



BBY Research - 19 May 14

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# Sector Review

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## Listed Investment Companies (LICs)

As Self-Managed Super Funds ("SMSFs") have become the fastest growing segment of the superannuation industry, Listed Investment Companies ("LICs") have become increasingly popular.

According to the Australian Financial Review (3rd May 2014): "Australia's booming SMSF industry is showing greater interest in LICs as more financial advisers recommend them and self-directed investors consider listed managed funds as an alternative to unlisted products."

LICs give SMSFs diversity which is difficult to achieve for the average SMSF because total assets in average SMSFs are around A\$1m.

A LIC is a listed investment vehicle that offers investors access to a diversified portfolio of shares in other companies also listed on the stock market. LIC managers charge fees.

LICs have a closed end structure, where the number of shares is fixed and new shares are neither issued nor cancelled as investors enter or leave the fund. The manager is not required to sell stocks in the portfolio to raise funds for any departing investor.

There are many drivers of the share price performance of LICs, which include (but are not exclusive to):

- Total shareholder returns – commonly measured over 10 years – a measure of the manager;
- Liquidity (market capitalisation);
- Premiums/discounts to Net Tangible Assets ("NTA");
- Fees – both management fees and performance fees (where applicable);
- Yield (including franking) and sustainability of dividends;
- Investor marketing programs.

This reports reviews these attributes in 24 domestic and 6 global LICs.

From the 30 LICs reviewed, we placed BUY recommendations on 8 companies.

These are (in alphabetical order): Australian Leaders Fund Limited ("ALF"); Cadence Capital Limited ("CDM"); Carlton Investments Limited ("CIN"); Contango Microcap ("CTN"); Diversified United Investment Limited ("DUI"); Naos Emerging Opportunities Company Limited ("NCC"); Ozgrowth Limited ("OZG"); and Westoz Investment Company Limited ("WIC").

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