



Listed Learnings Webinar Series

UK Investment Companies

Surviving and thriving post Brexit, COVID and the ban on sales commissions

2 July 2020

Ian Sayers
Chief Executive
The Association of Investment Companies (AIC)
London

Chris Meyer
Director, Listed Funds
Pinnacle

UK & Australia LIC market comparison

	UK	Australia
Age of industry	150 years	70 years
Assets (US \$)	\$250 bn	\$32 bn
Number of companies/trusts	395	111
Listed equities as % of industry assets	45%	90%
Average NTA discount (last 3 years) %	5%	5-10%

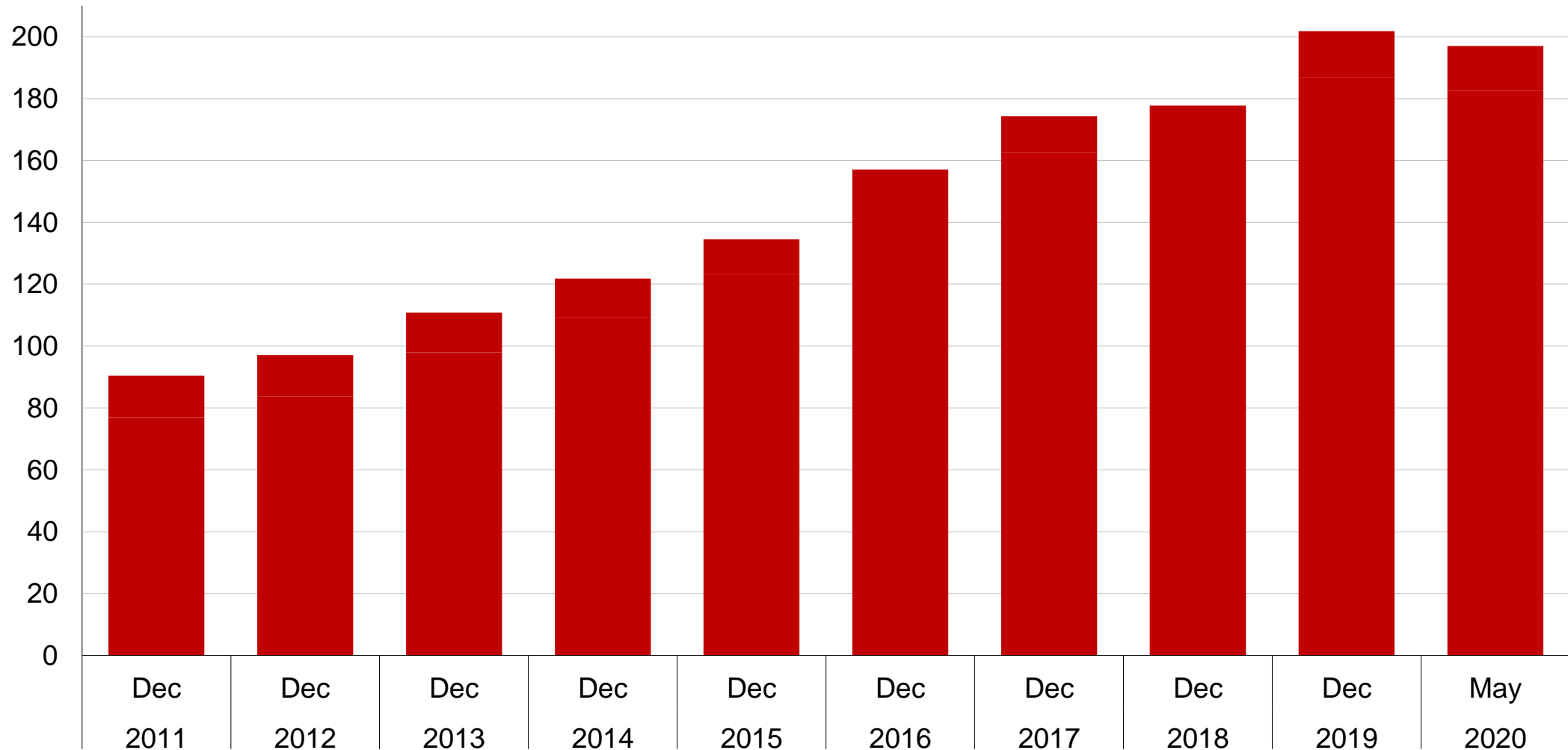
Source : AIC.co.uk, ASX, Bell Potter

‘Relative resilience’

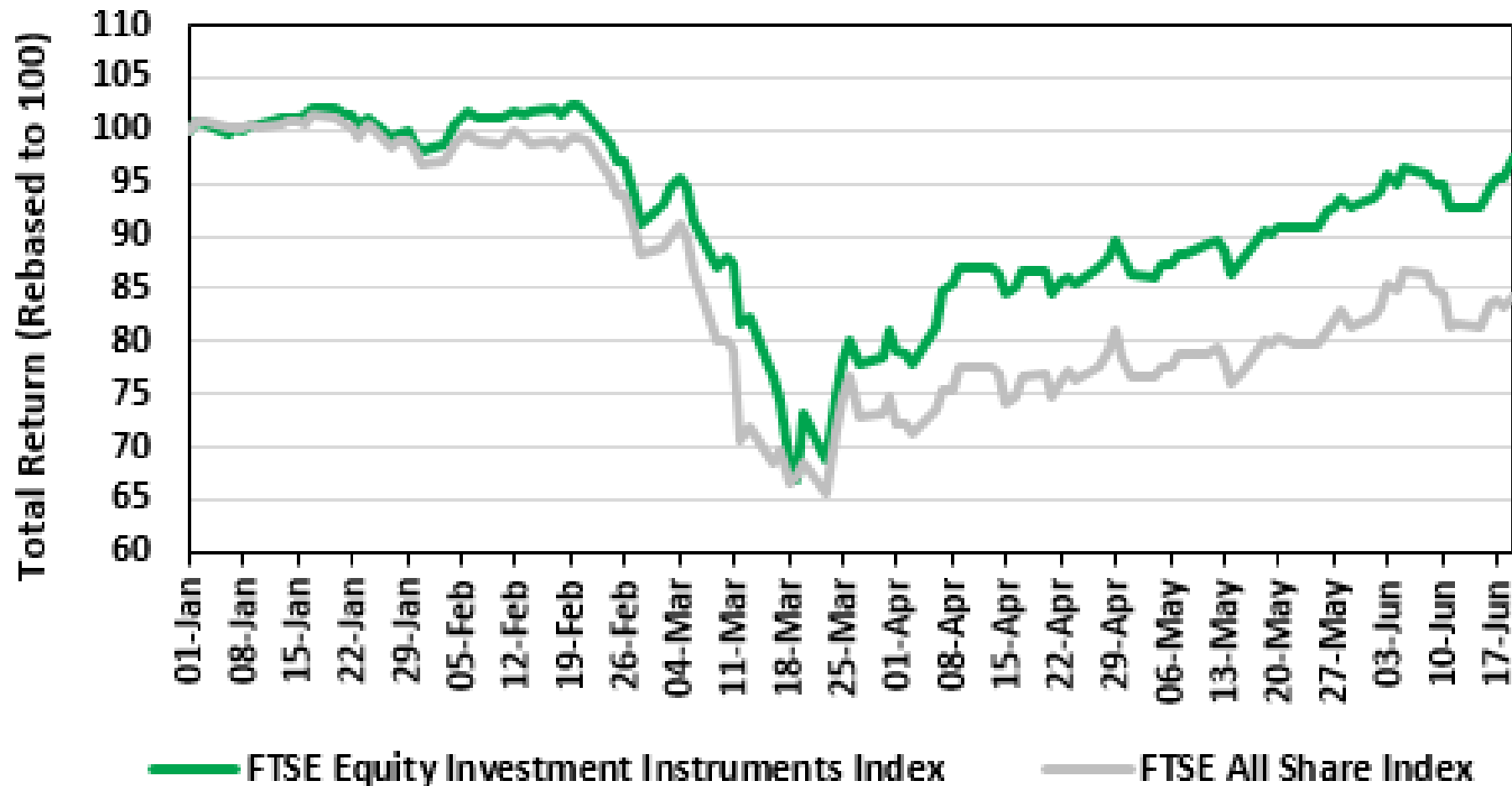
- Mid March saw COVID-19 market shock
- Discounts widened to levels not seen since 2008/9 financial crisis
- Speed and extent of recovery has been astonishing
- Some sectors have fared better than others



