

# Listed Investment Companies

## May 2023 performance review and sector update

Conviction ideas: Our preferences within each sector are based on numerous quantitative and qualitative factors. Table 1 on page 2 provides a sector update, with our estimated current net tangible assets (NTAs) derived from our model portfolios.

### Traditional LICs

The ASX 200 Index returned -2.5% throughout May and is up 3.1% YTD. The Information Technology, Communication Services and Consumer Staples sectors provided the best returns over the year so far, gaining 25.7%, 10.2%, and 8.1%, respectively. Traditional LICs for the month were down 1.2% on a Total Shareholder Return (TSR) basis and 2.7% on a pre-tax net tangible asset (NTA) basis.

Preferred LIC **BKI Investment Company** (BKI) returned -1.7% TSR and -4.4% on a pre-tax NTA basis. The fund currently trades at an estimated parity to NTA, above its 1- and 3-year average discounts of 0.7% and 3.1%. The fund has a trailing grossed up yield of 7.4%.

Another key preference, **Australian United Investment Company** (AUI), is our pick for those seeking a Traditional LIC trading at substantial discount. AUI currently trades at an estimated 6.9% discount to NTA compared with its 1- and 3-year average discounts of 6.4% and 5.2%, respectively. The fund has a trailing grossed up yield of 5.4%.

### Large Capitalisation

Key preference **WAM Leaders** (WLE) is trading at a 4.5% premium to NTA and has outperformed its benchmark over 3- and 5-year time horizons across both TSR and NTA growth. The fund has a trailing grossed up yield of 8.6%. Key exposures as at May 31 were Materials (27.8%), Financials (20.2%), Real Estate (8.9%), and Energy (8.7%).

A further key preference **L1 Long Short Fund** (LSF) is trading at an estimated 4.4% discount to NTA and continues to be the best outperformer on a 3-year time horizon across both NTA (11.8%) and TSR (20.9%) outperformance in our large cap universe. As of May 31, key contributors to the portfolio's performance included Allkem and James Hardie. Meanwhile, Capstone, Imdex, and Teck Resources all detracted during the month.

### Small Capitalisation and Specialist

Preferred Small Cap LIC **WAM Microcap** (WMI) is trading at a 11.1% premium to NTA, below its 1- and 3-year averages of 16.1% and 14.7% respectively. WMI has outperformed its benchmark for NTA and TSR over numerous time horizons.

Preferred specialist LIC **Tribeca Global Natural Resources** (TGF) is trading at an estimated discount to NTA of 20.8%. The fund's NTA declined 5.1% (post-tax) in May, with Precious Metals (-2.1%) the primary detractor. The LIC remains our preferred pick for its exposure to a diversified range of resources and an experienced investment team.

### International

Overseas markets, as measured by the MSCI World Index, rose 1.1% in May and finished up 13.5% year-to-date on an AUD adjusted basis, with the AUD depreciating -1.7% in May and down -1.4% for the year-to-date relative to the USD. Preferred LIC **PM Capital Global Opportunities Fund** (PGF) is trading at an estimated 0.3% premium to NTA, above its average 1- and 3-year discounts. The fund has delivered strong outperformance against its benchmark on both TSR and NTA growth across 1-, 3-, and 5-year time horizons.

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*Disclosure: Ord Minnett acted as Joint Lead Manager for each of the capital raisings for Tribeca Global Natural Resources Fund (February '23) and WAM Leaders (April '23) and received fees for acting in these capacities. Ord Minnett may do business with and receive commission and/or fees from companies that are the subject of this report.*

Table 1: Sector snapshot

## Listed Investment Companies coverage by sector

Listed Investment Companies coverage by sector																
Traditional LICs	Code	Share Price	Market Cap. (\$m)	Trailing Dividend (cents)	Trailing Dividend Yield	Trailing Grossed Up Yield	TSR since 1 Jun 23	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	May Post-tax Disc/Prem	MER	
Australian Foundat.	AFI	6.99	8670.0	25.0	3.6%	5.1%	-1.3%	7.06	-0.9%	7.07	0.1%	7.0%	8.4%	17.8%	0.16%	
Argo Investments	ARG	8.70	6573.4	33.5	3.9%	5.5%	0.2%	8.84	-1.6%	8.87	-2.1%	2.2%	2.7%	-4.3%	0.16%	
Australian United In	AUI	9.74	1230.4	37.0	3.8%	5.4%	0.3%	10.46	-6.9%	10.51	-7.6%	-6.4%	-5.2%	9.1%	0.10%	
BKI Investment Ltd	BKI	1.72	1357.9	8.9	5.2%	7.4%	1.2%	1.73*	0.0%	1.72	-1.5%	-0.7%	-3.1%	4.9%	0.18%	
Djerriwarrh	DJW	2.84	742.6	14.3	5.0%	7.2%	0.7%	3.08	-7.8%	3.10	-9.0%	-7.3%	-5.5%	-9.6%	0.45%	
Diversified United	DUI	4.86	1055.4	16.0	3.3%	4.7%	-0.2%	5.29	-8.1%	5.35	-9.0%	-7.5%	-5.2%	9.2%	0.12%	
Large Capitalisation	Code	Share Price	Market Cap. (\$m)	Trailing Dividend (cents)	Trailing Dividend Yield	Trailing Grossed Up Yield	TSR since 1 Jun 23	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	May Post-tax Disc/Prem	MER	
AMCIL Limited	AMH	1.00	310.3	3.5	3.5%	5.0%	2.1%	1.09	-9.1%	1.10	-11.4%	-2.7%	-3.1%	-3.0%	0.56%	
Clime Capital	CAM	0.83	115.6	5.2	6.3%	9.0%	-0.6%	0.84*	-1.8%	0.84	-1.2%	-0.7%	-2.0%	-0.6%	1.00%	
Cadence Capital	CDM	0.72	214.4	8.0	11.1%	15.9%	-3.4%	n.a	0.0%	0.82	-8.8%	-5.9%	-8.7%	-24.8%	1.00%	
Carlton Investments	CIN	28.25	747.9	107.0	3.8%	5.4%	-0.1%	n.a	n.a	36.54	-22.6%	-21.9%	-20.7%	-8.0%	0.10%	
Future Gen Ltd	FGX	1.07	434.5	6.5	6.1%	8.7%	-1.4%	n.a	n.a	1.27	-14.5%	-9.6%	-8.4%	-11.9%	0.00%	
L1 Long Short Fnd Ltd	LSF	2.76	1701.9	9.5	3.4%	4.9%	-1.1%	3.00*	-5.1%	2.93	-4.8%	-5.3%	-11.1%	-3.5%	1.44%	
Mirrabooka Invest.	MIR	2.74	524.9	12.0	4.4%	6.3%	-2.1%	2.82	-2.7%	2.82	-0.7%	5.3%	5.2%	8.9%	0.50%	
Ophir High Conviction	OPH	2.47	542.9	15.2	6.1%	6.3%	4.7%	2.72*	-7.7%	2.73	-13.6%	-4.7%	2.6%	na	1.23%	
Perpetual Equity Ltd	PIC	1.15	435.1	6.6	5.7%	8.2%	-3.8%	1.28*	-8.4%	1.25	-4.5%	-4.4%	-5.8%	-5.6%	1.00%	
Plato Income Max.	PL8	1.25	789.8	6.6	5.3%	7.5%	0.4%	1.05*	17.1%	1.03	21.1%	15.4%	12.0%	17.4%	0.80%	
Qv Equities Limited	QVE	0.94	212.9	5.1	5.5%	7.8%	3.9%	0.99*	-5.6%	0.99	-9.1%	-9.6%	-10.0%	-13.5%	0.90%	
WAM Capital Limited	WAM	1.41	1546.3	15.5	11.0%	15.8%	-9.1%	n.a	n.a	1.57	-1.5%	5.4%	13.5%	-0.2%	1.00%	
WAM Leaders Limited	WLE	1.41	1772.8	8.5	6.0%	8.6%	-2.8%	n.a	n.a	1.39	4.5%	5.5%	5.0%	3.9%	1.00%	
Whitefield Ltd	WHF	5.09	593.5	20.5	4.0%	5.8%	-0.2%	5.06	0.6%	5.09	0.2%	-0.1%	1.2%	8.7%	0.25%	
Small Capitalisation	Code	Share Price	Market Cap. (\$m)	Trailing Dividend (cents)	Trailing Dividend Yield	Trailing Grossed Up Yield	TSR since 1 Jun 23	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	May Post-tax Disc/Prem	MER	
Acorn Cap Inv Fund	ACQ	0.95	83.0	8.5	8.9%	12.8%	-6.9%	n.a	n.a	1.09	-6.4%	-5.0%	-4.6%	-7.5%	0.95%	
ECP Emerging Growth	ECP	1.00	18.3	5.0	5.0%	7.1%	-5.7%	1.31	-23.7%	1.33	-20.4%	-20.8%	-16.7%	-20.4%	1.00%	
Naos Small Cap Opp	NSC	0.69	95.6	4.8	7.0%	9.9%	3.0%	n.a	n.a	0.86	-22.1%	-18.1%	-19.0%	-19.3%	1.15%	
Forager Aust. Shares	FOR	1.19	120.6	10.5	8.9%	8.9%	-2.9%	1.43*	-15.0%	1.45	-15.9%	-10.3%	-11.9%	na	1.00%	
Glennon SML Co Ltd	GC1	0.48	24.6	3.0	6.3%	7.2%	-5.9%	n.a	n.a	0.70	-27.9%	-19.7%	-20.2%	-28.2%	1.00%	
Naos Emerg Opp	NCC	0.66	48.1	7.5	11.4%	13.8%	-5.7%	n.a	n.a	0.85	-17.6%	-13.5%	-10.6%	-19.5%	1.25%	
NGE Capital	NGE	0.76	27.4	0.0	0.0%	0.0%	0.0%	n.a	n.a	0.96	-21.1%	-20.7%	-22.9%	-25.9%	1.90%	
Ryder Capital	RYD	0.97	81.0	7.0	7.3%	10.4%	-4.5%	n.a	n.a	1.14	-11.5%	-13.0%	-11.0%	-17.6%	1.25%	
Spheria Emerging Co	SEC	1.88	113.1	8.7	4.6%	6.6%	2.7%	2.18*	-15.7%	2.22	-17.5%	-12.3%	-12.2%	-18.0%	1.00%	
WAM Research Ltd	WAX	1.00	199.9	10.0	10.1%	14.4%	-7.9%	n.a	n.a	0.97	11.0%	26.8%	33.4%	10.2%	1.00%	
WAM Microcap Ltd	WMI	1.34	282.7	10.3	7.6%	10.9%	-7.3%	n.a	n.a	1.30	11.1%	16.1%	14.7%	13.0%	1.00%	

Source: Company releases, Bloomberg, IRESS, OML estimates

Figures as at: 26 June 2023

\*NTA is last reported NTA, adjusted for any dividends past ex-date. Current premium and discount is based on the discount at date of last disclosed NTA date.

Table 1: Sector snapshot (cont.)

