Transcript
The Ideas Exchange - Episode 60

LICs: market signals and income stability

February 2026

Aaron Viscayno (00:00):
Hello and welcome to the Ideas Exchange, ASX's regular podcast where we cover investment trends, market updates, and ideas for your portfolio. My name is Aaron Viscayno, business development manager from the investment products team here at ASX. And it is our mission to deliver to you the latest in market updates and ideas through the conversations we have with investment experts.

Speaker 2 (00:22):
A quick note about this podcast. Information is provided for educational purposes only and is not intended to include or constitute financial product advice. You should obtain independent advice from an Australian Financial Services licensee before making any investment decisions. Please refer to ASX's full disclaimer with respect to this podcast on the section of the ASX website titled The Ideas Exchange by ASX.

Aaron Viscayno (00:49):
Hello everyone and welcome back to the ASX Ideas Exchange podcast. Hope you all had a restful break over the festive season and are ready for a new and exciting year ahead. We have got a great guest today to kick off 2026, Chief Executive Officer of the Australian Foundation Investment Company, Mark Freeman. Welcome Mark. It's

Mark Freeman (01:06):
A pleasure to be here.

Aaron Viscayno (01:07):
So originally listing in 1962, the Australian Foundation Investment Company Limited trading under ticker code AFI is Australia's largest listed investment company with the primary investment goal to pay stable to growing dividends over time and to provide an attractive total return over the medium to long term. As of recording, the company has achieved a market capitalization of a hair just under $9 billion. Today we'll talk on all things Australian equities and also touch on some of the benefits when investing in the listed investment company structure. First things first,

Mark, could you please talk on your history working in finance and walk us through to how you came to become the CEO of Australia's largest LICs?

Mark Freeman (01:46):
Well, I actually did a engineering degree at Monash when I was studying, so I never started off doing finance or economics. And I did work as an engineer for a couple of years, but yeah, I sort of felt there were other things I was more interested in and I certainly had an interest in business. So I ended up putting myself through an MBA at Melbourne Union and from that was able to get a job into this industry. And I think a lot of people that do engineering, they prefer to be involved with numbers and the like, so it lends itself to finance. And once I got into this industry, I really enjoyed it because there's just so many elements involved with investing that cuts across just not financial analytics, but you need to be understanding business strategy. You need to understand people and their behaviours, and you need to be always forward-looking and thinking about where is the world and where are businesses moving forward.

(02:47):
So there's lots of dynamics to it that really appealed to me. And so once I got in this industry, as I said, I really formed a love for it. Did a follow-up diploma in applied finance and ultimately read a lot of books on investing, which I think is a great way to learn once you get into that. So I've been involved for that ever since and been involved in markets probably for over 30 years now.

Aaron Viscayno (03:11):
Great. And well, here we are just past the holiday season for 2025. Did you notice much movement in the Australian markets over the break?

Mark Freeman (03:18):
No, not really. The markets haven't done a lot, but there's been quite a bit of activity within markets. So when you look at the headline index, probably not a lot going on, but you're still seeing this gradual unwind of what I'd call sort of more quality growth stocks, suffering PED ratings, and obviously the commodity sector, particularly metals, gold continuing to power ahead at the moment. So that theme obviously was playing out all year and it's continuing even today.

Aaron Viscayno (03:49):
And how optimistic do you feel about the Australian market this coming year? Are there any sectors that you've been keeping an eye out on as well?

Mark Freeman (03:55):
Yeah, sure. So I've probably got a more balanced view. I mean, overall, if you look at our markets and even the overseas markets, any historical

metric, if you look at sort of a Schiller PE, things look really expensive, but just historical long-term PEs, prices still look pretty high and pretty full. And so that always makes me a little bit wary. You had seen over the last 12 months, as I said, our focus is probably more on what you call quality compounders, businesses you can buy and hold for the long term. We sort of acknowledge that about a year ago, a lot of them got overpriced still with businesses and they've really had a comeback to earth moment. But when I look at those, I've seen some pretty fair value now and some good companies as money's rotated more into the mining sector, that looks like the hot sector now.

(04:44):
And it's always this thing, you've got to be wary of where the hot sectors are. And at the moment that's gold and commodities, but it doesn't mean it can't go higher. But I guess we're looking for more now good quality businesses that have had that PD rate, but we still think of good long-term structural stories and so we're starting to pick at some of those.

Aaron Viscayno (05:03):
Great, thank you. As I mentioned in the intro, so a primary objective for AFIC to its investors is to provide stable to growing dividends over time. This can prove to be difficult in challenging economic environments. How is it that you achieve this within the listed investment company structure?

Mark Freeman (05:18):
In our structure, I mean, we want to be low turnover. We understand that tax can be a real drain on return. So we do tend to be a bit more of a buy and hold, and you are looking for companies to continue to grow their profits. So dividends ultimately follow profit growth. And so we keep looking for our businesses that can grow their profits and therefore their dividends in a more sustainable way. So that's really our focus is businesses that had that strong structural market position where we think they have the ability to grow their business and therefore profits and dividends over the long term. Also, we do some selling from time to time, and because of the structure we're in being a company, if we may for capital gain, we do have to pay tax, but then that creates a franking credit and we can use capital gains to pay dividends as well. And we've been doing that.

(06:13):
So we've announced already that we're paying a special dividend with the half-year result coming up, and then we're going to do another special dividend with the full-year result in July. And we've already indicated we've still got plenty more franking credits beyond that. And so that all helps support a pretty strong yield portfolio.

Aaron Viscayno (06:31):
Great. And just keeping onto the topic of LICs as well, we did talk a little bit about this off the air, but I was actually keen to get a little bit more information from you as well. Whereas you mentioned in terms of LICs and trading at a discount as well, that can sometimes be sort of a precursor for the Australian economy, Australian markets as a whole. Are you able to elaborate on that?