Sector assets (£'bn)

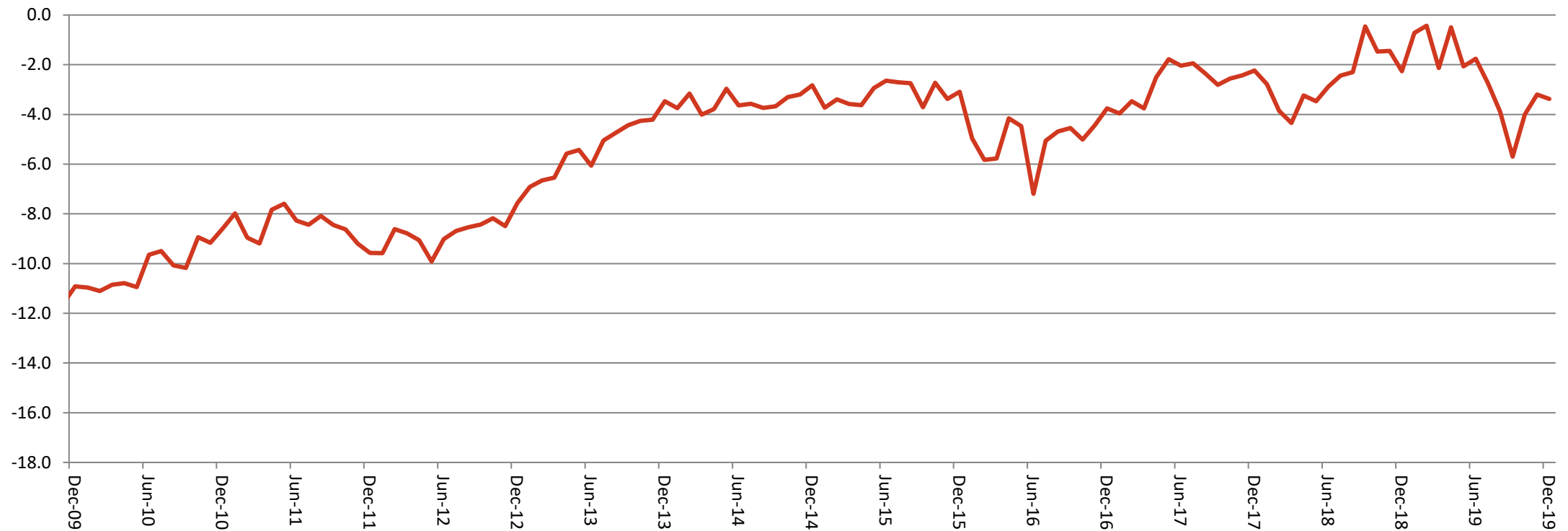


Performance of Investment Companies Sector YTD



Source: Winterfloods

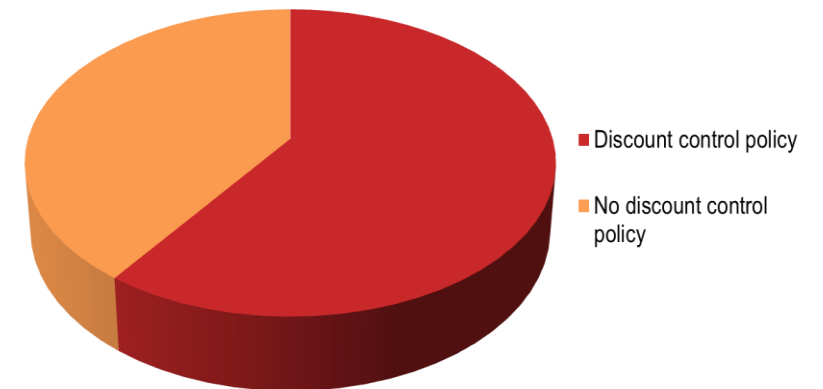
Discounts (10 years)



