJW Portfolio	S&P/ASX 200 Index	Active Weight
Financials	33.9%	26.2%	+7.7%
Industrials	11.6%	7.8%	+3.8%
Materials	10.8%	24.7%	-13.9%
Consumer Discretionary	10.4%	6.4%	+4.0%
Health Care	9.0%	9.7%	-0.7%
Real Estate	7.8%	6.1%	+1.7%
Communication Services	6.6%	5.0%	+1.6%
Consumer Staples	6.2%	4.7%	+1.5%
Energy	3.2%	5.1%	-1.9%
Information Technology	0.4%	2.9%	-2.5%
Cash	0.1%	na	+0.1%

Source: DJW, Iress, IIR.

Portfolio Turnover

The Company is a medium-to-long term investor, however the options overlay results in the portfolio having a higher level of turnover than would typically be generated from a buy and hold investment approach. The level of turnover in any given year will be impacted by the level of options exposure and the number of options exercised combined with movements in the portfolio.

Annual Portfolio Turnover

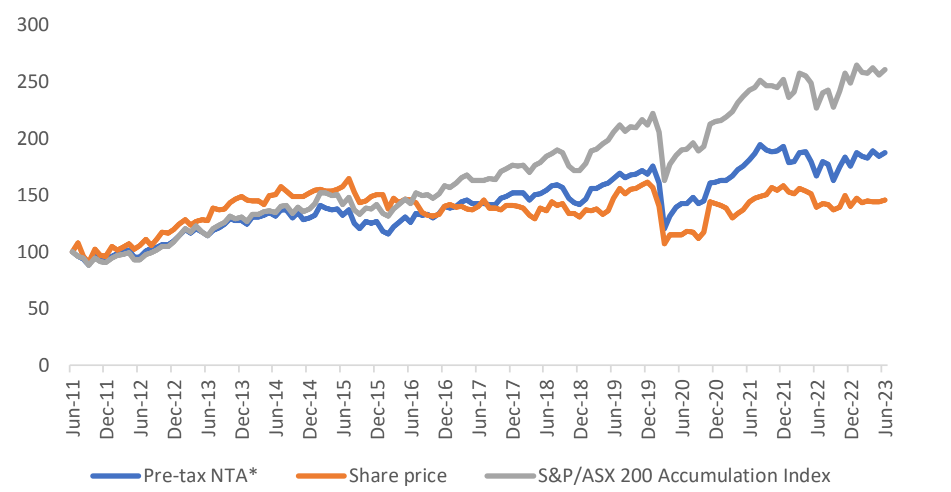
Financial Year	Annual Turnover
FY19	29.0%
FY20	28.2%
FY21	30.2%
FY22	31.2%
FY23	18.6%
Average	**27.5%**

PERFORMANCE ANALYTICS

The below chart shows the total cumulative return of the pre-tax NTA (NTA after tax on realised capital gains and before tax on unrealised gains) and the share price compared to the S&P/ASX 200 Accumulation Index. From a total return perspective, DJW's portfolio and shareholder return has underperformed the S&P/ASX 200 Accumulation Index over the period from 30 June 2011 to 30 June 2023. As noted in the above report, the portfolio will likely lag the market in strong market conditions, given options are more likely to be exercised in these market conditions. We have provided the performance of the portfolio and share price in differing market conditions below to show the performance of the Company in varying market conditions.

We note the Company does not have a mandate to outperform the S&P/ASX 200 Accumulation Index. The Company's mandate is to deliver a dividend yield above the market. We have provided the risk/return metrics of DJW compared to the S&P/ASX 200 Accumulation Index for illustrative purposes only.

DJW Cumulative Total Returns vs. S&P/ASX 200 Acc. Index (30 June 2011 to 30 June 2023)



*NTA includes tax on realised capital gains but not tax on unrealised gains.

The portfolio and share price have underperformed the S&P/ASX 200 Accumulation Index over both the short-and-long term periods to 30 June 2023. As shown in the above chart, the underperformance has compounded when compared to the market. The lower dividend amount paid since FY16 has seen the share price move from a premium to a discount. The Company paid an increased dividend in FY22 and FY23 on the prior years, however remains below dividends from years prior to FY20. This has resulted in the share price underperforming the portfolio over both the short-and-long term periods with the share price underperforming the S&P/ASX 200 Accumulation Index quite significantly over the long-term.

