Listed Investment Companies & Trusts Association (LICAT)

Submission to Federal Treasury Review of Stamping Fee Exemption

20 February 2020

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Who we are

- **The Listed Investment Companies and Trusts Association (LICAT)** is the industry body representing the interests of Listed Investment Companies (LICs), Listed Investment Trusts (LITs) and investors holding interests in one or more LIC or LIT. It is a non-profit company founded in 2012 with a standard non-profit constitution and an elected board of directors.
- LICAT's role is to coordinate the industry on matters of common interest including educational activities, regulation and taxation.
- LICAT has 50 members representing over 75% of the market capitalization of the LIC/LIT sector and more than 700,000 underlying investors.

Executive Summary

The legislative intent of Reg 7.7 12.B is not to "exempt" fees from conflict management processes, it is to recognize that the fees are no longer conflicted where appropriate processes of conflict management have been applied.

Listed entities pay for their legitimate background costs of preparing a capital raising through an Arranger/Manager Fee which is the equivalent of the marketing and distribution costs of open-end funds and ETFs (which are funded by ongoing management fees).

- The **same conflict management processes apply to Arranger/Manager fees as they do to the management fees of an open-end fund or ETF** including disclosure in the PDS, conflict disclosure within advice and client authorization through the decision to invest/not invest.
- Reg 7.7 12.B **ensures that listed entity Arranger/Manager fees are not otherwise prohibited**, thus preserving equivalence of treatment between open and closed end entities.

With regard to the Advisor Fee paid by listed entities:

- The **conflict management processes of awareness and consent are substantially the same for advisors on listed entities as for open-end funds and ETFs**. [Full disclosure in the PDS, AFS requirements as to disclosure of transactional fees within advice, background fee agreements authorised by clients, and client consent through the client decision to invest/not invest].
- The difference created by Reg 7.7 12.B is the recognition that in the context of the listed market where capital is raised and advice given in a **single coordinated block to thousands of investors at one time, it is appropriate and administratively efficient for fees to be aggregated** and paid by the issuer

Contrary to comments in the press:

- Recently issued LICs/LITs have outperformed unlisted funds
- There is no statistical correlation between stamping fees and performance
- Premiums/Discounts are a normal and important part of closed end markets.

Closed-end investment entities [LICs\LITs\REITs] are a vitally important segment of a healthy financial market system, providing:

- The most suitable structure for long term investment
- Market stability via fixed capital
- Competition and diversity against the systemic risks of open-ended funds and ETFs

Prohibiting listed entities from paying for the legitimate share issue services provided by Arranger / Managers:

- Would prevent listed entities raising capital
- Would reduce competition and investor choice, resulting in the loss of closed end entity benefits for investors and the Australian economy

Removal of Reg 7.7 12.B for Advisor Fees may result in:
Duplicated layers of client consent, a less efficient process, higher costs and less equitable fee structures for investors. These negatives would need to be balanced against any potential benefit from the added layer of client consent.

Our industry endorses sound and appropriate conflict management frameworks that are appropriate for listed entities

- **Conflict Management Frameworks are important**
  It is in the long term best interests of all listed entities and their investors to appropriately avoid potential conflicts and the adverse consequences that could result. No one benefits over the long term if poor or improper advice is given.

- **The Conflict Management Framework must be appropriate for the ASX listed environment**
  Listed entities raise capital in periodic coordinated blocks (this is entirely different from open-ended managed funds that raise capital continuously). Without losing its efficacy, the conflict management framework must accommodate this.

- **The Conflict Management Framework must be consistent for all listed entities (not just LICs/LITs/REITs)**
  Investors require the same level of conflict protection when they are being advised to invest in any ASX listed entity, whether that advice relates to shares in a single operating business, a bank hybrid or through a LIC/LIT/REIT (that holds a diversified portfolio of investments).

Australia's closed-end investment sector (LICs/LITs/REITs) is a vitally important segment of a healthy financial market system

Closed-end entities (LICs/LITs/REITS) are the most suitable vehicles to fund economically vital longer term investments

- Much of Australia's critical infrastructure (such as renewable energy, property, roads, rail) depends on funding from entities with long term investment time horizons and stable capital
- Investors benefit through access to a greater diversity of assets in which to invest
- Open-ended managed funds and ETFs are less suitable funders of long term assets as they periodically become forced sellers of assets to fund investor withdrawals

Closed-end entities (LICs/LITs) provide capital to Australian business when they need it

- As closed-end entities – LICs/LITs have capital to invest at times when Australian businesses require it.
- A powerful example of this in practice is the investment that LICs/LITs made to support and strengthen Australian Banks in the middle of the 2008 Global Financial Crisis. (In contrast open-ended funds and ETFs were forced sellers of assets to fund withdrawals during this time).

Closed-end entities (LICs/LITs) contribute to market stability at times of volatility.

- Closed-end entities such as LICs/LITs have the ability to be counter-cyclical investors. Because their capital is fixed they can invest money in weak and fearful markets and consequently assist in stabilizing investment markets.
- This may be contrasted against open-ended funds which are necessarily pro-cyclical investors, who must sell investments into weak markets to fund investor redemptions, and buy into expensive, exuberant markets to support investor inflows, in both instances exacerbating market volatility.

Closed-end entities (LICs/LITs/REITS) provide competition and diversity of investment vehicle structures.

- Competition amongst investment vehicles is universally recognized as a vital contributor to the operation of a well functioning cost efficient financial and capital markets system.
- The maintenance of a diverse range of investment vehicle structures lessens the systemic risk for the Australian economy of overexposure to any one investment vehicle type. For example, the availability of closed-ended entities such as LICs/LITs lessens the systemic risk of "flash crashes" and major market collapses that ETFs and other open ended fund types are known to exacerbate.

