

# LISTED INVESTMENT COMPANIES and TRUSTS ASSOCIATION LTD



Australian Shareholders' Association  
2024 Investor Conference  
20-21 May 2024

**Why the closed-end structure of LICs and LITs  
is suited to long-term investing**



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# Why the closed-end structure of LICs and LITs is suited to long-term investing



Mark Freeman



**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

Kathleen Yeung



**QUALITAS**

Don Hamson



**Plato**  
INCOME MAXIMISER LIMITED

# About closed-end LICs and LITs

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The closed-end structure of an LIC or LIT brings benefits when investing for the long-term, which can include:

## Active management -

considered investments strategies that can better take advantage of market conditions as investment decisions are not influenced by the issuance and redemption of units as they are in open ended structures.

## Patient approach to buying when others are selling and selling when others are buying -

They are not wedded to tracking an index that may lead to;

- o Forced buying in overheated markets
- o Selling value in falling markets

# About closed-end LICs and LITs

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## Delivering a consistent income stream over time

in the case of LICs, including franking and from asset classes not typically associated with dividends and franking – global equities, small companies and alternatives for example

## Listed Investment Companies (LICs) and Listed Investment Trusts (LITs), like many other investment products also offer investors:

Ease of access – traded on ASX

Pooled investing – one trade provides exposure to a range of underlying investments

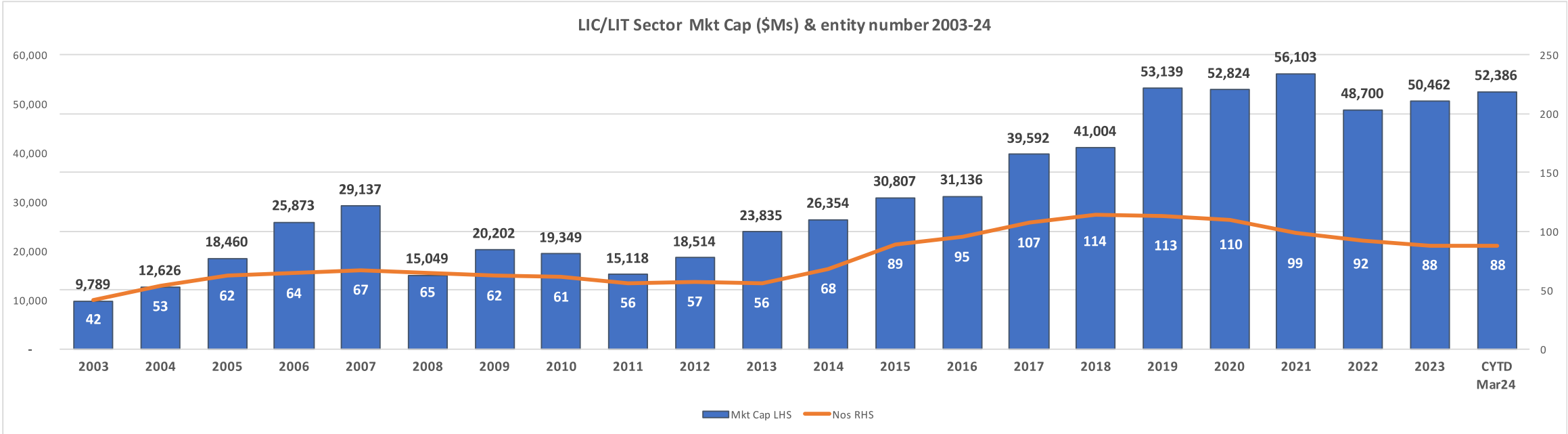
Diversification – across a range asset classes, investment managers and styles

Simplify corporate actions on behalf of the investor



# LIC & LIT Sector overview – Market Cap

The sector is over 100 years old; here's the last 20 or so.