## Listed Investment Companies coverage by sector

International	Code	Share Price	Market Cap. (\$m)	Trailing Dividend (cents)	Trailing Dividend Yield	Trailing Grossed Up Yield	TSR since 1 Jun 23	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	May Post-tax Disc/Prem	MER
Argo Global Ltd	ALI	2.25	398.4	8.5	3.8%	5.4%	1.8%	2.33*	-5.6%	2.37	-6.8%	-2.4%	-3.4%	-6.0%	1.25%
Future Glb Invest Co	FGG	1.13	447.8	7.0	6.2%	8.8%	0.4%	n.a	n.a	1.42	-20.8%	-14.9%	-11.2%	-17.7%	0.00%
Global Value Fnd Ltd	GVF	1.12	195.9	6.6	5.9%	8.4%	9.3%	n.a	n.a	1.21	-15.1%	-3.6%	-4.1%	-11.4%	1.50%
Pengana International	PIA	0.97	249.1	5.4	5.6%	8.0%	-3.0%	1.22*	-18.7%	1.22	-18.2%	-16.1%	-10.8%	-16.2%	1.23%
MFF Capital Invest.	MFF	2.58	1498.1	8.5	3.3%	4.7%	-6.2%	3.32*	-22.9%	3.29	-16.3%	-16.8%	-13.1%	0.2%	0.55%
Magellan Global Fund	MGF <sup>A</sup>	1.60	2332.3	7.3	4.6%	4.6%	-0.6%	1.93*	-16.9%	1.92	-16.2%	-19.0%	na	na	1.35%
Platinum Asia Ltd	PAI	0.83	307.1	5.0	6.0%	8.6%	-2.4%	1.03*	-14.9%	1.01	-15.5%	-13.9%	-10.4%	-17.0%	1.10%
PM Capital Fund	PGF	1.80	735.3	10.0	5.6%	7.9%	0.0%	1.76*	2.3%	1.72	4.7%	-0.6%	-7.6%	14.1%	1.00%
Platinum Capital Ltd	PMC	1.25	369.4	6.0	4.8%	6.9%	-2.7%	1.55*	-18.8%	1.56	-17.4%	-14.8%	-11.6%	-15.7%	1.10%
Regal Asian Investments	RGB	2.01	404.1	10.0	5.0%	6.6%	2.3%	2.33*	-14.2%	2.25	-12.7%	-15.8%	-16.9%	0.0%	1.50%
WAM Global	WGB	1.83	646.5	11.3	6.1%	8.8%	-3.2%	n.a	n.a	2.21	-14.4%	-13.9%	-9.2%	-15.9%	1.25%
VGI Partners Global	VG1	1.63	554.4	9.0	5.5%	7.6%	1.9%	1.98*	-18.2%	1.96	-18.6%	-18.3%	-16.1%	na	1.50%

Specialist	Code	Share Price	Market Cap. (\$m)	Trailing Dividend (cents)	Trailing Dividend Yield	Trailing Grossed Up Yield	TSR since 1 Jun 23	Current Est. NTA	Current Estimated Disc/Prem	May NTA	May Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	May Post-tax Disc/Prem	MER
Bailador Tech Inv	BTI	1.14	165.2	10.9	9.6%	13.7%	4.6%	n.a	n.a	1.55	-29.7%	-25.6%	-20.9%	-27.3%	1.75%
Hearts and Minds	HM1	2.23	510.2	13.5	6.1%	8.6%	0.0%	2.85*	-21.8%	2.86	-22.0%	-16.5%	-4.9%	-24.1%	0.00%
Lowell Resource Fund	LRT	1.29	40.7	11.6	9.0%	9.0%	7.5%	1.47*	-14.7%	1.32	-9.3%	-16.8%	-14.3%	na	2.16%
Lion Selection Grp	LSX	0.44	61.4	3.5	8.0%	8.0%	-3.3%	n.a	n.a	0.63	-28.8%	-28.8%	-28.1%	-28.7%	1.50%
NAOS ex-50 Opport.	NAC	0.84	37.3	5.5	6.5%	9.3%	8.4%	n.a	n.a	1.09	-28.9%	-12.8%	-17.7%	-26.4%	1.75%
Regal Investment Fund	RF1	2.71	556.7	44.6	16.4%	16.4%	4.2%	2.91*	-6.5%	2.82	-7.8%	-1.0%	2.0%	na	1.50%
Sandon Capital Ltd	SNC	0.61	84.9	5.5	9.0%	12.9%	-4.7%	n.a	n.a	0.73	-12.1%	-11.9%	-14.2%	-13.7%	1.25%
Tribeca Glb Resources	TGF	1.77	138.7	12.5	7.1%	10.1%	-2.5%	2.21*	-0.21	2.17	-16.7%	-16.5%	-16.2%	-18.8%	1.50%
Thorney Opp Ltd	TOP	0.48	90.4	2.5	5.2%	7.4%	-7.8%	n.a	n.a	0.71	-27.0%	-27.5%	-24.6%	-24.5%	0.75%
WAM Active Limited	WAA	0.65	48.8	6.0	9.2%	13.2%	-3.0%	n.a	n.a	0.81	-17.6%	-5.7%	1.0%	-19.0%	1.00%
WAM Alternative Assets	WMA	1.00	195.2	4.5	4.5%	6.4%	-3.4%	n.a	n.a	1.22	-14.9%	-12.7%	-13.5%	-13.5%	1.20%

Source: Company releases, Bloomberg, IRESS, OML estimates

Figures as at: 26 June 2023

\*NTA is last reported NTA, adjusted for any dividends past ex-date. Current premium and discount is based on the discount at date of last disclosed NTA date.

<sup>A</sup>MGF has a target cash distribution yield of 4% p.a. paid semi-annually

## NTA performance calculation methodology

- Unless stated otherwise, NTA performance in this report is calculated on pre-tax NTA basis, which refers to net tangible assets after tax paid but before tax on unrealised gains as well as cash dividends paid during the relevant period. TSR performance figures from Bloomberg and calculated with re-invested dividends. Active return refers to the TSR relative to that of the comparative index.
- LIC performance measurements reflect performance after all operating expenses and taxation. Using index benchmarks often understates performance as the indices used are before all operating expenses and tax. Total shareholder returns are often negatively impacted by capital events such as options, DRPs, share purchase plans and placements. Dividend yields contained within are historical and are not an indication of future dividend payments.

Fig. 1: LIC performance table (May 2023)

Code	Company	1 Year			3 Year (annualised)			5 Year (annualised)		
		NTA performance	TSR Performance	Avg. Prem/Disc	NTA performance	TSR Performance	Avg. Prem/Disc	NTA performance	TSR Performance	Avg. Prem/Disc
AFI	Australian Foundat.	2.6%	-9.9%	7.0%	10.8%	8.7%	8.4%	7.2%	7.2%	5.6%
ARG	Argo Investments	0.8%	-4.4%	2.2%	11.6%	8.8%	2.7%	6.2%	5.8%	1.5%
AUI	Australian United In	4.1%	3.2%	-6.4%	12.1%	11.1%	-5.2%	7.2%	7.0%	-5.1%
BKI	BKI Investment Ltd	2.2%	5.5%	-0.7%	10.7%	10.2%	-3.1%	6.4%	7.3%	-3.0%
DJW	Djerriwarrh	2.3%	-4.5%	-7.3%	9.8%	7.9%	-5.5%	4.0%	0.8%	-1.5%
DUI	Diversified United	5.1%	5.0%	-7.5%	10.6%	8.1%	-5.2%	7.8%	7.4%	-5.1%
Code	Company	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc
AMH	AMCIL Limited	3.3%	-12.5%	-2.7%	7.7%	6.6%	-3.1%	6.6%	5.8%	-4.7%
CAM	Clime Capital	3.1%	2.1%	-0.7%	8.0%	8.6%	-2.0%	3.9%	6.1%	-2.4%
CDM	Cadence Capital	-16.9%	-12.7%	-5.9%	7.0%	15.0%	-8.7%	-2.2%	-4.2%	-9.4%
CIN	Carlton Investments	-8.9%	-8.5%	-21.9%	11.1%	8.2%	-20.7%	2.4%	0.8%	-18.1%
FGX	Future Gen Ltd	-2.2%	-10.0%	-9.6%	8.4%	9.0%	-8.4%	4.5%	1.9%	-6.7%
LSF	L1 Long Short Fund	-6.2%	0.4%	-5.3%	23.2%	32.3%	-11.1%	10.5%	8.0%	-10.8%
MIR	Mirrabooka Invest.	3.2%	-8.7%	5.3%	10.5%	11.0%	5.2%	7.5%	5.9%	5.1%
OPH	Ophir High Cf	8.1%	-13.2%	-4.7%	4.7%	3.6%	2.6%	na	na	na
PIC	Perpetual Equity Ltd	0.9%	0.2%	-4.4%	10.5%	14.4%	-5.8%	7.7%	7.2%	-5.4%
PL8	Plato Inc Max Ltd.	1.4%	6.5%	15.4%	9.2%	13.8%	12.0%	5.9%	10.5%	7.7%
QVE	Qv Equities Limited	-6.3%	-6.4%	-9.6%	6.8%	9.7%	-10.0%	0.8%	0.6%	-9.3%
WAM	WAM Capital Limited	3.1%	-16.0%	5.4%	7.6%	0.2%	13.5%	4.1%	-1.0%	15.1%
WLE	WAM Leaders Limited	0.4%	-0.4%	5.5%	12.2%	16.7%	5.0%	9.0%	10.8%	1.0%
WHF	Whitefield Ltd	0.6%	-1.9%	-0.1%	8.0%	6.7%	1.2%	5.1%	6.8%	-1.7%
Code	Company	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc
ACQ	Acorn Cap Inv Fund	-10.6%	-13.5%	-5.0%	7.8%	14.2%	-4.6%	3.2%	6.2%	-7.6%
ECP	ECP Emerging Co	4.0%	-3.8%	-20.8%	2.0%	4.9%	-16.7%	5.7%	7.1%	-19.0%
NSC	Naos Smicap Com Ltd	-3.3%	-6.2%	-18.1%	15.7%	16.2%	-19.0%	4.4%	3.7%	-18.5%
FOR	Forager Aust Shs Fnd	2.1%	-3.5%	-10.3%	15.6%	14.7%	-11.9%	1.3%	-4.8%	-9.0%
GC1	Glennon SML Co Ltd	-11.2%	-26.0%	-19.7%	-3.0%	-4.7%	-20.2%	-7.0%	-8.4%	-17.6%
NCC	Naos Emerg Opp	-12.0%	-20.7%	-13.5%	5.8%	3.7%	-10.6%	-0.7%	-3.4%	-8.1%
NGE	NGE Capital Limited	-6.0%	-5.0%	-20.7%	16.2%	16.6%	-22.9%	3.8%	2.0%	-21.5%
RYD	Ryder Capital Ltd	-21.2%	-23.9%	-13.0%	-7.2%	-2.7%	-11.0%	-3.3%	-0.8%	-12.5%
SEC	Spheria Emerging Co	-0.9%	-9.2%	-12.3%	12.3%	16.0%	-12.2%	4.9%	3.0%	-12.8%
WAX	WAM Research Ltd	-0.2%	-20.5%	26.8%	7.2%	-1.6%	33.4%	3.9%	0.2%	28.9%
WMI	WAM Microcap Limited	1.6%	-11.1%	16.1%	8.4%	12.4%	14.7%	6.6%	7.0%	9.3%
Code	Company	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc
ALI	Argo Global Ltd	-2.1%	-5.8%	-2.4%	3.1%	3.0%	-3.4%	5.5%	8.0%	-6.9%
FGG	Future Glb Invest Co	7.9%	-3.2%	-14.9%	2.1%	2.5%	-11.2%	4.0%	-0.4%	-9.2%
GVF	Global Value Fnd Ltd	8.5%	-4.1%	-3.6%	12.6%	9.8%	-4.1%	8.1%	4.7%	-3.7%
PIA	Pengana Int Equ Ltd	14.0%	1.1%	-16.1%	2.6%	3.2%	-10.8%	4.9%	2.9%	-11.2%
MFF	MFF Capital Inv Ltd	15.1%	14.2%	-16.8%	6.6%	1.7%	-13.1%	8.8%	5.4%	-10.1%
MGF <sup>A</sup>	Magellan Global Fund	14.6%	15.5%	-19.0%	na	na	na	na	na	na
PAI	Platinum Asia Ltd	4.6%	5.1%	-13.9%	2.7%	1.9%	-10.4%	1.4%	-2.3%	-7.3%
PGF	Pm Capital Fund	8.2%	20.0%	-0.6%	21.1%	33.2%	-7.6%	11.1%	12.5%	-9.6%
PMC	Platinum Capital Ltd	5.4%	2.2%	-14.8%	7.9%	6.0%	-11.6%	2.1%	-4.0%	-5.6%
RG8	Regal Asian Investments	5.7%	12.6%	-15.8%	-1.1%	1.4%	-16.9%	na	na	na
WGB	WAM Global	5.4%	3.6%	-13.9%	3.8%	2.2%	-9.2%	na	0.4%	na
VG1	VGI Partners Global	9.5%	8.0%	-18.3%	-2.7%	-5.9%	-16.1%	0.9%	-3.2%	-10.1%
Code	Company	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc	NTA Performance	TSR Performance	Avg. Prem/Disc
BTI	Bailador Tech Inv	-17.9%	-14.8%	-25.6%	10.3%	14.1%	-20.9%	9.7%	9.2%	-23.3%
HM1	Hearts and Minds	7.7%	4.8%	-16.5%	-1.0%	-5.3%	-4.9%	na	na	na
LRT	Lowell Res Fund	-24.9%	-17.6%	-16.8%	19.9%	25.2%	-14.3%	14.9%	14.4%	-16.7%
LSX	Lion Selection Grp	-2.7%	3.2%	-28.8%	14.4%	7.4%	-28.1%	18.6%	9.5%	-22.2%
NAC	Naos Ex-50	13.9%	-11.1%	-12.8%	6.3%	5.7%	-17.7%	4.8%	1.2%	-17.4%
RF1	Regal Invest Fund	-11.0%*	-18.6%*	-1.0%	24.2%	23.7%	2.0%	na	na	na
SNC	Sandon Capital Ltd	-13.5%	-17.5%	-11.9%	4.3%	7.9%	-14.2%	1.2%	-0.5%	-12.8%
TGF	Tribeca Glb Resources	-22.9%	-30.3%	-16.5%	7.5%	14.8%	-16.2%	na	na	na
TOP	Thorney Opp Ltd	2.5%	7.7%	-27.5%	7.9%	5.4%	-24.6%	0.2%	-2.4%	-22.3%
WAA	WAM Active Ltd	-2.5%	-21.5%	-5.7%	2.0%	-4.6%	1.0%	1.0%	-3.9%	0.7%
WMA	WAM Alternative Assets	2.1%	-2.8%	-12.7%	7.5%	17.8%	-13.5%	5.5%	10.7%	-18.8%