The portfolio is heavily weighted to the Financials sector, which is to be expected given the mandate, and typically underweight Resources. As such, the portfolio outperformance and underperformance will to some degree be driven by the sectors that are driving the market performance.

Performance Analytics (to 30 June 2023)	Pre-tax NTA*	Share Price	S&P/ASX 200 Accumulation Index
Cumulative Total Return:			
1 year	12.1%	4.3%	14.8%
3 year (p.a.)	9.7%	8.1%	11.1%
5 year (p.a.)	3.9%	1.3%	7.2%
10 year (p.a.)	5.1%	1.3%	8.6%
Standard Deviation:			
1 year	17.0%	12.3%	14.8%
3 year (p.a.)	14.4%	17.5%	13.7%
5 year (p.a.)	18.1%	19.5%	16.4%
10 year (p.a.)	14.9%	16.0%	13.9%

Performance Analytics (to 30 June 2023)	Pre-tax NTA*	Share Price	S&P/ASX 200 Accumulation Index
Sharpe Ratio:			
1 year	0.47	0.02	0.72
3 year (p.a.)	0.39	0.23	0.52
5 year (p.a.)	-0.01	-0.14	0.19
10 year (p.a.)	0.07	-0.17	0.33
Tracking Error:			
1 year	4.5%	7.8%	1.0%
3 year (p.a.)	4.1%	11.8%	1.0%
5 year (p.a.)	4.0%	11.6%	1.0%
10 year (p.a.)	3.2%	11.8%	1.0%

*NTA includes tax on realised capital gains but not tax on unrealised gains.

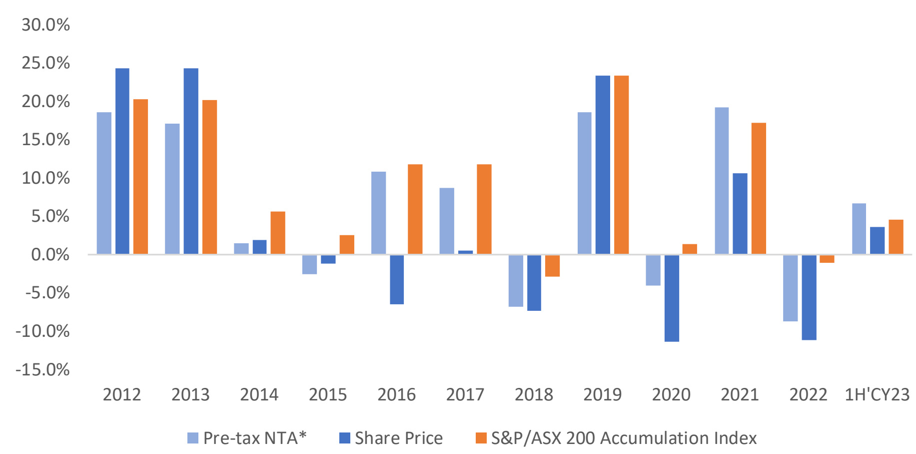
As we have mentioned in the above report, the options overlay strategy is expected to result in the performance of the portfolio lagging the market in strong markets. Below we take a look at the performance of the portfolio in varying market conditions. The market conditions represent the returns over rolling 12-month periods from 30 June 2011 to 30 June 2023.

Over the 12 year period, the portfolio has underperformed in all market conditions. One would expect that the enhanced income combined with the focus on large cap stocks would result in an improved performance in negative markets, however this has not been the case. The portfolio has provided little downside protection in negative markets with the portfolio only outperforming in 3.7% of negative market periods.

Performance of Pre-tax NTA in Differing Markets	Number of Periods	Periods of Outperformance	% of Periods of Outperformance
Strong Markets (10%+)	71	12	16.9%
Moderate Markets (0%-10%)	35	3	8.6%
Negative Markets (<0.0%)	27	1	3.7%

To provide further context we have provided the calendar year returns for the portfolio and share price compared to the S&P/ASX 200 Accumulation Index from CY12 to 1H'CY23. This chart highlights that the portfolio has typically underperformed in positive markets and typically underperformed in negative markets. We note this will to some degree be driven by which sector of the market is outperforming in weak markets.

