

5 October 2021

The Manager
ASX Market Announcements
Australian Securities Exchange
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Electronic Lodgement

**Australian Foundation Investment Company Limited
2021 Annual General Meeting Presentation**

Dear Sir / Madam

The following presentation will be delivered to shareholders at the Company's Annual General Meeting to be held today.

Yours faithfully

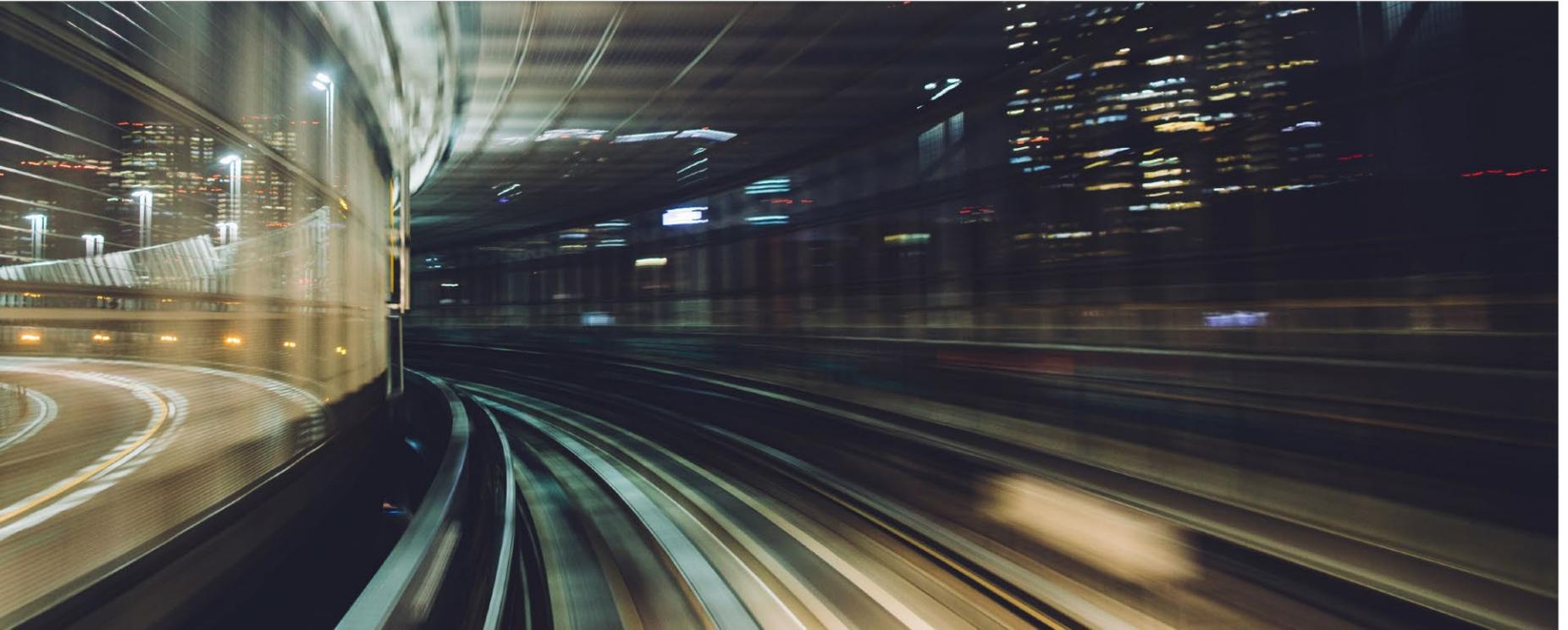


Matthew Rowe
Company Secretary

Authorised for release by the Company Secretary

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Annual General Meeting 2021



Board Members



John Paterson
Chairman and Independent
Non-Executive Director



Mark Freeman
Managing Director



Rebecca Dee-Bradbury
Independent Non-Executive
Director



Craig Drummond
Independent Non-Executive
Director



Julie Fahey
Independent Non-Executive
Director



Graeme R Liebelt
Independent Non-Executive
Director



David A Peever
Independent Non-Executive
Director



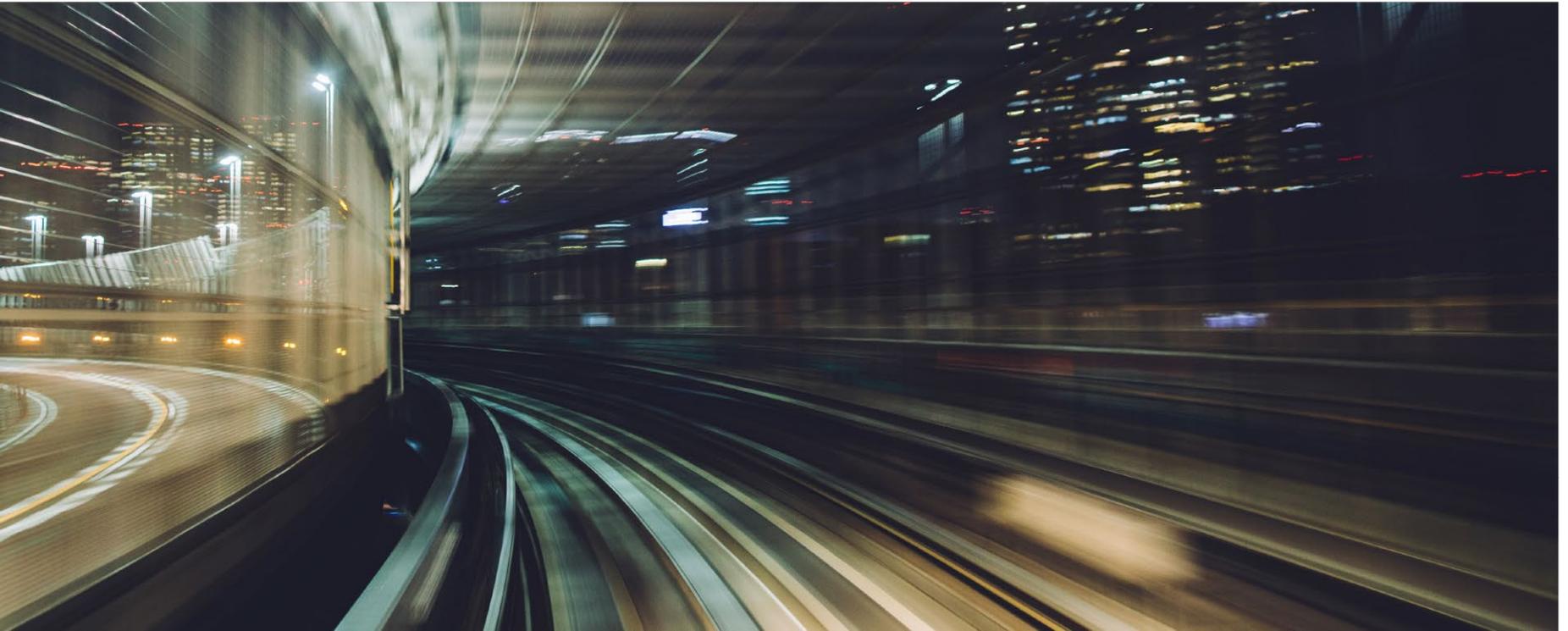
Catherine M Walter AM
Independent Non-Executive
Director



Peter J Williams
Independent Non-Executive
Director

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Annual General Meeting 2021 Presentation



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Our Company

Invests in Australian and New Zealand companies – looking for quality for the long term.

Largest listed investment company on the ASX at \$9.4bn at 31 August 2021 (also listed on NZX), 160k shareholders, full transparency from being listed, independent Board of Directors providing strong governance.

Shareholders own the 'management rights' to the portfolio – no external funds management business deriving an income from the portfolio.

Management expense ratio of 0.14% with no performance fees.

Long term investor with low turnover – tax has less of a negative impact on shareholder returns compared with high turnover funds.

Long history of growing/stable fully franked dividends.

Team manages three other funds – Djerriwarrh, Mirrabooka and AMCIL which adds significantly to the effectiveness of the investment process and idea generation.

