

# The role of Listed Managed Investments (LMIs) in your portfolio

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# The role of LMs in your portfolio

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# Agenda

- What are LMIs
- Evolution of the LMI sector
- Investor benefits
- Investment alternatives
  - Exchange Traded Funds (ETFs)
  - Infrastructure Funds
  - Hedge Funds
  - Pooled Development Funds (PDFs)
- How to get started and more information

# Listed Managed Investments

- An entity listed on ASX where professional investment managers make decisions on your behalf
- Investments can provide instant diversification
- Low cost with lower than average management fees (particularly LICs and ETFs)
- 170+ investment alternatives to choose from

# Evolution of the LMI sector

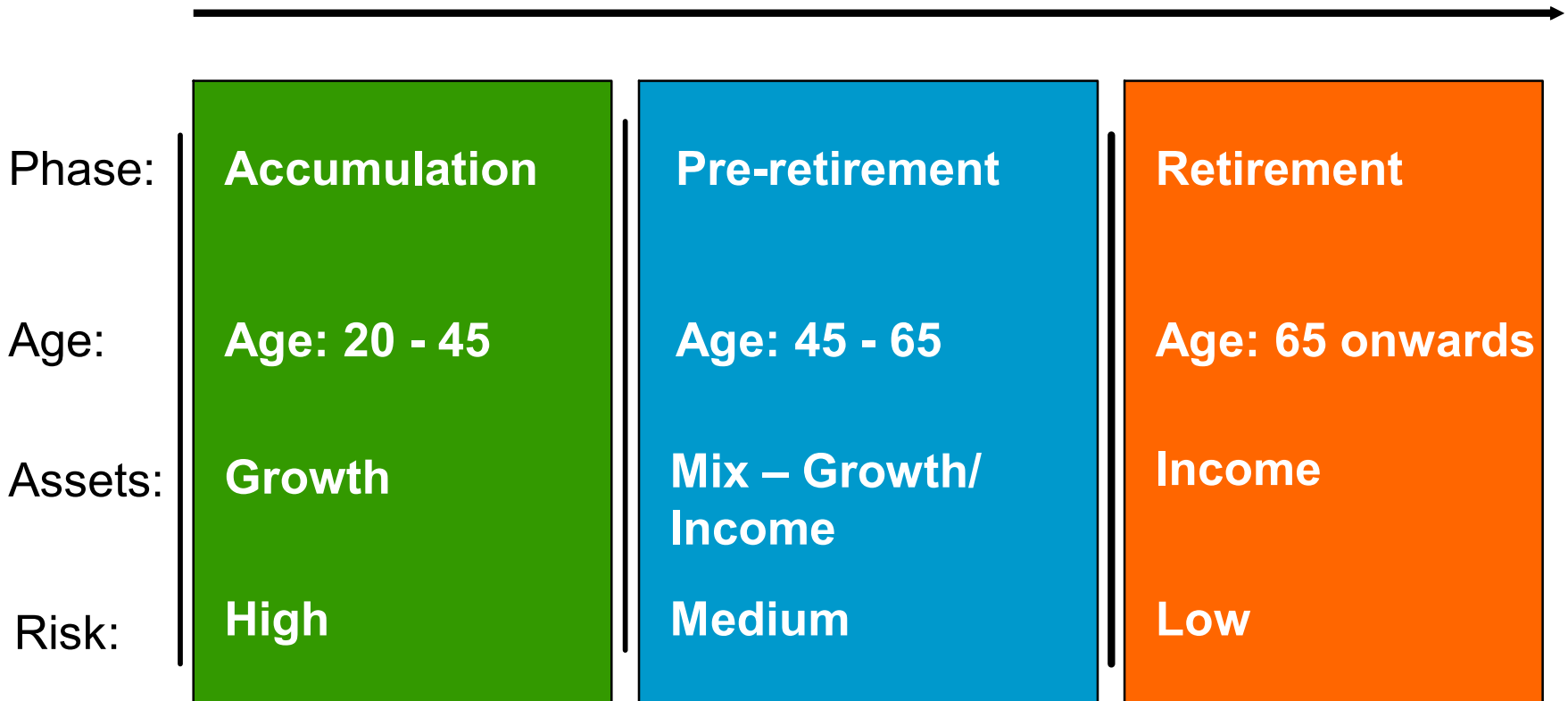
- ASX first coined the term in 2002
- Largest sectors were Listed Investment Companies and Listed Property
- Has expanded since then with massive growth in Infrastructure Funds and Listed Hedge Funds
- Evolution of new structures, ie - Listed Investment Trusts that provide off-market redemption facility also popular (aim is to minimise the LIC NTA premium/discount issue)
- Can also provide investors with exposure to specialist sectors such as resources, global futures and wine