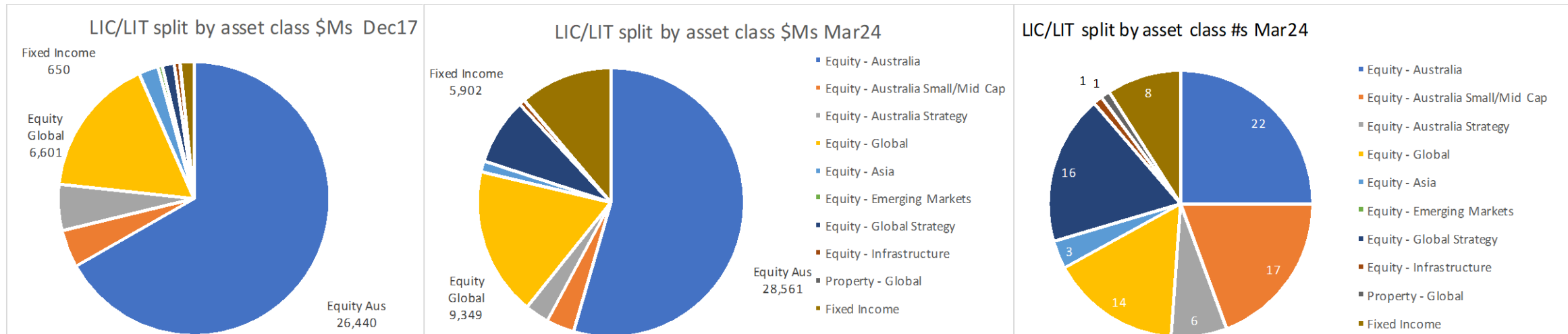


Source: ASX Monthly Investment Products Report

For more information: visit [licat.com.au](http://licat.com.au)

# LIC & LIT Sector overview – Asset Split

LICs and LITs hold a diverse range of underlying investments:

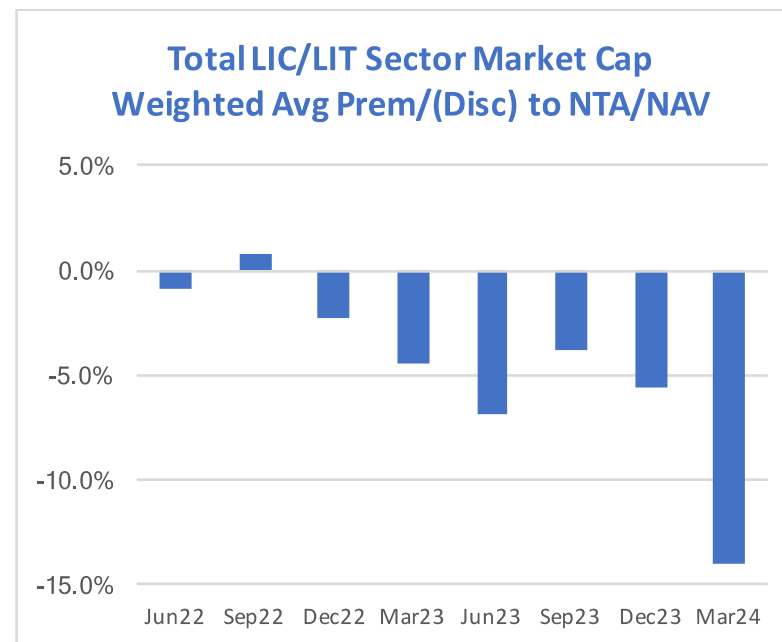


# LIC & LIT Sector overview – NTAs

## Sector market cap weighted avg. premium/discount

Closed-end funds by nature can trade at premiums or discounts to the value of the assets held in the structure. This is also true for other ASX listed companies and trusts (BHP, CBA, WOW).

