

## MANAGED INVESTMENTS

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### COORDINATOR'S MESSAGE

**By Scott McKenzie**

This edition of the Managed Investments Email Bulletin focuses on the much neglected Listed Investment Companies, companies that are themselves investors in Australian stocks.

Investing in LICs has to be the easiest way to obtain for yourself a diversified portfolio – with someone else worrying about stock selection. (Someone who is usually very good at that!)

Quite apart from LICs are A-REITS (we used to call them Listed Property Trusts). They also are worth a look – but not right now as they look awful with many having lost up to 80% of their October 2007 valuations. But there could be bargains to be had in the longer term in these A-REITS.

The one thing that we need to be really aware of is that, as Jonathan Morgan explains below, LICs can trade at prices above or below their Net Tangible Assets. For example, today (20 August) Argo is trading at \$6.33 per share while its portfolio of share investments bought separately is worth only \$5.74 per share. Argo is trading at a premium of 10.28% to the value of its assets. Investors are so confident in Argo that they will pay more for a share than it's worth.

Contrast this with Contango Microcap (CTN) which I have shares in: CTN is trading at a 17.44% discount to the value of its assets.

This adds a complication to our decision to invest in LICs. Check out the LIC Premiums/Discounts to NTA at: [http://www.asx.com.au/products/pdf/lmi/lic\\_premiums\\_discounts\\_to\\_nta\\_200907.pdf](http://www.asx.com.au/products/pdf/lmi/lic_premiums_discounts_to_nta_200907.pdf).

Thanks to Jonathan Morgan of the ASX for his outline of LICs below.

*Scott McKenzie is a financial planner and Vice President of the AIA.*

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# LISTED INVESTMENT COMPANIES (LICS)

By Jonathan Morgan

Combine the outcomes highlighted in the recently released ASX 2008 Share Ownership Study (SOS); which shows reduced confidence by investors to make decisions on what shares to buy or sell and some confusion regarding all the information available on shares and the scene may be set for a return to the straightforward basics of investing in ASX listed shares via a Listed Investment Company or LIC.

Listed on ASX themselves, LICs transfer all the benefits to investors as a result of being a listed entity. These include:

- Price transparency - real time pricing is available on ASX intra day
- Trading on the exchange as with any other share is as easy as talking with an adviser or trading through an on line broker and
- CHESS where trades are settled T+3 – that is, on 3 ASX business days after the trade is made funds must be paid received by sellers and stock received by the buyers.

Add these to the features of LICs generally; where a professional manager makes day to day, longer term investment or strategy decisions on behalf of the LIC shareholders or owners with the ability for investors to receive fully franked dividends and the recipe in today's environment can have broad appeal. The icing on top is that LIC managers typically perform these functions for very low cost or Management Expense Ratios (MERs) – with some in the vicinity of 0.12% with most generally below 1.00%, delivering an efficient return for investors.

Some of the traditional 'buy and hold' LICs, which have held portfolios of ASX listed shares for many years through many investment cycles have been listed on ASX for more than 50 years. Examples of these include Argo (ASX code ARG) and Australian Foundation Investment Company (ASX code AFI).

Sometimes put to the side as trading below their Net Tangible Asset (NTA) backing, (ie for example, a share price of 95 cents with an underlying value of one dollar in ASX listed securities per share equates to a 5% discount), LICs have not been viewed as attractive option by some. However that has changed with a revised view that having a cost effective structure and a professional LIC manager with a long term track record can contribute to outcomes for investors. As such, a number of the traditional LICs have traded up in price to be at a premium, with investors willing to pay a higher price for the quality of the underlying investments and a professional and experienced manager.

While the ASX Share Ownership Study does show an overall reduction in the percentage of Australians aged over 18 years+ investing in shares (from 46% 2006 to 41% 2008), the dynamics of this shift sees those that use direct exchange listed shares only remain constant (25%), while those choosing a combination of direct and unlisted managed funds investing in shares has fallen (16% to 11% over the same period).

This may well set the scene for LICs to be considered by advisers and investors as an ideal investment vehicle for those seeking cost effective access to ASX listed shares.

## So what are the key benefits of LICs?

**Low cost** – typically the management fee with LICs can be lower than their unlisted counterparts

**Easy diversification** – LICs provide investors with the ability to easily establish a diversified portfolio of assets.