# Investor Benefits

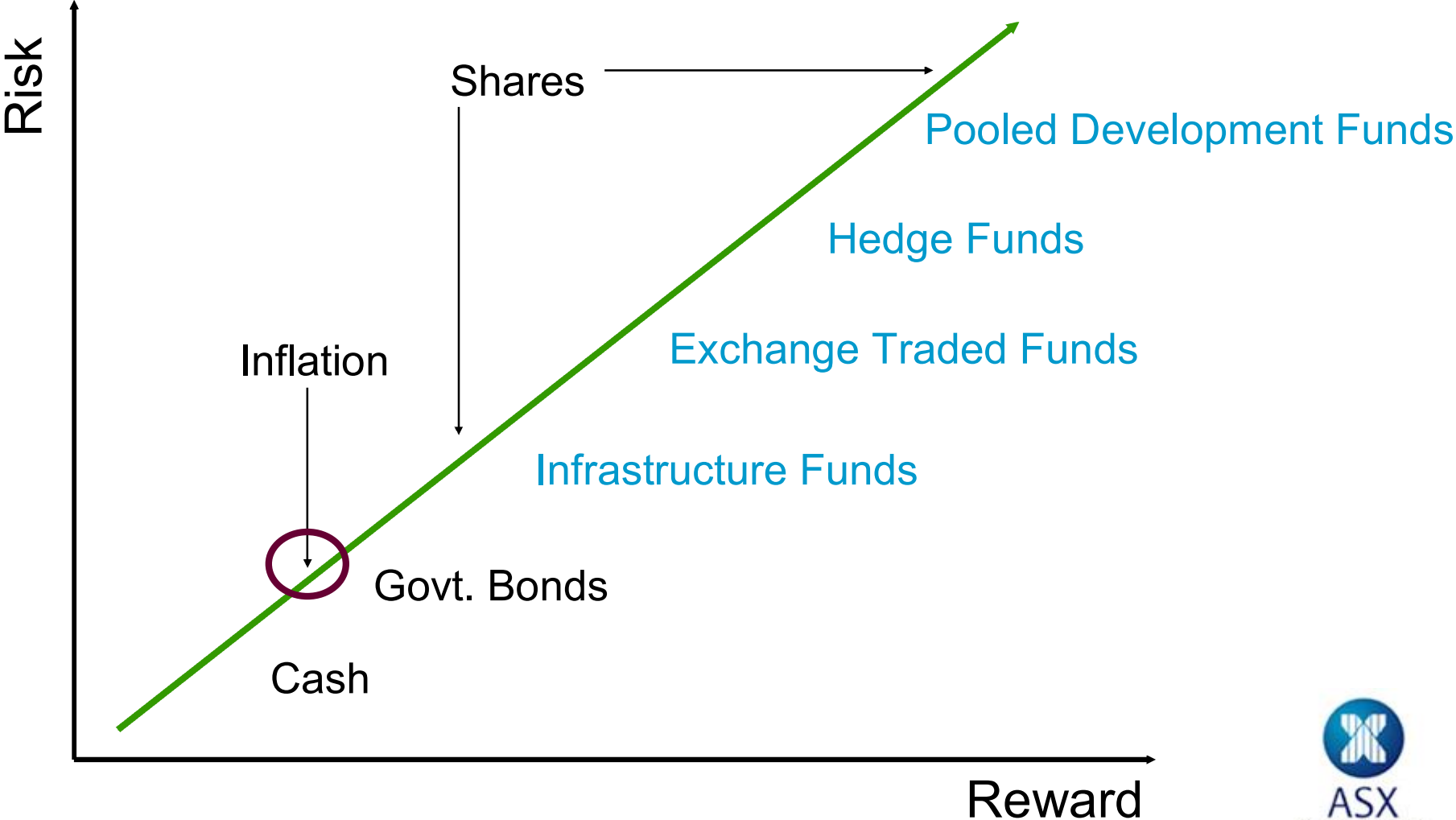
LMIs can provide investors with:

- **Regular income** within the range of 5% - 10% yield
- **Diversification** into one or more asset types
- The opportunity to participate in **capital appreciation**
- **Tax advantaged income** through franking credits or tax deferred status
- Capital stability with relatively **low volatility**