Closed-end investments (LICs/LITs/REITs) offer significant structural & investment benefits to investors

Closed-end entities offer significant structural benefits to investors

- **Strategically better investment structure** [Closed-end entities can be buyers in cheap/weak markets, whereas open-ended funds/ETFs are frequently forced to sell at the worst time in markets to fund withdrawals]
- **A free and open market pricing mechanism** [Investors transact at a price which takes account of all factors considered relevant (including asset backing, structural risks, benefits and opportunities, expectations, embedded tax liabilities or benefits or differing views on the value of underlying assets)]
- **Cost and administrative efficiency** due to block capital raisings and ASX tradability
- **Tax efficiency and transparency** [Fixed capital minimizes realized gains and avoids the problems with open-ended funds where residual investors may be left with excessive non-disclosed embedded CGT liabilities]
- **Collective bargaining power benefits** (Investors influence the terms and pricing of capital raisings and have voting rights in LICs)
- **Added corporate governance protections** through ASX Listing Rules

Investors benefit through access to a greater diversity of assets

- Closed-end entities provide investors with access to longer term investment assets (that are less suitable for open-ended funds and ETFs). Examples include infrastructure, property, renewable energy and fixed term interest bearing investments.
- Greater diversity of asset types is a primary method of lowering portfolio risk

Investors benefit through a higher diversity of, and greater competition amongst, fund managers

- **Improves choice for investors** (allowing them to select strategies and entity types that best suit their needs and preferences)
- **Improves cost efficiency** through greater competition
- **Improves risk control** by limiting exposure to the systemic risks associated with open-ended funds and ETFs (flash crashes, forced selling, withdrawal moratoriums)

Relevant evidence suggests the stamping fee process has not detracted from the quality of advice and shows that LIC/LIT performance has been stronger than open ended funds

Contrary to comments in the press, LICs/LITs issued in the last 5 years have materially outperformed open-ended funds and ETFs

- 57% of LICs/LITs issued since 2015 have outperformed their benchmark
- This compares to only 18% of managed funds outperforming and 0% of ETFs outperforming over the same period

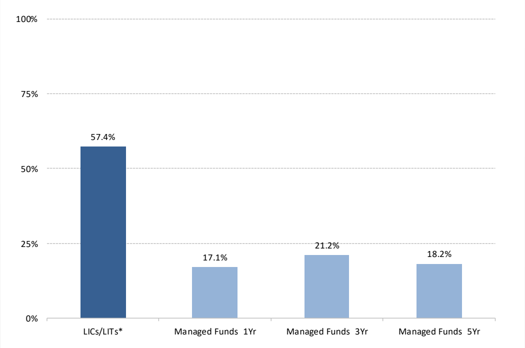
Evidence suggests that LIC/LIT issuance levels and advice quality have been appropriate

- LICs/LITs issued over the last 5 years show a normal spread of performance relative to benchmark with no statistically significant relationship between performance and stamping fees
- LIC/LIT issuance of $15bn over the last 5 years has been strong (57%) due to investor demand for entities that can be bought and sold on ASX, however this growth is materially less than the 300% growth over the same period experienced by the open-ended ETFs and mFunds that trade on ASX (but which do not pay stamping fees)
- Our interviews with LICs/LITs/Advisors/Brokers have not revealed abnormal investor concerns relating to stamping fees or advice

Commentators on this matter have frequently made basic errors when assessing LIC/LIT performance, including:

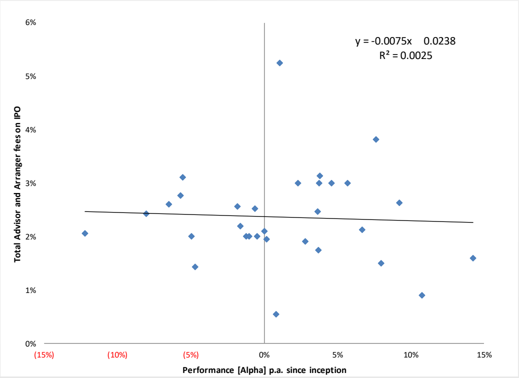
- Failing to compare performance against appropriate benchmarks or take account of the after-tax status of LICs;
- Confusing movements of LIC/LIT premiums/discounts with underlying performance of the assets;
- Inclusion of erroneous data or entities.

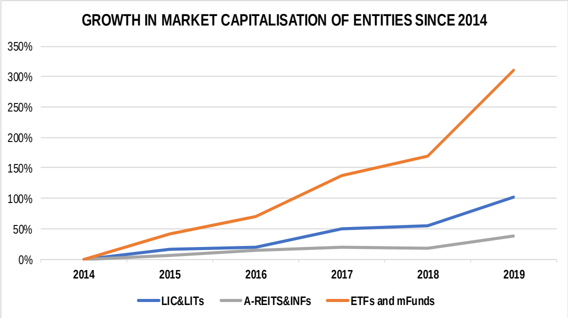
Percentage of LICs/LITs^ and Managed Funds^^ that have outperformed their relevant benchmarks



^ S nce inception performance of the LICs/ LITs that had their Initial Public Offerings fol ow ng the 2015 exempt on from the FOFA prohibit on of advisor fees on new issues (source: ASX; Compan es; LICAT)
^^ Taken from the 30th June 2019 SPIVA report on Austral an managed funds.
**39% of LICs included here report performance on the bas s of Pre-tax NTA which s calculated after the payment of company tax on realised gains and unfranked income and therefore understates the actual portfo io performance and percentage of funds that have outperformed their benchmarks.*

There is no statistically significant relationship between stamping fees and the quality of investment entity performance.



