

LICs brace for huge flows

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A handful of the largest listed investment companies have received a significant boost after being approved for distribution on a top platform by an independent planning group.

The LICs expect further growth and bigger inflows from wider distribution among planners because of their low fees and simplistic structure which is more appealing to advisers amid the crackdown on commissions.

Australian Foundation Investment Co, Argo, Milton Corp and Wilson Asset Management vehicles will be included on the platform used by the Association of Independently Owned Financial Planners [AIOFP].

The inclusion of LICs on planner lists has been driven by pressure to scrap commissions which advisers receive from some unlisted funds, while their low fees fulfil a growing focus on costs.

AIOFP executive director Peter Johnston said fee pressure was coming from clients as well as government. "The future involves greater use of LICs and EFTs [exchange traded funds] while active managers who have failed to add value over the past 10 years will become extinct," he said.

"We can now sell LICs as a direct alternative to listed managed funds."

Mr Johnston noted large LICs such as AFIC and Argo had management expense ratios of around 0.16 percentage points against 1 percentage point for many unlisted managers.

He said around 75 per cent of active managers failed to add value, and that the AIOFP - whose membership comprises 2500 planners who oversee around \$40 billion of funds - had cut its active manager list from 500 to 100 over the past year.

Mr Johnston cited Platinum Asset Management, Aviva Investors and Ausbil Dexia as examples of active managers which added value.

AFIC general manager Geoff Driver said planner distribution had the potential to significantly increase its client reach, while Wilson Asset Management founder Geoff Wilson said inclusion on platforms would spell a "phenomenal lift" in potential fund flows.

Australian Securities Exchange spokeswoman Leeanne Bland said the exchange had seen increasing demand from planning groups seeking to be introduced to LICs and ETFs and to offer direct equities.

Mr Driver noted that while some LICs were already on platforms, distribution remained limited where they were not on the approved product lists for all the planning groups which used a particular platform.

"Our ambition is to get on more approved product lists within the next 12 months."

Mr Driver also pointed to the potential market of superannuation funds, which are increasingly offering direct equities for member to trade - but do not offer LICs as a separate investment.

The AIOFP will use an Asgard platform for its overhauled offering, and aside from LICs, will carry exchange traded funds sold by iShares, Vanguard, ETF Securities and Australian Index Investments.

Mr Johnston said the strong growth in ETF use, in part triggered by investor disillusionment with active managers, had caused banks to seriously reassess their fund offerings. New ETF players are mooted for the domestic scene, seeking to take advantage of growing investor appetite.

Separately, Mr Johnston noted that the future of financial planning reforms had failed to address a crucial conflict of interest where fund managers paid research houses to rate their funds.

He pointed to the collapses of hedge fund Basis Capital and the Great Southern scheme - both of which were well rated and sold to retail investors - as examples of the failures of paid research.

"Planners which use [paid] research are an accident waiting to happen. ASIC should have a fund which pays a few houses to deliver advice and it should be illegal to pay for a rating," he said, pointing to Mercer as an example of an independent research firm which was paid only by clients.

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