Source: Bloomberg, IRESS, OML

<sup>A</sup>Historical performance data for the Magellan Global Fund strategy is available on MGF summary page

## BKI Investment Company (BKI)

[www.bkilimited.com.au](http://www.bkilimited.com.au)

- BKI was listed on the ASX in December 2003 with an objective to provide investors with sound dividend yields and long-term capital growth.
- BKI invests in a diversified portfolio of Australian shares, trusts and interest-bearing securities, focusing on securities that are paying an increasing dividend stream.
- Key sector weights as at 31 May 2023 include Materials (13.7%), Banks (12.7%), Energy (11.3%), Financials (10.7%), Consumer Discretionary (8.3%), Industrials (8.5%), and Utilities (6.5%).
- The total shareholder return for the year ending 31 May 2023 was 5.5%, with pre-tax NTA increasing 2.2%. The active return (TSR) was 3.4%.

**Fig.2: BKI overview**

BKI Snapshot		Top Holdings		NTA Performance	
Price (31 May 2023)	\$1.70	Macquarie Group Ltd		1 Year	3 Year
Share price range (12 months)	\$1.60- \$1.88	BHP Group Limited	8.2%	BKI	10.2%
Shares on issue (Mn)	791.8	Commonwealth Bank.	8.1%	Active return	-1.3%
Market capitalisation (\$Mn)	\$1,346	APA Group	6.5%	NTA growth	10.7%
Pre-tax asset backing*	\$1.72	National Aust. Bank	6.2%	Active return	-0.9%
Post-tax asset backing*	\$1.62	New Hope Corporation	4.4%	NTA growth	6.4%
Premium/(Discount) to pre-tax NTA	-1.2%	Woodside Energy	4.3%	Active return	-1.1%
Premium/(Discount) to post-tax NTA	4.9%	Wesfarmers Limited	4.2%		
Dividend yield	5.2%	Transurban Group	3.8%		
Dividend per share (cents)	8.9	Sonic Healthcare	3.3%		
Franking	100%	Woolworths Group Ltd	3.2%		
Management expense ratio	0.18%	Telstra Corporation.	3.1%		

Source: IRESS, Bloomberg, OML, Company reports. Figures as at 31 May 2023. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

**Fig.3: BKI TSR vs All Ords Accum. Index**



Source: Bloomberg, OML

## Australian United Investment Company (AUI)

[www.aui.com.au](http://www.aui.com.au)

- AUI was founded in 1953 by the late Sir Ian Potter and The Ian Potter Foundation.
- AUI utilises a “traditional” investment philosophy, focusing on risk reduction by investing in a range of large and mid-cap companies on the ASX.
- Investments are chosen on their individual merits, with no pre-determined policy that any particular proportion of the capital will be invested in particular investment sectors.
- The total shareholder return for the year ending 31 May 2023 was 3.2%, with pre-tax NTA increasing 4.1%. The active return (TSR) was 1.1%.

Fig.4: AUI overview

AUI Snapshot		Top Holdings		%
Price (31 May 2023)	\$9.71	CSL Limited		9.2%
Share price range (12 months)	\$9.18- \$10.34	Commonwealth Bank.		8.9%
Shares on issue (Mn)	126.3	BHP Group Limited		8.0%
Market capitalisation (\$Mn)	\$1,227	Transurban Group		5.8%
Pre-tax asset backing*	\$10.51	RIO Tinto Limited		5.7%
Post-tax asset backing*	\$8.90	Woodside Energy		5.6%
Premium/(Discount) to pre-tax NTA	-7.6%	Diversified United		5.0%
Premium/(Discount) to post-tax NTA	9.1%	Wesfarmers Limited		4.7%
Dividend yield	3.8%	ANZ Banking Grp Ltd		4.3%
Dividend per share (cents)	37.0	Westpac Banking Corp		3.2%
Franking	100%			
Management expense ratio	0.10%			

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
AUI	3.2%	11.1%	7.0%	NTA growth	4.1%	12.1%	7.2%
Active return	1.1%	-0.5%	-0.6%	Active return	2.0%	0.5%	-0.3%

Source: IRESS, Bloomberg, OML, Company reports. Figures as at 31 May 2023. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

Fig.5: AUI TSR vs All Ords Accum. Index



Source: Bloomberg, OML

## WAM Leaders (WLE)

[www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au)

- WLE was incorporated in May 2016 and provides investors access to an actively managed investment portfolio, predominately comprised of large-cap companies in the S&P/ASX 200 Index and the investment management expertise of Wilson Asset Management. The investment portfolio will be comprised of companies with compelling fundamentals, a robust macroeconomic thematic and a catalyst.
- The investment process combines a top-down macroeconomic analysis with our proven fundamental research-driven and market-driven investment processes.
- Key sector exposures as at 31 May 2023 included Materials (27.8%), Financials (20.2%), Real Estate (8.9%), Energy (8.7%), Consumer Discretionary (7.4%), Health Care (6.9%), and Consumer Staples (5.8%).
- The total shareholder return for the year ending 31 May 2023 was -0.4%, with pre-tax NTA increasing 0.4%. The active return (TSR) was -3.3%.

Fig.6: WLE overview

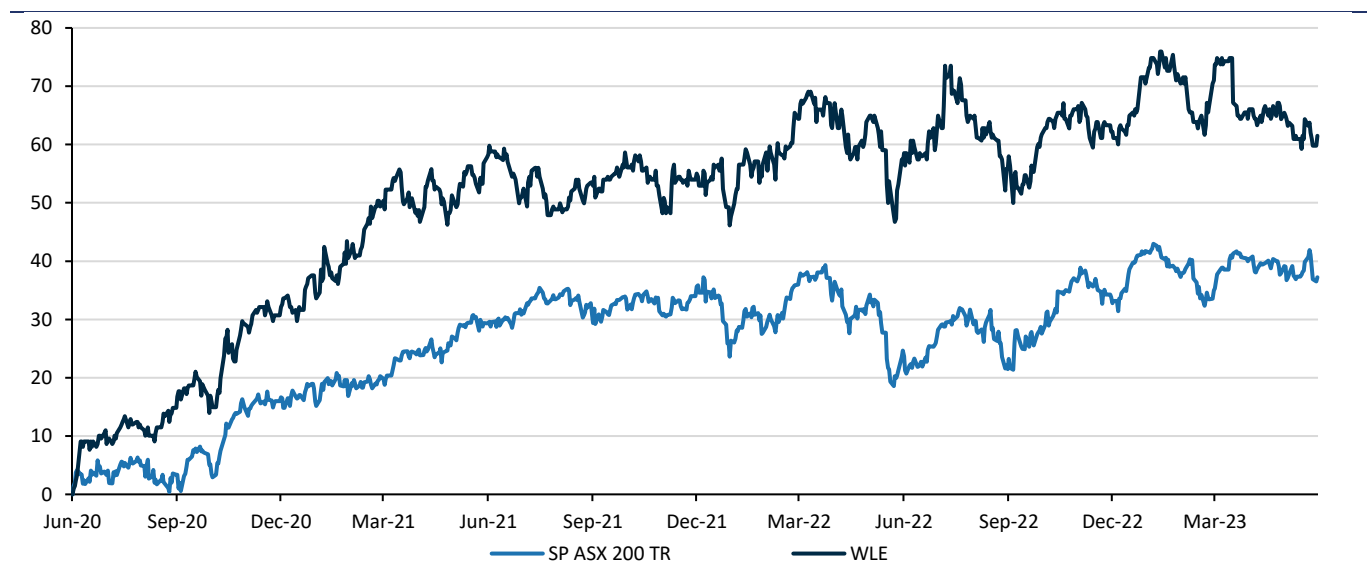
WLE Snapshot		Top Holdings	
Price (31 May 2023)	\$1.45	Aristocrat Leisure	Incitec Pivot
Share price range (12 months)	\$1.40- \$1.62	Atlas Arteria	Lendlease Group
Shares on issue (Mn)	1257.3	ANZ Banking Grp Ltd	Medibank Private Ltd
Market capitalisation (\$Mn)	\$1,823	BHP Group Limited	Macquarie Group Ltd
Pre-tax asset backing*	\$1.39	Bank of Queensland.	National Aust. Bank
Post-tax asset backing*	\$1.40	Commonwealth Bank.	RIO Tinto Limited
Premium/(Discount) to pre-tax NTA	4.5%	CSL Limited	South32 Limited
Premium/(Discount) to post-tax NTA	3.9%	Dexus	The Star Ent Grp
Dividend yield	6.0%	Insurance Australia Group Limited	Santos Ltd
Dividend per share (cents)	8.5	Iluka Resources	Treasury Wine Estates
Franking	100%		
Management expense ratio	1.00%		

\*\*listed in alphabetical order\*\*

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
WLE	-0.4%	16.7%	10.8%	NTA growth	0.4%	12.2%	9.0%
Active return	-3.3%	5.3%	3.3%	Active return	-2.5%	0.7%	1.5%

Source: IRESS, Bloomberg, OML, Company reports. Figures as at 31 May 2023. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

Fig.7: WLE TSR vs ASX ASX200 Accum. Index



Source: Bloomberg, OML

Ord Minnett acted as Joint Lead Manager to the capital raising in April 2023 and received fees acting in this capacity.