# Capital growth or income?



# Risk Profiles



# Infrastructure Funds



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# Defining Infrastructure

- Essential backbone service to the community
- Sustainable competitive advantage
- High barriers to entry
- Very low demand elasticity
- Stable and predictable real returns (often linked to inflation)
- Highly capital intensive long-life assets



# Examples of traditional Infrastructure assets

## Toll Roads

- Predictable revenues and low demand elasticity
- Reliable traffic growth
- Inflation protection generates real revenue growth
- Potential for higher returns from Greenfield projects

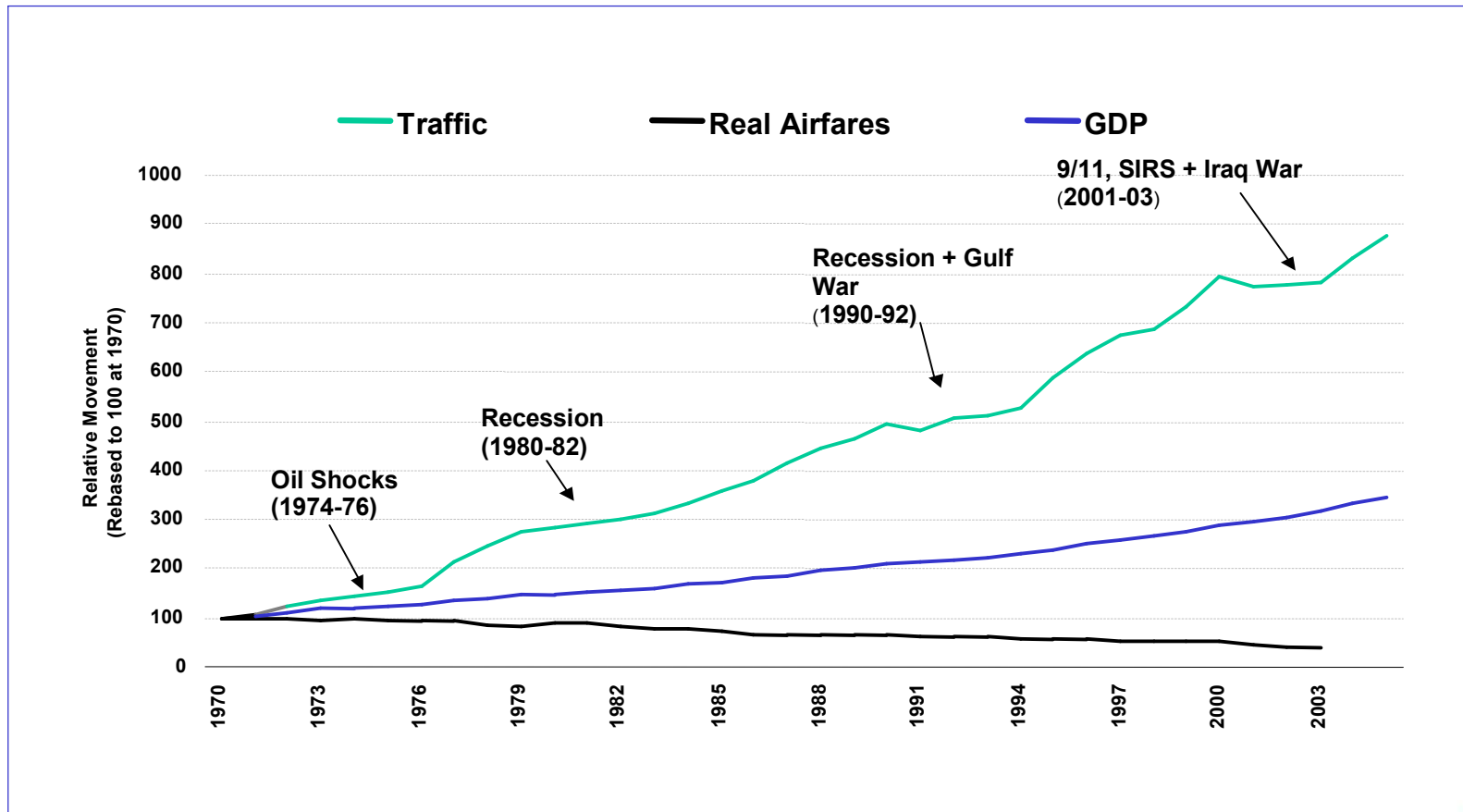


## Airports

- Stable and predictable demand
- Resilience to world economic and political shocks
- Long-term growth and resilience
- Demand growth exceeds GDP