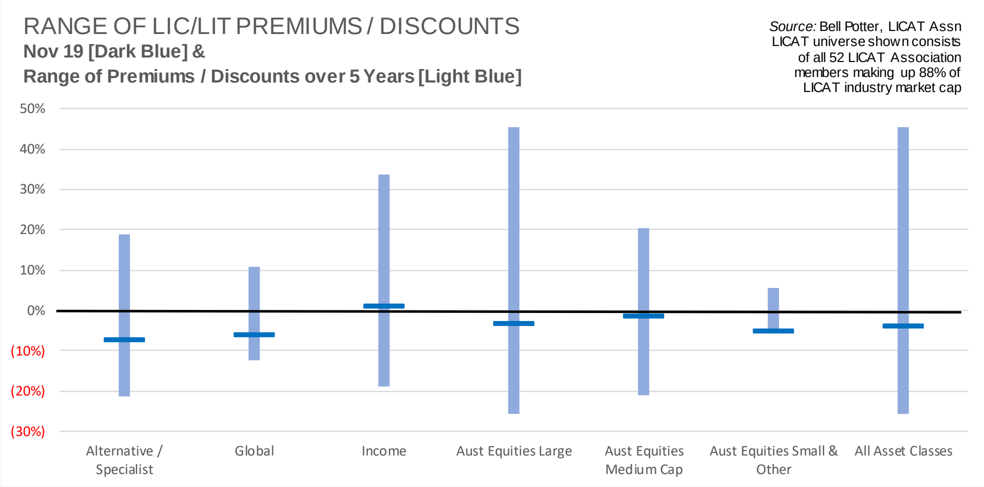


The contention that LIC/LIT discounts must represent a problem is manifestly incorrect. Premiums/Discounts are a normal part of a healthy closed-end market.

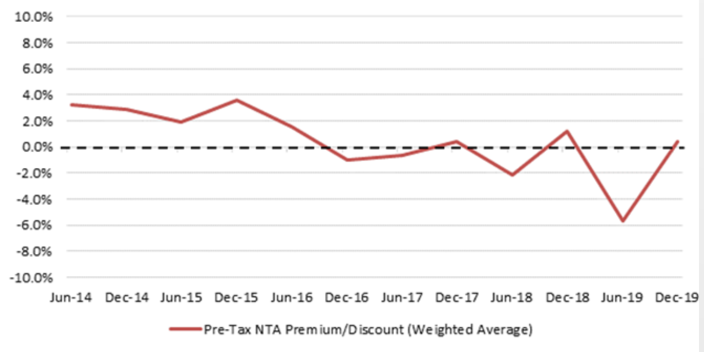
- **Premiums and discounts to asset backing are a normal and important part of closed-end markets and are the mechanism by which the net demand of buyers and net supply by sellers may be matched-up.**

- **It should be expected that there will be a spread of premiums and discounts across a healthy closed-end market and that these will fluctuate over time.**

- **Open market pricing:** Closed-end entity prices are determined in the free and open market by buyers and sellers.
- **Provides a more complete pricing mechanism that takes account of all factors relevant to investors.** This may include:
  - net asset backing, future costs of operation, future opportunities and risks, economic and political conditions, perceived management skill, the income and capital characteristics, investor opinions on the market and general supply and demand.
- **Provides liquidity for investors:** Investors are provided with an avenue to transact in difficult markets when open-ended funds place moratoriums on withdrawals



Weighted average trading premiums 2014 to 2019 - ASX LIC/LIT sector



Calculated on a market cap weighted average basis

Source: Morningstar, Monthly Reports, How are Australian LICs performing?, https://www.morningstar.com.au/LICs/MonthlyReports

The **Arranger/Manager fee** for a LIC/LIT/REIT is synonymous with the ongoing management fees that fund distribution costs in open-ended managed funds and ETFs. They are both subject to equivalent conflict management protections.

BACKGROUND COSTS OF CAPITAL RAISING	Closed-End Entities [All ASX Listed entities including LICs/LITs/REITs]	Open-Ended Funds [ETFs, Unlisted Managed Funds]
Defining Characteristic	Raise capital in a single block	Raise capital continuously
Work Performed: PDS and Due Diligence assistance, market assessment, issue pricing, intermediary liaison	As capital is raised irregularly this work is performed by one or more external Arranger/Managers who specialize in the area.	As capital is raised continuously this work is performed by the sales, marketing and distribution teams of the Fund or Fund Manager.
How is work paid for?	A service **fee to the external Arranger/Manager** at the point of issue.	**Ongoing costs** of operation of the fund or **ongoing management fees** to the Fund Manager.
Could the costs/fee create a conflict for an advisor providing advice to an investor?	The fee could potentially create a conflict when the advisor works for the same (or an associated) business that provides the arranger/manager service.	Management fees could potentially create a conflict when the advisor works for the same (or an associated) business that benefits from the management fee.
How are potential conflicts Avoided/Managed?	**Awareness:** Clear disclosure of Arranger/Mgr fee in the PDS Conflict disclosure requirements at advisor level. **Consent/Authorisation:** Agreement to proceed **Protections around advice quality:** Advisor & advice subject to AFS regulatory framework	**Awareness:** Clear disclosure of ongoing costs/fees in PDS Conflict disclosure requirements at advisor level. **Consent/Authorisation:** Agreement to proceed **Protections around advice quality:** Advisor & advice subject to AFS regulatory framework
Would it make sense for the investor to provide more explicit consent and to pay the cost out of their own funds?	No. The service has been legitimately provided for the **issuer (not the investor) and the issuer** is obliged to meet the cost.	No. The work has been legitimately performed for the **issuer (not the investor) and the issuer** is obliged to meet the cost.