## L1 Long Short Fund (LSF)

[www.l1longshort.com](http://www.l1longshort.com)

- LSF listed in April-18 following a \$1.3bn raising. LSF has dual investment objectives to 1) seek to deliver strong, positive, risk-adjusted returns over the long term (being a period of more than five years); and 2) preserve capital.
- LSF utilises a fundamental, bottom-up research process to seek and identify mispriced securities with the potential to provide attractive risk adjusted returns. The manager may take short positions in companies it considers to be overvalued, or of low quality and/or over-gearred.
- The total shareholder return for the year ending 31 May 2023 was 0.4%, with pre-tax NTA decreasing -6.2%. The active return (TSR) was -2.5%.

Fig.8: LSF overview

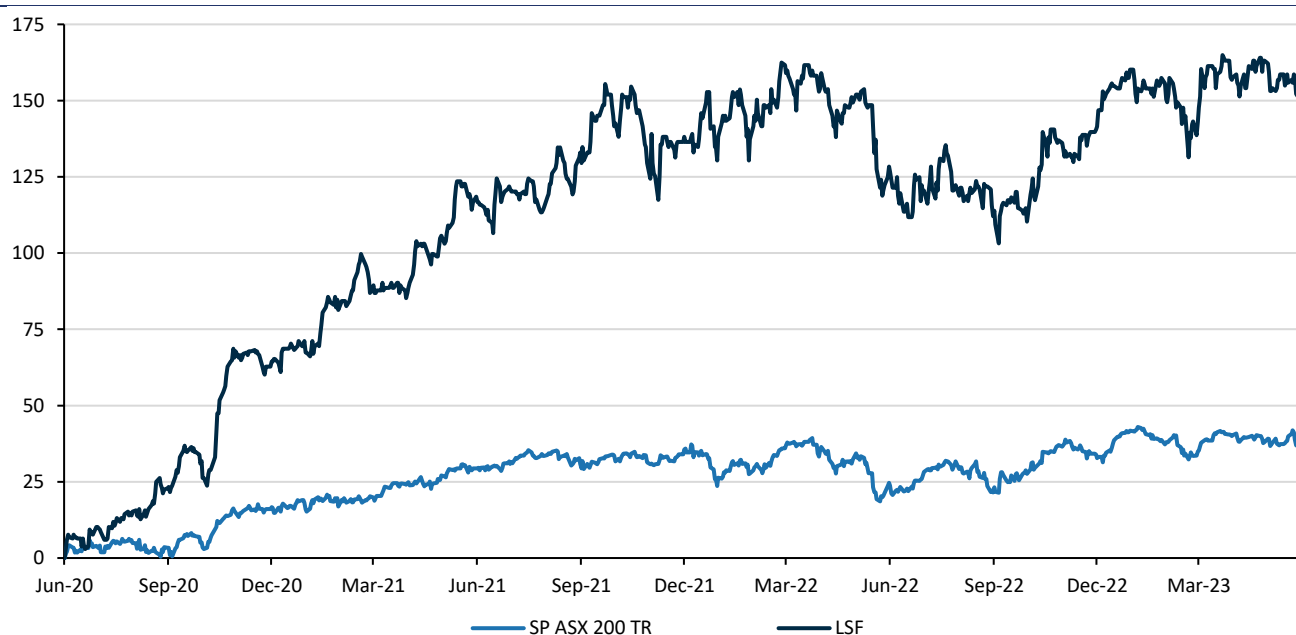
LSF Snapshot		Key contributors to portfolio performance		
Price (31 May 2023)	\$2.79	Allkem		
Share price range (12 months)	\$2.28- \$2.92	Capstone		
Shares on issue (Mn)	616.6	Imdex		
Market capitalisation (\$Mn)	\$1,720	James Hardie		
Pre-tax asset backing*	\$2.93	Teck Resources		
Post-tax asset backing*	\$2.89			
Premium/(Discount) to pre-tax NTA	-4.8%			
Premium/(Discount) to post-tax NTA	-3.5%			
Dividend yield	3.4%			
Dividend per share (cents)	9.5			
Franking	100%			
Management expense ratio	1.44%	*Alphabetical		

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
LSF	0.4%	32.3%	8.0%	NTA growth	-6.2%	23.2%	10.5%
Active return	-2.5%	20.9%	0.6%	Active return	-9.1%	11.8%	3.0%

Source: IRESS, Bloomberg, OML, Company reports. Figures as a 31 May 2023. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

Fig.9: LSF TSR vs ASX200 Accum. Index



Source: Bloomberg, OML



## WAM Microcap (WMI)

[www.wilsonassetmanagement.com.au](http://www.wilsonassetmanagement.com.au)

- WMI (the company) listed in Jun-16 following a \$154m raising (the maximum targeted). WMI (at the time) was WAMI's fifth LIC, but the first specialised LIC focusing on listed ASX companies with a market capitalisation of less than \$300m at the time of purchase.
- WMI seeks to provide investors exposure to undervalued growth companies identified using WAMI's research and market driven investment process. There are no investment limits on industry, sector, or geographical allocations. Short selling is permitted; however, it will not exceed 50% of the value of the portfolio without prior board approval.
- Key sector exposures as at 31 May 2023 included Consumer Discretionary (16.6%), Industrials (15.4%), Financials (13.6%), Information Technology (13.1%), and Health Care (10.2%).
- The total shareholder return for the year ending 31 May 2023 was -11.1%, with pre-tax NTA increasing 1.6%. The active return (TSR) was -5.4%.

Fig.10: WMI overview

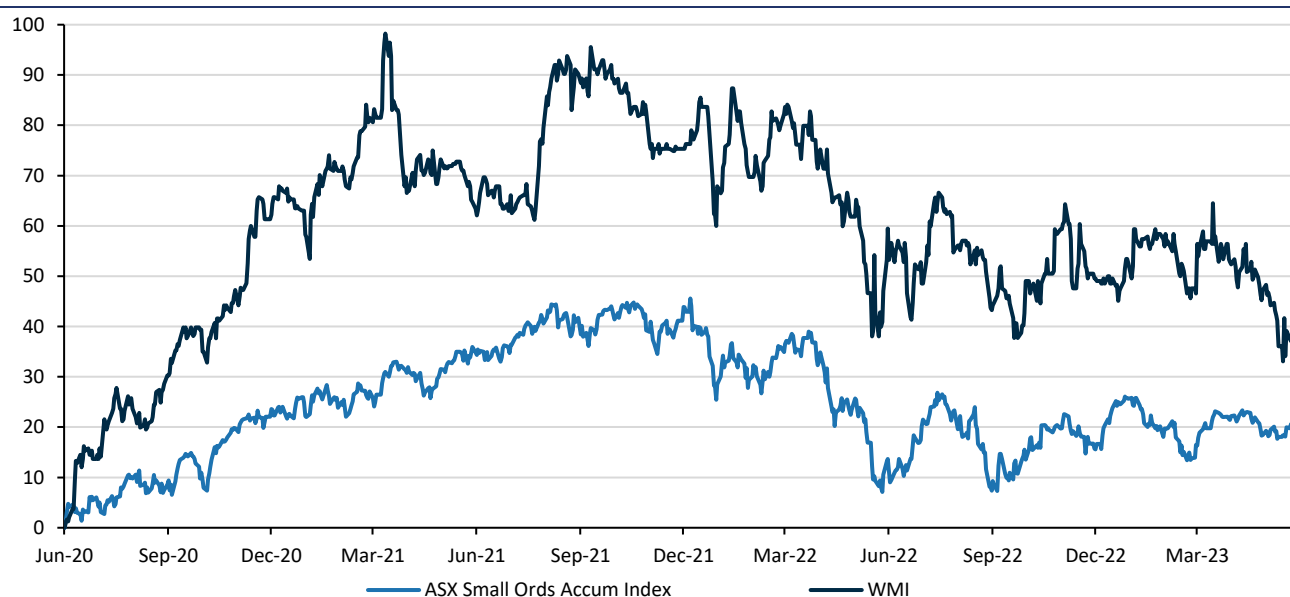
WMI Snapshot				Top Holdings			
Price (31 May 2023)			\$1.45	Aroa Biosurgery			Nexted Group
Share price range (12 months)			\$1.31- \$1.75	Close the Loop			Readytech
Shares on issue (Mn)			211.0	Cettire			Ridley Corporation
Market capitalisation (\$Mn)			\$306	DUG Technology Ltd			SG Fleet Group Ltd
Pre-tax asset backing*			\$1.30	Evolve Education Grp			Silk Laser Australia
Post-tax asset backing*			\$1.28	Experience Co Ltd			Smartpay
Premium/(Discount) to pre-tax NTA			11.5%	Generation Dev Group			Temple & Webster Ltd
Premium/(Discount) to post-tax NTA			13.0%	Ivegroup			The Reject Shop
Dividend yield			7.6%	LGI Group			Tuas Limited
Dividend per share (cents)			10.3	MMA Offshore			Xpansiv (UL)
Franking			100%				
Management expense ratio			1.00%				

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
WMI	-11.1%	12.4%	7.0%	NTA growth	1.6%	8.4%	6.6%
Active return	-5.4%	8.0%	4.6%	Active return	7.4%	4.0%	4.2%

Source: IRESS, Bloomberg, OML, Company reports. Figures as at 31 May 2023. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

Fig.11: WMI TSR vs ASX Small Ords Accum. Index



Source: Bloomberg, OML

## Tribeca Global Natural Resources (TGF)

[www.tribecaip.com/global-natural-resources](http://www.tribecaip.com/global-natural-resources)

- The manager, Tribeca Investment Partners, is a specialist small and mid-cap equities investment manager. TGF listed in Oct-18 following a \$158m raise.
- TGF seeks to actively deliver superior risk-adjusted returns to investors through a combination of long and short, credit and commodity positions in the highly volatile natural resources sector. TGF invests across the end-to-end value chain within the resources sector.
- The manager employs a high conviction, bottom-up research approach coupled with specialist commodities knowledge to take advantage of valuation mispricing and relative value of the natural resources Market. TGF seeks to maintain detailed coverage of ~300 companies across the eight natural resources industry segments.
- The largest net exposures by sector as of 31 May 2023 included Uranium, Base Metals, Precious Metals, Oil & Gas, Battery Metals, Diversified, and Carbon Credits.
- The total shareholder return for the year ending 31 May 2023 was -30.3%, with pre-tax NTA decreasing -22.9%. The active return (TSR) was -20.3%.

Fig.12: TGF overview

TGF Snapshot				Top Holdings			
Price (31 May 2023)			\$1.81	Agnico Eagles Mines		Glencore	
Share price range (12 months)			\$1.73- \$2.45	Alcoa Corp		Global Atomic	
Shares on issue (Mn)			78.6	Alpha HPA		Neo Performance Materials	
Market capitalisation (\$Mn)			\$142	Boss Resources		Teck Resources	
Pre-tax asset backing*			\$2.17	Cameco			
Post-tax asset backing*			\$2.23	Chalice Mining			
Premium/(Discount) to pre-tax NTA			-16.7%	Develop Global			
Premium/(Discount) to post-tax NTA			-18.8%	Energy Fuels			
Dividend yield			7.1%	Freeport-Mcmoran			
Dividend per share (cents)			12.5	Genesis Minerals			
Franking			100%				
Management expense ratio			1.50%				
				*Alphabetical			

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
TGF	-30.3%	14.8%	na	NTA growth	-22.9%	7.5%	na
Active return	-20.3%	-6.1%	na	Active return	-12.9%	-13.4%	na

Source: IRESS, Bloomberg, OML, Company reports. Figures as at 31 May 2023. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

Fig.13: TGF TSR vs MSCI ACWI Commodity Prod



Source: Bloomberg, OML

Ord Minnett acted as Joint Lead Manager to the capital raising in February 2023 and received fees acting in this capacity.

