What is a listed investment company?

A listed investment company (LIC) is a closed end investment scheme and a subset of what the ASX calls 'managed investments.' First established in 1923 to provide brokers and retail (individual) investors with an investment alternative that enables diversified exposure to Australian equities, the LIC sector is worth more than $30 billion and there are approximately 90 LICs listed on the Australian Securities Exchange (ASX).

LIC's in Australia primarily invest in Australian or international equities and can often focus investment towards a specific section of the market or specific outcomes. For example, Djerriwarrh Investments invests in many of Australia's largest listed companies and uses options to provide an enhanced dividend yield.

Listed investment companies have over the last 10 years increased in popularity among individual investors, brokers, and financial advisers. The passing of the future of financial advice (FoFA) reforms and increase in the self-managed superannuation (SMSF) sector has contributed to the strong growth.

What are the advantages of a listed investment company?

- **Professional and experienced management and investment teams** that look after the LIC.
- **Access to a diversified portfolio** of Australian shares (or International, depending on LIC chosen).
- **Certainty of capital:** LICs are closed end funds, therefore the trading of units does not impact the size of the LICs underlying portfolio. This means the investment approach is not adversely affected by inflows and outflows from the fund.
- **Tax-effective investment option:** Income generated by the LIC is usually distributed to shareholders through fully-franked dividends.
- **Lower cost of investing.**

How do the features of a LIC compare with other types of managed funds and exchange traded funds (ETFs)?

The below table outlines the primary features and differentiators of these three investment sectors.

	Listed investment company (LIC)	Unlisted managed fund	Exchange Traded Fund (ETF)
Examples	Australian equities: Australian Foundation Investment Company Djerriwarrh Investments International equities: Templeton Global Growth Fund	Australian assets: Investors Mutual Australian Share Fund International assets: PM Capital Global Companies	Australian equities: SPDR S&P/ASX 200 Fund International equities: Vanguard MSCI Index International Shares ETF
Structure of investment type	A company structure, listed on the ASX. Has a Board and governance structure. LIC's are actively managed.	Trust structure. Most managed funds are actively managed, unlisted investments.	Trust structure and passive in management. ETFs track the performance of an Index or underlying Index, but trade like a share.
Costs and fees	A management expense ratio (MER) cost is charged to the shareholder. The MER varies widely but established LICs including DJW charge an MER below other managed funds (DJW charges an MER of 0.43 per cent). Additional costs can include brokerage fees for buying and selling shares in the LIC.	Fees are more extensive than LICs and ETFs. May include; contribution fee, administration fee, management expense ratio fee, performance fee and buy and sell spread cost.	An annual management fee which can range between .01 per cent to 2 per cent. The average for an index fund is approximately 0.15 per cent and for most others approximately 0.4 per cent. Additional costs include the buy and sell spread incurred when buying or selling units in an ETF.
Tax implications	As a company structure, LIC is taxed at 30 per cent. Income is distributed to shareholders through fully franked dividends.	Managed fund does not pay tax as all income is distributed to investors. Investors pay tax on distributions at their individual marginal tax rate.	Tax on distributions and capital gains applies to ETFs, just as it does with managed funds.
Considerations	The Net Tangible Assets (NTA) can trade above or below the share price. It is difficult to invest small regular amounts due to brokerage fees charged on individual purchases.	Open end structure of funds means inflow and outflow of funds could adversely affect investment performance.	It is difficult to invest small regular amounts due to brokerage fees charged on individual purchases.

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AUSTRALIAN EQUITIES, ENHANCED YIELD

Consult your financial adviser to see if a listed investment company could be the right investment choice for you. For more information on LICs contact:

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