Introduction to Listed Investment Companies and Trusts

Listed Investment Companies (LICs) and Trusts (LITs) provide exposure to a basket of underlying securities in a single transaction.

LICs and LITs invest across all key asset classes such as Australian and international shares, property, infrastructure and fixed income. Due to their nature, LICs and LITs can also provide access to alternative or hard-to-access investment strategies, such as private equity and private debt.

LICs and LITs have fixed periods in which they can raise new capital, such as through an initial public offering (IPO) or a subsequent capital raising, such as a placement or entitlement offer. They are 'closed' investments which means they don't issue or cancel new shares as investors come and go (like ETFs and unlisted managed funds) – instead, the number of securities in this type of investment structure are fixed.

Listed Investment Companies (LICs)

What are they?

LICs are investments that are incorporated as public companies. Any profit that comes from the investing activities of the LIC is taxed at the company rate before dividends are paid to investors. Directors choose the level of dividend and may pay out more than the underlying income levels. They can also pay franked dividends.

Listed Investment Trusts (LITs)

What are they?

LITs are investments that are incorporated as a trust. Any surplus income from the investing activity of the manager is paid to investors as trust distributions, according to the underlying investments. Franking levels may vary depending on the income distributed from the underlying assets.

Why choose LICs and LITs?

Diversification

They help you diversify your portfolio across asset classes, sectors and geographies that otherwise could be difficult or expensive to access.

For example, there are LICs and LITs that cover international shares, emerging markets, specific sectors, corporate bonds and alternatives.

Active management

LICs and LITs are actively managed by the portfolio manager, typically aiming to outperform a stated benchmark or index – such as the S&P/ASX 200 Index. This gives investors the chance to achieve returns in excess of the particular benchmark of the fund.

This may be beneficial where it is difficult for individual investors to gain research insights, such as with small caps, alternative assets, fixed income and emerging markets.

Long-term

A benefit of a closed-ended structure is that it allows the fund manager to focus on long-term investment objectives, rather than manage the liquidity requirements of open-ended vehicles as investors seek to enter and exit the fund.

What are the risks?

Performance risk

There is always the risk that the fund may underperform or decline in value, affecting your return.

Liquidity risk

LICs and LITs are closed-ended vehicles that trade on the ASX. This means the on-market liquidity is subject to the number of investors buying and selling shares/units during the trading day.

Premium and discount to NTA

LICs and LITs often trade at a premium or discount to the value of their underlying assets – usually referred to as the fund's net tangible assets (NTA).

While there are many factors that may influence why a fund trades at a discount to NTA, on-market liquidity is one factor, which means that smaller LICs are at greater of risk of trading at a discount to NTA.

How to trade

Like shares and ETFs, you buy and sell LICs and LITs through a licensed intermediary, be it an online broker or platform, full service stockbroker or wealth adviser. Settlement of the trade takes place two business days after the date the order traded on the market – this is known as T+2.

What are Net Tangible Assets (NTA)?

NTA refers to the assets of an entity less any liabilities and intangible assets. NTA per share or unit is calculated by dividing the value of the NTA by the number of issued shares/units. LICs and LITs report their NTA at least monthly on ASX.