Some investors may see an advantage in accessing the underlying holdings at a discount – ‘a dollars worth of shares, dividends and potentially, franking for 85 cents’



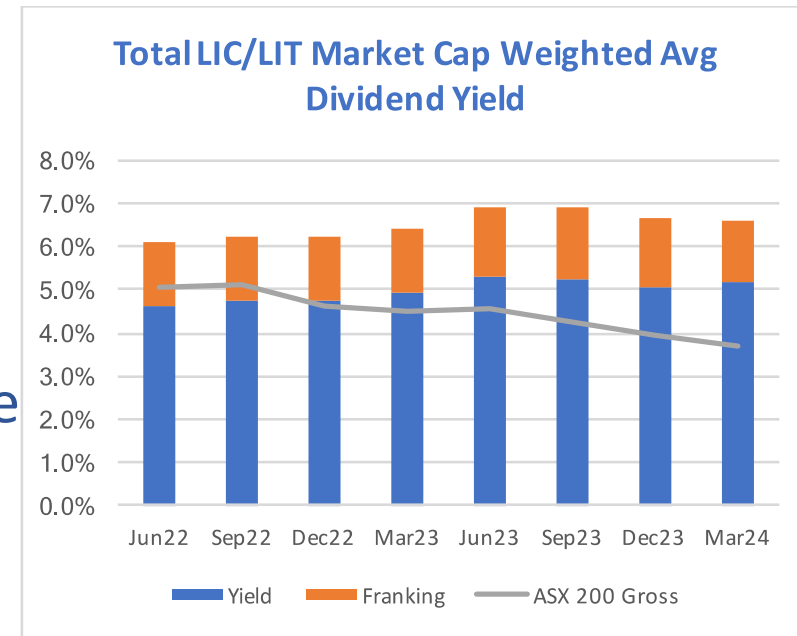


# LIC & LIT Sector overview – yields; the flip side

## Sector market cap weighted avg. gross dividend yield vs S&P/ASX 200 index

In markets where asset valuations are rising rapidly and dividends remain constant, yields fall. LIC/LITs prices may have fallen, however, their dividends and distributions remaining constant and yields rise

An index ETF will provide the index price return however, not all constituents in the index pay dividends, some that do are not fully franked.



# Our panel



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Kathleen Yeung



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Don Hamson



**Plato**  
INCOME MAXIMISER LIMITED



# Mark Freeman Managing Director



ASX: AFI



ASX: DJW



ASX: MIR



ASX: AMH

# We operate what is called The Traditional LIC Model

Internally managed – no external funds management business charging separate portfolio fees

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Diversified portfolios that are tax aware with lower portfolio turnover and with lower volatility of returns

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Costs and tax paid have less of an impact on returns – our performance quoted after fees and tax paid

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Incentives strongly aligned with shareholder interests, benefit of scale flows to shareholders

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Sensitivity to income requirements of shareholders – profit reserves, focus on fully franked dividends

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Independent Board of Directors

# The case for our LICs over Index ETF's

Closed end fund provides stability of capital which allows for long term investment

Investments strategies are not influenced by the issuance and redemption of units as they are in open ended structures – better able to take advantage of market opportunities

LIC's not wedded to tracking an index that may lead to:

- forced buying in overheated markets – last buyer of upgrades
- forced selling value in falling markets – last seller of downgrades
- large exposure to an individual company/sector

Greater stability of fully franked dividends, simple distributions, benefit of LIC capital gains. No unexpected tax outcome for investors

As an active investment manager, we have the discretion to take advantage of discounted placements, buy backs and other corporate actions on behalf of shareholders

# The LIC closed end model supports our long-term investment approach of investing in quality companies for sustainable returns

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## Attributes of a quality company that we seek:

- Industry leadership position (or developing one)
- Unique assets that are hard to replicate
- Conservative balance sheets (low debt)
- Not unduly burdened by external risk factors
- Consistency of earnings
- Run by effective, passionate management with ownership alignment
- Have opportunities for growth

