



# Product Viewpoint

## Australian Foundation Investment Company Limited

ISSUE DATE 05-08-2019

### Key Information

ASX CODE	AFI
STATUS	OPEN
ASSET CLASS	AUSTRALIAN EQUITIES
SECTOR	AUSTRALIAN LARGE CAP
SUB SECTOR	LIC
ASX LISTING DATE	1 JANUARY 1936

### Market data

MARKET CAPITALISATION	\$8336M
SHARES ON ISSUE	1206M
SHARE PRICE (25-2-2020)	\$6.91
52 WEEK HIGH/LOW SHARE PRICE	\$7.30 / \$5.86
NTA (31-1-2020)	\$6.96
52 WEEK HIGH/LOW NTA	\$6.96 / \$5.99
SHARE PRICE PREM/(DISC) TO NTA	-0.72%

### Fees & costs

MANAGEMENT COSTS	0.13% P.A.
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### Returns after fees (at 31-1-2020)

	1 YR	3 YR	5 YR	7 YR
TOTAL RETURN (% PA)	17.91	10.91	7.27	4.7
LONGSEC BENCHMARK (%)	24.72	12.36	9.5	9.1
STANDARD DEVIATION (% PA)	9.14	10.09	8.99	10.1
TRACKING ERROR (% PA)	12.90	12.7	9.1	8.75

BENCHMARK USED: S&P/ASX 200 TR INDEX

### Growth of \$10,000 over 10 years



### What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

### Lonsec Opinion of this Fund

#### Overall

Lonsec has maintained AFIC's 'Recommended' rating. AFIC has an extensive track record of dividend and capital growth across numerous market cycles. Lonsec has a high regard for AFIC's Board of Directors, noting both the experience and co-tenure of its directors and also its breadth of relevant skills. Lonsec notes both the well-established investment process and very low management costs are additional benefits to the LIC offering.

Lonsec's concerns are the potential for diminished sell discipline based on valuation grounds with AFIC being focused on keeping its portfolio turnover low for philosophical and tax reasons. Lonsec also highlights the shortcoming of a clearly defined portfolio management function. Lonsec is slightly circumspect with the transition of Mark Freeman to the role of CEO and some recent staff turnover. Furthermore, Lonsec is looking for an extended period of team stability at the Company to maintain its current level of conviction.

### Strengths

- Multi-decade track record of paying a growing income stream of fully franked dividends.
- Highly experienced Board of Directors that demonstrates diversity across a range of industries.
- An experienced and well-credential investment team.
- Very low management cost (current annual fixed costs are 0.13% of NTA).

### Weaknesses

- Mark Freeman's relatively new position as CEO is not an optimal segregation of duties given his current responsibilities in the investment team.
- Sell discipline is potentially diminished due to the 'buy and hold' approach and low portfolio turnover philosophy.
- Recent elevated investment staff turnover with a portfolio manager and two analysts leaving the team in the past two years.
- Potential for reduction in accountability due to the portfolio management duties not being clearly defined.
- The Manager has underperformed the benchmark over the short and long term.

ANALYST: ROBBIE LEW | APPROVED BY: SHAILESH JAIN

**Product Risk Characteristics**

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
INCOME VOLATILITY		●	
SECURITY LIQUIDITY RISK		●	
SECURITY CONCENTRATION RISK	●		
RELATED-PARTY RISK		●	
VALUATION RISK		●	

Risk categories are based on Lonsec’s qualitative opinion of the risks inherent in the financial product’s asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

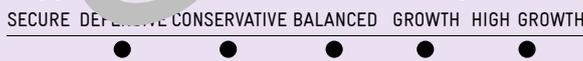
**What is this Company?**

Australian Foundation Investment Company Limited (‘AFIC’ or ‘the Company’) is Australia’s largest LIC by market capitalisation. First founded in 1928 as a vehicle to run client monies for JB Were, AFIC was first listed on the Melbourne Stock Exchange in 1934 (as the Were Investment Trust). It was listed on the ASX in 1962. AFIC has a market capitalisation of \$7.5bn and has over 130,000 shareholders.

**Using this Company**

AFIC is subject to equity market risks and movements (both positive and negative) in the prices of the underlying securities in its portfolio. Potential investors should therefore be aware of, and comfortable with, the potential for AFIC to experience periods of negative absolute returns which may result in capital losses being incurred on their investment. Lonsec recommends investors consult the Lonsec Risk Profile Review and/or the Lonsec Risk Profile Definitions document(s) for guidance on appropriate asset allocations to Australian Equity within a diversified investment portfolio.

**Suggested Lonsec risk profile suitability**



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

**Manager Profile**

AFIC is internally managed.

**Glossary**

[Click here for the glossary of terms.](#)

**About Lonsec**

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

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