Investment Team



David Grace
Portfolio Manager



Kieran Kennedy
Portfolio Manager



Brett McNeill
Portfolio Manager



Nga Lucas
Investment Analyst



Rosie Malcolm
Portfolio Manager



Andrew Sutherland
Portfolio Manager



Olga Kosciuczyk
Investment Analyst



Stuart Low
Investment Analyst



Jaye Guy
Investment Analyst



Jeremy Moore
Dealer



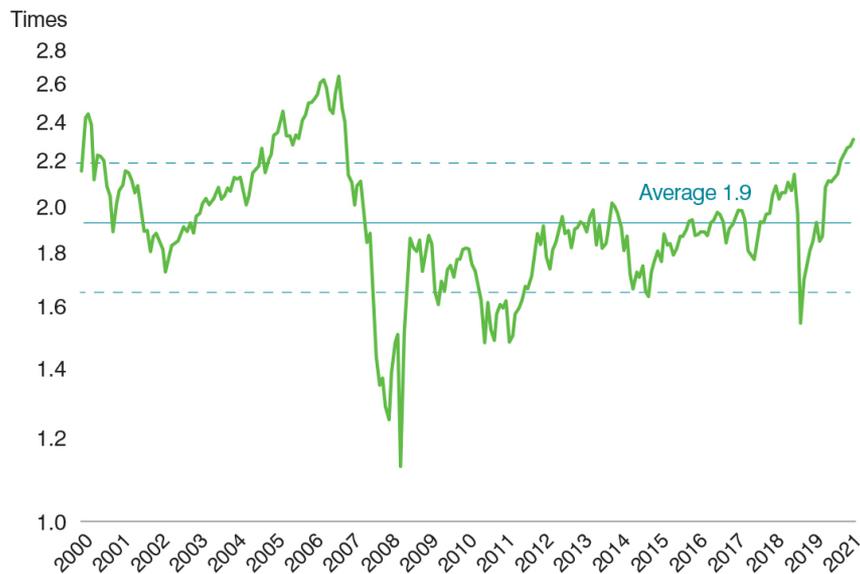
Gilbert Battistella
Graduate Investment
Analyst



Nicky Sun
Graduate Investment
Analyst

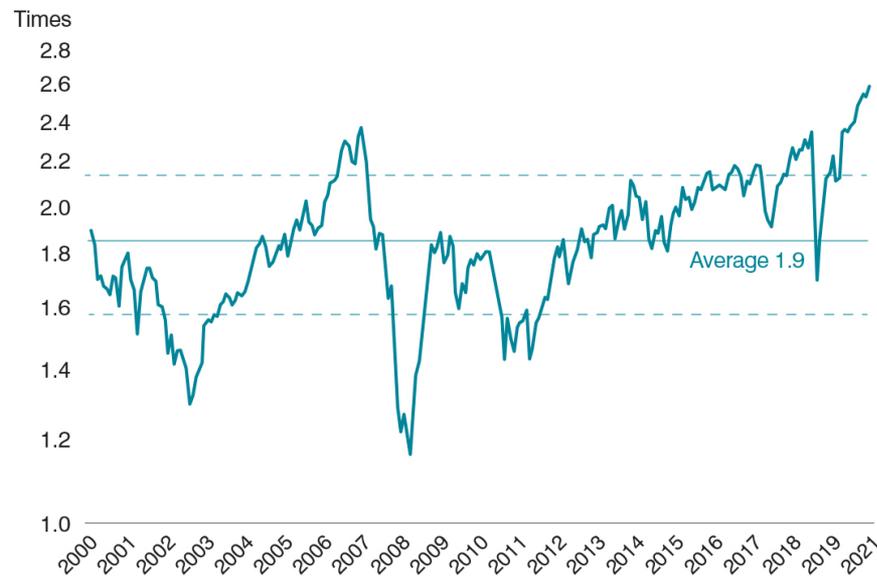
Long term value in the context of recent market moves

