

LIC options explained

Many listed investment companies (LICs) issue bonus options to shareholders giving optionholders various benefits, including the opportunity to buy shares at a discount. This fact sheet explains the key features and benefits of LIC options.

Overview

Options give the optionholder the right, but not the obligation, to buy shares in the LIC at a fixed price until they expire. If the share price increases above the option exercise price optionholders have the opportunity to acquire new shares at a discount.

Optionholders have two main choices before their options expire:

1

Exercise some or all options for the exercise price and be issued new shares in the LIC.

2

Sell some or all options for a profit.



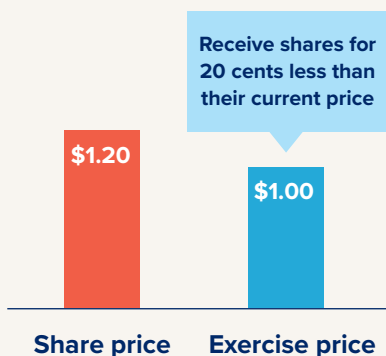
If optionholders take no action, their options will simply expire.

Buy shares at a discount

EXAMPLE:

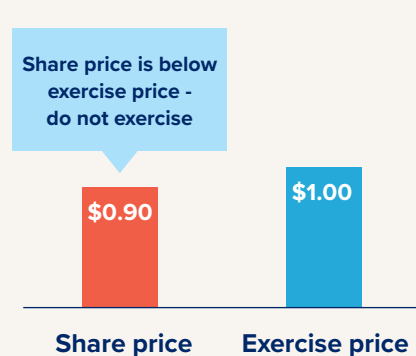
If shares are trading on the ASX above the option exercise price:

Optionholders can exercise their options and be issued new shares in the company at a discount to the current market price.



If shares are trading on the ASX below the option exercise price:

Optionholders can choose not to exercise their options and instead buy additional shares on market at less than the exercise price.



Key terms

Bonus option issue

The issue of free options to shareholders by a company. A company may issue bonus options when it lists on the ASX (initial public offering) or once it is trading.

Exercise price

The price shares can be purchased when an option is exercised. Sometimes called the strike price.

Expiry date

The last day to exercise options.

In the money

A phrase used when the share price of the underlying shares is higher than the exercise price of the option.

Option price

The price options are trading at on the ASX.

Underlying shares

The company shares or securities over which the options are issued. Options can be exercised to receive additional underlying shares.

Benefits



Acquire shares at a discount

Until the time the options expire, optionholders can exercise options to receive shares in the company for a fixed price (the exercise price). If the exercise price is lower than the current price of the underlying shares, optionholders acquire shares at a discount.



Receive dividends

If optionholders exercise their options before the record date for dividends, they are entitled to receive any announced dividends for each option exercised. This assumes the shares received from the exercise of options are held on the dividend record date.



Grow assets

As the Company's size increases, on-market liquidity for the Shares is also expected to increase, making it easier for Shareholders to buy and sell the Company's Shares. By increasing the size of the Company, this will increase the Company's relevance in the market, improve the prospect of broker and research coverage and increase interest from financial planners.



Sell options for a gain

As options trade on the ASX, optionholders can sell their options for a profit. Options are issued at no cost to the option holder.



No brokerage

Unlike buying shares trading on the ASX, exercising options allows optionholders to acquire new shares without paying brokerage.



Flexibility

Optionholders have maximum flexibility and can exercise, sell or hold their options in any combination until they expire.

**Future
Generation
Australia**

INVESTMENT & SOCIAL RETURNS

If you would like further information about LIC options, please contact us:

(02) 9247 9202 | info@futuregeninvest.com.au

futuregeninvest.com.au