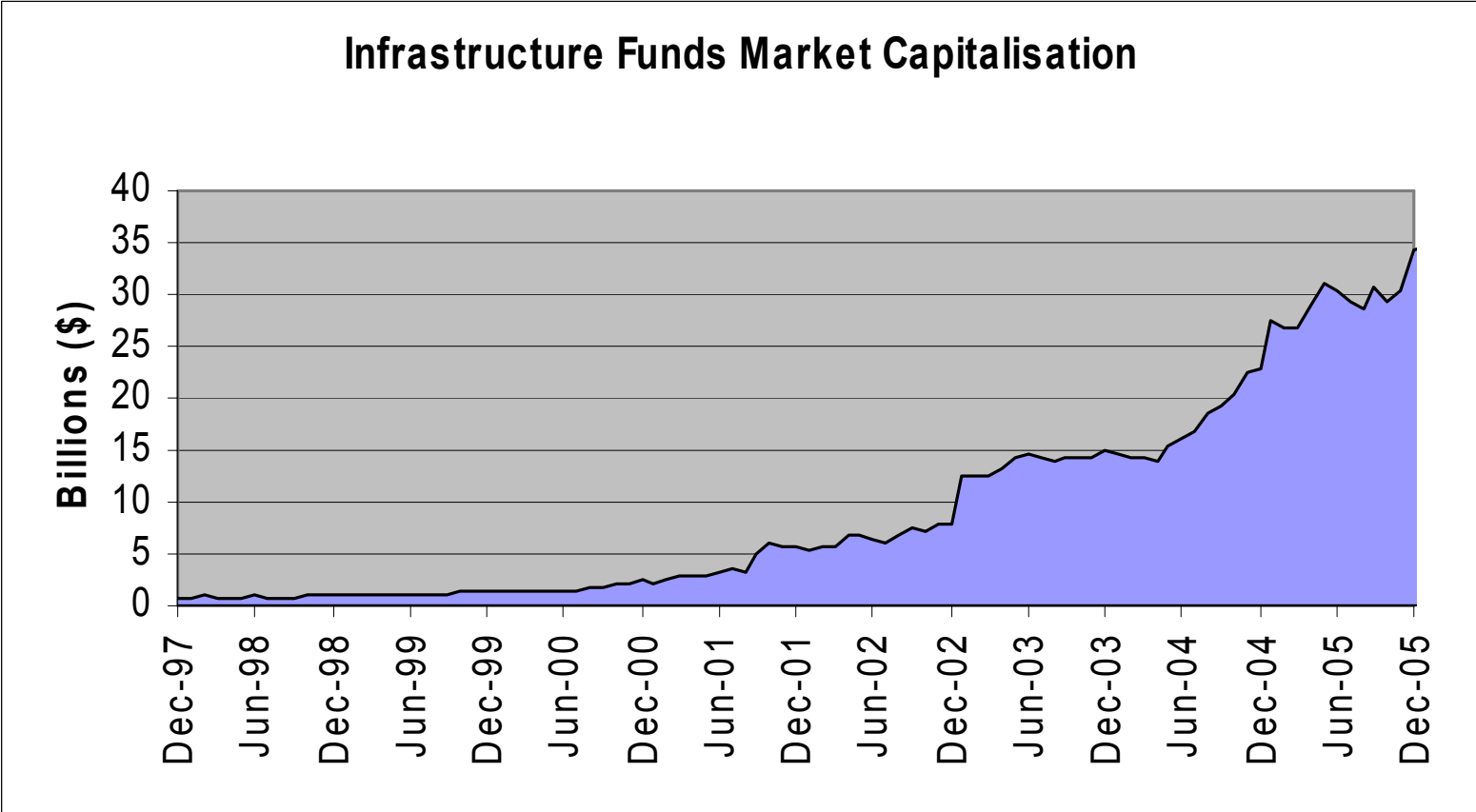


# Airport traffic, GDP and real airfares



Source: Macquarie Bank

# Infrastructure Funds growth



# Capital Growth v Income

- **Greenfield assets** – asset under construction
  - Investors likely to capture **capital growth** rather than income
  - Aim to capture the managers skill in the regulatory framework, construction and ‘ramp-up’ to the opening of the asset.
  
