Wilson
Asset Management

LIC options explained

Many listed investment companies (LICs) issue bonus options to shareholders giving optionholders various benefits, including the opportunity to buy shares at a discount. This fact sheet explains the key features and benefits of LIC options.

Overview

Options give the optionholder the right, but not the obligation, to buy shares in the LIC at a fixed price until they expire. If the share price increases above the option exercise price optionholders have the opportunity to acquire new shares at a discount.

Optionholders have two main choices before their options expire:

1. Exercise some or all options for the exercise price and be issued new shares in the LIC.

2. Sell some or all options for a profit.

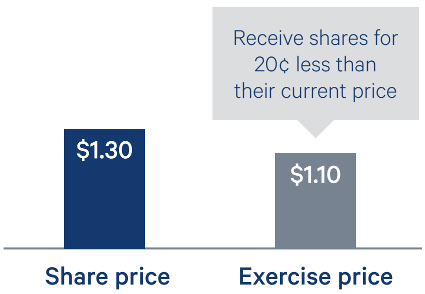
If optionholders take no action, their options will simply expire.

Buy shares at a discount

Example:

If shares are trading on the ASX *above* the exercise price:

Optionholders can exercise their options and be issued new shares in the company at a discount to the current market price.



If shares are trading on the ASX *below* the option exercise price:

Optionholders can choose not to exercise their options and instead buy additional shares on market at less than the exercise price.

Key terms

Bonus option issue
The issue of free options to shareholders by a company. A company may issue bonus options when it lists on the ASX (initial public offering) or once it is trading.

Exercise price
The price shares can be purchased when an option is exercised. Sometimes called the strike price.

Expiry date
The last day to exercise options.

In the money
A phrase used when the share price of the underlying shares is higher than the exercise price of the option.

Option price
The price options are trading at on the ASX.

Underlying shares
The company shares or securities over which the options are issued. Options can be exercised to receive additional underlying shares.

Benefits

Aquire shares at a discount
Until the time the options expire, optionholders can exercise options to receive shares in the company for a fixed price (the exercise price). If the exercise price is lower than the current price of the underlying shares, optionholders acquire shares at a discount.

Receive dividends
If optionholders exercise their options before the record date for dividends, they are entitled to receive any announced dividends for each option exercised. This assumes the shares received from the exercise of options are held on the dividend record date.

No brokerage
Unlike buying shares trading on the ASX, exercising options allows optionholders to acquire new share without paying brokerage.

Sell options for a gain
As options trade on the ASX, optionholders can sell their options for a profit. Options are issued at no cost to the option holder.

Grow assets
Issuing options grows the assets of the LIC. As the company's size increases, the on-market liquidity for its shares can increase. If the exercise price is at a premium to its net tangible assets (NTA), the exercise of options is NTA accretive.

Motivate the manager
Options incentivise the manager of the LIC to do all they can to increase the share price above the exercise price, for example, by delivering strong portfolio performance. If the share price rises above the exercise price, more optionholders are likely to exercise their options, increasing the total assets of the LIC and the fees payable to the manager.

Flexibility
Optionholders have maximum flexibility and can exercise, sell or hold their options in any combination until they expire.

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If you would like further information about LIC options, please contact Alexandra Hopper.

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