Price to Book -
S&P/ASX 200 Index



Source: FactSet

Price to Sales -
S&P/ASX 200 Index



Source: FactSet



Result Summary

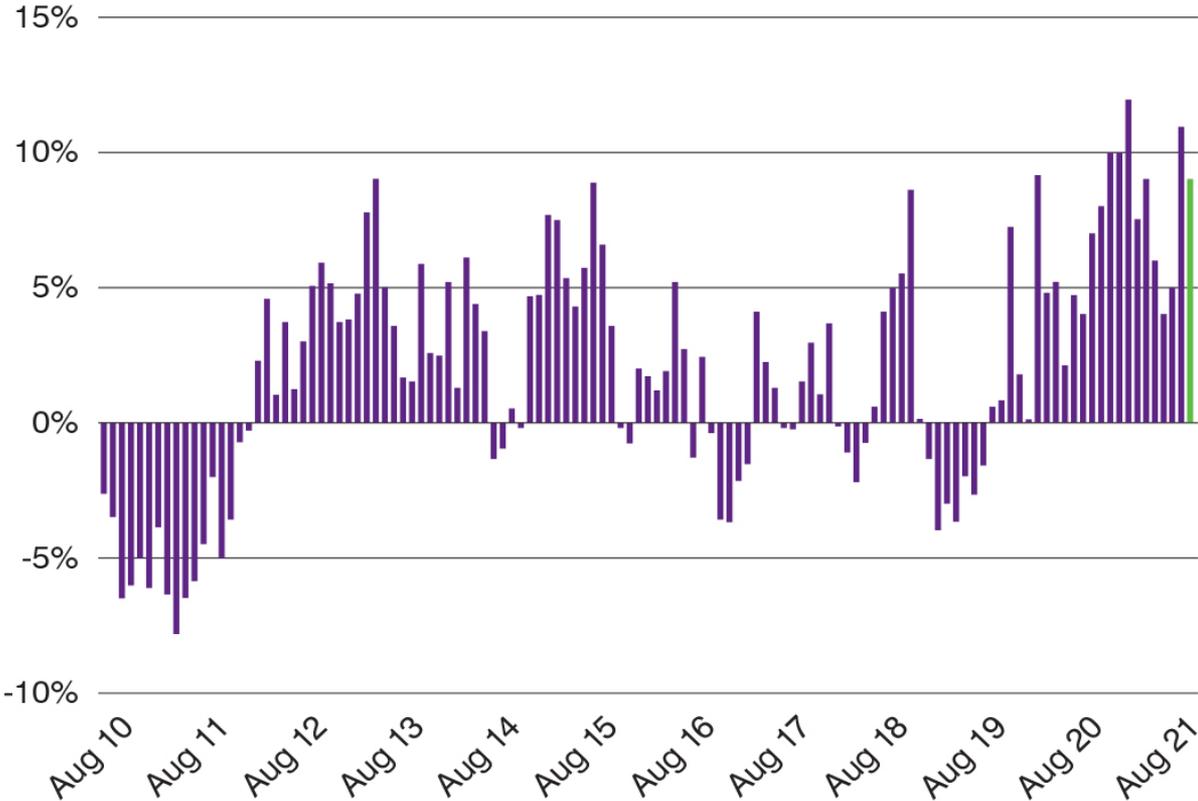
Result Summary

	2021		
Profit for the Year	\$235.1 m		\$240.4m in 2020. Down 2.2%
Fully Franked Dividend	14¢ <small>Final</small>	24¢ <small>Total</small>	24 cents total in 2020
Total Shareholder Return	35.2%		Share price plus dividend, including franking*

	2021		
Total Portfolio Return	31.9% <small>Including franking*</small>		S&P/ASX 200 Accumulation Index including franking* 29.1%
Management Expense Ratio	0.14%		0.13% in 2020
Total Portfolio	\$9.1b		Including cash at 30 June. \$7.2 billion in 2020

*Assumes an investor can take full advantage of the franking credits

AFIC's share price relative to the NTA - 31 August 2021





Investment Objectives and Approach

Investment Objectives

The Company aims to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and growth in capital invested.

The Company's primary investment goals are:

- to pay dividends which, over time, grow faster than the rate of inflation; and
- to provide attractive total returns over the medium to long term.

Our investment process – how we assess quality

Uniqueness of Assets

Competitive landscape, leadership position, can the assets be replicated

Long-term Sustainability

Barriers to entry, sustainability of competitive advantage, track record of new entrants, threat of substitution

Independence

Pricing power, bargaining power of suppliers, government interference, exposure to commodity cycles

People

Owner/driver model, insider buying/selling, track record, remuneration incentives, corporate governance

Earnings Consistency

Volatility and quality of earnings, cash flow analysis

Financial Strength

Balance sheet gearing, structure of the debt book, dividend policy, ability to invest for future growth

Our investment process – focus on long term quality

Long term investor in companies, not traders of share prices

Identify quality companies with sound growth prospects that we can buy at a reasonable price

This supports our belief in the power of compounding returns from great businesses