With regard to **Advisor Fees**, conflict management processes are largely consistent across listed entities and open ended funds and ETFs, subject to the differences required to accommodate the payment of fees in an aggregated block.

ADVISORY SERVICES [Administration, general advice, personal advice]	Closed-End Entities [All ASX Listed entities including LICs/LITs/REITs]	Open-Ended Funds [ETFs, Unlisted Managed Funds]
Defining Characteristics and Differences	• Raise capital in a **single block** • **All investors advised at same time and advisory fees paid in a block**: Significantly more efficient than thousands of individuals being individually invoiced • **Time-sensitivity of IPOs** requires efficient processes (if processes were inefficient, share issues could fail or investors seeking to invest could miss-out on primary and secondary share issues)	• Raise capital **continuously** • Investors advised and charged individually **at differing times** • **No time sensitivity**
How are potential conflicts Avoided/Managed?	**Awareness:** Clear disclosure of Advisory fee in the PDS AFS fee disclosure requirements at advisor level. **Protections around advice quality:** Advisor & advice subject to AFS regulatory framework **Consent/Authorisation of Fee:** (a) Through client/adviser **agreement** (which specifies whether issue fees are to be rebated or not); AND (b) Through submission of application form/client instruction to advisor	**Awareness:** AFS fee disclosure requirements at advisor level. **Protections around advice quality:** Advisor & advice subject to AFS regulatory framework **Consent/Authorisation of Fee:** (a) Through client/adviser **agreement** (which specifies whether fees are to be paid directly by client or remitted by issuer in accordance with RG246.78); AND (b) Through submission of application form/client instruction to advisor
How are fees paid?	Because all clients invest at the same time, fees are aggregated and paid to advisors in a single payment.	Because clients invest at different times, each client is individually invoiced and each client pays for advice directly.

The term “exemption” is publicly confusing, as the legislative intent is to recognize that the fees are no longer conflicted where appropriate processes of conflict management have been applied.

- **The term “exemption” is publicly confusing, and we contend that there could be greater clarification around this within the structure of the regulation.**
  - The legislative intent is **not to “exempt” fees from the appropriate processes** of conflict management;
  - The legislative intent is **to recognize that the fees are no longer conflicted** where appropriate processes of conflict management have been applied.
    - Table 6 in RG246 outlines numerous situations (including stamping fees) in which remuneration may be acceptably paid where suitable conflict management processes have been applied. This table is entitled “Benefits that are not conflicted remuneration”.

- **The legislative rationale as to listed entity issue fees can be summarized as follows:**

  A. **Arranger/Manager fees**, like the management fees that fund marketing and distribution costs of an open-ended fund or ETF:
    - are **legitimate costs of an issuer (**they are not costs of an **investor)**;
    - the disclosure of such fees within a PDS (and where a potential conflict could exist, their disclosure in the advice given) provides an **appropriate level of investor awareness;**
    - the client’s decision to invest/not invest **provides a level of client consent that is appropriate** for these background costs/fees; and
    - It would **be illogical and impractical** to ask clients to individually pay such costs of the issuer from their own funds.

  B. **Advisor fees**:
    - the disclosure of such fees both within a PDS and their disclosure in the advice given, and the recognition that fee structures will also be specified in a client/advisor agreement provides for **investor awareness of the fee;**
    - the client’s decision to invest/not invest **provides client consent for the fee to be paid**;
    - within the context of the listed market where <u>*capital is raised and advice given in a co-ordinated block to multiple investors at one time*</u>, it is appropriate that fees may be aggregated by the issuer and remitted to the advisor on behalf of the client.

What would the impact be if the Stamping Fee provision **re Arranger/Manager services** were removed?

- **A significant disparity of regulatory treatment**
  - **Listed entities may be prevented from raising capital as they would be prohibited** from paying for their legitimate background costs of capital raising services (to an arranger/manager firm that also has a separate arm providing investment advice)
  - **Open-ended managed funds and ETFs would be allowed** to pay management fees, including those that fund marketing and distribution teams, even where these management fees are paid to a vertically integrated investment business that also provides advice.

- **Significant detriment to the Australian economy and financial marketplace:**
  - The $200bn LIC/LIT/REIT sector may no longer be viable if it is prevented from paying for legitimate background costs of capital raising
  - Loss of the significant economic benefits of closed-end investment entities
    - Loss of entities that provide capital when needed by business (such as in times of crisis)
    - Loss of entities suited to the provision of fixed capital to support longer term investments (including property, infrastructure, renewable energy)
    - Loss of market stabilization (closed end entities are buyers of assets in weak/cheap markets when open end funds and ETFs must sell assets to fund withdrawals)
    - Loss of the primary source of competition to open ended managed funds and ETFs
  - Increased exposure to the known systemic risks of open-end funds and ETFs (flash crashes, forced selling, illiquidity when moratoriums enforced)

- **Significant detriment to Australian investors:**
  - Lower diversity of assets (retail investors may lose access to important longer term investments)
  - Lower diversity of investment managers
  - Loss of closed-end entity benefits (ability to be a buyer of assets in weak/cheap markets, tax efficiency, admin efficiency, collective bargaining power, free open market pricing system, liquidity in all markets)
  - Forced exposure to open-end fund problems (forced seller in weak markets, forced buyer in expensive markets, embedded tax liability risk, ETF counterparty, market making and asset pricing risks, illiquidity risks when moratoriums in place, pricing mechanism that fails to take account of factors other than asset backing, such as structural risks or differential opinions on asset values)

What would the impact be if the Stamping Fee provision **re Advisory services** were removed?