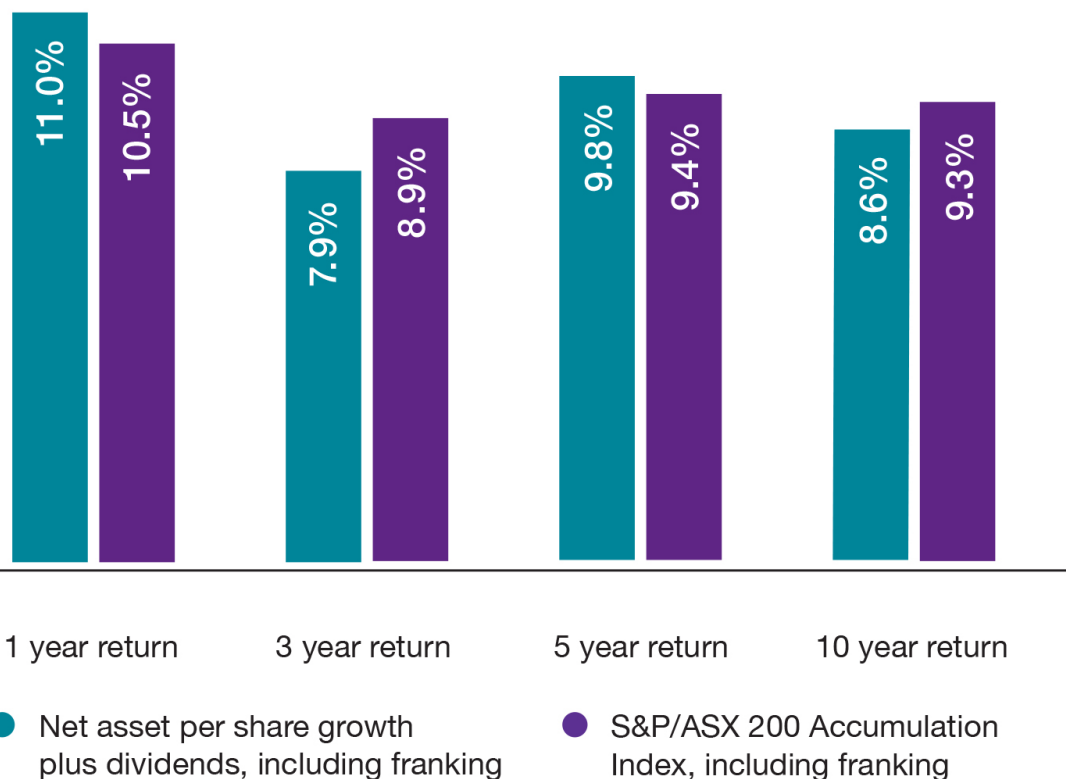
## Why this matters:

- The presence of these factors drives a competitive advantage
- Which leads to high return on capital
- And allows for reinvestment opportunities to drive growth
- Which allows for market share capture – and further enhancement of leadership position
- Which combines to deliver long term shareholder value creation, which includes dividends

We seek to buy these companies when we identify long term value

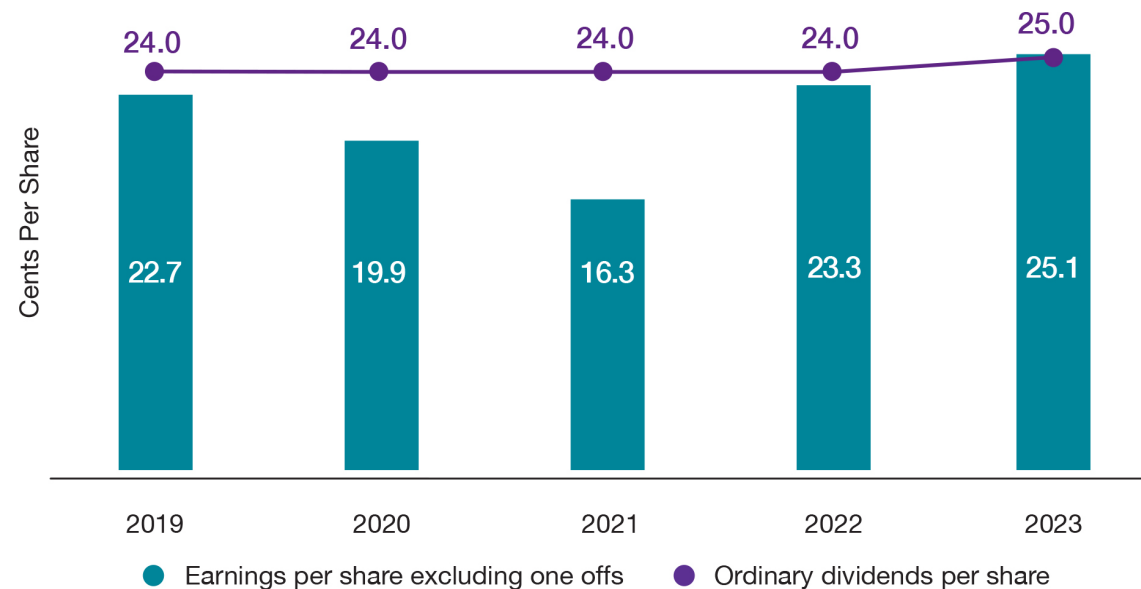
# Australian Foundation Investment Company – MER 0.14%

