

Building better income: strategies for resilient portfolios

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Jacinta King (00:00):

Welcome to The Ideas Exchange by ASX, connecting you with investment experts, market updates and ideas. I am Jacinta King, Business Development Manager, Investment Products at ASX, and this is our regular podcast covering everything from investment trends through to different ways to invest using a variety of products.

Voiceover (00:19):

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Jacinta King (00:45):

Welcome to the Ideas Exchange. I'm your host, Jacinta King from ASX. Whitefield have successfully navigated changing economic conditions since they founded Australia's first listed investment company, Whitefield Industrials Limited in 1923. In 2024, they launched a second fund, Whitefield Income Limited and just passed one year post IPO for this fund, which listed on ASX in December of 2024. So now, combined Whitefield are managing just over \$1.5 billion. Angus Gluskie is managing director of Whitefield and joins us today to talk about Whitefield's long history as a premier investment manager. Welcome Angus.

Angus Gluskie (01:27):

Hi.

Jacinta King (01:28):

Look, we've got so much to cover off today and I'm really interested in starting with, as I mentioned, the Whitefield's history. The company celebrated 100 years of business in August '23, and we did have a celebration for you at ASX. I remember that fondly. In 1923, Whitefield founded Australia's first listed investment company. What are some of the key attributes of a business that reaches 100 year milestone, do you think, Angus?

Angus Gluskie (01:55):

Okay, well, thinking very specifically about an investment fund that lasts 100 years, I think it goes down to maybe three key things. One is that you need a very well-founded, sensible, logical investment process and strategy that targets solid fundamentals at

reasonable value. Now, that sounds like quite a simple thing, but in contrast, there are many other funds and strategies that have come and gone in that time. And I think a key part of a good sound approach is to ensure that you're focused on elements that have durability. So it's important that you're not too heavily biased in one direction or another, not too heavily biased, say, on value or growth or even factors that might be very transient and short term because those things won't last over the course of decades.

(02:51):

So I think at Whitefield, we've managed to have a really good balance and a balanced strategy that is capable of generating solid returns over multiple decades and indeed many different economic environments over those 100 years. So strategy is key. I think another thing is fair-mindedness. Investment funds are a balance or a partnership between underlying shareholders as well as executives. I think, again, Whitefield's look to provide the right resources into resourcing the investment process as well as providing good returns back to our underlying investors.

(03:28):

Then perhaps the last element of that, that's critical, and again, I think this is a really a point of difference compared to other businesses. We've taken a really long-term mindset to what we do, and I think that's particularly important for investment funds, because for investors, you want your investment to last. So when we think about what we're going to do and the strategies that we should adopt, we're often thinking 10, 20, 30 years ahead because we want to make decisions that have that durability. And I'd contrast that say with other businesses in particular where people might be on short-term contracts. They would have a tendency to make shorter term 1, 2, 3 year decisions, which might be good in the short run, but might not yield the right results over the longer term.

Jacinta King (04:18):

As we mentioned earlier, WHI has recently completed its first year since listing on ASX. What makes it different from its peers?

Angus Gluskie (04:26):

Okay, look, it's different against a number of different points of comparison. So firstly against typical Australian share funds, most Australian share funds are about stock picking, selecting a number of stocks and hoping that they'll do better than market. Now, Whitefield income instead, it's about a very structured and systematic process that targets investing over a period of time in each company's income generation and dividend payment cycles where return accretion is statistically the fastest. So it's much more about a structural and systematic process than purely stock picking, and this assists us in reliability and consistency of return generation, and that of course is really important for investors.

(05:18):

So our second point of difference is the fact that we're focused on income and dividends. So because we're continuously invested over dividend payment periods for

companies, we generate a much higher level of dividend income than an average Australian share fund.

(05:36):

Another point is the portfolio that we have. We're not market cap weighted. The portfolio is continuously changing, so we are continuously altering our positions as we go from company to company as they move through those key parts of their earning cycles, and that gives us a portfolio and investors an exposure that's very different to your typical market cap weighted portfolio that you might find in other share funds.

