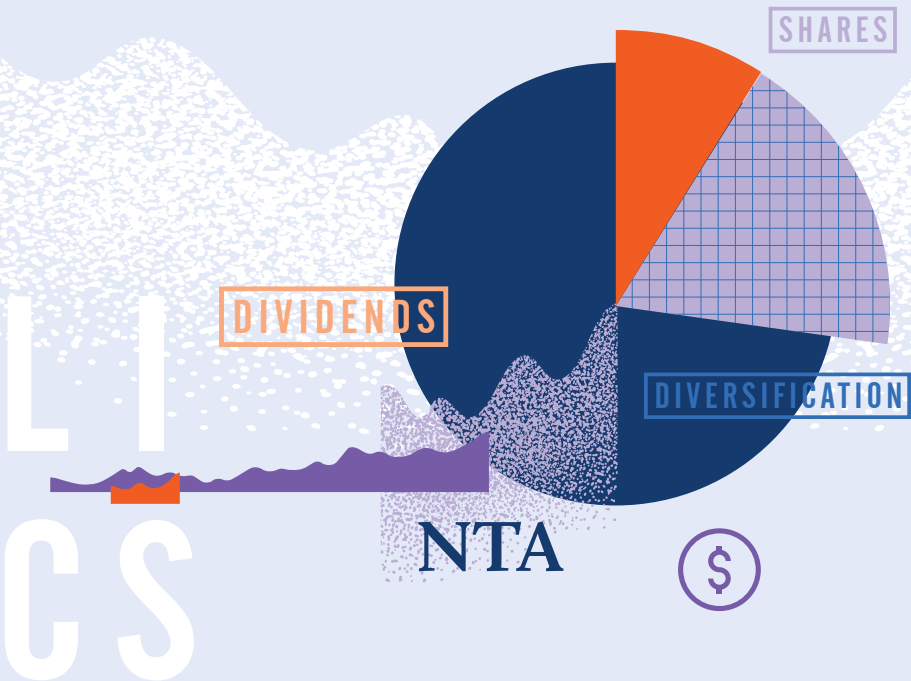


# Guide to Listed Investment Companies



# W

# CONTENTS

<b>Our story</b>	<b>6</b>
<b>What is a LIC?</b>	<b>10</b>
<b>Benefits of a LIC structure</b>	<b>12</b>
<b>Why do LICs trade at premiums or discounts to their NTAs?</b>	<b>15</b>
<b>The three measures of performance</b>	<b>18</b>
<b>Critical elements of a successful LIC</b>	<b>20</b>
<b>Conclusion – LICs in summary</b>	<b>22</b>
<b>Market and LIC jargon</b>	<b>23</b>

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# Wilson Asset Management timeline

1998

Geoff Wilson establishes Wilson Asset Management



Mr Wilson... plenty of room for more LICs.



"It's the time you can buy a dollar of assets for 50c."

2008

W | A | M *Active*  
\$15M IPO

2014

\$201M IPO  
**Future Generation Australia**  
INVESTMENT & SOCIAL RETURNS

2017

W | A | M *Microcap*  
\$154M IPO

2020

W | A | M *Alternative Assets*



2003

W | A | M *Research*  
\$161M IPO

2012



Fascination with how stocks make money runs deep

2015

\$302M IPO  
**Future Generation Global**  
INVESTMENT & SOCIAL RETURNS

2018

W | A | M *Global*  
\$466M IPO



Geoff Wilson is awarded the Order of Australia

2021

W | A | M *Strategic Value*  
\$225M IPO



1999

W | A | M *Capital*  
\$20M IPO



Management earmarks a performer

2005

“

Rule number one is 'do not lose money'. Rule number two is the same as rule number one.