**Experienced management** – Many LICs are seasoned investment managers or specialists who make investment decisions on behalf of their investors

**Exposure to specific investment philosophies and investment sectors** – Some LICs invest in particular sectors of the market. One example is Global Mining Investments (ASX code GMI) who invest in the resource sector and amongst their portfolio include Vale, the world's second largest mining company. Other LICs have a specific investment philosophy such as generating a consistent income for investors.

**Taxation Management** – Many LICs use a medium to long-term 'buy and hold' strategy. This may offer special tax treatments on the sale of investments and help mitigate some of the capital gains tax issues faced by unit holders in unlisted funds.

As with all investments, investors need to do their homework first. Key points to consider when looking at LICs include:

**Investment focus of the LIC** – An investment focus that is too narrow could be counterproductive if the goal is to diversify your portfolio

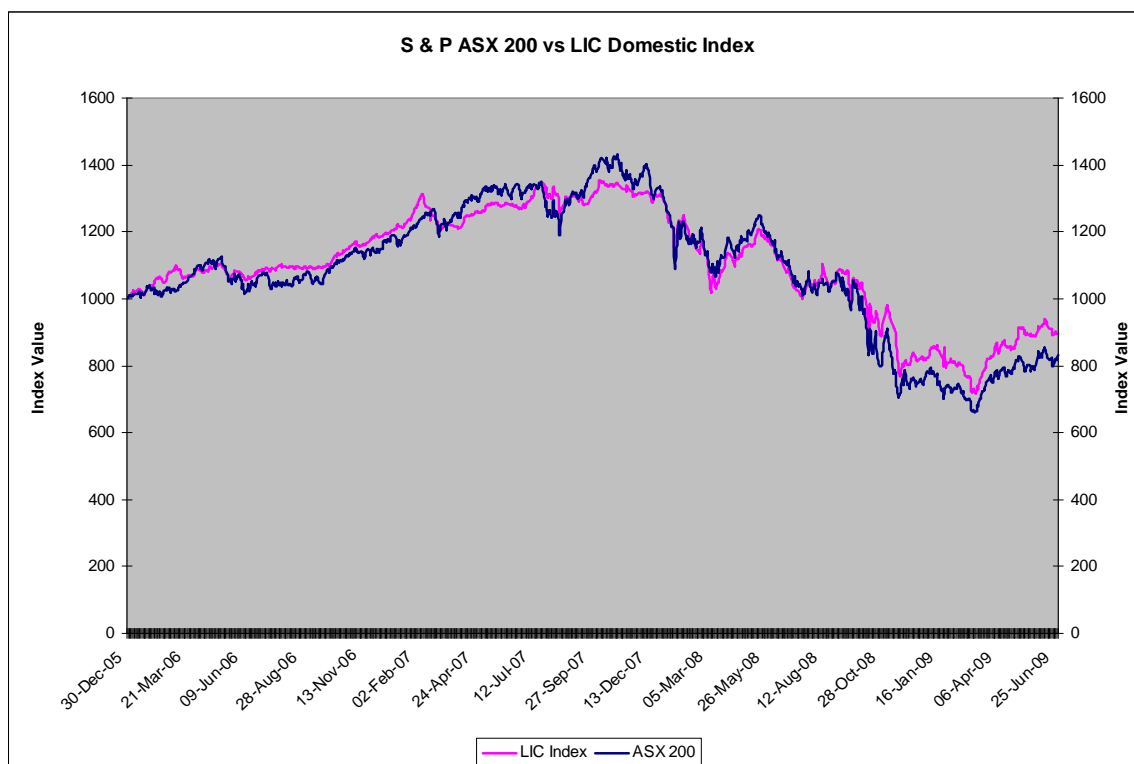
**Management experience and fees** – check to see who the fund manager is and their level of experience. Also how competitive and transparent are the management fees. For example i.e. is there a fee for out performance of the market. If so, what is it benchmarked against?

### How do I get started?

A good source of information is now available at [www.asx.com.au/managedfunds](http://www.asx.com.au/managedfunds) where you can review quarterly performance reports, the list of LICs available and the monthly Net Tangible Assets (NTA) table, which compares the last on-market price with the true value of the underlying portfolio.

You can also monitor the performance of the sector as ASX in conjunction with LIC issuers recently created an LIC index (XIC) with a domestic component (XID) covering LICs investing in Australian shares and an international component (XII) covering those LICs that substantially invest in international entities. The chart below shows the performance of the domestic LIC index compared with the broad S&P/ASX 200 index.

Index values are published on the [www.asx.com.au/managedfunds](http://www.asx.com.au/managedfunds) page on a daily basis.



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