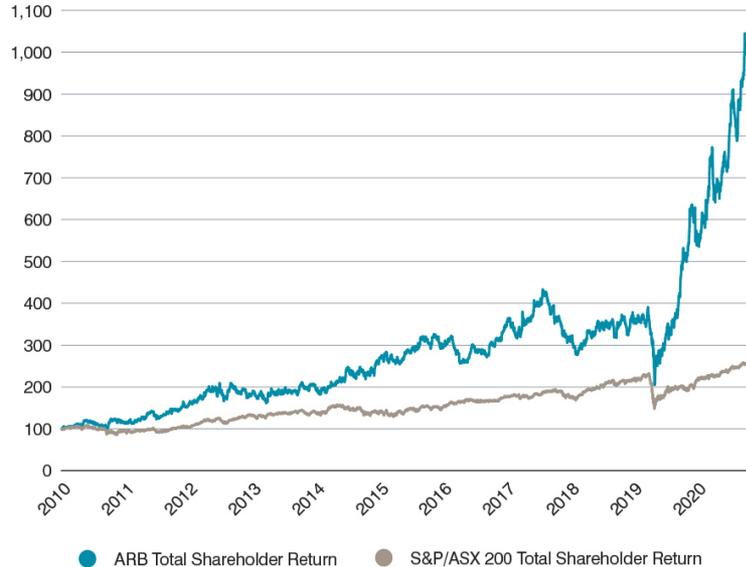
Our research process is built on observing the key characteristics of a company that our experience indicates will produce strong investment returns

Long-term approach

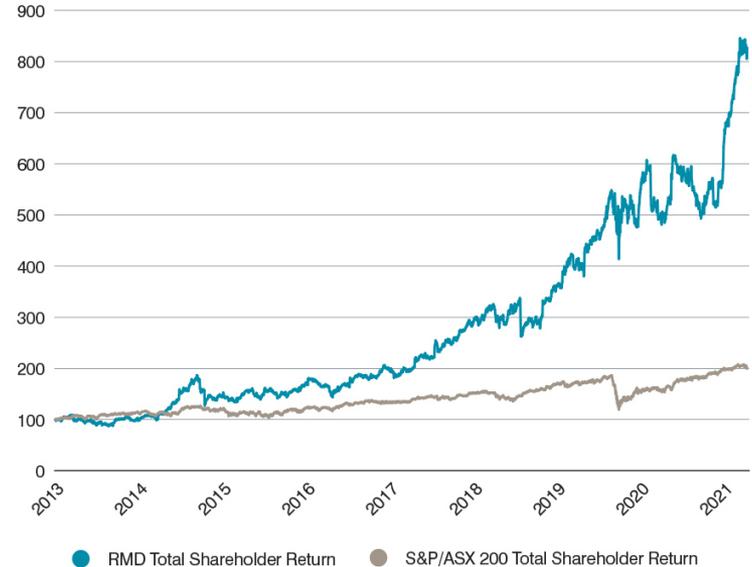
AFIC invests in high quality companies and benefits from compounding returns.



ARB Total Shareholder Return (%)
First added to the portfolio: November 2010



RMD Total Shareholder Return (%)
First added to the portfolio: August 2013



ESG is integrated into our investment framework



Approach to Environmental, Social and Governance (ESG) factors

- Assessment of ESG risk factors is an important part of our investment process as the sustainability of a business is a key input in our assessment of a company.
- As a long-term investor, we seek to invest in companies that have strong governance and risk management processes, which includes consideration of environmental and social risks.
- We regularly review companies to ensure ongoing alignment with our investment framework.



