Perpetual Equity Investment Company Limited

LICs: now more popular than ever

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Demand for listed investment companies (LICS) continues to grow, as individual investors and SMSF trustees look for investment solutions that are easy to access and managed by experienced investment professionals.

So what exactly is a LIC?

A listed investment company (LIC) is a company that is listed on a stock exchange, which gives you exposure to an underlying portfolio of assets which can include shares, property and bonds.

So rather than applying for units in a fund, you buy shares in the investment company through your stockbroker, online broker or financial adviser just as you would direct shares.

There are close to 100 LICs now available in Australia, offering exposure to traditional investments like Australian and international shares, as well as more specialist asset classes like smaller companies and resources, as well as private equity, absolute return and shorting strategies.

The benefits are clear

It's not hard to see why LICs have become popular with investors, as they offer:

- **immediate exposure** to a diversified portfolio that is overseen by a professional investment manager – all in a single trade. This gives you the benefits of investing directly in shares, without the worry of managing your portfolio during difficult times.
- **typically lower management fees** than comparable managed funds. This potentially makes them a better value investment. This is due to LICs often having lower administration costs. Unlike a managed fund, a LIC doesn't have to process applications and issue/redeem units as investors move in and out of the company.
- **true long-term management** through being a 'closed-end' vehicle. This allows the LIC's manager to make long-term investment decisions, without having to worry about inflows and outflows in the short term.
- **tax-effective income** through being able to pay fully-franked dividends that have already been taxed at the 30% company tax rate.
- **consistent income potential**, as LICs can pay dividends out of profits from previous years. This allows them to 'smooth out' income for investors, unlike managed funds that usually pay out all income in the year it is earned.

What you need to look out for

Just like direct shares, **LICs are exposed to market movements**, and so there may be periods where the LIC falls in value. The total value of a LIC's underlying portfolio is called the net tangible asset (NTA) value. A LIC's share price is a function of demand and supply for those shares and at times, a LIC may trade at less than (discount) or more than (premium) it's NTA. If a LIC is trading at a discount to its NTA, this could provide an investor with an opportunity to buy more shares in the LIC at a 'discount' if you are confident that its share price will move up to or above its NTA.

LICs also **don't offer a regular savings plan** should you wish to add to your investment regularly, although many have a dividend reinvestment plan that you can use to increase your shareholding over time.

As with any investment, the same principles apply when considering whether to include LICs within your investment portfolio.

Having a clear understanding of a LIC's investment strategy, the experience of its investment manager, its dividend payout policies, and its total level of fees and costs, are just some of the important things that you should look closely at before investing.