## Portfolio Performance – to 30 April 2024



\* Per annum returns. Assumes the full benefit of franking credits. Past performance is not indicative of future performance.

## Recent Dividend History



In 2019 AFIC also paid a special fully franked interim dividend of 8 cents per share

AFIC's franking reserve balance (in part enabled by the LIC structure) ensures we can pay a consistent dividend even through volatile times.

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# Qualitas Real Estate Income Fund

ASX:QRI



# Real estate private credit at an inflection point

## LARGE AND LIQUID COMMERCIAL REAL ESTATE (CRE) MARKET

\$446bn

ADI's total  
CRE lending limit<sup>1,2</sup>

6<sup>th</sup>

Most liquid/transacted  
real estate market globally<sup>3</sup>

## RESIDENTIAL SECTOR IS HIGHLY ATTRACTIVE TO INVESTORS

548k

Record high net annual  
overseas migration<sup>4</sup>

0.7%

Record low residential  
vacancy rate<sup>5</sup>






300k

Apartments needed over  
the next four years<sup>6</sup>

1.3x

Median house value  
over apartment value<sup>7</sup>

## WHY QUALITAS?

- 
Trusted brand with strong track record
- 
Deep bench of specialised talent
- 
Well capitalised balance sheet
- 
Discretionary funds management model
- 
Strong investment pipeline

# Qualitas Real Estate Income Fund (ASX:QRI) overview



Regular income<sup>1</sup> with the potential for capital preservation

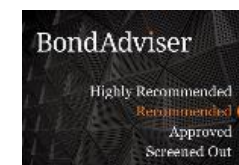
Property investment without ownership risk

Expert real estate investment manager

Cash rate +  
5.0% to 6.5% p.a.  
Target return<sup>2</sup>

Monthly  
distributions

## RESEARCH RATINGS



8.60%  
Apr-24 annualised  
distribution return<sup>2</sup> p.a.  
based on NAV of \$1.60

\$658m  
Current fund size<sup>3</sup>

## PLATFORMS

Only MREIT  
In the ASX300 and  
ASX300 AREIT Indices

86%  
Residential exposure<sup>3</sup>

AMP North  
Asgard IDPS  
Asgard Super & Pension  
BT Panorama  
BT Wrap

CFS FirstWrap  
Edge CFS  
HUB24  
IOOF xpanD  
Macquarie

Netwealth  
Mason Stevens  
Praemium

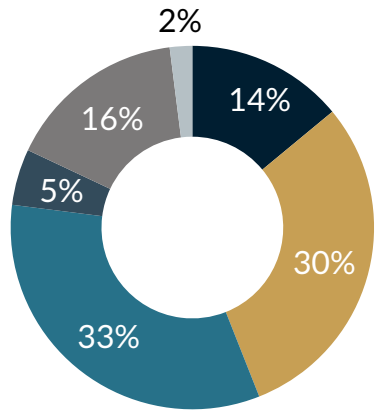
Notes: 1. The payment of monthly cash income is a goal of the Trust only and neither the Manager or the responsible entity provide any representation or warranty (whether express or implied) in relation to the payment of any monthly cash income. 2. Past performance is not indicative of future performance. 3. Data presented as at 30 April 2024. Represents total loans in the portfolio on a look through basis, via investments in direct loans and Qualitas wholesale funds. The classifications of underlying sector exposure are determined by QAL (QRI's manager). Figures stated are subject to rounding.