Mark Freeman (06:57):
I mean, for those that are not aware, I tend to focus more on what I call the traditional LICs or the internally managed LICs. So we're a listed investment company, but there is no external manager with us. We're employees, so there's no fee that goes to a third party to manage the portfolio. And that's why the MER or the costs on AFIC is about 0.15%. So we're more aligned with what you pay for an ETF around that market and some of the ETFs are a little bit lower, some are higher depending on what you're looking at. So we think it's a really important part of AFIC is that it is incredibly low cost, it is actively managed, and so the benefits and returns tend to go to shareholders, but the share prices over time, sometimes trade... Now we publish a weekly NTA or what we would say is the value, the market value of the portfolio, and sometimes a stock can trade above that and sometimes below.

(07:57):
But we've looked back, I think it's around 30 years, at the monthly NTOs and plotted where was the share price? And you have periods where we traded a premium and there are periods where it does trade at a discount. At the moment, this period we've been has been quite significant, not just for us, but for other LICs, but this pattern has appeared before, and this is probably the bit that I worry about a little bit. Every other time we've traded a discount, it's been a precursor to a market pullback. So it's when it's been a hot market. And so one of the times was, if you look around Tech Boom in 2000, we did go to a discount just before the market corrected because everyone was chasing the hot stocks. Our focus is more on... We've probably got a bit more of a bias towards just industrial companies.

(08:46):
And another time that's during the GFC boom, and because that time was a mining boom. And again, we focus more on... Yeah, we do have BHP and Rio, but our bias is more on industrial companies. So companies that can build and create and grow a business over time and not sort of relying on the external factors to drive the businesses. But we went to a discount then and then there was this market correction and then suddenly we go back to a premium because everyone sort of said, well, we've got pretty safe companies, and so it does swing around. So as I said, the concerning bit at the moment is that each time we've traded a discount this size has

been a precursor to a market correction because there's something going on the market where investors are tracing other stuff. And at the moment, we've talked about whether it's Bitcoin and all it's related products or now it's sort of gold and silver and commodities.

(09:43):
There's lots of stuff going on to keep investors focused on other things in the market. So that sort of makes us a little bit concerned. And hence why, I guess when we are looking to buy things at the moment, we're looking for just good solid companies that have been sold off over the year as monies chase these hot sectors.

Aaron Viscayno (10:00):
Great. Just sticking to the basics, staying with the list investment company structure, are there any other benefits that you think are worth calling out to our audience as well?

Mark Freeman (10:09):
Yeah. Well, I mean, as I said, for us, the traditional ones, the internally managed ones, very low cost. We don't have flows coming in and out, which means if we had a period where markets went down and there was drawdowns in ETFs, then they'd have to sell. We don't have to sell. We buy when we want, we sell when we want. And so that's another important factor. We are publicly listed, so you can see our accounts, you can see our board of directors. It's very transparent. So a lot of our investors get comfort that they can see what's going on. They get to meet us. We make ourselves available. They can see our accounts. And the directors are all people that have a lot of business skill, will help us with the investing. The low cost, there's no performance fees because we don't have a fee to do with external managers. So I think that's a very important part as well.

(11:01):
So there's a number of aspects around LIC. And as I touched on earlier, probably just the final one is that because we do build out some capital gains over time, we tend to have some franking credits within the company and we always allow a little bit. So whenever there's a market downturn, so if the most recent one was COVID, if you're in any DEX product, they cut their dividends. We sustained our dividends through the tough times, and we did it during the GFC. I think people think it's some comfort that we will sort of do our best to try and sustain the dividend during tough times, and that's become a very important part of what people are looking for from AFIT.

Aaron Viscayno (11:39):
Cheers. Thank you. Now, just to close us off today, Mark, let's talk stocks. It's what our listeners do like to hear on. Could you give a couple here in Australia that you are optimistic about moving into 2026?

Mark Freeman (11:51):
Yeah. Well, look, as I said, our focus is more on quality structural compounders and a lot of them got pretty fully priced 12 months ago, but we're starting to see some better value now. So if you look at some of the pullbacks, I'm not going to focus on any one in particular, but we have been nibbling it, Woolworths across our portfolios. We really like what ARB are doing in the US. It's got no debt. It's a well-run company, opportunity to grow the business. Some of the healthcare stocks have been out of favour. We have been in CSL, which has been very painful for us, but the valuation metrics we've seen now are finally getting to a point where I think it's a pretty fair multiple for a company that I still think should grow. It won't grow the way it used to grow in the past, but it still should grow. And ResMed fits in that camp as well, another company that's got a very strong balance sheet and a strong market position, but that's had a pullback alongside the other healthcare stocks.

(12:50):
And look, there are selectively some tech stocks that are starting to look more interesting because a lot of those have had quite a big pullback in our market over the years. So it's really picking through some of those businesses and looking for the ones which we think there's just been too much negativity about whether it's a risk from AI. So a lot of the classified companies, people are concerned about AI, but we still think they've got pretty strong market positions, but they've certainly been out of favour over the last six months or so.

Aaron Viscayno (13:20):
Mark, it's been a pleasure. Thank you for joining us on the Ideas Exchange. For more information on the Australian Foundation Investment Company, head on over to their website, afi.com.au, or search ticker code AFI on the ASX website or through your broker app. To the listeners out there, thanks for tuning in today. I hope you're gearing up for a big 2026. Until next time, talk to you then.

Speaker 2 (13:42):
Are you keen to learn more? Why not visit the ASX blog, asx.com.au/blog for a wide range of articles, videos, and insights from ASX experts, listed companies and investment professionals.