POSSIBLE RESPONSES	Is this a valid solution?
Financial advisory businesses could consider increasing portfolio fees to cover the costs of advising on IPOs	**No. There are significant adverse investor impacts.** ▪ **Less Equitable Fee Structure**: Higher fees are charged to all clients including those who participate less (or not at all) in IPOs ▪ **No fee model for some clients (**who require transaction only services)
Financial advisory businesses could consider invoicing and billing all IPO participants individually.	**No. There are significant adverse investor impacts.** ▪ **Material inefficiency:** The raising (and payment) of thousands of individual invoices would be extremely administratively cumbersome with the administrative cost being disproportionately high relative to the service provided. ▪ **Higher cost:** The cost to each client would necessarily have to rise by a material amount to cover the additional administrative burden.
Issuers could consider applying the model suggested by ASIC in RG246.78, through which investor consent and authorization of an add-on advisory fee is required in application forms.	**While we endorse the conflict management ethic of awareness and authorization, the RG246.78 process contains some negatives for investors.** ▪ **Process may be abused and advisors not paid:** Having received and benefitted from advice, an investor could avoid paying for the service by investing directly with the issuer, through another advisor or by merely not consenting to the additional fee. ▪ **Discourages proper advice:** This structure incentivizes clients to enter IPOs directly with the issuer without proper advice ▪ **Potential for Issue Failure or non-participation:** An overly cumbersome application process across thousands of applications can result in increasing numbers of investors failing to submit correct applications within time. ▪ **Layers of Duplication:** This structure largely duplicates the process of fee disclosure (already within the Advice, PDS and client agreement) and authorization (client instruction to proceed). In practice, duplications and multiple authorisations / signatures often obscure rather than highlight the critical information.

Important considerations if any amendment to Reg 7.7 12.B is planned

- **If any change to Reg 7.7 12.B is contemplated:**
  - The Government should consult more fully with the closed-end investment industry to ensure that appropriate solutions without adverse side-effects are achieved
  - The Government should consult more fully with the closed-end investment industry to determine appropriate timelines to allow the industry to make any necessary adjustments in response to that change

APPENDIX 1:
Capital raising and stamping fees explained

What are the services provided for which a stamping fee is paid?

- **Issuer Services** by Arranger/Managers including PDS and Due Diligence Assistance, Market liaison, surveillance and issue pricing, intermediary liaison and briefings, PDS distribution and issue administration
- **Investor Advisory Services** being General Advice, Personal Advice or Administration services in distributing PDS's and handling application forms

What is the stamping fee level for LICs/LITs? [1]

- The normal indicative stamping fee range for **Investor Services** is 0.0%-1.5%.
- This equates to a range of $0-$300 for a $20,000 investment.
- The normal indicative range for **Issuer Services by Arranger/Managers** is 1.0%-1.5%

What are the typical investor types in LICs/LITs?

- Small, medium and large investors (i.e. investors meeting both the retail and wholesale Corporations Law definitions);
- Invested as individuals, SMSFs or other private investment entities (companies and trusts);
- Consisting of both advised and DIY investors;
- With a small level of participation by institutional investors (generally those specialising in closed-end fund investment)

What are the fee rebate practices within the advisory community who are active in LICs/LITs?

- Specific quantified details would need to be accessed from the advisory community
- However in our knowledge there are moderate percentages of advisers receiving the fee as remuneration as well as moderate percentages rebating the fee.

APPENDIX 2:
Advisory Stamping fees in Practice – A real world example

An AFS Licensed advisory firm provides services to retail and wholesale clients.

The firm adopts a fee structure that charges clients for services using a combination of portfolio management fees and transactional fees. This fee combination provides their clients with fees that are **most closely aligned to the services** used by each client.

The firm maintains a small research team who, amongst other things, research IPOs. Around 70% of IPOs assessed are rejected as unsuitable, and around 30% are considered acceptable for potential client use.

Once the research team considers an IPO as acceptable, they liaise with the **client advisory personnel**, who then consider whether the investment is suitable for individual clients and their portfolios. Records or Statements of Advice or General Advice notices or warnings are prepared (depending on the service required by the client) and issued to clients in accordance with ASIC's comprehensive AFS regulatory framework for financial advice. Amongst other things, clear and full disclosure is made of any Stamping Fee.

- Clients then consider the advice issued, provide instructions to invest or not and sign-off on application forms.
- Application forms are received by the firm, checked and lodged.
- On completion of the issue, the IPO issuer remits the Fee to the firm which .

Conflict management processes within this structure

- The Client has **considered and approved the fee structure at inception and at regular intervals** when the client agreement is renewed.
- At each IPO, the **transactional advice fee applicable has been highlighted** to the client.
- In assessing the advice and offer, the client **has the opportunity to reject the offer or authorise the transaction** and disclosed fee.
- The advisory firm is **structurally motivated** to retain clients over the long term and accordingly has **every interest in thoroughly assessing IPOs and rejecting those that do not meet client needs or involve undue risk.**

APPENDIX 3: Common errors being made when assessing LIC/LIT performance

There are several common errors being made by commentators when assessing LIC performance:

- **The understatement of LIC returns due to a failure to appreciate or acknowledge that LICs are after-company tax vehicles.**
  LIC share price and NTA performance (including pre-deferred tax NTA) are after the payment of company tax on realised capital gains and unfranked income and accordingly understate LIC performance by potentially material amounts.]

- **The assessment of LIC/LIT outperformance using outright returns without comparison against any relevant benchmarks.**
  This methodology is completely incorrect and entirely inappropriate and would largely show how the asset class has performed (for eg. "have shares generally risen or fallen"). It certainly would not show whether the investment entity has outperformed or underperformed its benchmark (for example "has the manager performed better or worse than the share market average").

- **Failure to distinguish between the underlying performance of the entity's investments and fluctuations in its own share price.**
  When seeking to assess the performance of the underlying investment assets it would be inappropriate to use LIC/LIT share prices (a methodology which confuses/masks the underlying performance of the investment assets with movements in LIC/LIT premiums and discounts).

