

Fluctuating values rock the LIC boat

[PUBLISHED: 15 Nov 2011](#) [PRINT EDITION: 15 Nov 2011](#)

Last week's stoush between Signature Capital Investments chairman John Morrison and shareholder Geoff Wilson captures the tension dividing the listed investment company industry.

At the Signature annual general meeting, Mr Wilson tore into Mr Morrison over a shrinkage in the listed investment company's (LIC) net asset value, which dropped from \$262.6 million in 2007 to \$65.3 million last year.

"Someone's got to take responsibility. Who's taking it?" Mr Wilson demanded.

"We've substituted some of these (investment) managers," Mr Morrison responded. "Someone's got to take responsibility. I don't believe the board is," Mr Wilson snapped back.

Mr Morrison and his board survived a vote against them called by Mr Wilson, whose company holds 13 per cent of the LIC, after a couple of large institutions voted to keep them. But the fight gave Mr Wilson the chance to express his opinion about Signature, a hedge fund investor, which he said imposed too heavy a fee structure on investors.

"Signature Capital should not exist. The model is flawed," he said.

For all his vocal criticism of Signature Capital, Mr Wilson says LICs, the largest in Australia of which is Australian Foundation Investment Company, are good investments and at a time of weak equity returns, come into their own. They are closed-end pools of capital, meaning while investors can buy and sell the stock, money doesn't flow in and out of the company. Managed funds, by contrast, can be forced to sell assets at the bottom of the market to raise cash to pay out exiting investors. "The next five to 10 years will be a golden period for LICs," Mr Wilson said.

Still, managed funds dwarf the LICs in value. In September, the ASX's 58 LICs had a combined market capitalisation of \$15 billion. At the end of the June quarter, the managed funds industry had \$1.8 trillion under management. While managed funds may have disadvantages now, LICs also fluctuate. Their shares trade above – but mostly below – the net tangible asset (NTA) value of their underlying assets, said Financial Services Council policy director Martin Codina.

"As an investor, you've got a timing issue you need to be aware of. If you buy in at a value above NTA and sell below the NTA, you've lost value."

Investors also dive in and out of LICs. Signature saved its board last week after directors improved the terms of a share buyback to 98 per cent of NTA from an earlier proposed 92 per cent. Small investor Simon Samuel bought at 27¢ a share and expects to sell in the buyback for 35¢. "I only bought in the hope that something like this would happen," he said.

The writer owns LIC shares

The Australian Financial Review

Related News

Topics [Financial Markets/Equities Markets](#)



Create an alert

Click on the links below to create an alert and receive the latest news as it happens

Topics [Financial Markets/Equities Markets](#)