2016

W | A | M *Leaders*  
\$394M IPO



Chanticleer  
Active fund managers fight back

2019

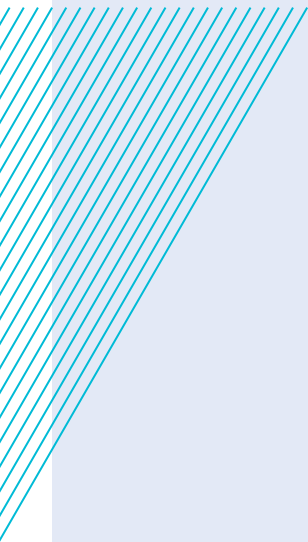
Geoff Wilson AO campaigns against the removal of franking credits



OVER 20 YEARS Making a difference

# Our story

**Wilson Asset Management's eight listed investment companies (LICs) each offer a unique exposure to a portfolio of companies in Australia, internationally and in alternative assets. In essence, by owning one share in a Wilson Asset Management LIC, you become a shareholder in a diversified portfolio that we manage on your behalf.**



A mid-nineties stock broker report on the closed-end fund market demonstrated the structural benefits of listed investment companies (LICs): closed-end funds significantly outperformed open-end funds over a 50-year period. LICs are considered closed-end investment vehicles, which means they have a fixed pool of capital. The report showed open-end funds buy and sell in line with investor inflows and outflows, which is impacted by market sentiment at that time, while a manager of a closed-end vehicle, such as a LIC, does not face this dynamic. With a stable pool of capital, the LIC structure allows us to invest

investment process, rather than ever being a forced buyer or seller that is influenced by fluctuations in market sentiment.

Wilson Asset Management was established with a purpose of making a difference for our shareholders and the community. This is done through investment portfolio performance and returns for shareholders, advocacy for retail shareholders and our philanthropic initiatives, in particular, as the creator and lead supporter of the Future Generation companies, Australia's first LICs to provide investment and social returns.

“

Over four decades in financial markets, I have developed a disciplined investment process focused on my preferred investment vehicles, listed investment companies.



**GEOFF WILSON AO**

Chairman & Chief Investment Officer  
Wilson Asset Management

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## The first LIC

**The Australian LIC industry is almost 100 years old and it has experienced many cycles since the country's first LIC, Whitefield Limited (ASX: WHF), was incorporated in 1923.**

The current environment for LICs provides patient and discerning investors with significant opportunities. In 2002, Geoff welcomed a 'golden decade' for the LIC sector, which extended to almost two decades, with 122 LICs and listed investment trusts (LITs) listed on the ASX during this time.



## Wilson Asset Management LICs

### W | A | M *Capital*

#### ASX: WAM

The most compelling undervalued growth opportunities in the Australian market

Listed in August 1999, WAM Capital provides investors with exposure to an actively managed, diversified portfolio of undervalued growth companies listed on the ASX, with a focus on small-to-medium sized businesses. The Company's investment objectives are to deliver a stream of fully franked dividends, provide capital growth and preserve capital.

### W | A | M *Leaders*

#### ASX: WLE

Actively investing in the highest quality Australian companies

Listed in May 2016, WAM Leaders provides investors with exposure to an active investment process focused on identifying large-cap companies with compelling fundamentals, a robust macroeconomic thematic and a catalyst. The Company's investment objectives are to deliver a stream of fully franked dividends, provide capital growth over the medium-to-long term and preserve capital.

### W | A | M *Global*

#### ASX: WGB

The world's most compelling undervalued growth companies

Listed in June 2018, WAM Global provides investors with exposure to an actively managed diversified portfolio of undervalued international growth companies and exposure to market mispricing opportunities. WAM Global's investment objectives are to deliver investors a stream of fully franked dividends, provide capital growth over the medium-to-long term and preserve capital.

### W | A | M *Microcap*

#### ASX: WMI

The most exciting undervalued growth opportunities in the Australian micro-cap market

Listed in June 2017, WAM Microcap provides investors access to a portfolio of undervalued micro-cap growth companies with a market capitalisation of less than \$300 million at the time of acquisition. WAM Microcap also provides exposure to relative value arbitrage and market mispricing opportunities. WAM Microcap's investment objectives are to deliver a stream of fully franked dividends, provide capital growth over the medium-to-long term and preserve capital.