## PM Capital Global Opportunities Fund (PGF)

[www.pmcapital.com.au](http://www.pmcapital.com.au)

- Managed by PM Capital, PGF began trading on the ASX on 11 December 2013. PGF provides exposure to international equities with a portfolio size of approximately 40 holdings.
- Investment exposures as at 31 May 2023 include Global Domestic Banking (Europe & USA, 40%), Energy (15%), Gaming (13%), Industrials (13%), Industrial Metals (12%) and Housing Ireland & Spain (7%).
- The total shareholder return for the year ending 31 May 2023 was 20.0%, with pre-tax NTA increasing 8.2%. The active return (TSR) was 6.0%.

Fig.14: PGF overview

PGF Snapshot		Current stock example		%
Price (31 May 2023)	\$1.80	Apollo Global Management		na
Share price range (12 months)	\$1.43- \$1.88	Bank of America		
Shares on issue (Mn)	408.5	Cairn Homes		
Market capitalisation (\$Mn)	\$735	Freeport-McMoRan		
Pre-tax asset backing*	\$1.72	ING Groep		
Post-tax asset backing*	\$1.58	Shell		
Premium/(Discount) to pre-tax NTA	4.7%	Siemens		
Premium/(Discount) to post-tax NTA	14.1%	Wynn Resorts		
Dividend yield	5.6%			
Dividend per share (cents)	10.0			
Franking	100%			
Management expense ratio	1.00%			

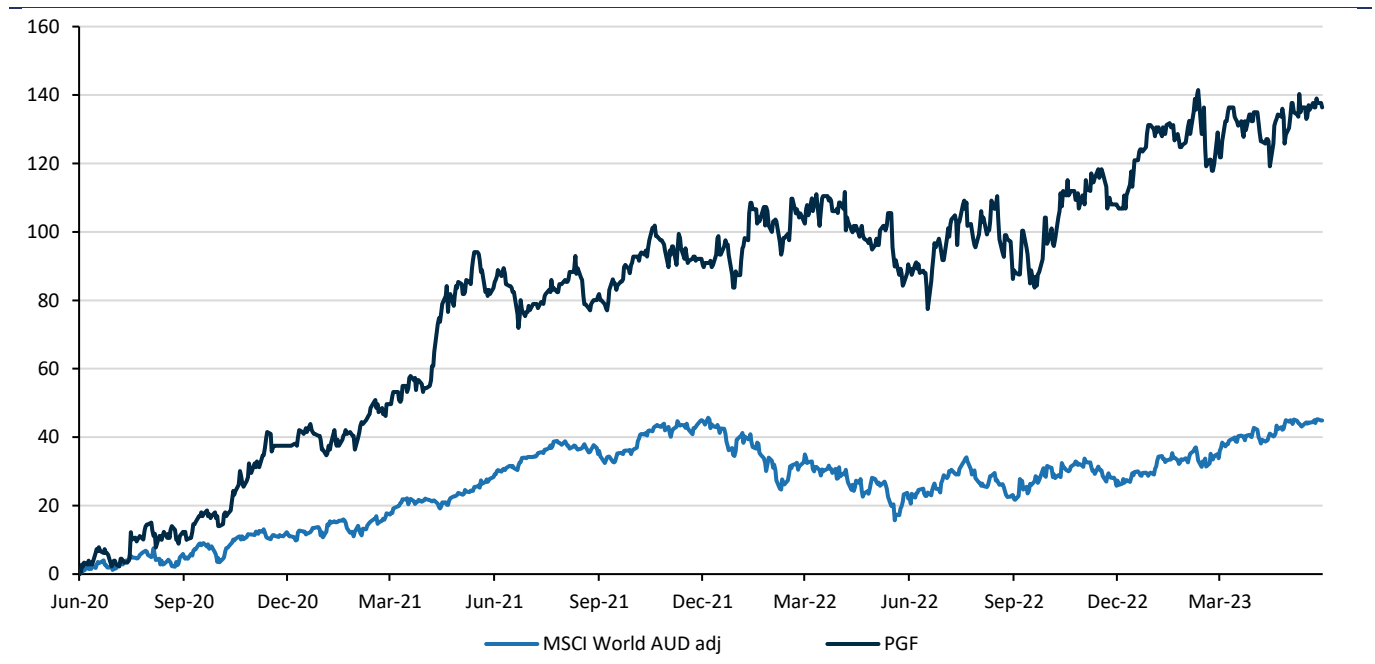
  

Total Shareholder Return	1 Year	3 Year	5 Year	NTA Performance	1 Year	3 Year	5 Year
PGF	20.0%	33.2%	12.5%	NTA growth	8.2%	21.1%	11.1%
Active return	6.0%	20.7%	0.7%	Active return	-5.8%	8.6%	-0.7%

\*\*listed in alphabetical order\*\*

Source: IRESS, Bloomberg, OML, Company reports. Figures as at 31 May 2023. Active returns refers to the TSR and NTA growth relative to that of the comparative index (see chart below).

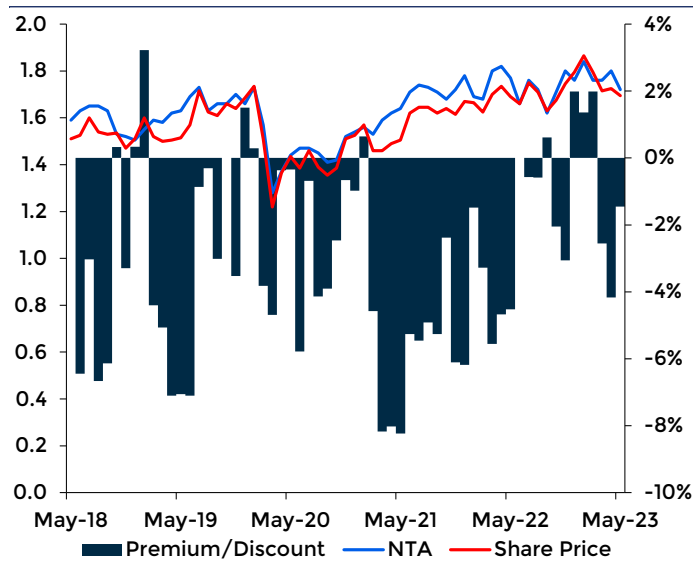
Fig.15: PGF TSR vs MSCI World Index (AUD adj.)



Source: Bloomberg, OML

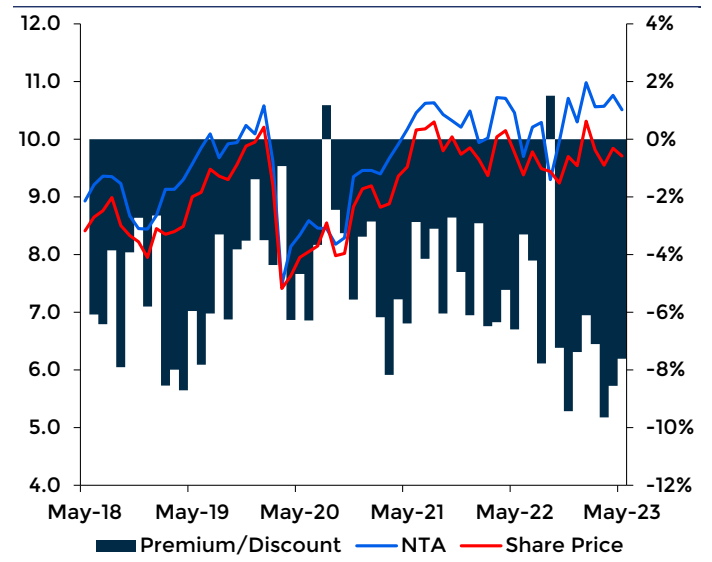
Appendix – Historical Premium/Discounts for Preferred LICs

Fig.16: BKI Investment Company (BKI)



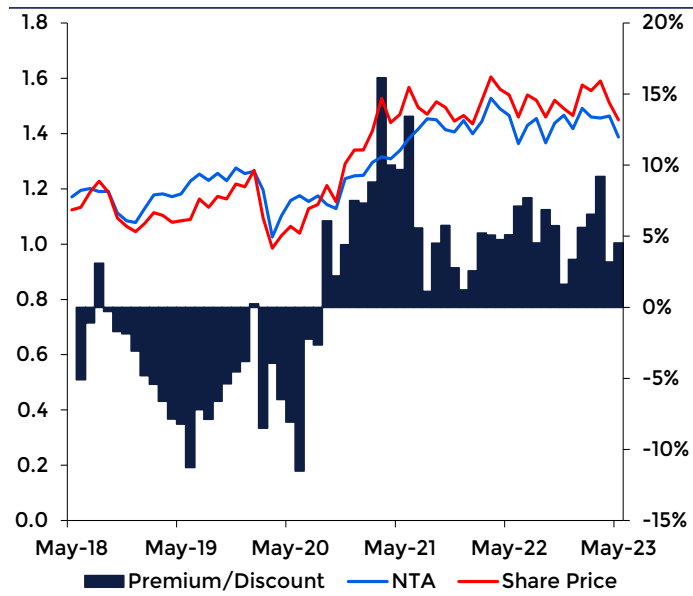
Source: Bloomberg, IRESS, OML

Fig.17: Australian United Investment Company (AUI)



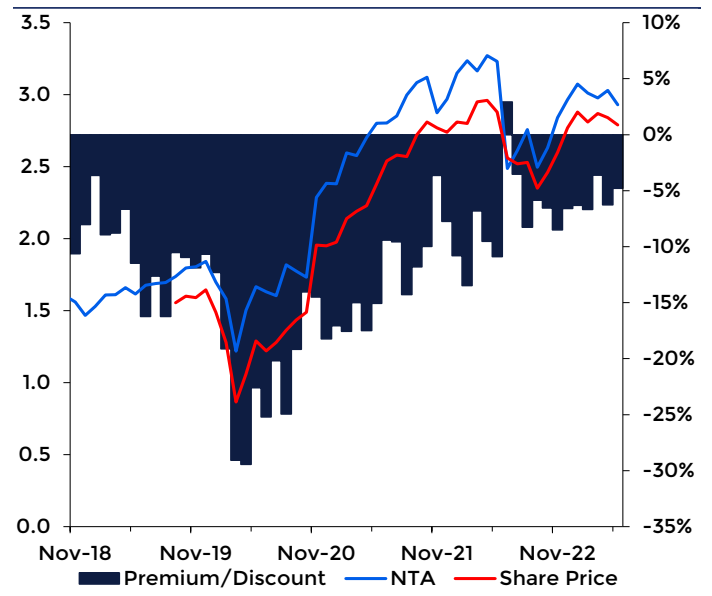
Source: Bloomberg, IRESS, OML

Fig.18: WAM Leaders (WLE)