(06:04):

A further point is perhaps comparing or thinking about how we are differentiated from other Australian equity income funds. And so where we have our strategy, which we describe as that systematic rotation, but that's different from other equity income funds that might focus on purely chasing high yield stocks. We don't do that because we think that can be a quality trap. Other equity income funds might look to generate their income from selling or writing options. We don't do that because that trades off some of the upside in very strong markets.

(06:39):

We're not market cap weighted. We believe that diversity is particularly important and so we can get best diversity by spreading our holdings across small, mid and large cap stocks reasonably evenly. And we're also prepared to invest in both franked and unfranked dividend paying entities. Some of our other funds in this space will only focus on the frank part of the market. So look quite a few points of differentiation about how we run the business.

Jacinta King (07:10):

Yes, that is. Can you tell us all, maybe delve a bit more into the value that it has delivered per shareholders so far?

Angus Gluskie (07:16):

In terms of returns?

Jacinta King (07:18):

Yeah. We'll start with returns. Yeah.

Angus Gluskie (07:19):

Yeah. So it's the fund and we've run this for one year in the listed format and over about five years, including our four years unlisted. So over the whole time, the strategies generated gross income inclusive of ranking credits of over 12%. Total returns of after all costs are around 10% and that's outperformed its benchmark by about 3% per annum.

Jacinta King (07:44):

So I'd like to look at now how do you balance delivering reliable income streams with the need to preserve capital across those market cycles. I know you've already touched

on some of those key points in the early question, but particularly in periods of heightened volatility or rising interest rates, which we've all been experiencing for quite a while.

Angus Gluskie (08:00):

Yeah. And again, maybe thinking first about other Australian share strategies, which might be particularly dependent on where the market goes. Is it rising, is it falling? Where are those share prices going? Well, Whitefield income strategy isn't about as much about share prices and those capital movements as it is about this focus on investing and harvesting income and dividends that come from businesses.

(08:28):

And if you think about businesses and we're invested in 70 to 100 businesses at any point of time, those businesses are generating business income and they're paying dividends, and that's something that's much more stable over time. Okay? It changes, but it changes slowly and progressively. And that means that the Whitefield income profit itself is quite a consistent and stable item as compared to the general volatility of share prices. So that gives us a reasonably consistent income that we can then pay out to our investors as frank dividends, and that's a relatively reliable item. Now, at the same time we are invested in Australian shares and so those share prices will move around, but that volatility happens under the surface. It's absorbed by the company and it doesn't particularly affect our actual profit and our dividend income.

Jacinta King (09:29):

Thank you, Angus. Let's also touch on the listed investment company structure. People here that referred to as LICs and collectively it's listed investment vehicles. Can you explain this briefly for our listeners for those especially who aren't, haven't heard of these kind of structures before?

Angus Gluskie (09:45):

Yeah, sure. So I think there are three key key parts there. One is ASX listing. Second one is the fact that it's a company that is a taxpaying entity and the third is the fixed capital that comes from a closed-end company structure like that. So just looking at each of those in turn, ASX listing, it's a really easy way for investors to be able to take an investment by buying shares or adjust that investment going forward either by increasing or decreasing their holding. So I think that's a wonderful thing that comes from ASX listing.

(10:21):

Another part is the transparency that goes with it. The ASX listing rules require a high degree of disclosure around holdings, performance, profits, and there's a corporate governance structure that sits behind that, and I think all of those attributes are great things for our investors.

(10:40):

The second element of a LIC is the fact that we're a company and we pay tax at company tax rates. We then can pay a frank dividend to investors, which gives investors

a tax credit for any tax we pay. So it's an in and out item, which doesn't particularly impact on the actual net investor return that is achieved. But one of the important benefits for an investor is that the company itself absorbs all the complexity of taxation that goes with an investment portfolio.

(11:11):

So if you think there are hundreds of dividends coming in, there are transactions as we buy and sell investments that have tax implications, all of that complexity is absorbed within the company. And when we then provide investors with a dividend statement about a frank dividend, it's a very, very simple thing to administer and to deal with for personal tax purposes. So I love the simplicity of that.