## W | A | M *Alternative Assets*

### **ASX: WMA**

#### **Unique opportunities beyond traditional assets**

Wilson Asset Management was appointed as Investment Manager of WAM Alternative Assets in October 2020. WAM Alternative Assets provides retail investors with exposure to a portfolio of real assets, private equity, real estate, and aims to expand into new asset classes such as private debt and infrastructure. The Company's investment objectives are to consistently deliver absolute returns through a combination of dividend yield and capital growth, while providing diversification benefits.

## W | A | M *Research*

### **ASX: WAX**

#### **The most compelling undervalued growth opportunities in the Australian market**

Listed in August 2003, WAM Research provides investors with exposure to a diversified portfolio of undervalued growth companies, which are generally small-to-medium sized industrial companies listed on the ASX. WAM Research's investment objectives are to provide a stream of fully franked dividends and achieve a high real rate of return, comprising both income and capital growth, within acceptable risk parameters.

## W | A | M *Strategic Value*

### **ASX: WAR**

#### **Discounted asset opportunities**

Listed in June 2021, WAM Strategic Value provides shareholders with exposure to Wilson Asset Management's proven investment process focused on identifying and capitalising on share price discounts to underlying asset values of listed companies, primarily LICs and LITs.

## W | A | M *Active*

### **ASX: WAA**

#### **Mispricing opportunities in the Australian market**

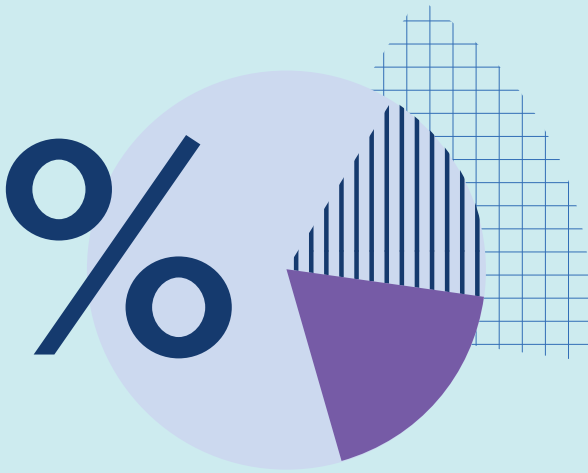
Listed in January 2008, WAM Active provides investors with exposure to an active trading style with the aim of achieving a sound return with a low correlation to traditional markets. WAM Active's investment objectives are to deliver a regular income stream via fully franked dividends, provide a positive return with low volatility, after fees, over most periods of time, and to preserve capital.

# (LIC)

## What is a listed investment company?

Listed investment companies (LICs) are corporate entities in a 'company' structure established for the purpose of investing in a portfolio of securities or investments on behalf of shareholders. LICs are listed on an exchange, which in Australia is primarily the Australian Securities Exchange (ASX). Each company on the ASX has a ASX code, also known as a 'ticker'.





## **Diversification through LICs**

LICs are actively managed and provide investors with a simple and cost effective portfolio with diversification benefits. Wilson Asset Management's stable of eight LICs offer investors exposure to different market sectors and asset classes, with various underlying securities selected in line with our rigorous investment process.

# Benefits of a LIC structure

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## Closed-end structure

LICs have a closed-end structure; meaning they have a fixed pool of capital.

A LIC raises its initial capital at a specified point in time, unlike openended managed funds that may raise capital continuously from investors in the form of applications. Investors in LICs can increase or decrease their investment by buying and selling shares on the ASX, rather than depositing (applications) or withdrawing (redemptions) funds from the LIC directly.

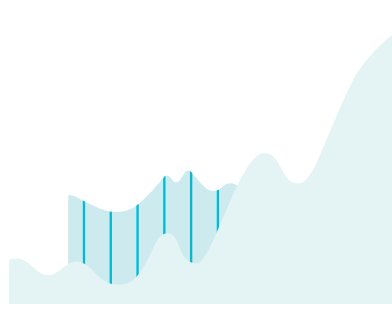
As such, this gives LICs the ability to invest for the long-term and it means they are not subject to the impact of applications and redemptions like exchange traded funds (ETFs) or managed funds, which can force the Investment Managers, who manage shareholder capital, to buy and sell investments at sub-optimal times in the market environments.