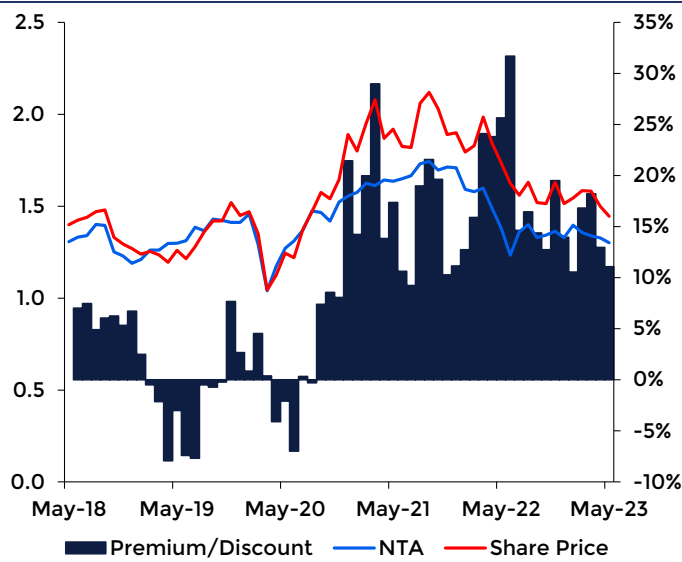
Source: Bloomberg, IRESS, OML

Fig.19: L1 Long Short Fund (LSF)



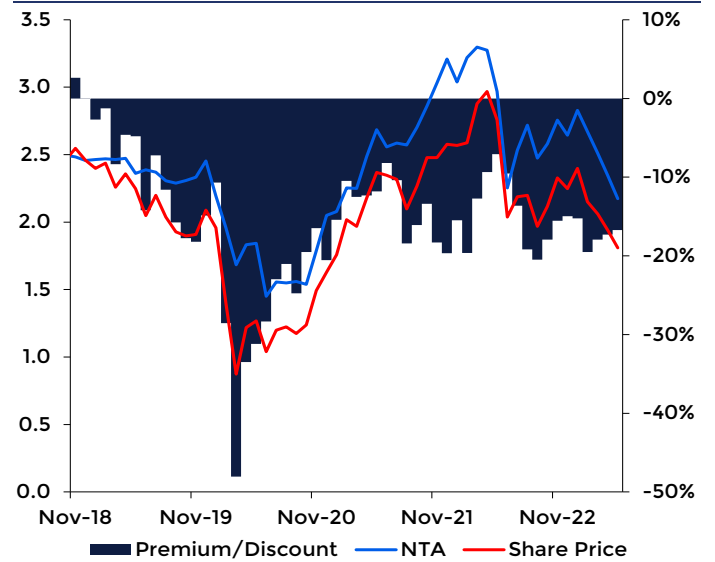
Source: Bloomberg, IRESS, OML

Fig.20: WAM Microcap (WMI)



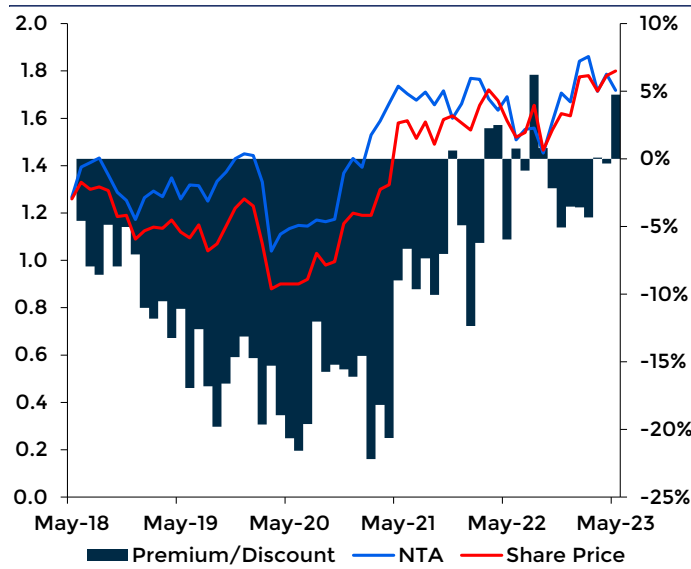
Source: Bloomberg, IRESS, OML

Fig.21: Tribeca Global Natural Resources (TGF)



Source: Bloomberg, IRESS, OML

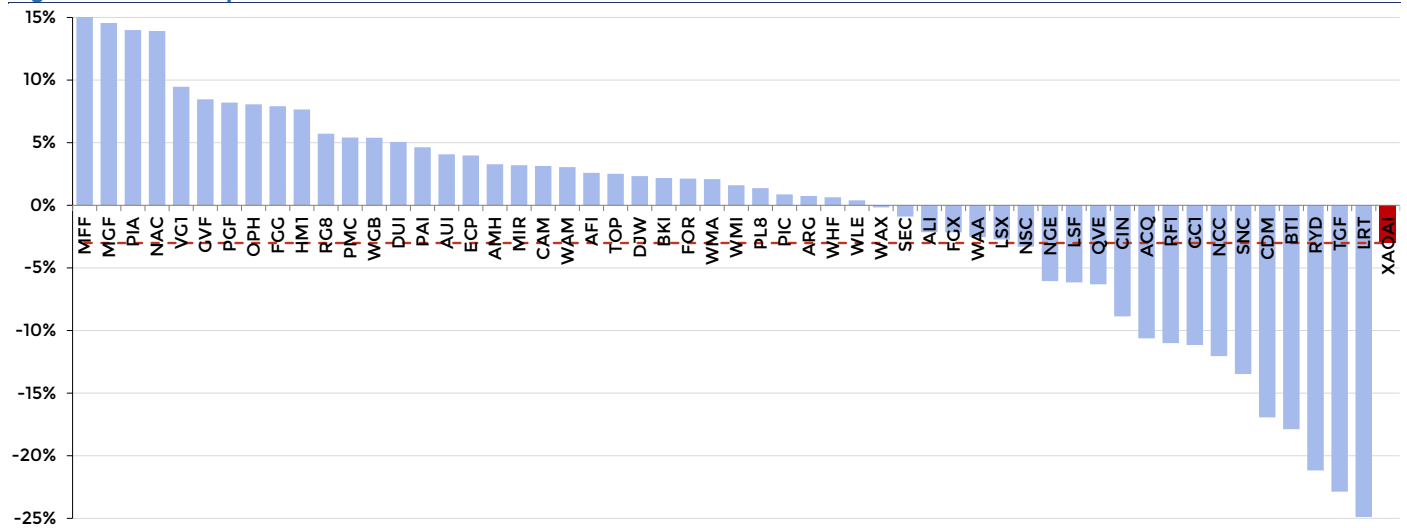
Fig.22: PM Capital Global Fund (PGF)



Source: Bloomberg, IRESS, OML

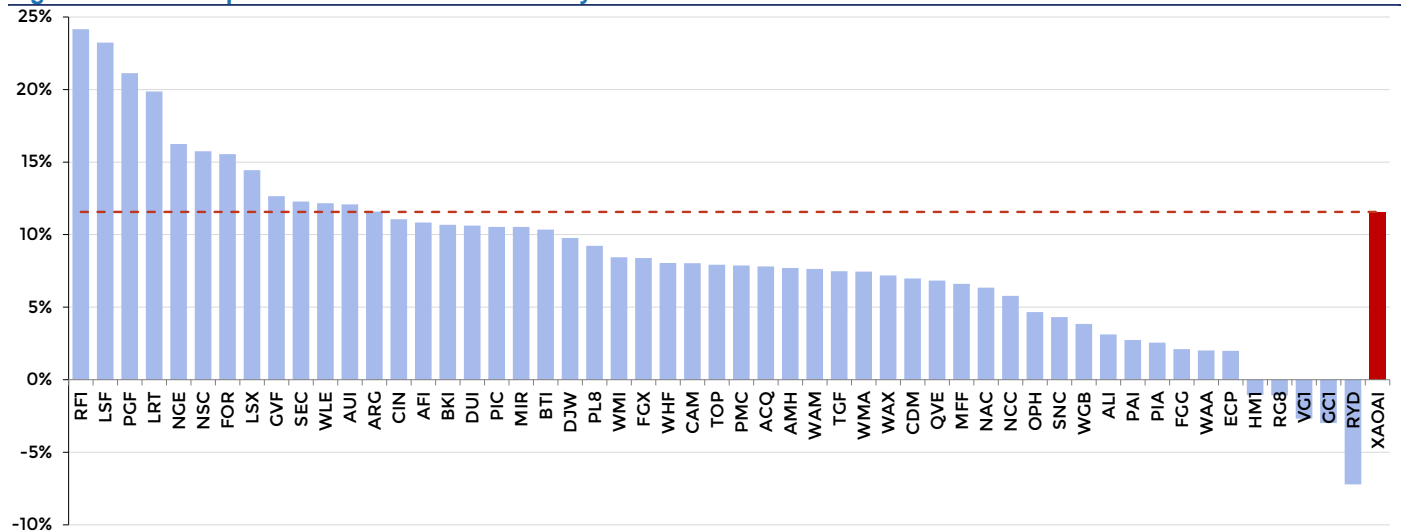
### 1, 3 and 5-year NTA & total shareholder return growth

**Fig.23: CAGR NTA performance – % return over 12 months**



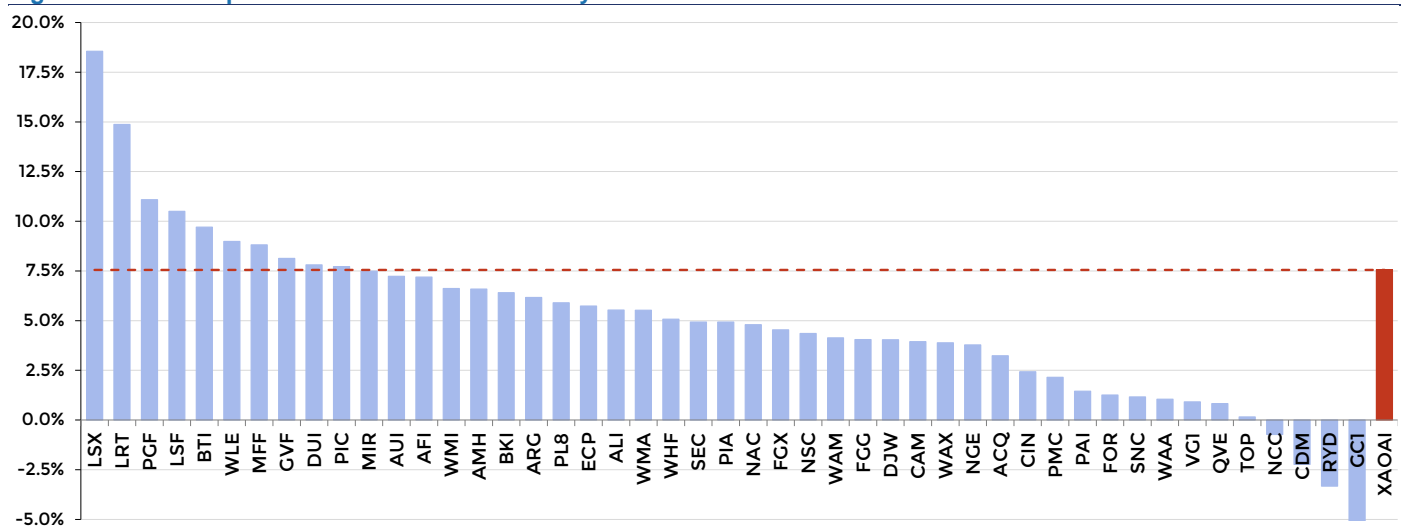
Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023.

