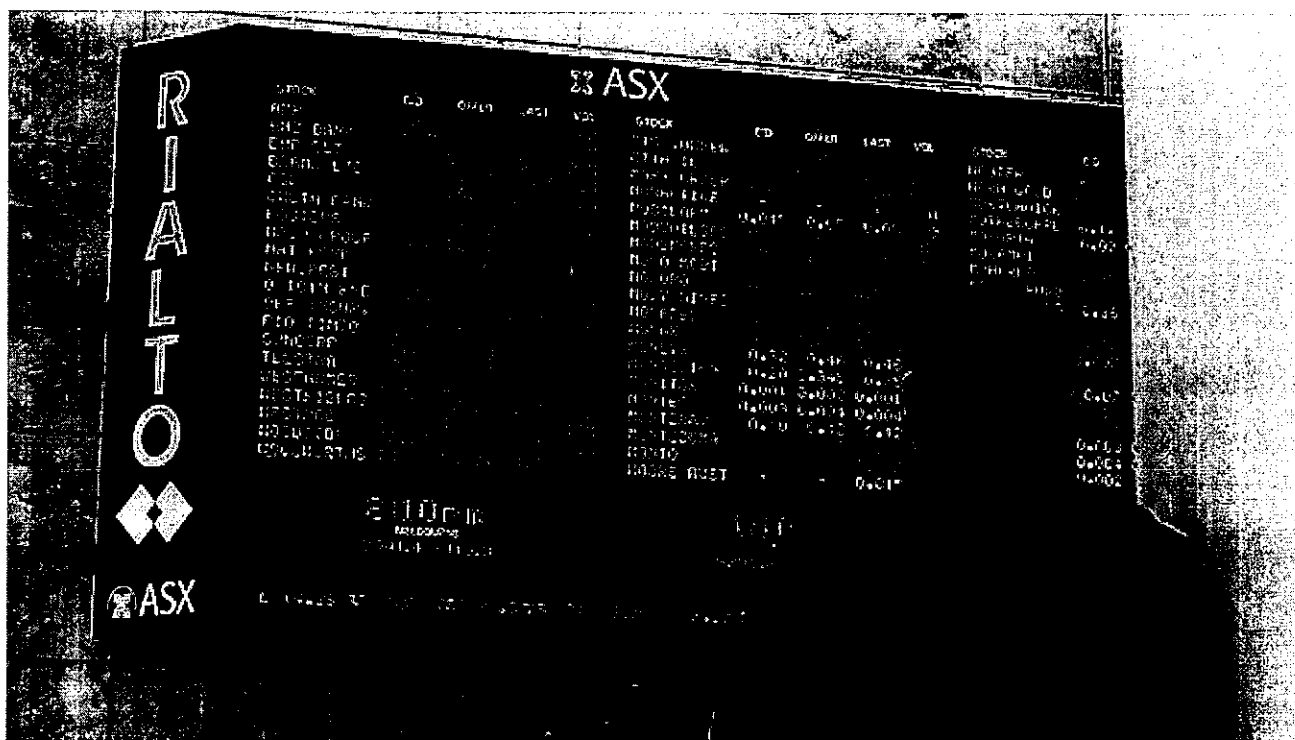


The Australian

Investors drawn to listed investment company sector

- CRITERION: Tim Boreham
- From: The Australian
- September 14, 2011 12:00AM



The listed investment company sector has some appeal. Picture: Alex Coppel

Source: Herald Sun

FOR investors who like the idea of getting something for nothing, the listed investment company sector is naturally appealing given most LICs are trading at a discount - in some cases substantially - to their net asset backing. Think of being able to buy a \$100 basket of blue-chips stocks for \$90 and you get the gist.

According to the bourse's monthly data, at the end of July the 63 LICs were trading at an average 7.18 per cent discount to post-tax net tangible assets (the fund's liquidation value, which allows for capital gains tax).

Tiddler Orion Equities (ASX code: OEQ) trades at a thumping 70 per cent discount, while Souls Private Equity (SOE) trades 55 per cent under the odds.

The bigger funds such as Australian Foundation Investment Company (AFI) and Argo Investments (ARG) trade at a premium, but otherwise discounts are the order of the day despite a round of share buybacks to reduce the gap.

Despite this allure of getting something for nothing, investors should be wary of using NTA discounts as the sole criteria.

The reason is simple: they're usually not the best performers when it comes to asset growth.

"In reality the better-performing LICs trade at a premium and the poor performers often trade at deep discounts," Patersons Securities LIC-watcher Mark Barsdell says.

As Wilson Asset Management Capital (WAM) chairman Geoff Wilson recently told holders, performance should be judged on three criteria. These are portfolio growth before all costs and compared with the relevant index; movement in NTA after taxes and management fees (that value of the change that belongs to shareholders); and the share price.

For the record, WAM's gross portfolio grew by 17.9 per cent in the year to June while WAM shares rose 42 per cent.

Barsdell says the LICs with the best long-term performances (measured by total return, dividend and NTA growth) are likeliest to give the best future returns.

However, given the lack of track record with the newer LICs, a closer focus on investment philosophy, NTA backing and the investment manager's skill are the most important in making a valuation call. With that in mind, which are the best buys?

WAM has been top of the heap, returning 150 per cent compound across that period.

Other LICs with staying power are Carlton Investments (CIN, 122 per cent) and blue-rinse favourite AFIC (102 per cent).

In comparison, the All-Ordinaries accumulation index returned 92 per cent across this period.

The short-term dazzler (across two years) is Cadence Capital (CDM), which returned a little more than 100 per cent. WAM (28 per cent) rates well during this period, while mining specialist Linq Resources Fund (LRF, 34 per cent) also gets a guernsey.

LICs are a useful one-stop exposure to a specialist sector otherwise inaccessible to everyday investors.

For instance, AMP Capital China Growth Fund (AGF) invests in A-class China shares, while the Australian Enhanced Income Fund (AYF) focuses on debt securities such as hybrids.

"For conservative investors wishing to match or possibly beat the long-term returns of the all-ordinaries index, especially those with a limited amount of capital, a number of LICs can provide the necessary spread of investments," Barsdell says.

If anything, LICs are best for investors who prefer to set and forget, re-investing the dividends along the way.