- **Failing to make basic checks on the data**
  There have been instances of graphs and "studies" which are purported to be rigorous and reliable, where even simplistic checks on that data reveal major flaws such as incorrect or missing returns or the returns of entities which do not form part of the LIC/LIT sector.

APPENDIX 4:
The contention that recently issued LICs/LITs have underperformed is incorrect. The reality is that new LICs/LITs have outperformed open-ended funds and ETFs.

LICs/LITs that have been issued since the introduction of the 2015 Stamping Fee exemption have materially outperformed unlisted funds.

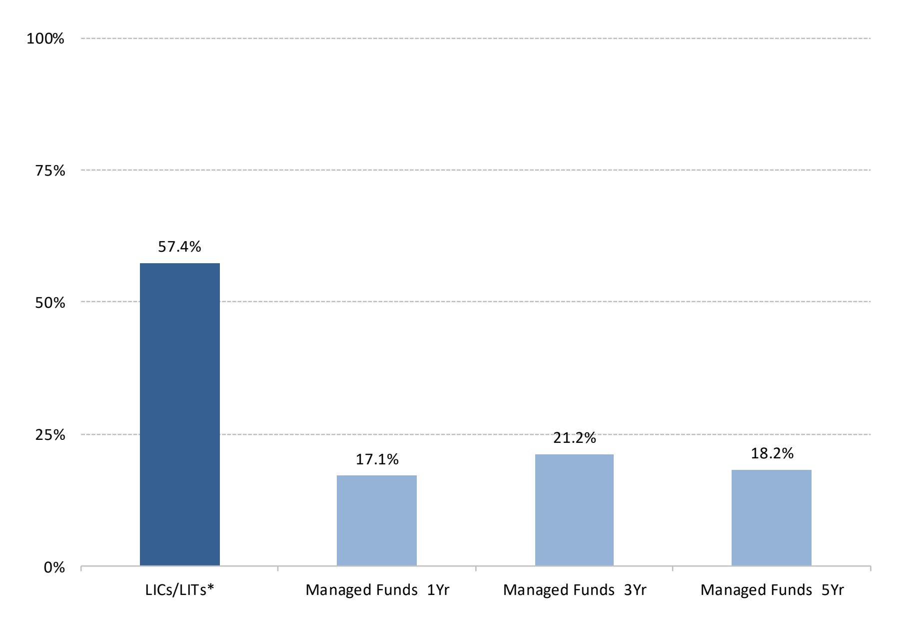
This suggests that the capital raising process for LICs/LITs is not compromising advice for investors.

As a further comparison we note that by virtue of their structure 100% of ETFs underperform their benchmarks by the amount of their operating costs.

Common flaws in "studies" provided by others include:

- Failure to recognise LICs are after company tax vehicles
- Confusing the underlying performance of the assets with movements in premiums/discounts
- Failure to compare performance against a suitable benchmark
- Failure to compare performance against unlisted/open-ended funds

Percentage of LICs/LITs^ and Managed Funds^^ that have outperformed their relevant benchmarks



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APPENDIX 5:
The contention that stamping fees have promoted issuance of lower quality entities is not correct. There is no statistical correlation between fees and performance.

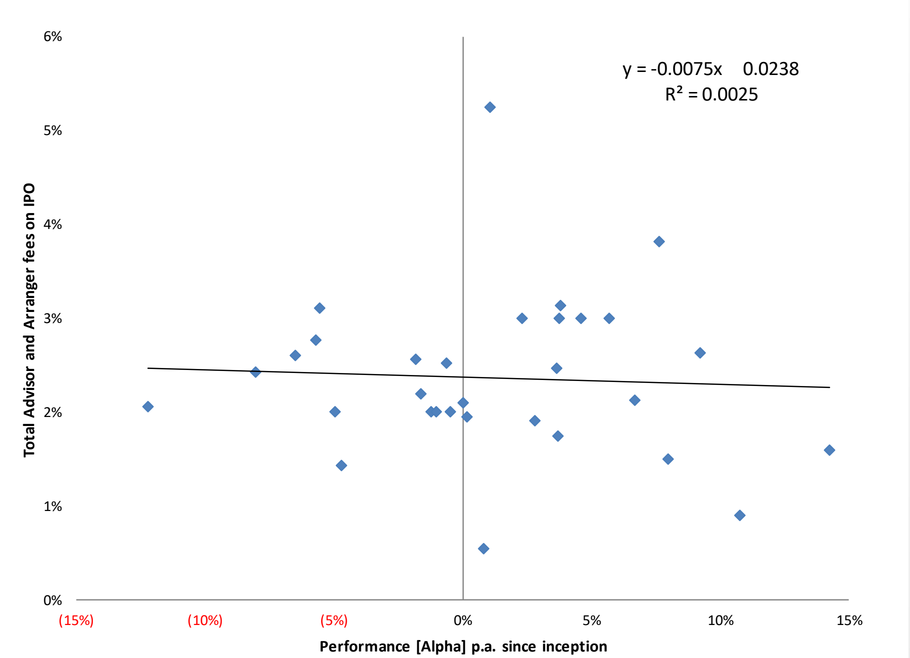
The quality and performance of LICs/LITs issued since 2015 has not been influenced by stamping fees

- We have compiled data that (correctly) compares the performance of LICs/LITs issued since the introduction of the 2015 stamping fee exemption against their relevant benchmark indexes and charted this against the fees associated with each LIC/LIT issue.
- A regression analysis reveals an r-squared of 0.25% which is statistically no more than a random relationship. (i.e. 99.75% of investment performance relates to factors other than stamping fees).