- **Mature assets** – operating assets
  - **Income producing**, revenue streams become more predictable
  - Lower risk than Greenfield assets

# Investment alternatives on ASX

Infrastructure Funds		Size (\$mil)	Prices			Dividend Yield %		Returns (pa%)		
			Last	Year High	Year Low	Cash	Gross	1 Year	3 Year	5 Year
AIHCA	Alinta Infrastructure Holdings	493	1.695	2.42	1.635	2.65	2.65	n/a	n/a	n/a
AIX	Australian Infrastructure	764	2.08	2.73	2.05	6.97	7.58	-14.09	17.76	10.29
BEI	Babcock & Brown Environmental	317	2.50	3.45	1.44	n/a	n/a	54.73	16.86	9.52
BBI	Babcock & Brown Infrastructure	2,340	1.59	18.95	1.46	7.55	7.55	7.11	21.84	n/a
BBW	Babcock & Brown Wind Partners	869	1.51	1.97	1.425	6.75*	6.75*	n/a	n/a	n/a
CIFCA	Challenger Infrastructure Fund	184	1.23	1.85	1.155	11.54	11.54	n/a	n/a	n/a
DUE	Diversified Utility & Energy	1,173	2.75	2.98	2.38	8.55	8.82	21.34	n/a	n/a
GAS	GasNet Australia Group	375	2.58	2.824	2.14	3.88	3.88	10.41	10.35	n/a
HDF	Hastings Diversified Utilities	425	2.83	2.90	2.39	8.83	8.83	16.22	n/a	n/a
MAP	Macquarie Airports	5,104	3.07	3.61	2.88	7.17	7.17	-8.10	35.72	n/a
MCG	Macquarie Communications	2,334	5.91	6.93	5.30	5.77	5.77	0.00	34.81	n/a
MIG	Macquarie Infrastructure	8,318	3.36	4.30	3.20	6.25	6.49	-14.18	7.64	9.43
SPN	SP AusNet	2,637	1.26	1.375	1.205	2.58	2.63	n/a	n/a	n/a
SKICA	Spark Infrastructure	1,027	1.13	1.24	1.06	0.35	0.35	n/a	n/a	n/a
VIR	Viridis Clean Energy Group	111	0.88	1.15	0.845	8.10	8.10	n/a	n/a	n/a



# Exchange Traded Funds



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# How can I access the sharemarket?

- **Option 1:** Buy a portfolio of blue chip securities (direct investment)
- **Option 2:** Invest in an actively-managed fund (indirect investment)
- **Option 3:** Buy units in an index-tracking Exchange Traded Fund (combination of both)

# Active v index manager comparison

<b>Investor Benefits</b>	<b><u>Ordinary Shares</u></b>	<b><u>Actively Managed Funds</u></b>	<b><u>Index Funds</u></b>
Diversification	No	Yes	Yes
Cost-efficient	Yes	No	Yes
Liquidity	Yes	No	Yes
Simple monitoring and administration	No	Yes	Yes
Franked income	Yes	No	Yes
Transparency of pricing	Yes	No	Yes