# Portfolio composition as at 30 April 2024<sup>1</sup>

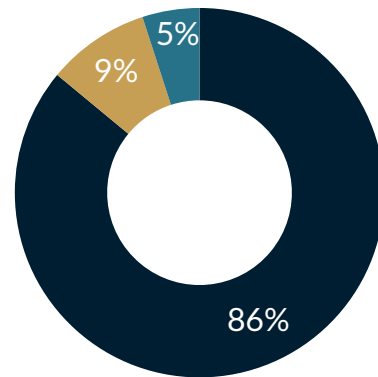
## DIVERSIFIED PORTFOLIO BY LOAN TYPE, PROPERTY SECTOR, GEOGRAPHY AND BORROWER

### Portfolio composition<sup>2</sup>



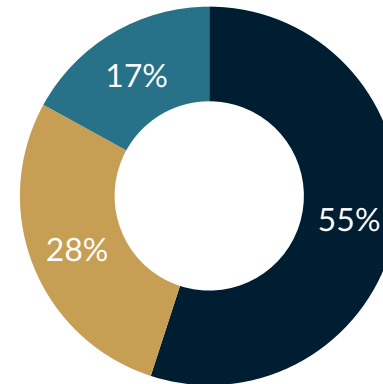
- Cash
- Senior investment loans
- Senior land loans
- Senior construction loans
- Mezz construction loans
- Trust loan receivable

### Property sector<sup>2</sup>



- Residential
- Commercial
- Industrial

### Geography<sup>2</sup>



- VIC
- NSW
- QLD

37 loans<sup>3</sup>

81%  
Senior (1<sup>st</sup> mortgage) loans<sup>4</sup>

65%  
Weighted average LVR<sup>5</sup>

0.63 years  
Weighted average loan maturity<sup>3</sup>

Notes: 1. Data presented as at 30 April 2024. Represents total loans in the portfolio on a look through basis, via investments in direct loans and Qualitas wholesale funds. The classifications of underlying sector exposure are determined by QAL (QRI's manager). Figures stated are subject to rounding. 2. The portfolio statistics are determined on a look-through basis having regard to the loans in the underlying Qualitas Funds as indicated. The classifications of these diversification parameters are determined by the Manager. Figures stated are subject to rounding. 3. Represents total loans in the portfolio on a look through basis, via investments in direct loans and Qualitas wholesale funds. 4. Excludes Trust loan receivable and cash. 5. Represents total LVR of loans in the portfolio on a look through basis, via investments in direct loans and Qualitas wholesale funds.



# Why now may be the time to invest in real estate private credit

- ✓ Continuing to benefit from an elevated interest rate environment<sup>1</sup>
- ✓ Defensive exposure with downside protection through an equity buffer
- ✓ Fund well-positioned to grow and take advantage of market dislocation as traditional financiers' retreat
- ✓ Managed by an industry leading team with a 15-year track record of outperformance<sup>1</sup>

## ACCESS SMART INVESTMENTS MADE SIMPLE WITH LIT STRUCTURE:

- Ease of access for all investors, with no minimum investment amount
- LITs are closed end on ASX, providing liquidity to a traditionally illiquid asset class
- No forced selling to fund redemptions as you buy and sell units on the ASX

Two primary risks are a loss of loan principal and a loss of loan income. The loss of loan principal is the risk that a borrower cannot repay the loan and the security property value declines and is insufficient to meet the full repayment of the loan. The loss of loan income is the risk that cash flow from property or other borrower sources will be insufficient to pay loan interest and fees that are due to the lender.<sup>2</sup>