Common flaws in "studies" provided by others include:

- Failure to compare performance against a suitable benchmark (which would result in true outperforming entities being shown as "underperformers" if the asset class had a negative return or vice versa)
- Failure to check basic data resulting in the inclusion of entities outside the LIC/LIT industry
- Failure to account for the fact that LICs are after company tax vehicles
- Confusing the underlying performance of the assets/entity with movements in share price premiums/discounts

There is no statistically significant relationship between stamping fees and the quality of investment entity performance.

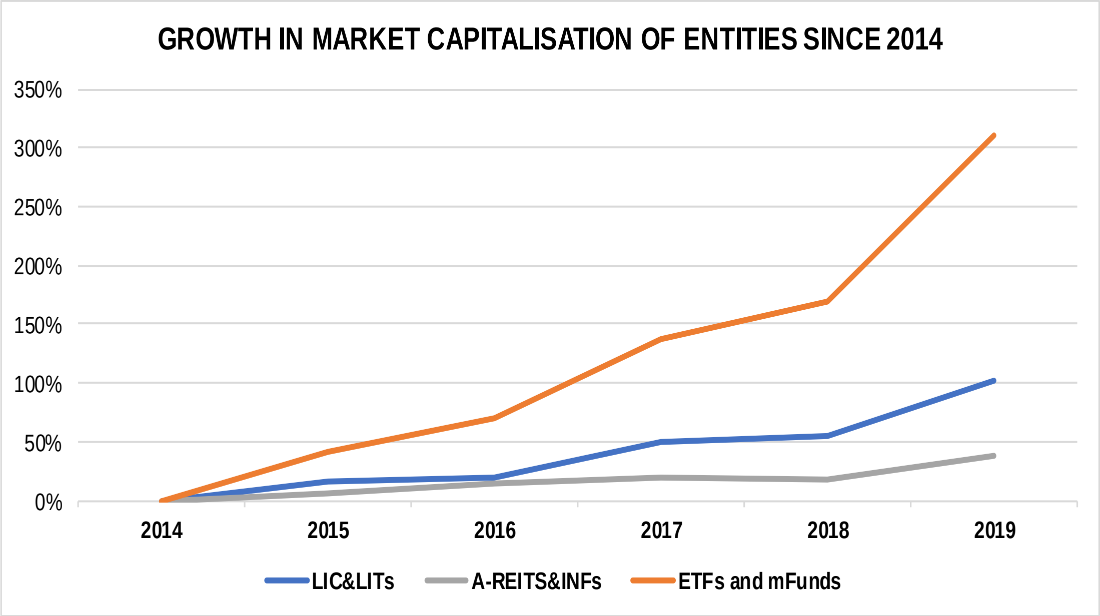


APPENDIX 6:
The contention that stamping fees have resulted in greater issuance than other fund structures is incorrect.

- **The growth in LICs/LITs has been strong but has been significantly less than the growth in ASX-traded investment vehicles such as ETFs and mFunds (that as open-ended structures do not pay stamping fees)**

- Growth in all investment vehicle types that may be traded through ASX has been strong (whether those vehicles pay stamping fees or not).

- This is likely to be the result of the growing preference of advisers and investors for the ease and efficiency of buying and selling through the ASX whether they do this on LICs/LITs (which are closed ended ASX listed entities) or through ETFs and mFunds (which are ASX traded entities that issue capital continuously and which do not require the stamping fee exemption).

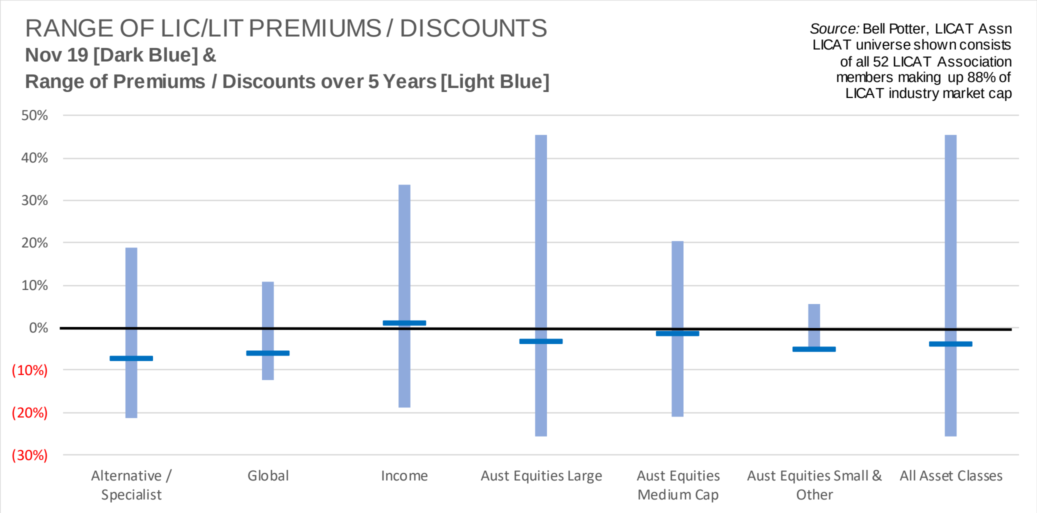


APPENDIX 7:
The contention that discounts to asset backing are evidence of a problem is incorrect. Premiums/Discounts to asset backing are a normal and important part of closed-end markets.