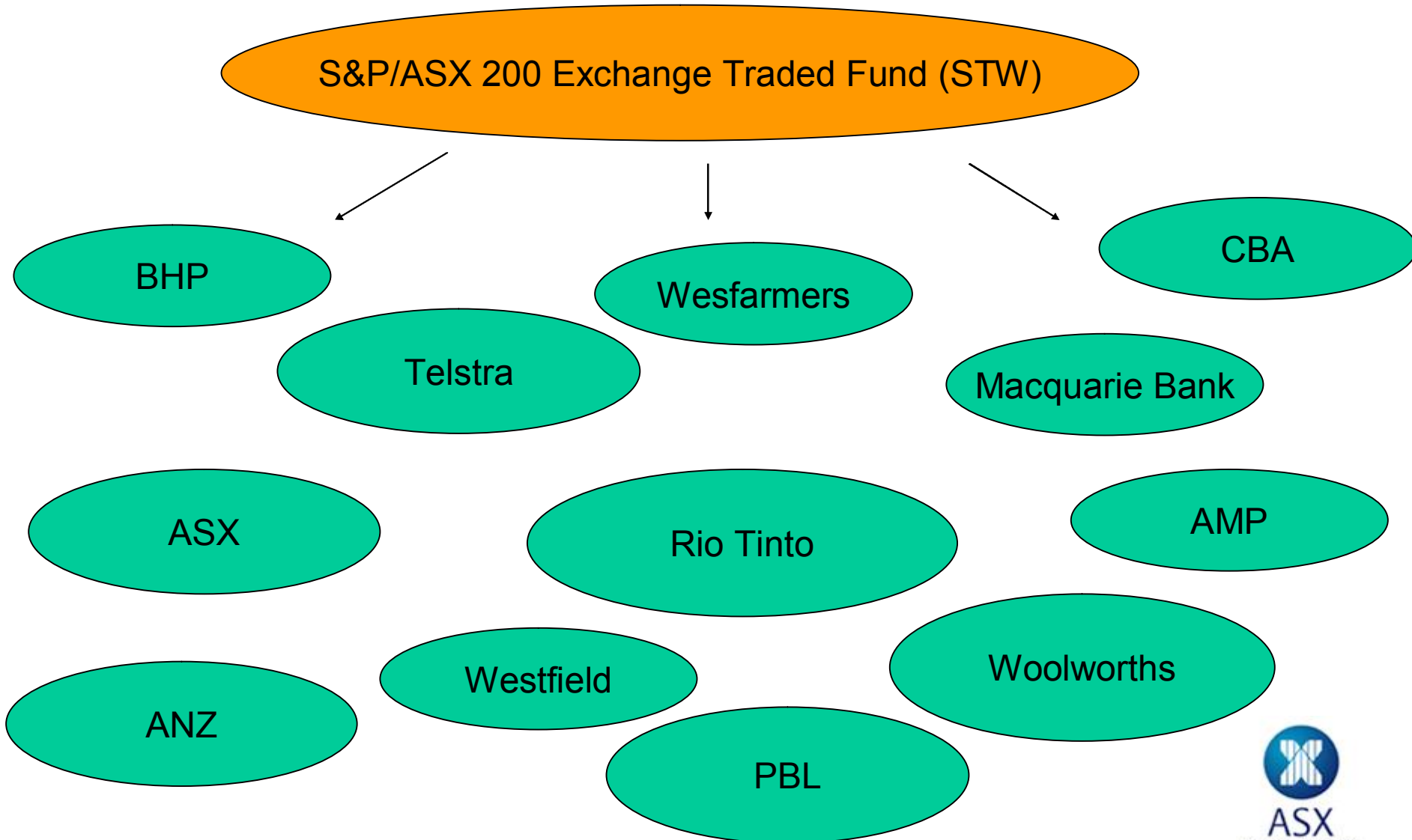
# Active managers v index managers

- **Active fund managers** select investments on your behalf with the aim to outperform a major benchmark index (can be listed or unlisted)
- **Index fund managers** passively track a major benchmark index (ie – S&P/ASX 200 or Dow Jones)
- Remember, it's a balancing act - index funds eliminate the chance of fund manager underperformance .. however, you won't be able to utilise their experience when you need it.

# Index Funds - what are my options?

- **1. Unlisted Index Funds** – buy and sell units in these funds through your financial adviser
  - Barclays Global Investors, Vanguard
  - MERs – 0.7% - 1.5%
  - May charge entry and exit fees
- **2. Exchange Traded Funds** – buy and sell units on ASX through your broker
  - streetTRACKS ETFs
  - MERs between 0.28% - 0.40%
  - Brokerage fees

