BKI INVESTMENT COMPANY LIMITED

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# QUARTERLY REPORT

## The Budget, Capital Gains and the Enduring Strength of the Listed Investment Company

*For decades, Listed Investment Companies have offered something many investors ultimately value most: diversified portfolios of quality Australian companies, fully franked dividends, disciplined capital management and the governance standards expected of ASX-listed companies. Those strengths have never depended on investment fashions. The 2026–27 Federal Budget may simply remind investors why they have endured.*

The 2026–27 Federal Budget has been met with understandable concern across the investment community. It is not simply another Budget containing modest adjustments to tax settings. It represents a broader shift towards higher taxation of investment returns at a time when Australia already faces weak productivity growth, slowing private investment and increasing pressure on long-term economic growth. At the centre of the debate is the proposed replacement of the 50% capital gains tax discount with an inflation-indexation model from 1 July 2027. The Government argues that taxing real gains rather than providing a blanket discount restores the original intent of the capital gains tax regime.

Tax policy influences behaviour. Every increase in the effective tax burden on long-term investment reduces the reward for committing capital, accepting business risk and allowing wealth to compound over time. Australia has historically encouraged patient investment through concessional capital gains taxation. Weakening those incentives risks making productive investment less attractive precisely when stronger private capital formation is needed.

Capital gains tax is often debated as though it were simply a mechanism for raising revenue. In reality, it is also a powerful determinant of investment behaviour. The reward for accepting long-term investment risk influences where Australians allocate their savings, how readily entrepreneurs commit capital and how willing investors are to fund productive businesses. At a time when Australia needs stronger private investment, higher productivity and deeper capital markets, reducing those incentives appears an unusual policy choice.

Growth investing relies heavily on the compounding of capital gains. If future capital gains become more heavily taxed—or simply become more uncertain—investors naturally begin reassessing where their after-tax returns are most likely to come from. The question is no longer simply what an investment earns before tax, but what investors ultimately retain after tax.

While the Budget may diminish the attractiveness of long-term capital gains, it does nothing to diminish the value of fully franked dividend income. Indeed, the relative attractiveness of franked income may actually increase.

For many investors, that may lead not to a search for something new, but to a renewed appreciation of something that has been there all along: the Listed Investment Company.

### The Enduring Strength of the Listed Investment Company

Traditional LICs rarely promise exposure to the latest investment theme. They are not designed around artificial intelligence, disruptive technology or fashionable global trends. Instead, they have focused on something much simpler: owning portfolios of established Australian businesses capable of generating sustainable earnings and paying reliable fully franked dividends over long periods.

Those characteristics have never lost their value. Over the past decade, extraordinary returns from global growth companies, falling interest rates and the rapid expansion of exchange traded funds naturally attracted enormous investor flows. That shift reflected market conditions rather than any deterioration in the merits of the LIC structure itself.

## Why Structure Matters

The differences between traditional LICs and many other listed investment vehicles are more significant than they sometimes appear. Most ETFs operate as trust structures designed primarily to pass through portfolio income and realised capital gains to investors. LICs are companies. That distinction creates important advantages.

Because an LIC pays company tax, it can retain earnings during stronger periods and build profit reserves that may support more consistent dividend payments over time, subject to profitability and Board discretion. For investors seeking dependable income, particularly retirees, family investment vehicles and long-term shareholders, this ability to smooth dividend payments has long been one of the defining characteristics of the structure.

The company structure also provides governance advantages that are sometimes overlooked. ASX-listed investment companies operate within the governance framework expected of listed public companies, including independent directors, continuous disclosure obligations and direct accountability to shareholders. Those disciplines reinforce long-term stewardship and provide investors with an additional layer of oversight beyond day-to-day portfolio management. These are not new advantages created by the Budget. They are enduring features of the listed company structure that may now receive greater attention.

## The Tax Equation Has Changed

The Budget changes more than tax rates. It changes the relative attractiveness of different forms of investment return.

Australia's dividend imputation system remains one of the defining strengths of the domestic equity market. Fully franked dividends represent company profits that have already been taxed, allowing many Australian investors to receive valuable tax credits alongside their cash income. The Budget leaves this framework intact.

If capital gains become less concessionally taxed while dividend imputation remains unchanged, the relative value of franked dividend income inevitably becomes more attractive. That does not mean investors should abandon growth investing. Australia needs entrepreneurial businesses, innovation and long-term risk capital. Nor does it mean every investor should prefer income over capital growth. But it does suggest the balance between the two may be changing.

Investors who previously accepted lower dividend yields because much of their expected return would arrive through concessionally taxed capital gains may now reassess that trade-off. For many portfolios, after-tax certainty may become more valuable than before-tax potential.

## Simplicity Matters Too

The Budget also makes investing more complicated. Inflation indexation, transitional arrangements, revised cost bases and minimum capital gains tax rates all introduce additional complexity into long-term investment planning. Complexity rarely encourages investment. It increases compliance costs, elevates the value of tax advice and reduces confidence in long-term decision making.

Simple investment structures become more valuable as tax systems become more complicated. That has always been one of the attractions of LICs: investors gain exposure to professionally managed portfolios while receiving regular franked dividend income without needing to actively manage the underlying portfolio themselves.

## The Silver Lining

Few investors would welcome policies that reduce the reward for long-term investment. Encouraging Australians to save, invest and build productive businesses has long been one of the foundations of economic prosperity. Reducing those incentives is unlikely to strengthen Australia's long-term growth prospects.

Yet investment markets have always rewarded disciplined structures that endure through changing economic cycles. The Listed Investment Company is one such structure. Long before ETFs became dominant, LICs provided diversified exposure to high-quality Australian companies, professionally managed portfolios, fully franked dividends, prudent capital management and the governance expected of listed public companies. Those attributes remain every bit as relevant today as they were decades ago.

The Budget may therefore not represent a new opportunity for LICs. Rather, it may prompt investors to rediscover an investment structure whose strengths have been there all along.