**Fig.24: CAGR NTA performance – % return over 3 years**



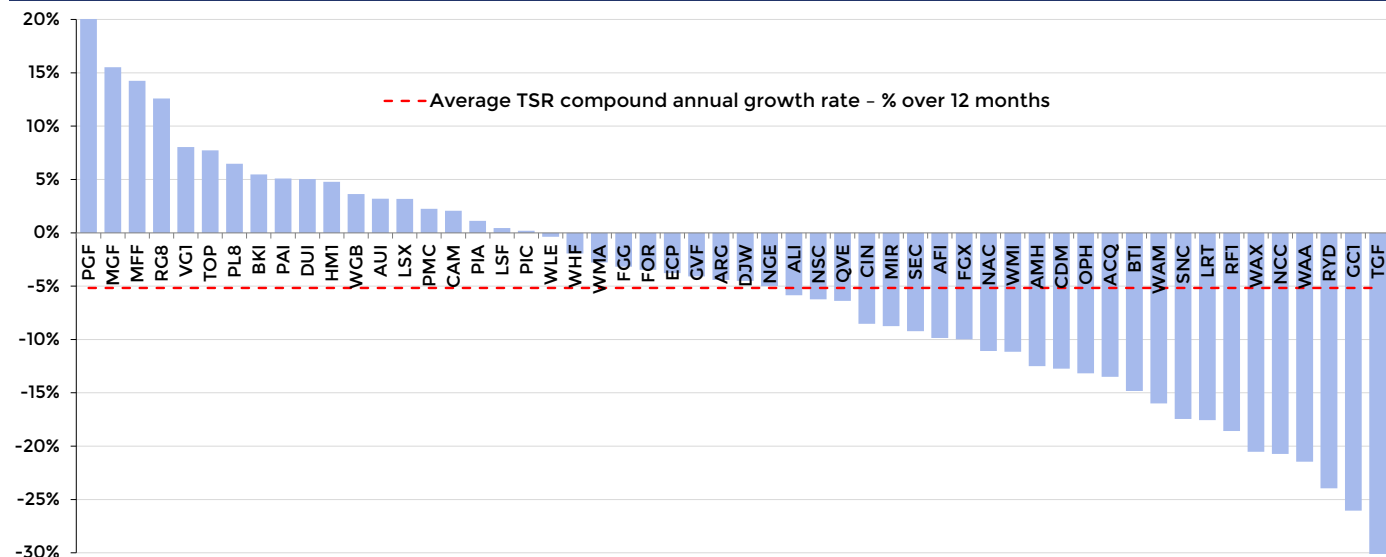
Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023.

**Fig.25: CAGR NTA performance – % return over 5 years**



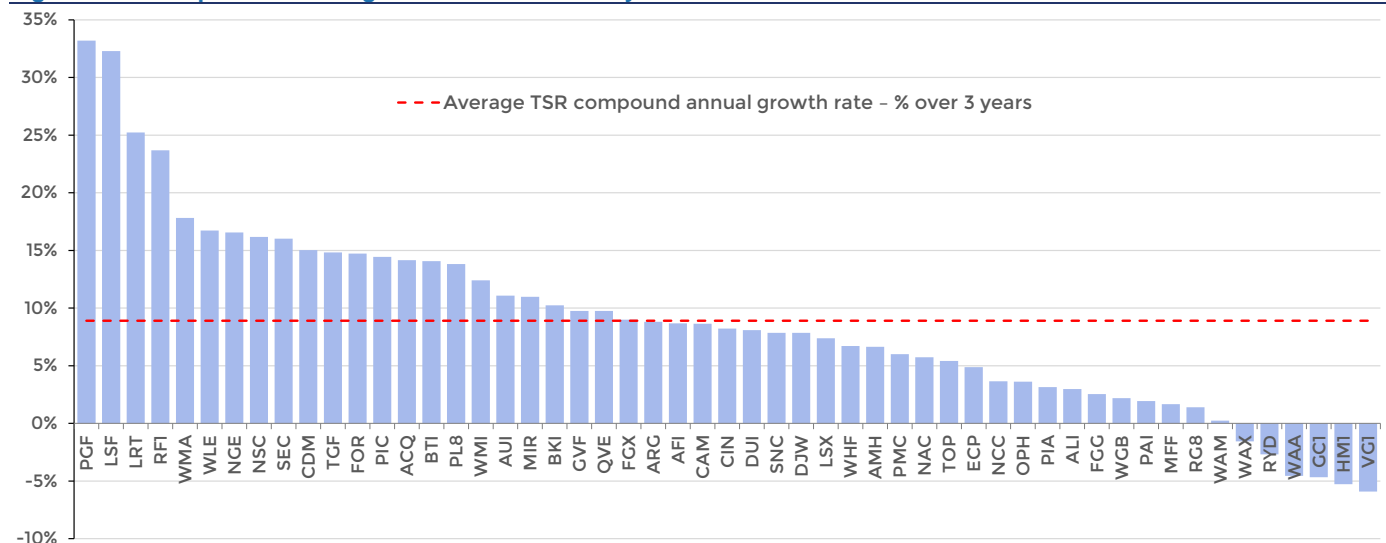
Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023.

Fig.26: TSR compound annual growth rate – % over 12 months



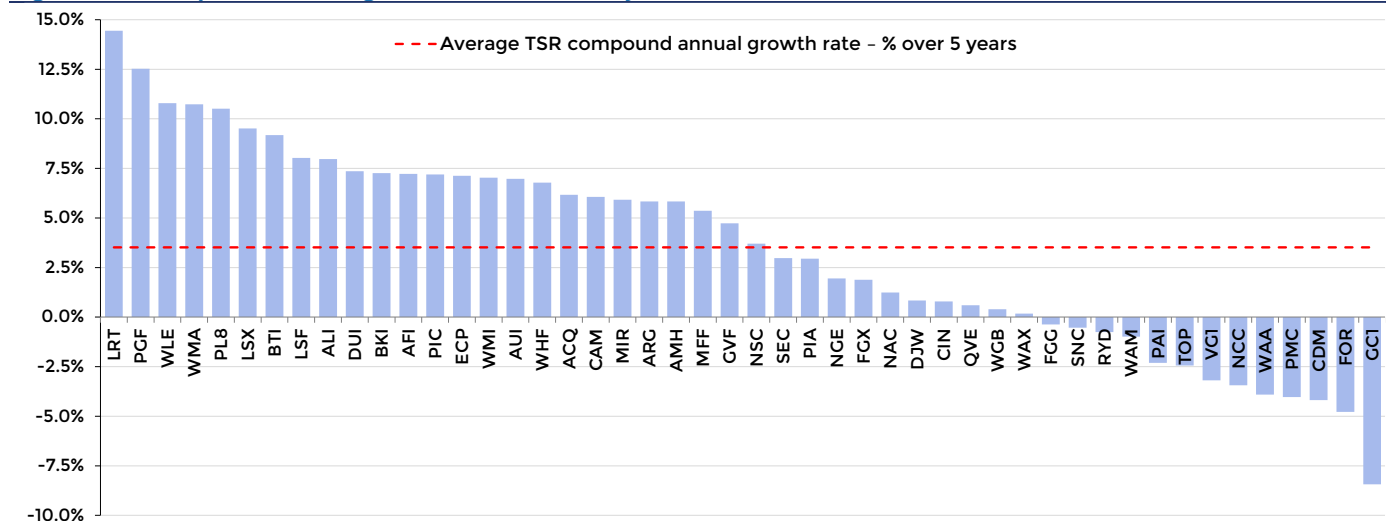
Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023.

Fig.27: TSR compound annual growth rate – % over 3 years



Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023.

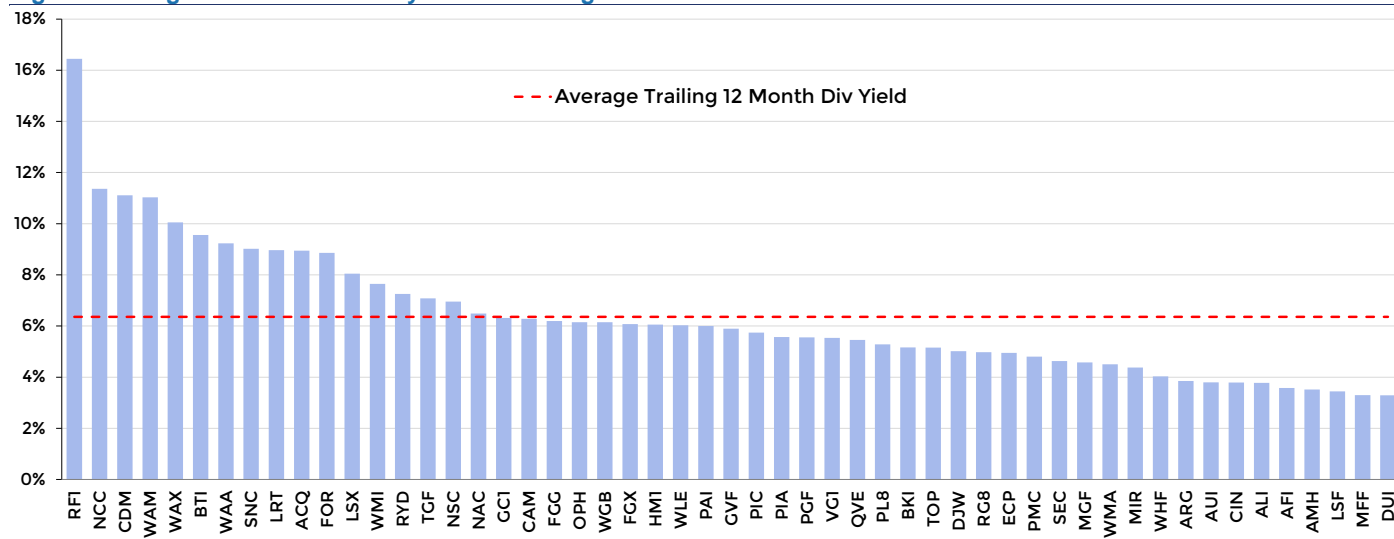
Fig.28: TSR compound annual growth rate – % over 5 years



Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023.

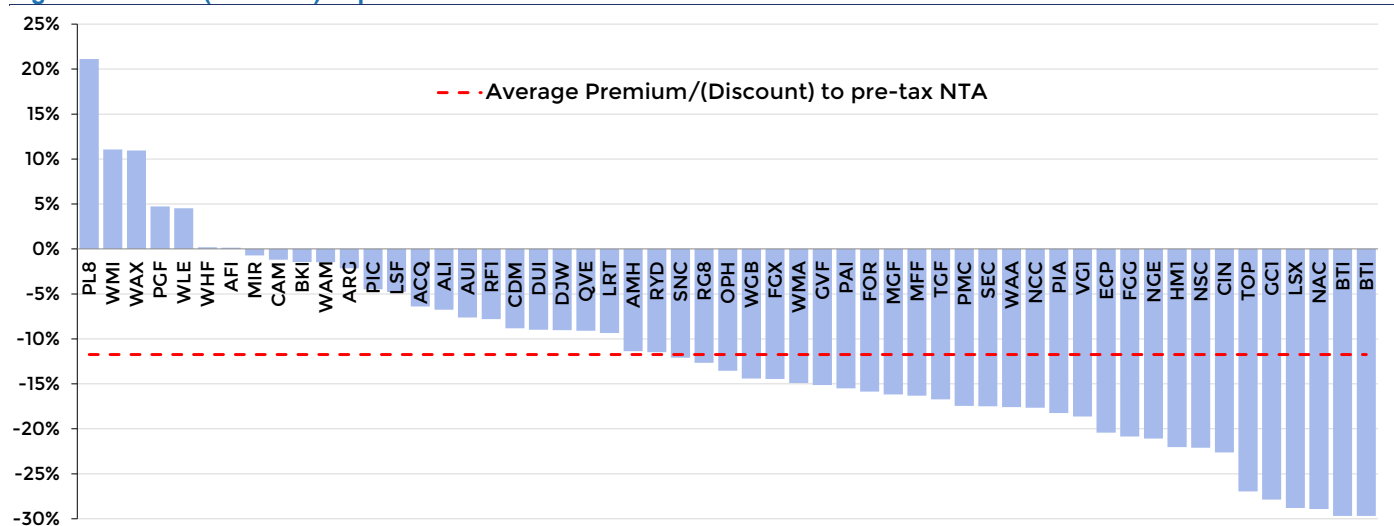
Dividend yield, pre & post tax discount/premium to NTA

