

The Australian

Fee changes will give LICs their day in the sun

- CRITERION: Tim Boreham
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A VAST but overlooked sector of the sharemarket, listed investment companies are poised to win popularity as financial planners increasingly offer them to clients in a new commission-free regime. That's the theory at least.

Meantime, most of the smaller LICs have their work cut out to improve net tangible asset growth and narrow the prevailing discounts between the share price and NTA per share.

According to Patersons Securities, established LICs, including the mega ones such as Australian Foundation Investment (ASX code AFI) and Argo Investments (ARG), were trading at an average premium of 10 per cent at the end of January, below the 13 per cent long-term run rate.

But the smaller LICs, and there are about 60 in all, "continue to languish at large discounts to NTA".

These include LinQ Resources Fund (LRF, a 27 per cent discount), Clime Capital (CAM, 18 per cent) and AMP Capital China (AGF, 17 per cent).

As measured by NTA growth, Patersons reckons Geoff Wilson's WAM Capital (WAM) has topped returns for the 10, five, two and one-year periods (with 10-year NTA growth of 12 per cent per annum). Other good performers are AFIC, Argo and the lesser-known Carlton Investments (CIN).

"There's been a lot more interest in LICs and there's been a big reduction in the discount with a number of the newer LICs," Wilson says.

But a thumping NTA discount doesn't necessarily mean the fund is a turkey. It can signal opportunity.

Clime, for instance, recorded asset growth of 17 per cent in 2009-10 (after paying quarterly dividends), outperforming the all ords by 14 per cent. It also has a solid track record of NTA growth over the past five years, yet trades at one of the sector's steepest discounts.

"We are trading on a big discount which does not really reflect our performance," Clime investment manager John Abernethy laments. "In fact on portfolio (not share) performance we have been the best of the sector."

Coming back to the financial planners, the idea is that fee-for-service means advisers are paid just as much for recommending LICs, whose entry fees amount to no more than brokerage, as they are for unlisted managed funds.

In theory it's a no-brainer to buy an asset at a 20-30 per cent discount (that is, a LIC) rather than at the "cover price" (through an unlisted fund).

Yet advisers are loath to recommend products not on the research houses' recommended lists.

Once again, things are changing: Morningstar is beefing up its capabilities in the sector and this month plans to release detailed research on 17 LICs.

Meantime, there are continuing efforts in the sector to narrow NTA discounts, although it's often needed new management to push the issue.

On paper, Van Eyk Three Pillars trades at a toppish 15 per cent discount to NTA, but Dixon Advisory, which seized board control of Van Eyk in September 2009, is doing its best to enrich shareholders.

The new guard immediately instigated a \$17 million share buyback at a 5 per cent NTA discount.

After a strategic review, holders then approved a \$96m capital return at nil discount. Van Eyk then paid a 25c full-franked dividend.

According to Patersons analyst Mark Barsdell, the most important factor is a LIC's track record.

"Those with the best long-term performances (measured by total return, dividend and NTA growth) are the ones likely to give the best future returns," he says.

"However given the lack of a track record for 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."

borehamt@theaustralian.com.au (<mailto:borehamt@theaustralian.com.au>)

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