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## Ability to make longer term decisions

The structure of a LIC can allow for stability in the amount of money the fund has for longer term investing by the Investment Manager, without the impact of cash inflows or outflows from investor applications and redemptions that change with investor sentiment. This means if investors want to sell in times of market uncertainty, they can do so by selling their shares on the public market, which does not affect the amount of capital managed in the LIC by the investment manager.



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## **Public companies provide stringent corporate governance and accountability of Directors**

Companies that are listed on the ASX, such as LICs, have a Board of Directors. The Board is required to follow the principles and best practice recommendations established by the ASX Corporate Governance Council. The role of the Board is to set the strategic direction of the company, approve capital management initiatives and to be responsible for the overall corporate governance of the company, which includes setting appropriate business standards and codes of ethical behaviour, as well as ensuring significant business risks are identified and appropriately managed. Shareholders are the owners of public companies and have the right to vote on the appointment of the members of their Board of Directors. The Board of Directors must act in the best interest of shareholders, which means making informed decisions and adequately preparing the company for any future changes. The Board must also act in good faith with reasonable care, skill and diligence, and keep abreast of the company's activities and financial position.



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## **LICs trade on the ASX which provides intra-day liquidity**

Shareholders can buy or sell their shares through the ASX. This provides intra-day liquidity and avoids the need for lengthy application and redemption forms, or the requirement to wait for a redemption window to access any funds from their investments.

LICs can offer investors the opportunity to buy \$1 of assets for 80c and sell \$1 of assets for \$1.20

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### Premiums and discounts

LIC's shares are traded on the ASX and have a fixed amount of capital. At times, the LIC's share price can fluctuate above or below its net tangible asset (NTA) value. The NTA represents the true value of the company and is announced on the ASX to shareholders each month. The share price, however, is influenced by the general supply and demand of the LIC's shares in the market. When the share price is above the NTA of the company, the LIC is trading at a premium to NTA. When the share price is below the NTA, the LIC is trading at a discount to NTA. We look more closely at premiums and discounts on the following page.

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### Fully franked dividends

The company structure of a LIC allows it to pay a stream of dividends to shareholders. As such, LICs can elect to frank their dividends to shareholders if franking credits are available. When a LIC pays a fully franked dividend, shareholders receive the cash dividend plus the benefit of any attached franking credits the company has paid or received on shareholders' behalf. The shareholder can then use this credit to help offset more tax payable on their taxable income, or even have it refunded to them if their tax rate is lower than the franking rate attached to the dividend. In contrast, open-end funds like unit trusts are typically required to distribute all taxable income earnings each year to their underlying investors. These earnings may or may not have franking credits attached depending on the underlying investment, and income is unpredictable. In some years the investor may lose capital in openended funds and may be required to pay tax.

# Why do LICs trade at premiums or discounts to their NTAs?

A LIC can trade at a premium or discount to its underlying value, or its NTA. This is because LICs are closed-end funds with a fixed amount of capital, and investors can only buy its shares from an existing shareholder that is willing to sell.

This means a LIC's share price is determined by the forces of supply and demand. As a result, a LIC's share price can deviate from the underlying value of its NTA.

## PREMIUM

When LICs trade on the ASX above their NTA value, the LIC is at a **premium**.



## DISCOUNT

When LICs trade on the ASX below their NTA value, the LIC is at a **discount**.



## Why do LICs trade at premiums or discounts to their NTAs?

### PREMIUM

**When a LIC's share price trades at a premium to its NTA, it benefits investors who bought shares in the LIC when the company was trading at or below its NTA.**

When a LIC's share price trades at or above its NTA, it is also able to raise capital and grow in size to the benefit of existing shareholders. The growth in the size of a LIC benefits shareholders by increasing its on-market liquidity and relevance in the market, and reduces its fixed costs as a percentage of net assets. Increased liquidity tends to improve the prospect of broker and research coverage, and interest from financial planners.

**Some reasons why LICs trade at a premium to their NTA include:**

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Pay a consistent and growing stream of fully franked dividends.