Fig.29: Trailing 12-month dividend yield and average



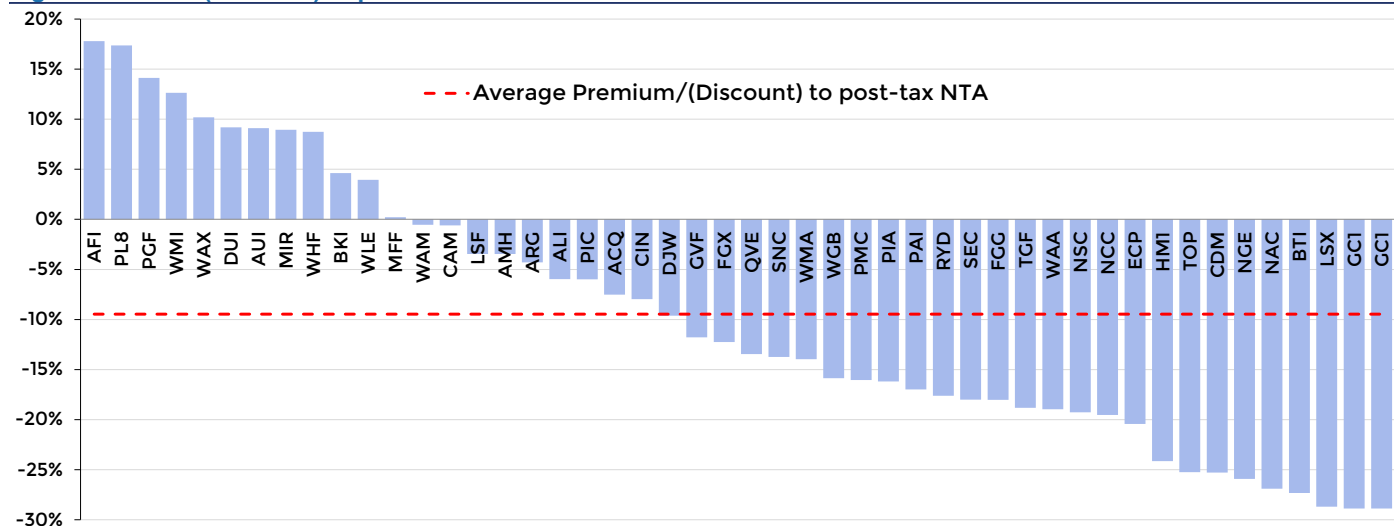
Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023. LICs with no yield excluded.

Fig.30: Premium/(Discount) to pre-tax NTA



Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023.

Fig.31: Premium/(Discount) to post-tax NTA



Source: Bloomberg, IRESS, OML. Figures as at 31 May 2023.



## LIC basics

### What is a LIC?

- A LIC has characteristics of managed funds and stock exchange-listed companies.
- A LIC is a company that invests in other companies, with the purpose of giving its shareholders exposure to a variety of shares via its investment portfolio.
- LICs may also invest in cash or fixed income instruments, although in many cases this forms only a relatively small proportion of their investment portfolio.
- Income from LICs usually takes the form of semi-annual dividend payments that are linked to the profitability of the portfolio. Capital gains (losses) can arise where the investor sells the shares in the LIC for more (less) than they originally bought them for.

### Benefits of investing in LICs

#### Diversification

- Investment in just one LIC potentially gives an investor exposure to a number of companies in a range of industries.
- This diversification can reduce the volatility of returns across the portfolio.
- A LIC can be a cost-effective method of achieving diversification.

#### LICs are managed by investment professionals

- Each LIC is managed by full-time investment professionals whose goal it is to optimise returns on the investment portfolio for shareholders within strictly enforced risk parameters.
- In this respect, LICs are passive investments. Once the shares in the LIC have been purchased, the investor leaves investment decisions to the LIC manager.
- Some LICs have operated for more than 50 years while others, although only recently listed, are operated and managed by investment firms that have built strong reputations over many years.

#### Transparent investment philosophy

- LICs are typically transparent about their investment philosophy and process. Investors can choose the relevant LIC based on their own investment goals and risk preferences.
- Some LICs focus on specific geographic areas (such as Australia or overseas), may invest in a range of industries or focus on just one (such as resources), or are geared towards providing investors with annual income streams or longer-term capital gains (or a combination of both).
- In this document, we briefly describe each of the 64 selected LICs, their main investments and recent performance.

#### Ease of investment

- Investing in a LIC is done in the same manner as any other company on the ASX, by placing an order with your adviser to buy shares in it.
- Exiting the investment is just as straightforward: the investor sells the shares on-market during trading hours through their adviser.
- Most LICs are 'liquid', meaning there are enough willing buyers and sellers on the ASX, to allow the investor to enter or exit the investment at a time they choose.

## Costs involved in investing in a LIC

### Entry costs

- Investing in the ASX via a LIC can be cost-effective relative to other methods of investing in a 'portfolio' of investments.
- The initial cost comes in the form of brokerage paid to acquire the shares, which can deliver an efficient method of diversification. A LIC can be an efficient method of diversification.
- The entry costs to LIC investments are generally lower than retail managed funds, which utilise a "front-end load" charge at the date of purchase.

### Ongoing costs

- LIC managers can charge two types of fees: management and performance fees.
- LICs use management fees to cover the costs incurred in running the portfolio. These fees are taken out of the profits of the LIC, which are a function of the performance of the underlying investment portfolio (including dividends paid and capital gains/losses on shares that are sold). Managers are paid regardless of the profitability of the investment portfolio.
- These fees typically range from 0.0%-2.0% of assets under management per year. This can be lower than the average fees charged for retail managed funds. The effect of this cost-saving on a longer-term investment, where returns compound over many years, can be material. One reason for this lower cost is that LICs do not incur back-office or distribution costs, reducing their cost of operation. The fees (calculated as a "management expense ratio" or MER) of our selected LICs are shown in Table 2.
- Unlike management fees, performance fees are paid only if the LIC's investment portfolio outperforms a predetermined benchmark. The fee is charged on the size of this outperformance. Not all LICs charge performance fees.
- These fees provide an incentive for the LIC manager to optimise returns for shareholders. Note performance fees in some instances can still be paid when a portfolio incurs a loss over an investment period if it still outperforms its relevant benchmark.
- Performance fees for our selected LICs are shown in Table 2 on page 7. The benchmark index is the S&P/ASX All Ordinaries Accumulation Index unless otherwise stated below.

### Exit costs

- Brokerage is payable when selling shares in a LIC. Retail managed funds on the other hand, can generally be exited at no charge.
- Exiting a LIC investment can have tax consequences based on the capital gain or loss over the investment period.

## What income do investors receive from a LIC?

- Annual investor income from a "buy-and-hold" investment strategy in a LIC takes the form of dividends, just like other share investments.
- However, because LICs utilise a company structure, payment of dividends is at the discretion of the LIC manager. In other words, just because the investment portfolio of the LIC has made a profit in a given year, it does not mean that all, or even any, of that profit will be paid to shareholders in that year. Where a LIC chooses not to pay a dividend, the income is retained and invested by the LIC and forms part of the LIC's underlying asset backing. This is different to retail managed funds, which are required to pay out the income to unitholders in the particular tax year that it is earned. Generally, LICs will pay out a high proportion of earnings as dividends.
- A number of our selected LICs invest in blue chip stocks and pay out a high proportion of earnings as a dividend. Accordingly, they can have attractive dividend yields (as shown in Figure 1).

### Taxation issues

- LIC returns are generally taxed at the company tax rate of 30%. Accordingly, when dividends are paid to shareholders of the LIC franking credits are attached. These can be a tax benefit for shareholders, as they receive a “credit” for the company tax already paid on the LIC income when the shareholder’s ordinary income is assessed.
- Capital gains are managed by the LIC manager. Where the dividend paid to a shareholder of a LIC contains capital gains, it will be treated as a capital gain, not ordinary income, in the hands of the shareholder.
- This tax treatment contrasts with that of unlisted retail managed funds, where investors incur an annual tax liability on interest and capital gains that the fund earns each year.

### LIC Discounts and Premiums

- The price at which investors buy or sell LICs, as with stocks is ultimately determined by supply and demand in the market. As a result, the price of a listed investment company can trade above or below its net tangible asset (NTA) value. That is, trade at a premium or discount respectively.
- LICs may trade at a discount if:
  - The underlying fund has a poor performance track record.
  - The LIC has yet to pay dividends, has recently reduced its dividend or the market anticipates it has limited ability to pay future dividends.
  - The LIC has a limited track record, rapport with investors or has limited marketing and/or distribution capability.
  - The LIC has issued options which could substantially dilute the NTA of other unit holders if exercised.
  - The LIC has less liquidity
  - LICs may trade at a discount to pre-tax NTAs if the LIC has a significant tax liability.
- LICs may also trade at a premium if:
  - The underlying portfolio has a strong performance track record.
  - The fund has a history of maintaining or increasing dividends. Many LIC investors have historically preferred vehicles paying stable fully franked dividends.
  - If an LIC has a substantial franking credit balance or tax asset.
- Many LICs have exhibited a tendency for discounts and premiums to mean revert and trade around a certain level. This tendency has provided an opportunity for investors to profit from mean reversion for LICs trading at a discount. However, this reversion can take time and rely on certain catalysts. We also note that a discount can deepen before it narrows.
- Some listed investment companies which trade at a premium may continue to trade at premium for the foreseeable future, or trade at an even larger premium.

### LICs versus managed funds

- LICs are listed on the stock exchange, so entry and exit costs are limited to brokerage. This means that diversification may be achieved at a relatively lower cost. LICs also offer a tax-effective structure, whereby dividends are typically fully franked and when LIC capital gains are paid out as dividends, investors may be entitled to an income tax reduction for the proportion of the dividend attributable to the capital gain. Investors in managed funds may incur a tax liability on interest and capital gains.
- The fee structures of LICs can be favourable in comparison with managed funds. Our selected traditional LICs have management expense ratios ranging from 0.0% to 2.5%, whereas managed funds often charge more than 1.0%.

## LICs versus exchange traded funds (ETFs)

- LICs and ETFs have low management fees and efficient tax structures compared with managed funds. However, ETFs have an open-ended structure, where units on offer can increase or decrease based on supply and demand. This mechanism allows ETFs to trade at or close to their net asset value.
- ETFs are generally passive investment products and hence do not aim to outperform the market in the same way many of the LICs do. There are an increasing number of Exchange Traded Managed Funds though that offer active management and avoid variation from NTA.
- ETFs are required to distribute any surplus income to security holders, whereas LICs can conserve surplus income and take advantage of market opportunities as they see fit. This added flexibility is beneficial to the shareholder.

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## Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

<b>SPECULATIVE BUY</b>	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
<b>BUY</b>	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
<b>ACCUMULATE</b>	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
<b>HOLD</b>	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
<b>LIGHTEN</b>	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
<b>SELL</b>	We expect the total return to lose 15% or more.
<b>RISK ASSESSMENT</b>	Classified as Lower, Medium, or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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