# How does an ETF work?



# ETF performance

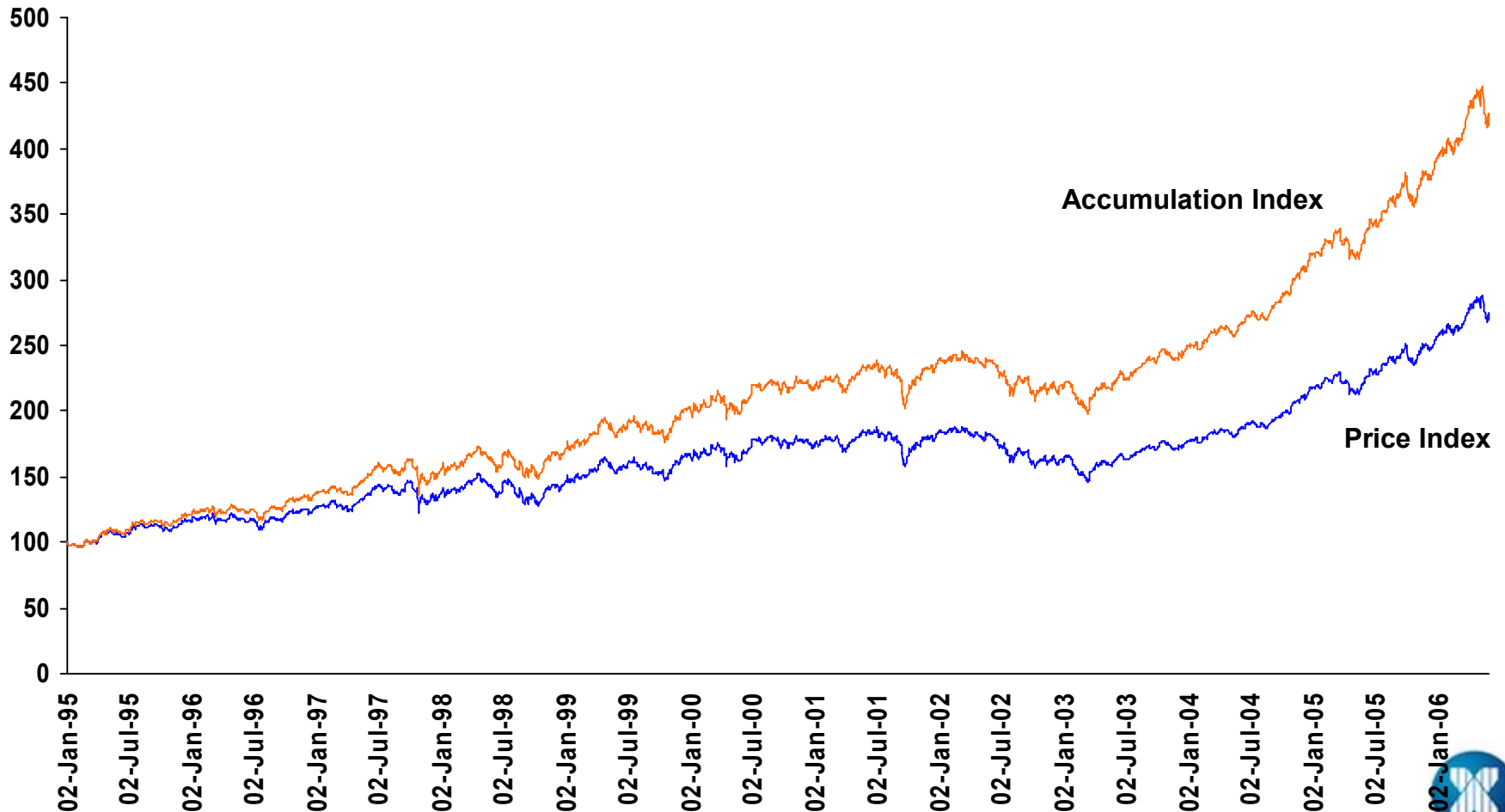
streetTRACKS 50, 200 & LPT

street**TRACKS**<sup>®</sup>

	SFY 50	STW 200	SLF LPT
1yr to 30 June 2006	22.38%	23.23%	17.78%
Inception pa	12.42%	13.71%	8.77%

Remember: Exchanged Traded Funds provide investors with a combination of income (yield) and capital growth

# Index History Price v Accumulation As at 31 May 2006



Source IRESS Market Technology

# Hedge Funds



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# Hedge Funds

- Hedge funds aim to produce returns in both rising and falling markets.
- Use methods beyond the traditional 'buy and hold' approach
- Active fund managers using shares, bonds, options, futures and commodities
- Caution: high level of portfolio turnover may lead to higher fees

# Australia taking the lead

- Hedge fund managers in Australia control more industry assets than the rest of Asia combined
- Two thirds of the strategies employed focus on global strategies and products – shows the high level of expertise
- Superannuation funds allocate approximately 20% off their funds to absolute return strategies
- Increased number of hedge funds listing on ASX, an increase of 90% in market cap over 12 months

# Investment opportunities available on ASX

<b>Fund name</b>	<b>ASX code</b>	<b>Investment strategy</b>
Everest Babcock & Brown	EBI	Investments in a portfolio of leading international absolute return funds
GoldLink Growth Plus and GoldLink Income Plus	GLC	Investment in gold forward and option markets to access arbitrage opportunities.
HFA Accelerator Plus	HLC	Leveraged exposure to a diversified portfolio of international absolute return funds
Macquarie Winton Global Opportunities Fund	MWG	Investment in a managed account (Signum Winton) which invests in currencies, base metals, equities and bonds
Katana Capital	KAT	Investments in equities, options and bonds



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# Pooled Development Funds



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# What are PDFs?