(11:39):

The third element is the fixed capital structure of a listed investment company, which is the same as any kind of listed entity that has a relatively fixed capital. We only raise capital by issuing shares periodically, and between those times, we've got a fixed amount of capital to invest. Now, that has a number of important implications. One is that it ensures that the income and the returns that we generate cannot be diluted by unexpected investor inflows.

(12:14):

If we were accepting inflows all the time, you would find that our income generation would be diluted because it has to be spread across greater numbers of investors. Now, that would undo the very thing that we're trying to create for investors, which is a regular and strong flow of income. So the fixed capital really works for that Whitefield income strategy particularly well.

(12:37):

Other benefits of that are that we also don't have the administration and transactional costs that come from regular inflows and outflows. We also don't have the cost and risk that goes with then having to repeatedly buy and sell investments to accommodate the inflows and outflows. And I think that is not frequently understood, but it is a real benefit of that listed investment company structure.

Jacinta King (13:05):

Thank you, Angus, I appreciate that you always described that very well for investors to understand that structure. Following on from it, how does listing on ASX suit investors?

Angus Gluskie (13:15):

I think a key thing there is just that benefit that they get from the ease of being able to buy and sell, which is great, and I mentioned the transparency there before. So I think it's been good for investors and I guess the longevity that has gone with the fixed capital structure has also been a true value add over the long term for those shareholders.

(13:39):

So if I go back to our longer listed fund, Whitefield Industrials, which is now in its 103rd, 104th year of operation, we've had some investors who've been invested for the

majority of that time, and the longevity of an investment fund actually creates a lot of value for investors just because they're not having to consistently change from one investment to the next investment. So if you're in an investment fund that only lasts for five years, over 100 years, you might have to change your investment 20 times over.

(14:15):

Every time you change an investment, you've got the costs of selling, you've got costs of taxation, you've got the downtime of having to pick when you are going to invest in your next investment. You've got the research costs that go with it. Each of those costs can easily be a few percent, and if you multiply that by 20 times over, you're going to lose a large amount of your investment over 100 years if you have to do that. In contrast, if your investment is going to last for multiple decades, there's a huge saving for investors.

Jacinta King (14:44):

So how do you manage the portfolio considering structural changes in markets and regulation, for example?

Angus Gluskie (14:50):

Okay, it's interesting point because right at the moment we're quite clearly in a period of heightened and rapid change across many, many dimensions. So I think that's attributable to changes in technology, which are rapidly driving changes in all kinds of businesses, and as a result, regulation is having to change as well to keep up with those changes.

(15:14):

So it's a period where we are going to see lots of variation in economic conditions and financial conditions compared to what we've seen in the past. That means for an investment fund that your fund needs to be dynamic, and I think this is where the wide field income strategy is particularly useful. So I've mentioned in the strategy that we are continuously changing the portfolio as we move from company to company as we target this critical part in their income earning and dividend payment cycles.

(15:48):

The portfolio turns over about four times per year, so 400% turnover across 70 to 100 stocks at any point of time. So it's very, very dynamic. That means though that we're continuously orienting the portfolio towards those stocks and sectors that are doing well in the economy as it changes over time.

(16:11):

Now, I think that ability to rotate and dynamically change is something that allows the Whitefield income portfolio to do well, even if as we see changes occurring at rapid pace in economies and in businesses. And a really good example of that was in the COVID era. So this strategy was running in an unlisted fund during those years. And in that period of time, we saw dramatic changes in the earnings coming out of particular companies and sectors who were adversely affected by the COVID pandemic, but we saw other businesses benefiting.

(16:49):

Now, interestingly, the Whitefield income strategy continued to generate consistent amounts of income simply because it was orienting its portfolio to move away from the sectors that weren't performing and move into the sectors and the companies that were still generating income and in fact benefiting. So it's a good example of how a dynamic portfolio can respond to change.

Jacinta King (17:16):

And sticking with your process for a bit longer, I understand your process is also differentiated, because you're quite quantitatively based or driven.