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# Our panel



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INCOME MAXIMISER LIMITED

**PLATO INCOME MAXIMISER LIMITED**

ASX: PL8

DR DON HAMSON

MANAGING DIRECTOR

PLATO INVESTMENT MANAGEMENT

**Plato**

INVESTMENT MANAGEMENT

AUF4



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# PL8 Overview

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PLATO INCOME MAXIMISER LIMITED

First and only  
Australian Listed  
Investment Company  
(LIC) paying monthly  
dividends

Based on the  
investment strategy of  
the Plato Australian  
Shares Income Fund

Designed specifically  
with retiree investors  
in mind (pension phase  
superannuation or low  
tax individual)

Company structure enables profits and  
franking credits to be retained for a  
“rainy day” and dividends to be smoothed

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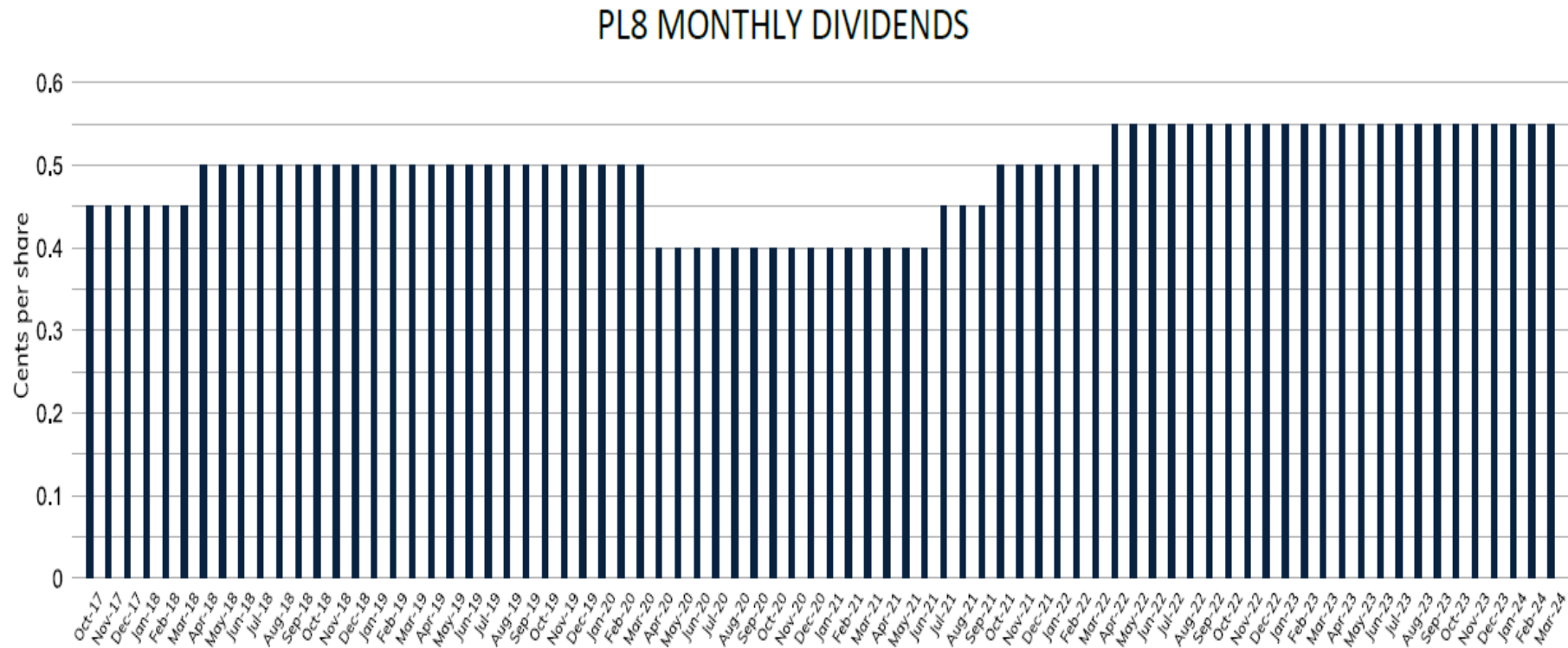
**Ticker: PL8**

