

MEDIA COVERAGE

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LMI's: So what's not to like?

Low-cost, transparent, professionally managed investments appear to offer something for everyone, but **Richard Webb** delves below the surface.

Listed managed investments (LMIs) are one of the fastest growing sectors on the sharemarket, yet experts are divided on whether they are a great way to secure exposure to products previously available only to big investors, or a secondary tool with few benefits over their unlisted counterparts.

Those who like them say LMIs offer instant diversification, professional investment management at a relatively low cost, potential tax advantages and, as they are traded on the sharemarket in the same way as company shares, can be bought and sold with ease.

Others say their relative merits over a similar, but unlisted managed fund are overstated.

Either way, following a flood of LMI listings recently, particularly in the areas of infrastructure and private equity, the sector is booming.

According to the ASX, LMIs have a current market value of around \$136 billion, representing about 13 per cent of total sharemarket capitalisation. That is three times the

value of the sector five years ago and 10 times that of a decade ago.

This is not just a local trend. LMIs have been booming around the world and in many ways Australia has lagged what has been happening

in the US. Nor are they new. A listed investment company was first traded on the Australian sharemarket in 1928, while listed property trusts have been a long-time favourite core portfolio holding.

In recent years the LMI sector has diversified substantially and added listed infrastructure funds, pooled development funds, exchange traded funds and absolute return (hedge) funds.

FW Holst senior adviser Michael Heffernan says LMIs range from the most conservative sharemarket investments to among its most risky.

"It's very much horses for courses," he said. "I recommend some of my fairly conservative clients to

some of the listed investment companies, such as AFIC, Argo and Djerriwarrh, and some of the property trusts, but many of the others I leave alone."

Dickson Bonacci principal Sylvia Dickson says listed property trusts have been a core investment option for so long that small investors are very comfortable with them. "They have traditionally been a great way for the small retail investor to get exposure to a large property portfolio such as major shopping centres and city buildings."

Cameron Walshe principal Paul Moran uses some types of LMI, but only for certain clients.

The ASX says their benefits are

their transparency — you can see their price daily.

As well, they offer small investors a chance to buy assets that would normally be available only to major institutions, are relatively cheap,

easy to buy and sell, can be purchased in small parcels, offer the security and supervision of being on the stock exchange, pay dividends and come with taxation advantages.

However, experts warn that they are not for every investor.

Listed property trusts

These are perhaps the best known and most widely used. Cameron Walshe's Moran says their advantages are the dividend yield, which range from 6 per cent to 10 per cent, and their stability.

Holst's Heffernan says they offer conservative investors "the quiet life, although not as quiet as they used to be following all the recent mergers".

He likes sector leader Westfield, "a fantastic performer with a big footprint in the US where their shopping centres stand out", as well as Centro Properties and Investa Property.

But Dickson Bonacci's Dickson, who has been recommending listed property trusts for more than 20 years, says the recent spate of merger activity has left the sector concentrated and changed.

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Listed investments: What's not to like?

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That's because many of the pure property holding companies have been merged with property management companies, as happened in the case of Westfield.

"They are more of a hybrid now," she said. "It's diluted the dividend yield and changed the risk profile — their capital growth prospects are not as great as they used to be. Even so, I've been recommending listed property trusts for a very long time and will continue to do so."

The tax advantages of listed property trusts arise because some of the tax associated with the rental income they earn and then pass on to investors is deferred until the investor sells the units.

Listed investment companies (LICs)
These are the old war horses, having been around for close to 80 years, although their fold has multiplied recently with the listing of private equity funds such as from Babcock & Brown and Macquarie Bank, and some specialist share funds such as the LinQ Resources Fund.

Many have a buy and hold approach so are eligible for the 50 per cent capital gains tax concession after 12 months, although this has not always been the case, and Dickson Bonacci's Dickson says this could be a risk in the future. "They went through a period when this was not available and their prices were very subdued, so there is some legislative risk here."

She says that if her clients are considering investing in listed investment companies, she always points out their differences with managed funds.

"The absolute first thing I say is that the price they pay is very important, and whether that price is a discount or premium to the net asset backing," she said. "Some of the better-known funds such as AFIC [Australian Foundation Investment Co] and Argo can trade at a significant premium to net asset backing, so that means you will be paying more for the investment than the underlying asset is worth, and you will also be paying an entry and exit fee in the form of brokerage."