- **Premiums and discounts to asset backing are a normal and important part of closed-end fund operation and are the mechanism by which the net demand of buyers and net supply by sellers may be matched-up.**

- **It should be expected that there will be a spread of premiums and discounts across a healthy closed-end market.**

- **Open market pricing:** Closed-end entity prices are determined in the free and open market by buyers and sellers.
- **A more complete pricing mechanism that takes account of all factors relevant to investors.** This may include:
  - net asset backing, future costs of operation, future opportunities and risks, economic and political conditions, perceived management skill, the income and capital characteristics, investor opinions on the market and general supply and demand.
- **Provides liquidity for investors:** Investors are provided with an avenue to transact in difficult markets when open-ended funds place moratoriums on withdrawals



APPENDIX 8:
Fluctuations in premiums/discounts often represent the normal ebb and flow of investor rebalancing into and out of particular asset classes

Over time LICs/LITs on average trade close to asset backing

- The average LIC/LIT Premium / (Discount) over the Last 5 Years is better than (1%)[1]

LIC/LIT Sector Premiums and Discounts fluctuate over time based on macro factors

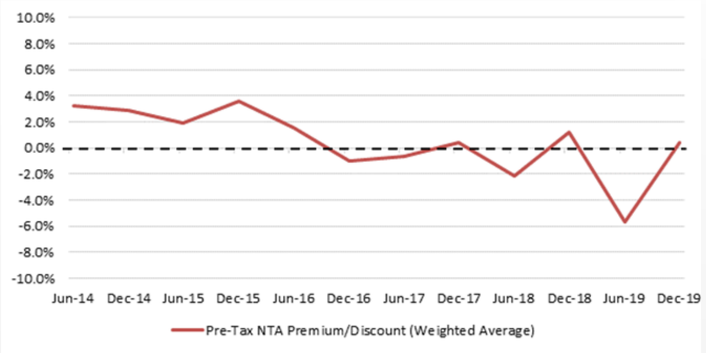
- The relative attraction of the underlying asset classes is a large contributor
- For example, with many LICs invested in Australian shares, the overall sector premium/discount will rise when Australian equities are favoured and decline when they are less in demand

An examination of LIC/LIT Premiums and Discounts by year of issuance shows:

- Demand for interest bearing assets has seen issuance of LICs/LITs of this type over the last 2 years. Demand remains firm and this sub-sector is trading very close to asset backing.
- Demand for international shares resulted in the issuance of LICs/LITs of this type 3-5 years ago. Since then this asset class has delivered strong returns, global shares are now expensive and investors are (logically) re-balancing their exposure, resulting in a slightly higher discount.
- Issuers in the 6-20 year category were generally small and mid cap Australian share and global share LICs/LITs. With Australian and Global shares less in demand currently, this sub-segment trades at a small discount.

[1] *Bell Potter, LICAT Assn. Assessed from LICAT universe of 52 LICAT Association members making up 88% of LICAT industry market cap at Nov 2019*

Weighted average trading premiums 2014 to 2019 - ASX LIC/LIT sector



Calculated on a market cap weighted average basis

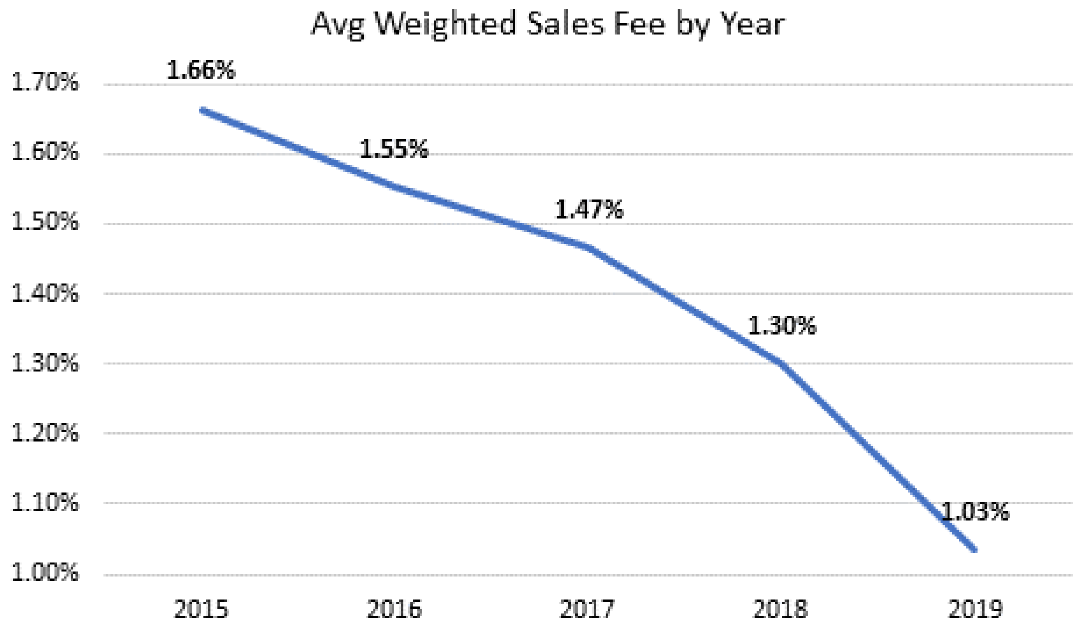
Source: Morningstar, Monthly Reports, How are Australian LICs performing?, https://www.morningstar.com.au/LICs/MonthlyReports

APPENDIX 9:
Normal market forces in a vibrant and competitive LIC/LIT sector have resulted in stamping fee rates steadily dropping

Since 2015, the average Advisory Services stamping fee on Australian LICs/LITs has decreased significantly

- The weighted average stamping fee was 1.32% from 2015 to 2019

- The weighted average stamping fee has fallen each year from 1.66% in 2015 to 1.03% in 2019.



Calculated on a market cap weighted average basis

Source: Morningstar, Monthly Reports, How are Australian LICs performing?, https://www.morningstar.com.au/LICs/MonthlyReports