Calendar Year Returns vs. S&P/ASX 200 Acc. Index (2012 to 1H'CY23)



*NTA includes tax on realised capital gains but not tax on unrealised gains.

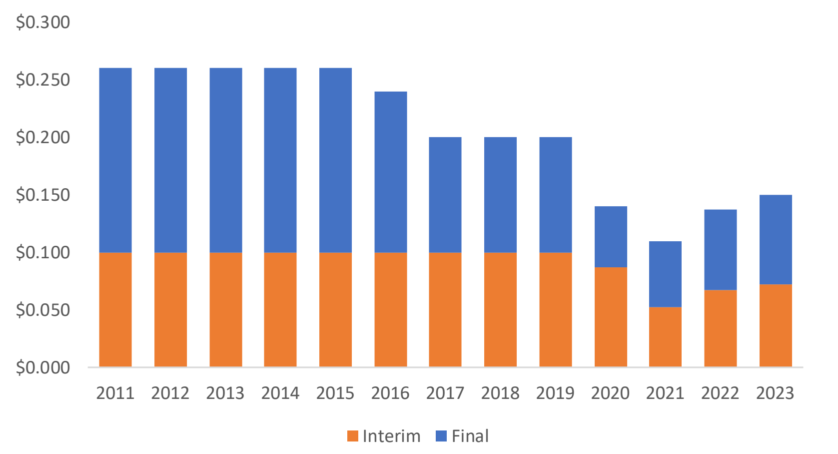
Dividends

After providing a consistent dividend of 26 cents per share for nine years, the Company cut the final dividend for FY16, resulting in the first decline in the annual dividend in the Company's history. With the operating profit per share not covering the full dividend amount, the dividend was being supplemented by realised capital gains. However, with the capital gains in large cap stocks being muted for a number of years, the realised capital gains reserve became depleted and the dividend eventually became unsustainable at those levels. So the final dividend was cut in FY16 and the dividend continued to decline until FY21 as a result of reduced dividend income, reduced option income and no realised capital gains reserve to supplement the dividend.

The dividend journey of DJW, highlights the impact of a Company seeking to maintain a dividend above sustainable levels. While this can be managed for a period of time, it can be fraught with danger and ultimately for DJW shareholders resulted in a prolonged period of declining dividends.

As a result of past events, the dividend will now be determined by taking into consideration the net operating result and the distribution of realised capital gains where available and prudent. The focus will be on delivering a dividend that is largely consistent with the net operating result. This approach means that the dividend may go up and down with the net operating result, unless there is sufficient realised capital gains to supplement the dividend. IIR views this as a much more prudent and sustainable approach to dividend payments.

Dividends Declared by Financial Year (FY11 to FY23)

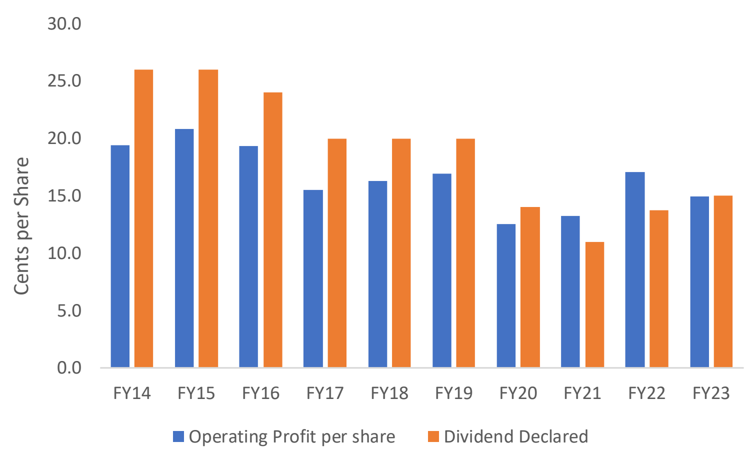


Source: DJW, Iress, IIR

The below highlights the Net Operating Result per share and the annual dividend declared from FY14 to FY23. The chart shows the difference that was required to be made up from the realised capital gains reserve to maintain the dividend from FY14 to FY20, and highlights the difference under the revised dividend policy, whereby the Net Operating Result per share has covered the dividend payment.

Over the last two financial years, the dividend has increased as a result of an increasing Net Operating Result per share. Investors should note that a large portion of the Net Operating Result is from dividend and distribution income received from companies in the portfolio. In the event, the income received through dividends and distributions declines substantially, this will likely impact the dividend payment.

