

## LICs take a back seat to shares, cash

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Investors appear to be shying away from listed investment companies, and instead allocating more money to shares and cash in uncertain investment markets.

The value of Australian listed investment companies (LICs) declined 13.2 per cent in the year to August 31 to \$15.7 billion from \$18 billion, according to Australian Securities Exchange figures.

While the figures partly reflect the falls in the overall sharemarket and a reduction in the number of LICs listed on the Australian Stock Exchange, investor appetite has also been on the wane.

A survey by research group Investment Trends shows that between May 2007 and April 2010, trustees for a typical self-managed superannuation fund allocated as much as 5 per cent of portfolios to LICs, but in the year to May 2011 that has fallen to just 2 per cent.

The research shows that investment in shares, exchange traded funds (ETFs), cash and term deposits all increased during the same period in 2011.

"The key difference is that, with an ETF, you have the certainty that it will trade around its current market value. With shares, they will also trade at what the public deems the value of a company to be worth," says Drew Corbett, head of investment strategy at ETF provider BetaShares.

By contrast, LICs can trade at sharp discounts or at premiums to net asset values, and lack of transparency is often cited as a source of concern.

"There is no daily open mechanism to ensure that market makers can buy or sell LICs at their net tangible asset value.

"There is also no certainty that the LIC will either outperform or deliver the benchmark return," Corbett says.

Bell Potter investment specialist William Spraggett says that concerns about liquidity could also be contributing to the decline in LICs for self-managed super funds.

"Liquidity can be an issue depending on the type of LIC, but if you look at some of the bigger ones with a market capitalisation in excess of a billion, they tend to be more liquid," Spraggett says.

Despite the decline in the market capitalisation of LICs, Spraggett believes these investments are underrated and could still have their time in the sun, because of their low fee structure and diversification benefits.

"From my perspective, the closed-end structure means that they can also be invested for the long term," he says.

"It is likely that LICs and ETFs will gain increased traction with the financial planning community presuming the draft Future of Financial Advice legislation gets passed through Parliament," Spraggett says.

Australian Foundation Investment Company and Argo Investments are the two largest LICs listed on the ASX

WAM Capital founder Geoff Wilson and other LIC veterans back the view that the proposed scrapping of fund commissions will make LICs more attractive for financial planners to offer (once the incentive of commissions is removed) and create a more level playing field with unlisted managed funds.

Unlike exchange-traded funds, LICs are closed-ended vehicles and are not subject to external capital flows. This means that they do not regularly issue new shares or cancel shares in response to changes in investor demand.

They operate in a similar way to managed funds except that instead of buying units, shares are traded through a broker on an exchange.

LICs give investors exposure to actively managed and diversified assets such as local and international shares, private equity, and specialist sectors such as wineries and resources.

The Australian Financial Review



Liquidity concerns may be behind the drop in popularity of listed investment companies. **Photo: Michel O'Sullivan**

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