- Invest in shares (listed and unlisted) of small to medium sized Australian companies
- Established through the PDF Act (1992) to encourage investment in small to medium companies
- Recommended for investors with a  $> 5$  year investment horizon
- Tax benefits include CGT exemption for gains made on PDFs along with concessional tax treatment on dividends

# What sectors can I get exposure to?

- Biotechnology (both listed and unlisted) through BioTech Capital, mining sector (Lion Selection Group) and wine investments (First Opportunities Fund)
- Top performers include Cytopia (84%), Acrux (46%) and BioTech Capital (28%)
- Limited income generating opportunities, almost 100% capital growth hence patience is important

# Portfolio construction using LMI



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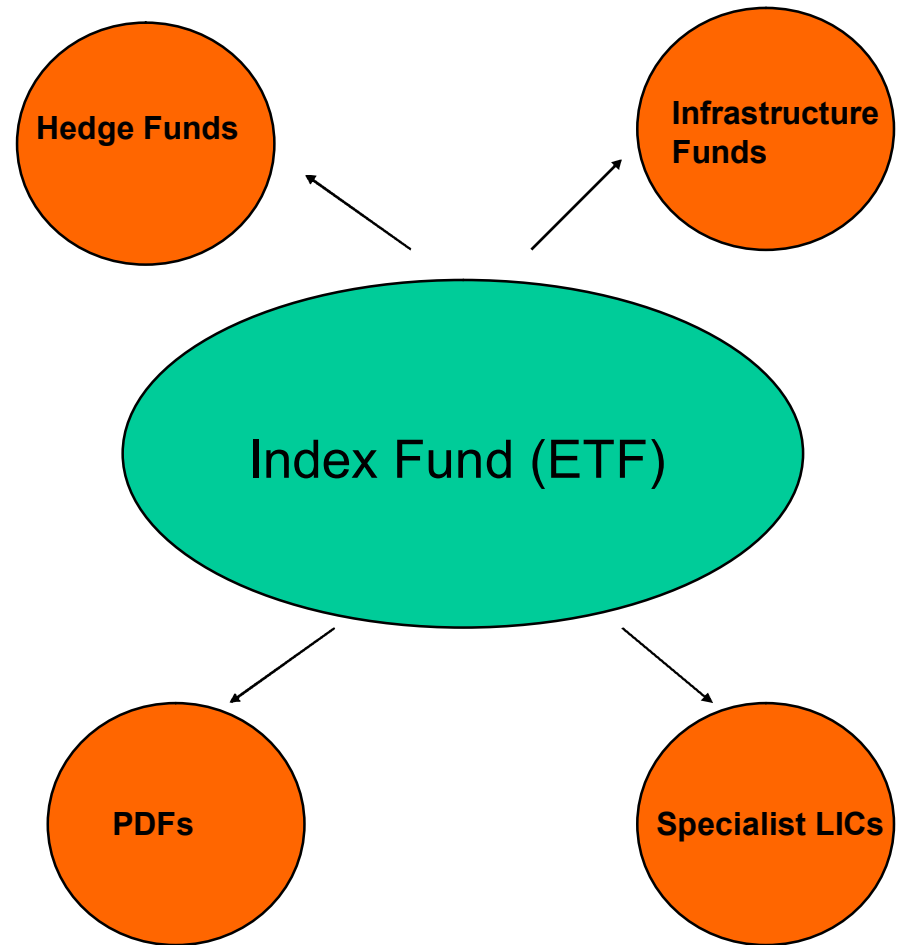
# Core and Satellite approach

## Core – index funds

- Generate beta
- Provides stability
- Reduces volatility
- Reduces benchmark risk
- Low cost

## Satellite – actively managed

- Generate alpha
- Aim to beat benchmark
- Utilise skill of the professionals, particularly in times of economic or political uncertainty



# Why use LMIIs to generate alpha?

- Lower cost than many unlisted alternatives
- Transparency and liquidity benefits
- Diversification benefits
- Tax advantages
- Suitable investments for SMSFs

# Investment considerations

- Investment risk – are assets able to generate returns
- Financing risk – interest rate movements, inflation rates
- Regulatory risk – relationships with government
- Key person risk – fund manager reliance

# Recap

LMI can provide investors with:

- **Regular income** within the range of 5% - 10% yield
- **Diversification** into one or more asset types
- The opportunity to participate in **capital appreciation**
- **Tax advantaged income** through franking credits or tax deferred status
- Capital stability with relatively **low volatility**
- The ability to implement a **‘core and satellite’** investment strategy

# More information

- **For more information on Listed Managed Investments:**
  - Visit the ASX website ([www.asx.com.au](http://www.asx.com.au))
  - Free ASX Brochures and Fact Sheets
  - Log onto the Macquarie Digital website to view LMI interviews ([www.macquariedigital.com.au](http://www.macquariedigital.com.au))
  - Speak to your financial adviser



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