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Have a track record of long-term investment portfolio performance.

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Treating shareholders equitably and with respect.

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Effective investor communications and marketing, raising the profile of the LIC.

## DISCOUNT

**When a LIC's share price trades at a discount, this provides investors with an opportunity to gain exposure to the LIC's underlying assets for less than its real value.**

**Some reasons why LICs trade at a discount to their NTA include:**

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Newer LICs with a limited or poor track record of investment performance and poor corporate performance. Or the LIC may lack a history of paying fully franked dividends, or not pay a dividend at all.

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During initial public offerings (IPOs) and capital raisings, some investors with a short-term investment horizon may arbitrage their shares, meaning they buy in only to sell out once the share price rises in the short term. This can often negatively affect the share price in the short term until these investors exit the register and the shareholder base stabilises.

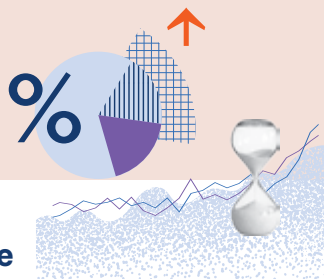
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Ineffective investor communications and marketing, which can lead to low awareness of the LIC among existing and potential investors.

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The board has not treated all shareholders fairly, eroding shareholder trust, which can cause shareholders to sell and put downward pressure on the LIC's share price.

# The three measures of performance



## 1 Investment portfolio performance

Investment portfolio performance measures the growth of the underlying investment portfolio of equities and cash before expenses, fees, taxes and capital management initiatives. Each LIC is driven towards beating a benchmark index, or increasing the underlying investment portfolio of equities and cash at a faster rate. This measure allows a shareholder to assess whether an active manager can outperform on a like-for-like basis with the benchmark.

## 2 Net tangible asset growth

NTA growth is the change in value of the company's assets, less liabilities and costs (after tax, management and performance fees) and is usually shown on a per share basis. The NTA growth demonstrates the value of the investment portfolio performance and quantifies the impact of capital management decisions (for example, dividends paid, options exercised, new shares issued at a premium or discount to NTA) under the direction of the LIC's Board of Directors, which can increase or decrease the value of a LIC's NTA separate to the performance of the investment portfolio. The franking credits generated by corporate tax payments, which reduce a LIC's pre-tax NTA when the cash outflow is paid, are available for distribution to shareholders through fully franked dividends.







### 3 Total shareholder return

$$\text{TSR} = (\text{CLOSING SHARE PRICE} + \text{DIVIDENDS PER SHARE}) / \text{OPENING SHARE PRICE}$$

Total shareholder return (TSR) measures the tangible value shareholders gain from share price growth and dividends paid over the period, before the value of any franking credits distributed to shareholders through fully franked dividends.

# Critical elements of a successful LIC

## There are four critical elements of a successful LIC:

### Performance

Investment portfolio performance. This measures the growth of the underlying investment portfolio of equities and cash before expenses, fees, taxes and capital management initiatives.



### Dividends

The ability to pay a stream of fully franked dividends.



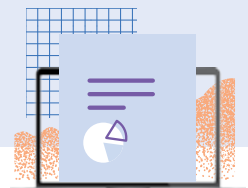
### Treat shareholders with respect

The fair and equitable treatment of shareholders and understanding that the Board of Directors within a company only exists to represent the best interests of all shareholders.



### Engagement

Regular engagement with shareholders. A comprehensive acknowledgement, engagement, communication and education strategy to build trust.





## Our approach to shareholder engagement

Wilson Asset Management takes an especially active approach to engaging with our shareholders, both in terms of ongoing performance and timely insights. We provide:

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Regular market updates from the investment team

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Investment team insights at [wilsonassetmanagement.com.au/vault](http://wilsonassetmanagement.com.au/vault)

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Roundtables with our shareholders, planners, advisers and their clients

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NTA reports and investment updates

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Shareholder Q&A calls and webinars

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Social media engagement

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Investor education material

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Presentations and events across Australia

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Annual and interim results announcements

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Experienced investment team readily available to talk with shareholders

# CONCLUSION

## LICs in summary

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LICs provide investors with access to a broad range of assets and diversification benefits as well as access to the skills of a professional and experienced Investment Manager.