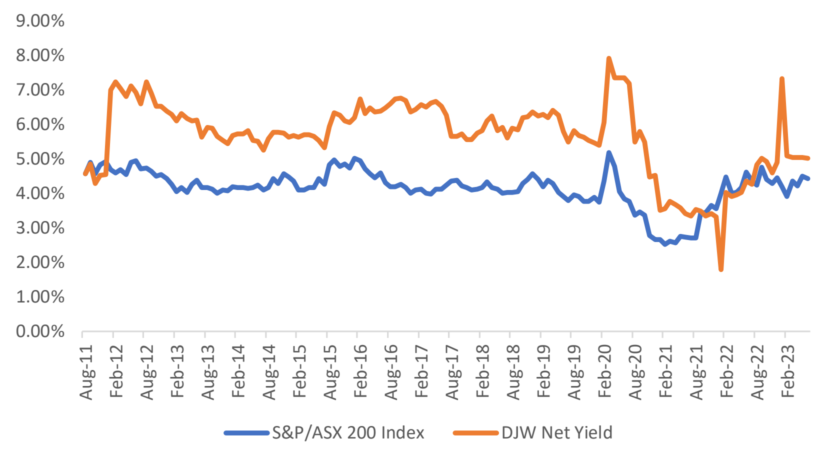
Net Operating Result vs. Full Year Dividend Declared



Source: DJW Annual Reports, IIR.

For a long period of time, DJW consistently delivered a yield above the S&P/ASX 200 Index, however the trailing 12-month net dividend yield compared to the market declined below the market from 31 October 2021 to 31 July 2022. The increase in dividends over the last two financial years has seen the trailing 12-month dividend yield rise above the market although the difference remains much smaller than historic levels.

DJW Net Trailing 12-month Dividend Yield Compared to S&P/ASX 200 Index

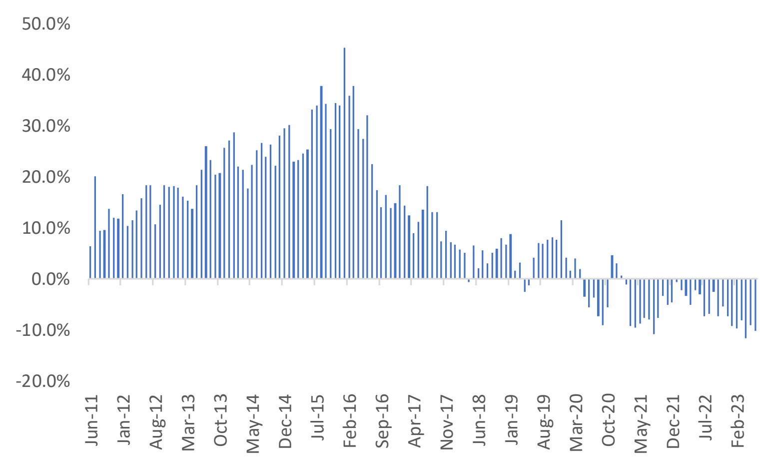


Source: DJW, Iress, IIR

Premium/Discount

The Company traded at a premium to pre-tax NTA for a prolonged period time reflecting the attractive yield of the Company, however the premium was eradicated when the dividends began being cut and has traded predominantly at a discount in recent years. The stabilisation of dividends and subsequent increase seems to have stemmed the extent of the dislocation between the share price and the pre-tax NTA. As the market gains confidence in the execution of the dividend policy and the recalibration of the options strategy we expect the discount will narrow, however given the amended dividend policy we do not expect the dividend yield to reach the highs above the market that it previously did unless the Board resort to their old ways, which saw the Company trade at a substantial premium.

Historical Premium/Discount (month-end)



Source: DJW, Iress, IIR

PEER COMPARISON

The below provides a comparison of the key features and performance of the relevant peers of DJW. In addition to LICs that have a focus on Australian large cap companies, we have included those LICs that have a focus on generating an enhanced income. While all the LICs in the peer group seek to deliver an attractive fully franked dividend, there are two other LICs that have a mandate to provide an enhanced yield to the market - Plato Income Maximiser Limited (ASX: PL8) and Clime Capital Limited (ASX: CAM). We note that there are a number of enhanced income and dividend focused equity strategies available through ETFs, both passive and active. For the purposes of this analysis we have focused on the closed-ended peers.