Average investment company discount % (ex VCTs). Source: AIC using Morningstar

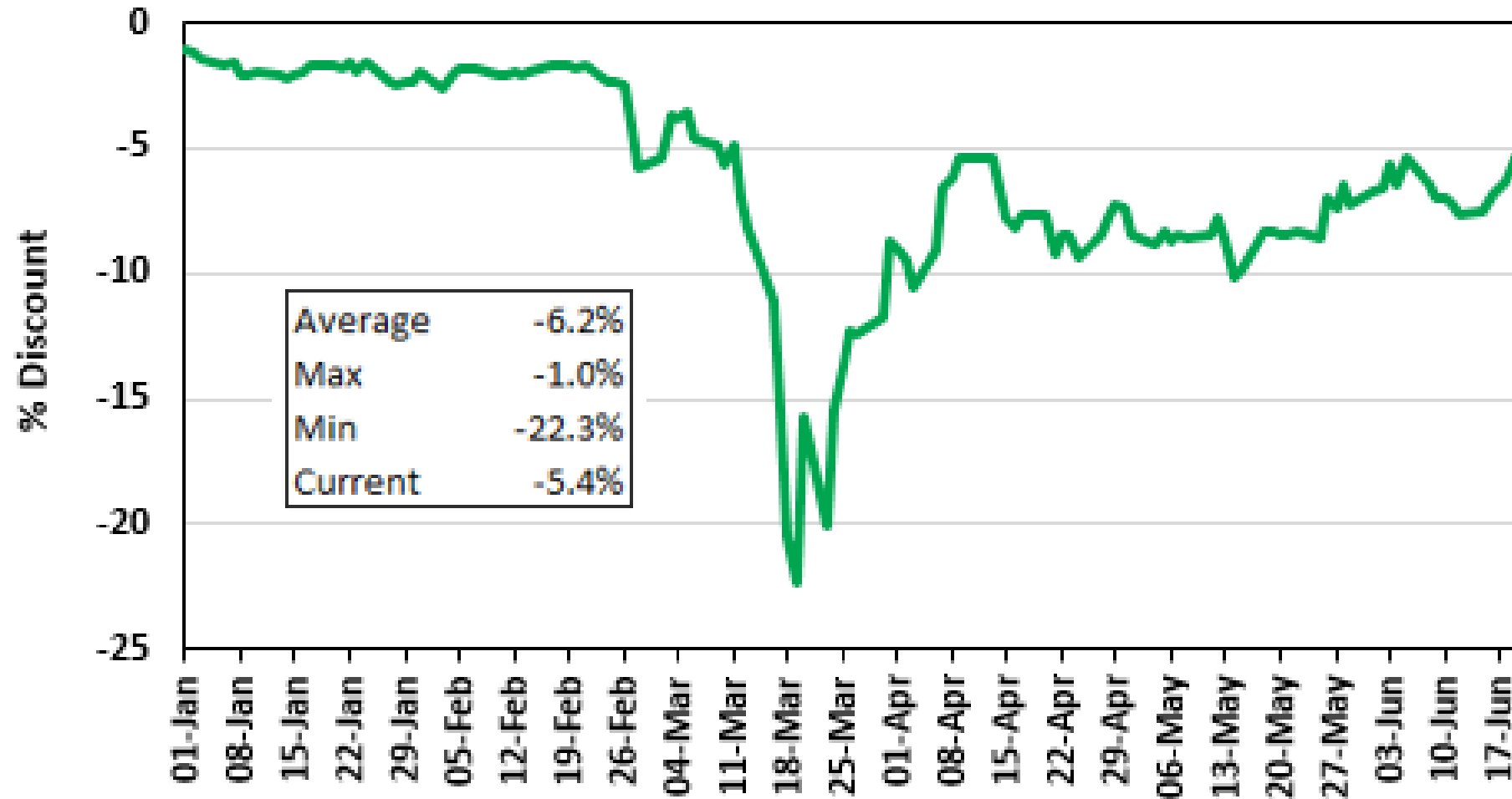
Discount management techniques

- Most companies have some form of discount control policy