Angus Gluskie (17:24):

Yeah, that's right. It really just means we ingest a lot of our data on company stocks and markets electronically, and we can then process it on a very systematic, timely, and efficient basis. Now, that's really important because we're trying to make consistent decisions time and time again, week in, week out, year in, year out. That's at the heart of being able to produce reliable returns for our investors.

(17:50):

So a quant system is eminently suitable for the type of process that we run. I think people occasionally get scared of the term quant. It really just means we're using database tools to form decisions, but at the same time, those decisions are really logical, fundamentally based decisions. We're trying to buy good stocks that can provide us with good levels of income. It's not a black box.

Jacinta King (18:15):

No, you're combining that years of experience from doing things well. And then, yeah, we have to work in that relationship between using that, the data and information to back up, but oftentimes it will give you the insights that you suspected from your experience. So it works hand-in-hand, I think. Look, the last thing I wanted to focus on is thinking again about investors' interest in income-generating investments. It's really high at the moment, so why do you think that is? What's driving it?

Angus Gluskie (18:43):

Okay, I don't want to say I've been how old I am, but I've been in markets for probably about, well, almost 40 years, and it's given me an interesting perspective on that question. So when I started in markets and I started in business in the '80s and certainly through the '80s and '90s, there were a lot of interest-bearing investments available for investors. There were debentures, there were high-yielding bank accounts. The commercial bond market in Australia was very deep and there were a good depth of government bonds. And since that time, we've seen hybrid securities also come into markets, so something's changed. Now, most of those interest-bearing alternatives that we've talked about are no longer available freely in markets. So that's a structural reason why investors need to look in different places for income.

(19:38):

A second element is a bit more cyclical, and it's the fact that since the late 1990s, we've seen interest rates steadily decline. And if you think back early '90s, interest rates were up at above 15% and we've had them down into nearly 1% during the COVID pandemic. So just the change in the interest rate environment has also meant investors looking for regular amounts of income at stronger levels than very low interest rates have had to look elsewhere. So I think those two factors are powerful influences. I guess investment markets have had to come up with new ways and new sources of being able to provide investors with income that they can rely upon.

Jacinta King (20:27):

Last question I wanted to sort of finish with today is, how does an equity income strategy such as WHI satisfy this as compared to just holding a small number of shares?

Angus Gluskie (20:37):

If you held a small number of shares, one, you've got the issues of a lack of diversity. Income from a small number of shares and market values, they're variable and all kinds of unexpected things happen. You can't predict everything, so you're exposed to the vagaries of those issues. Equally, you're only going to get on average two dividends a year. The average dividend rate across ASX is about 3.5% before franking with the rest of your return coming in capital growth.

(21:05):

Now, in contrast, that Whitefield income strategy is looking to do something quite different. It's holding a very diverse portfolio, 70 to 100 stocks. So that means that the vagaries of the unexpected things that inevitably occur in markets can average out. We'll have across our portfolio, we'll have unexpected things turn out favorably, and they'll offset the unexpected things that don't turn out quite as favorably. And that's exactly what we want them to do because it leaves us generating the benefit of the income that we're generating on all those underlying investments.

(21:42):

And because we're rotating and moving our investment portfolio from one stock to the next and doing this across 70 to 100 stocks numerous times a year, we're actually receiving a greater percentage of our return through the receipt of dividend income, and that's giving us a much higher repeatable level of income compared to just holding a small static portfolio.

Jacinta King (22:07):

Look. Thank you. I'm going to have to finish our conversation there, but you've been most generous with your insights. If listeners would like to hear more from yourself or know more about Whitefield, where can they go?

Angus Gluskie (22:18):

Whitefield.com.au is a great place to start.

Jacinta King (22:21):

And I've seen some video interviews with Angus, so you can catch more there if you enjoyed listening to his insights today. So thank you, listeners. You can also head to the ASX website and you look under the tickers WHI for Whitefield Income Limited and WHF for Whitefield Industrial Limited. And of course, head to the tab investors and you can find out educational content. Thank you as always. I'm Jacinta King, and if you'd liked this episode, please share and tune in again next month to The Ideas Exchange.

Voiceover (22:54):

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