Listed Investment Company (LIC) Peer Group

LIC	Ticker	Structure	Management	Market Cap ($m)*
Australian Foundation Investment Company Limited	AFI	LIC	Internal	$8,769.3
Argo Investments Limited	ARG	LIC	Internal	$6,618.7
Australian United Investment Company Limited	AUI	LIC	Internal	$1,236.7
BKI Investment Company Limited	BKI	LIC	Internal	$1,365.8
Clime Capital Limited	CAM	LIC	External	$116.2
Djerriwarrh Investments Limited	**DJW**	**LIC**	**Internal**	**$739.9**
Flagship Investments Limited	FSI	LIC	External	$42.9
Perpetual Investment Company	PIC	LIC	External	$440.8
Plato Income Maximiser Limited	PL8	LIC	External	$793.0
Whitefield Industrials Ltd	WHF	LIC	External	$600.5
WAM Leaders Limited	WLE	LIC	External	$1,829.4

*As at 30 June 2023.

From a fee perspective, DJW's fees are competitive with the Company having an MER of 0.40% for the FY23 period. This is above a number of the other internally managed LICs, however is substantially below the externally managed LICs. Further to this, DJW does not pay a performance fee, which reduces fee leakage for investors.

Peer Group Fee Comparison

LIC	ASX Ticker	Management Fee, ex GST	Performance Fee	Performance Fee Hurdle
Australian Foundation Investment Company Limited	AFI	0.14%	0.0%	na
Argo Investments Limited	ARG	0.16%	0.0%	na
Australian United Investment Company Limited	AUI	0.10%	0.0%	na

Peer Group Fee Comparison				
LIC	**ASX Ticker**	**Management Fee, ex GST**	**Performance Fee**	**Performance Fee Hurdle**
BKI Investment Company Limited	BKI	0.18%	0.0%	na
Clime Capital Limited	CAM	1.00%	20.0%	ASX All Ordinaries Acc Index
Djerriwarrh Investments Limited	**DJW**	**0.40%**	**0.0%**	**na**
Flagship Investments Limited	FSI	0.00%	15.0%	Bloomberg Bank Bill Index
Perpetual Investment Company	PIC	1.00%	0.0%	na
Plato Income Maximiser Limited	PL8	0.80%	0.0%	na
Whitefield Industrials Ltd	WHF	0.23%	0.0%	na
WAM Leaders Limited	WLE	1.00%	20.0%	S&P/ASX 200 Acc Index

Source: ASX, IIR.

The below table shows the trailing 12-month net and grossed-up dividend yield as at 30 June 2023 for the peer group. DJW's yield was in the second half of the peer group with a number of other LICs having a greater yield, both on a net and grossed-up basis as at 30 June 2023. Of the three LICs with an enhanced yield mandate, DJW's yield was the lowest. We note that this includes PL8 which was trading at a substantial premium at 30 June 2023. If you based the dividend yield on the NTA it would be significantly higher. We have provided a chart below that compares the trailing 12-month dividend yield over the five years to 30 June 2023 for the three LICs with an enhanced yield objective.