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The LIC structure is closed-ended and has a fixed pool of capital. This structure gives Investment Managers the ability to focus on long-term performance. Investment companies with a fixed capital base, like a LIC, have outperformed open-ended funds over time on an NTA basis.

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Before you invest in a LIC make sure you consider the share price premium or discount to NTA and: investment portfolio performance, NTA growth, TSR, the profits reserve and fully franked dividends.

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### Investors in a LIC can receive returns in two ways:

01

Investors can benefit from capital appreciation, or the increase of the share price. This is the difference between what an investor paid for their initial share purchase in the LIC compared to the current market selling price of those shares, assuming the share price has appreciated over time.

02

Most LICs pay regular fully franked dividends that can often provide a regular income stream for many shareholders.

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# MARKET & LIC

## JARGON

<b>Bear market “Bearish”</b>	Pessimistic market sentiment, characterised by falling share prices. Bear markets often predict an economic downturn.
<b>Bull market “Bullish”</b>	Optimistic market sentiment, characterised by rising share prices and investor confidence on the expectation that strong returns will continue.
<b>NPAT (net profit after tax)</b>	Net profit after tax is a company’s earnings after all expenses and is the profit available to shareholders.
<b>EPS (earnings per share)</b>	A per share measure of earnings ( <b>NPAT</b> ) frequently utilised by investors. The EPS is calculated by dividing a company’s earnings by the number of shares on issue.
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation. A measure of a company’s operating profitability before reinvestment.
<b>Index</b>	An index or benchmark can be used as a comparison tool to understand how a LIC has performed compared to a particular market. An index is a group of companies that are used as a benchmark, such as the S&P/ASX All Ordinaries Accumulation Index and the MSCI World Index. The S&P/ASX All Ordinaries Accumulation Index includes the 500 largest companies in the Australian equities market. The MSCI World Index is a broad equity index that includes the largest companies across 23 countries.
<b>IPO (initial public offering)</b>	The initial offering of shares by a private company to the public after which the company trades on a public stock exchange.
<b>Leverage</b>	The use of debt as a funding source. A highly leveraged firm has a higher ratio of debt-to-equity or debt-to-earnings.
<b>Liquidity</b>	How quickly and easily assets can be converted into cash.
<b>Market capitalisation (market cap)</b>	The market value of the equity of a publicly traded company, calculated by multiplying the share price by the number of shares outstanding.
<b>P/E ratio (price-to-earnings ratio)</b>	A measure of the relative expensiveness of a given company. Calculated by dividing the share price by earnings per share. Investors often compare a company’s P/E ratio to other companies in the same industry or relative to the company’s history.

## Market and LIC jargon

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<b>Discount/premium</b>	Shares can trade at a premium or discount to NTA. Buying shares at a discount means you pay less than the company's underlying net asset value. Buying shares at a premium means you pay more than the underlying net asset value
<b>DRP (dividend reinvestment plan)</b>	The opportunity for shareholders to invest all or part of their dividends in new shares in a company. By participating in a DRP, shareholders will receive shares instead of a cash dividend without paying any brokerage fees. Shares can be offered at a discount to the current market price of the company.
<b>Dividend yield</b>	The dividend return on an investment expressed as a percentage. The annual or annualised dividend (first half/interim plus second half/final) divided by the current share price.
<b>Grossed-up dividend yield</b>	Grossing up a dividend shows how much profit is being distributed to shareholders before a company (or a LIC) pays tax on its profits. In Australia, the company tax rate is usually 30%. With a company tax rate of usually 30% and a 100% franking rate, the grossed-up dividend is calculated by simply multiplying the dividend by coefficient 1.428 or dividing it by 0.70.
<b>Ex/cum dividend</b>	Shares trade cum dividend when the dividend of a company is announced, but not yet paid. If you purchase shares during this period, you will be entitled to receive the dividend. If you purchase shares on or after the ex-dividend date, the previous owner of the shares is entitled to the dividend, and you are not. A company's share price falls on the ex-dividend date by an amount equal to or near the dividend or sometimes to the value of the fully franked dividends.
<b>Fully franked dividend</b>	A dividend paid by the company that includes franking credits. This means shareholders are entitled to the dividend plus a credit for the amount of tax the company has already paid on your behalf.
<b>LIC (listed investment company)</b>	A professionally managed closed-end structure where investment managers can take a long-term view and are not forced buyers and sellers of investments in unfavourable markets. LICs can provide investors a stream of fully franked dividends and are held accountable to the Corporations Act and ASX listing requirements. LICs provide a diversified portfolio of assets, investment styles and market sector exposure.