- Share buy-backs
- Tender offers
- Regular redemption opportunities
- Continuation votes



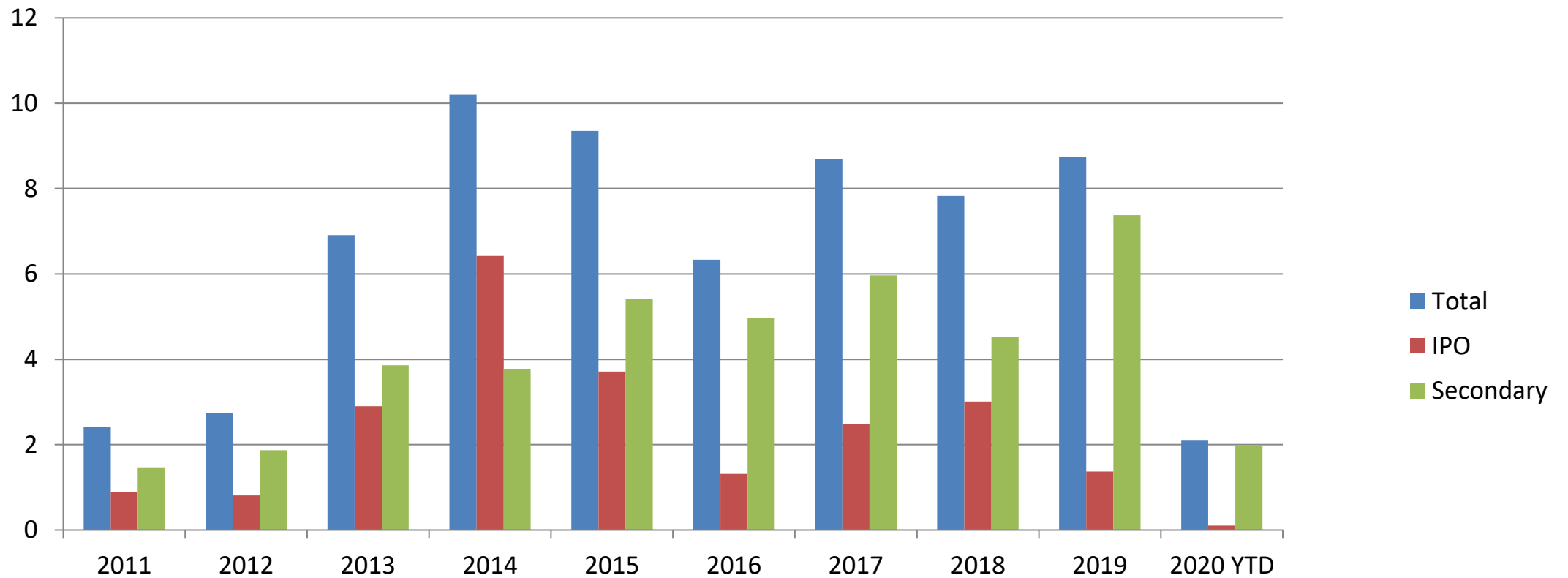
Source: AIC (ex VCTs)