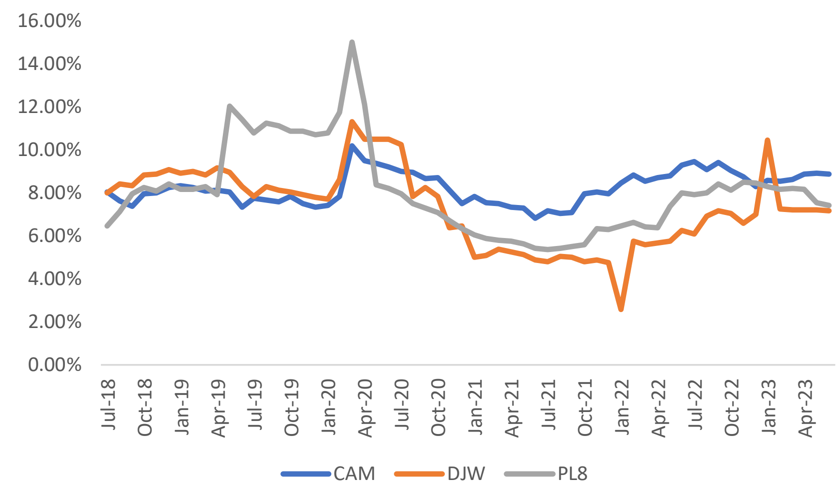
Trailing Dividend Yields & Premium/Discount as at 30 June 2023			
LIC	**Ticker**	**Trailing 12-month Net Dividend Yield**	**Trailing 12-month Grossed-Up Dividend Yield**
Australian Foundation Investment Company Limited	AFI	3.60%	5.05%
Argo Investments Limited	ARG	4.00%	5.46%
Australian United Investment Company Limited	AUI	3.86%	5.40%
BKI Investment Company Limited	BKI	4.66%	7.33%
Clime Capital Limited	CAM	6.31%	8.86%
Djerriwarrh Investments Limited	**DJW**	**5.21%**	**7.17%**
Flagship Investments Limited	FSI	5.61%	8.18%
Perpetual Investment Company	PIC	5.26%	8.09%
Plato Income Maximiser Limited	PL8	5.26%	7.42%
Whitefield Industrials Ltd	WHF	4.01%	5.69%
WAM Leaders Limited	WLE	5.78%	8.35%

Source: ASX, Iress, IIR.

The below chart shows the trailing 12-month grossed-up dividend yield of the three LICs in the peer group that have an enhanced income objective - CAM, DJW and PL8. Over the last two years, DJW's yield has been below the other two LICs. We note that PL8 listed in May 2017, so there is a ramp up in the initial period as the company commenced the payment of dividends and then a spike due to volatility in the share price during the COVID-19 market declines. DJW's yield has started to increase since the dividend has started to increase in the last two financial years.

We note that DJW is trading at a discount which has a positive impact on the yield, while PL8 is trading at an elevated premium which is weighing on the dividend yield. CAM has traded within a narrow band of the share price over the period and therefore has not had a material impact on the dividend yield.

Trailing 12-month Grossed-Up Dividend Yield of LICs with Enhanced Yield Objective



Source: Iress, IIR.

Looking at the portfolio performance of the peer group on a total cumulative return basis, DJW has performed in the second half of the peer group over the short-and-long term periods to 30 June 2023. When compared to the enhanced income strategies, PL8 has delivered the best returns over the 3 and 5 year period to 30 June 2023. Despite the issues with the DJW portfolio, DJW has outperformed CAM over the medium-and-long term periods.

Pre-tax NTA Risk & Returns (to 30 June 2023)

	AFI	ARG	AUI	BKI	CAM	DJW	FSI	PIC	PL8	WHF	WLE
Total Cumulative Returns											
1 year	12.4%	10.9%	13.6%	10.9%	17.2%	**12.1%**	12.6%	17.0%	15.6%	10.2%	9.6%
3 year (p.a.)	10.3%	11.4%	11.4%	10.6%	8.0%	**9.7%**	3.1%	13.2%	11.2%	7.2%	12.2%
5 year (p.a.)	6.9%	5.9%	6.8%	6.2%	3.8%	**3.9%**	4.9%	7.9%	8.3%	4.5%	8.9%
10 year (p.a.)	7.5%	7.4%	7.8%	6.2%	3.3%	**5.1%**	7.5%	na	na	7.1%	na
Standard Deviation											
1 year	15.7%	13.9%	16.6%	13.9%	15.2%	**17.0%**	26.8%	12.8%	14.1%	17.2%	13.0%
3 year (p.a.)	13.5%	12.8%	14.2%	12.6%	15.7%	**14.4%**	21.3%	14.3%	12.7%	15.1%	11.8%
5 year (p.a.)	15.4%	16.1%	17.1%	15.0%	20.9%	**18.1%**	22.0%	16.2%	15.7%	16.3%	13.8%
10 year (p.a.)	13.3%	13.3%	14.9%	12.8%	16.0%	**14.9%**	17.5%	na	na	14.3%	na

From a shareholder return perspective, DJW has lagged most of its peers which is unsurprising given the move from a substantial premium to a discount combined with the lower levels of dividend income since FY16. The shareholder returns for DJW were the lowest in the peer group over the 5 and 10 years periods to 30 June 2023.