**Listing date: 5 May 2017**

**Market cap\*: \$898m**

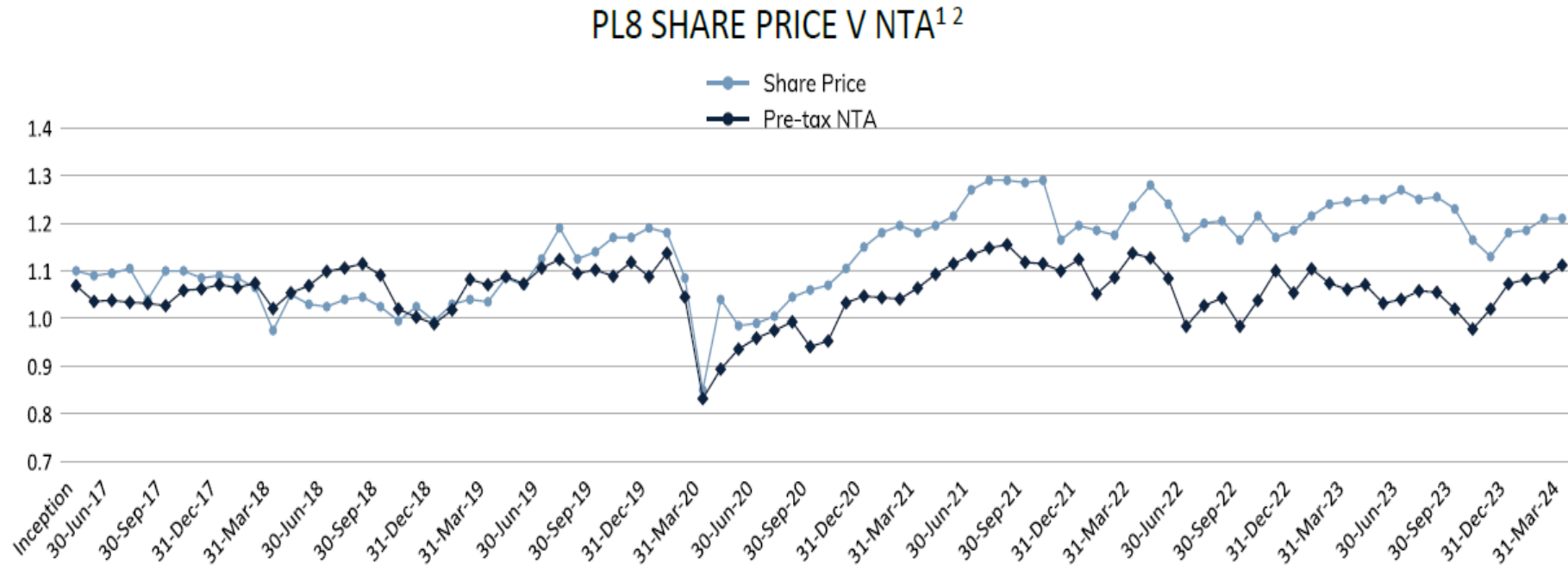
\*based on \$1.20 on 30 April 2024

# PL8 has paid regular monthly dividends



Source: Plato. While monthly income has been consistent since October 2017, this may change in the future. The declaration of dividends by the company is at the full discretion of the board (unlike trusts where income must be fully distributed each financial year).

# PL8 has generally traded above NTA



Source: Iress, Plato Investment Management

<sup>1</sup>NTA calculation excludes Deferred Tax Assets relating to capitalised cost deductions and carried forward tax losses of \$0.004. The Franking Account Balance (not reflected in NTA) is \$0.023 per share.

<sup>2</sup>Pre-tax NTA includes tax on realised gains or losses and other earnings, but excludes any provision for tax on unrealised gains or losses.

# Audience Q&A

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INVESTMENT  
COMPANY**

Kathleen Yeung



**QUALITAS**

Don Hamson



**Plato**

INCOME MAXIMISER LIMITED



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