Investment Trust Sector (ex 3i) Average Discount YTD



Source: Winterfloods

Fundraising (£'bn)

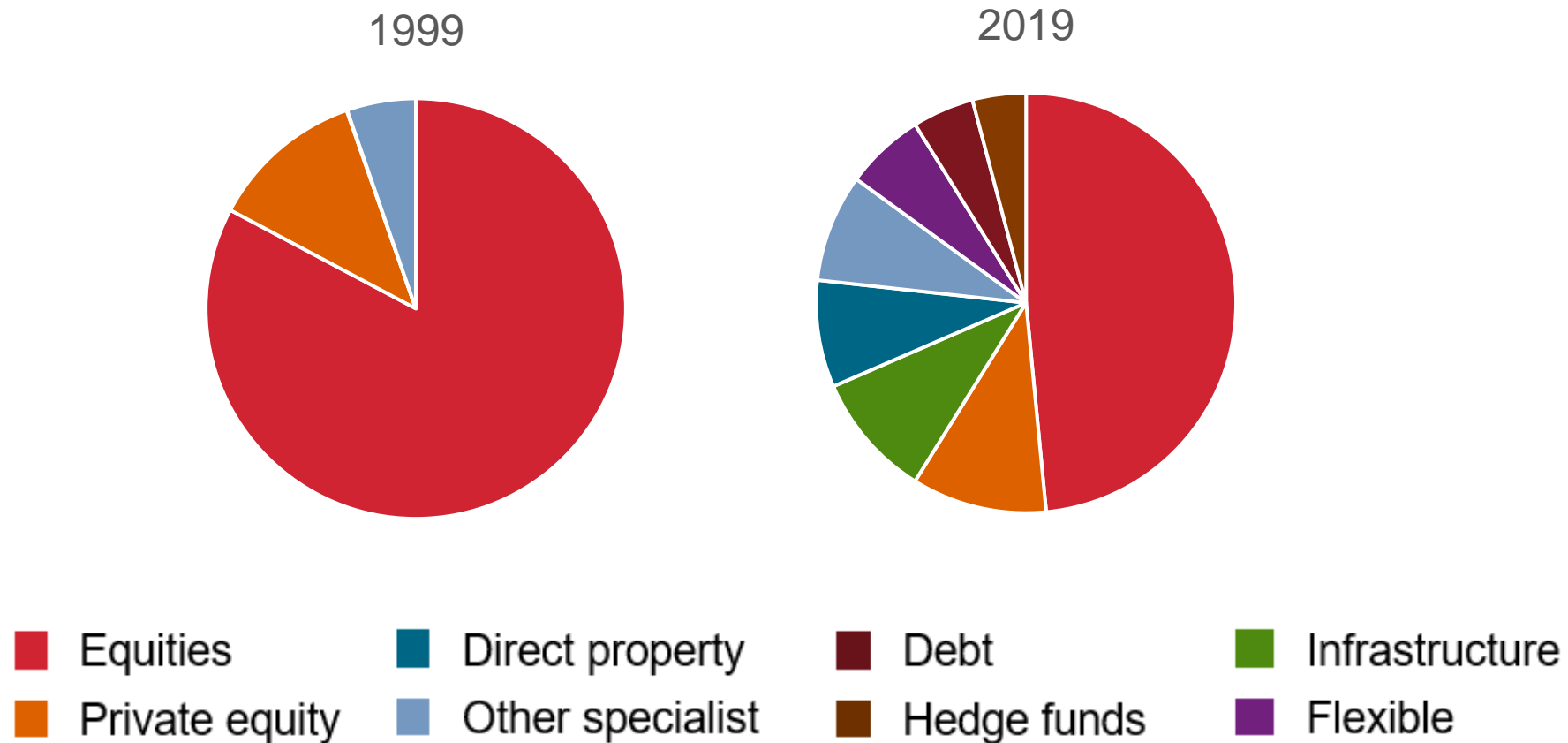


The reasons

- The income story
- Exposure to, and demand for, alternatives



Changing asset allocation of sector



The reasons

- The income story
- Exposure to, and demand for, alternatives
- Sector less exposed to UK markets
- Private equity balance sheets stronger than in 2008/9
- Positive view of sector for holding illiquid assets



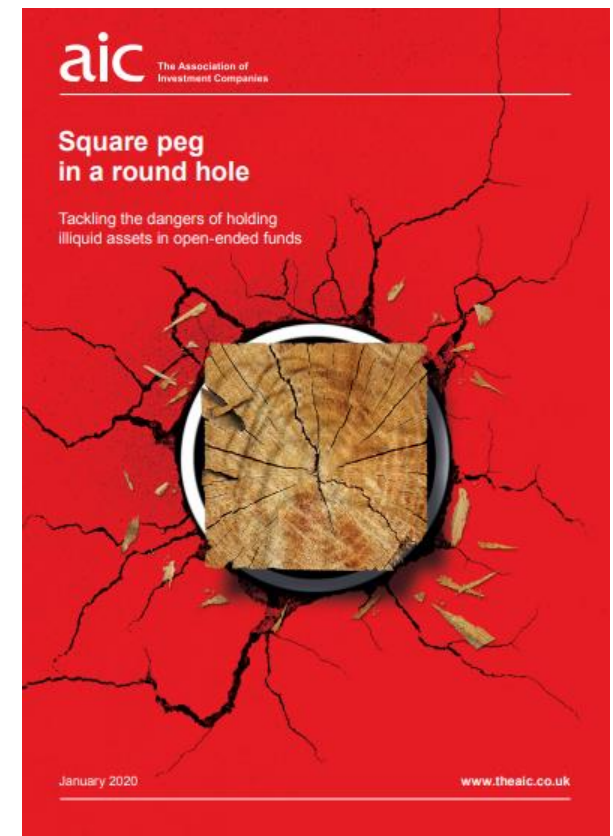
History repeating itself

- Suspension of open-ended property funds in banking crisis
- Suspensions after Brexit referendum
- Woodford Equity Income suspension/liquidation
- Suspensions end 2019
- C-19 suspensions re valuation uncertainty



AIC proposes ‘reliable redemption’

- The basis on which an investor can leave the fund should not change
- No fire sales to raise cash for redemptions
- Must be achievable in normal and foreseeable stressed market conditions
- Notice periods a central element



Ongoing challenges

- AGMs
- Valuations
- Dividends
- IPOs
- Property sector



Living in a post commission world

- Retail Distribution Review abolished commission for financial advice in 2013
- Similarly banned payments for platform access
- Since RDR, significant increase in adviser recommendations of investment companies
- Platform access improved
- Transition can be challenging



Final thoughts

- Sector's relative resilience
- Income and illiquid assets
- Could see a reappraisal of value of listed investment company structure
- Crisis is a long way from being over



Disclaimer

This communication has been prepared by Pinnacle Investment Management Limited ('Pinnacle') ABN 66 109 659 109 AFSL 322140. Pinnacle believes the information contained in this communication is reliable, however no warranty is given as to its accuracy and persons relying on this information do so at their own risk. Any disclosure contained in this communication is for general information only. The information is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. This communication is for general information only. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. To the extent permitted by law, Pinnacle disclaim all liability to any person relying on the information in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information contained in this communication. Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Pinnacle. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.



Listed Learnings Webinar Series

Audience Q&A

Ian Sayers
Chief Executive
The Association of Investment Companies (AIC)
London

Chris Meyer
Director, Listed Funds
Pinnacle