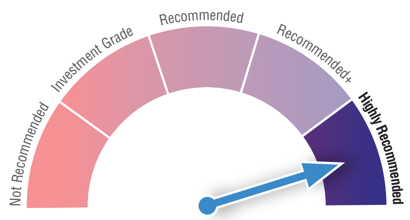
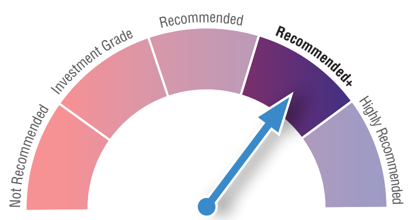
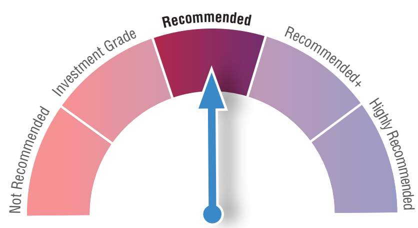
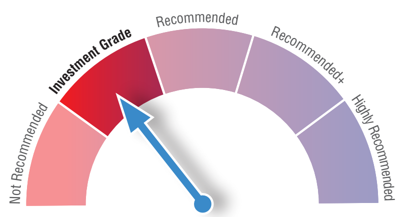
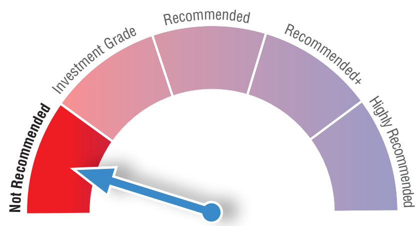
Share Price Risk & Returns (to 30 June 2023)

	AFI	ARG	AUI	BKI	CAM	DJW	FSI	PIC	PL8	WHF	WLE
Total Cumulative Returns											
1 year	-2.7%	3.2%	8.4%	9.2%	8.4%	**4.3%**	7.0%	6.2%	17.3%	7.0%	5.5%
3 year (p.a.)	8.6%	10.5%	11.0%	12.3%	8.2%	**8.1%**	1.6%	14.5%	16.7%	9.0%	17.8%
5 year (p.a.)	6.7%	5.7%	6.7%	7.5%	5.7%	**1.3%**	4.5%	5.8%	13.6%	6.7%	10.7%
10 year (p.a.)	6.7%	7.0%	8.2%	6.8%	3.9%	**1.3%**	7.2%	na	na	8.2%	na
Standard Deviation											
1 year	11.8%	11.3%	12.3%	11.5%	8.7%	**12.3%**	30.8%	11.5%	8.0%	6.1%	13.0%
3 year (p.a.)	13.1%	12.8%	12.7%	11.5%	11.1%	**17.5%**	24.2%	13.6%	10.3%	12.7%	15.0%
5 year (p.a.)	13.4%	14.4%	15.1%	16.2%	16.1%	**19.5%**	24.0%	16.0%	17.7%	14.7%	16.1%
10 year (p.a.)	11.0%	11.5%	13.3%	13.9%	13.1%	**16.0%**	19.4%	na	na	12.1%	na

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system.

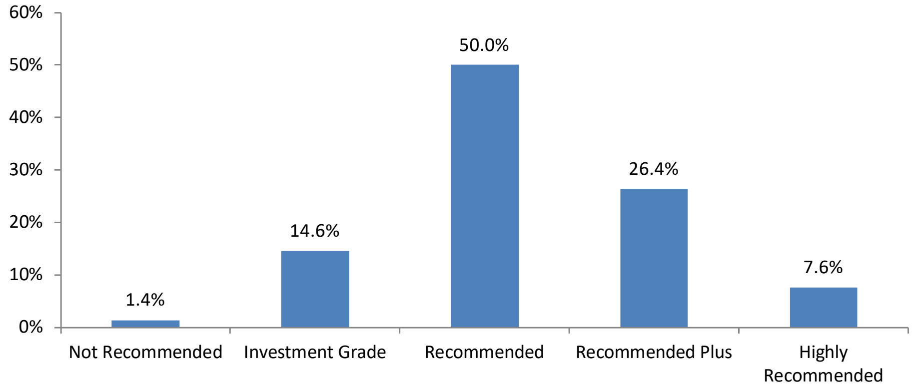
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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

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

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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