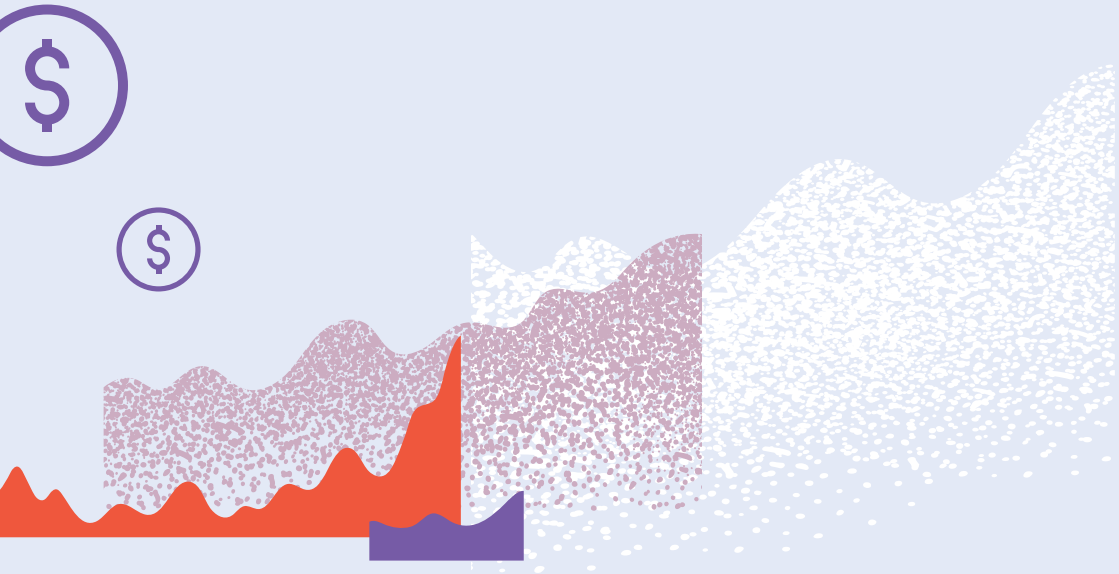
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## Market and LIC jargon

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<b>NTA (net tangible assets)</b>	The total assets of a company, less liabilities and intangible assets, such as goodwill. NTA divided by the number of shares on issue equals the NTA per share.
<b>Options</b>	The issuing of options to existing shareholders, to provide them with the opportunity to purchase shares in the LIC at a fixed price. When the share price of the underlying shares is higher than the exercise price of the option, this is referred to as 'in the money'. 'Out of the money' is a phrase used when the share price of the underlying shares is lower than the exercise price of the option.
<b>Profits reserve</b>	This reserve forms part of the shareholder equity and is made up of amounts transferred from current and retained earnings that are preserved for future dividend payments.
<b>SPP (share purchase plan)</b>	An offer to existing shareholders to purchase more shares at a stated price and without paying brokerage fees. Each shareholder can buy a maximum of AUD30,000 of shares in the SPP.
<b>45 day rule</b>	The 45 day rule requires shareholders to have held the shares 'at risk' for at least 45 days (plus the purchase day and sale day) in order to be eligible to claim franking credits in their tax returns. If shareholders have held their share for less than 45 days then they cannot claim the franking credits in the dividends received. Please visit the Australian Tax Office website for more information.

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