Dickson says many non-listed managed share funds have compar-

able management fees these days, and the time lag between selling shares in a listed investment company and a non-listed managed share fund is not that great.

"You'll get your proceeds from the sharemarket in three days, but even though most fund managers work on 30-day service, you will generally get your money from a non-listed fund within two weeks, and sometimes earlier."

Holst's Heffernan is a fan, but Cameron Walshe's Moran does not recommend them.

"They are like taking a share exposure without taking a position," he said. "They are fine for an investor who wants to buy shares without advice, but we tend to take a more specific position for our clients, that's the role of the adviser, so we tend not to use them."

ABN Amro Morgans' listed investment company research team of Rebecca Sullivan and Belinda Moore agree with Dickson that you should look for the ones trading at an attractive discount to their net tangible assets.

They say listed investment companies tend to underperform in strong markets and outperform in times of uncertainty or during a downturn.

AFIC, Huntley Investment, Whitefield and Brickworks Investment were among their preferred picks in a recent report, and they also gave the thumbs up to six more specialist funds.

Infrastructure funds

This sector has been booming with recent listings such as two funds from Hastings, Diversified United & Energy, Macquarie Airports and

Macquarie Communications. Infrastructure funds are in many ways like the listed property trusts, says Moran, as they are all about yield.

"They meet the needs of someone on retirement who has a focus on yield and on that yield increasing, while they also offer the prospect of modest capital growth," he said.

Holst's Heffernan rates them.

"These stocks are pretty defensive," he said. "If the economy goes into free-fall, then they are a good, safe place to be. But they are not the place to be if interest rates go up."

Exchange traded funds

Exchange traded funds (ETFs) started life in Canada in 1989 and are essentially index tracking tools with lower management fees than unlisted managed funds — between 0.28 per cent and 0.4 per cent. They also more closely track their underlying assets than their listed investment company counterparts.

Moran says they are not widely used in Australia but that they do offer small investors the ability to move in and out of sharemarkets quickly and easily. ETFs are only small here but are widely used by small investors in the US to punt the sharemarket.

Absolute return (hedge) funds

There are four listed hedge funds on the ASX, and only one of them, GoldLink IncomePlus, has been around for more than a year. Heffernan is not convinced with these funds generally.

"They are not the place to be for a lot of smaller investors," he said. "They take a principal position and then speculate rather than take out the risk. With hedge funds, you have got to look at each closely and work out exactly how they operate and whether that mode of operation fits your risk profile."

Moran likes them in theory as long as they can clearly identify their trading characteristics, otherwise he says you should leave them alone.

"Because they provide absolute returns with low correlation to the sharemarket, they have useful diversification benefits," he said. "But the downside is that they have historically tended to disappoint, and that's why we prefer the hedge fund of funds rather than the individual ones."

Pooled development funds (PDFs)

These are for a specific type of investor with a long time frame (five years plus) and who is also prepared to take risks, according to Moran.

Pooled development funds were established in the early 1990s to encourage investment in small and medium sized companies. They get significant tax breaks but they must invest in Australian companies worth less than \$50 million, must purchase at least 10 per cent of the shares in a company when they buy in, and they cannot invest in real estate or retail businesses.

The tax benefits are great. PDFs

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offer exemption from income and capital gains tax, so any dividends received or capital gains made are tax free. But they are also risky and their shares can be illiquid, making it harder to buy in and sell out.

Moran says they suit investors who

like to invest in areas such as new technology and new pharmaceuticals. "They are more specialist and longer term, but the income when you receive it is often tax free, and because of the tax breaks it can be an efficient way to accumulate assets."

Heffernan offers a warning. "They

are for investors who are prepared to be patient and who want to take a bit of a punt," he says. "You could end up with big returns, or nothing. You will be investing in much smaller companies and the smaller they are, the more risk associated with them."

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BEST AND WORST

Performances of listed investment funds by type Best and worst returns

Property	LICs	Infrastructure																								
Number of companies: 51	Number of companies: 44	Number of companies: 10																								
Value: \$90bn	Value: \$15bn	Value: \$30 bn																								
Best and worst performer	Best and worst performer	Best and worst performer																								
Average annual return over 5yrs	Average annual return over 5yrs	Average annual return over 5yrs																								
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