Engagement with companies

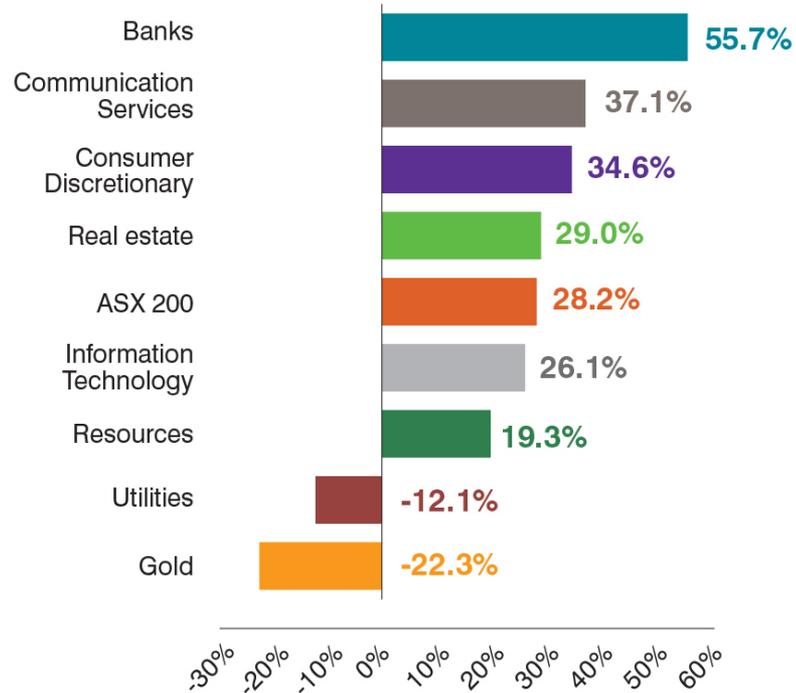
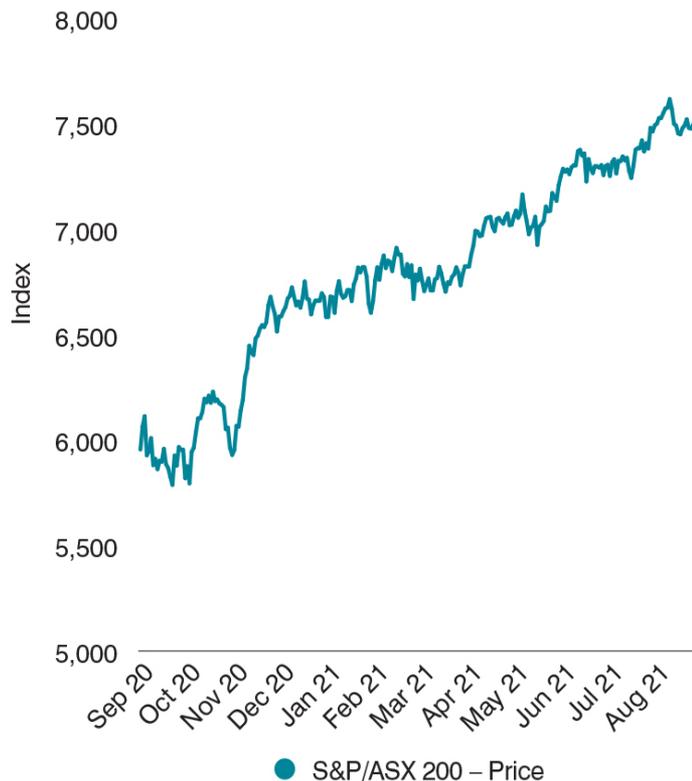
Voting on resolutions is one of the key functions that a shareholder has in ensuring better long-term returns and management of investment risk:

- We conduct our own evaluation of the merits of any shareholder resolution and take input from proxy advisors.
- We vote on all company resolutions as part of our regular engagement with companies.
- We actively engage with companies when we have concerns those resolutions are not aligned with shareholders' interests.



Markets and The Portfolio

Market and key sector performance* - Year to 31 August 2021



* includes dividends but not franking

Portfolio performance metrics

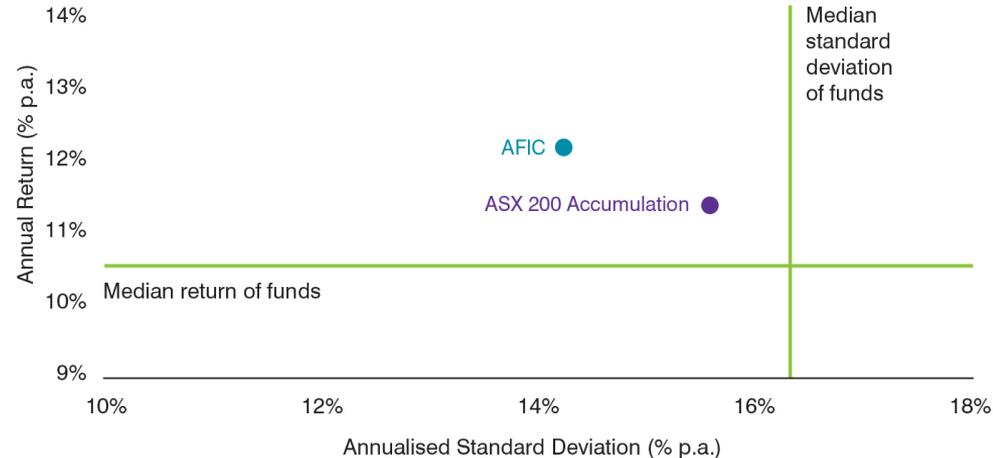
Portfolio performance, including franking* - per annum returns to 31 August 2021



* Assumes an investor can take full advantage of the franking credits. AFIC's portfolio return is also calculated after management fees, income tax and capital gains tax on realised sales of investments.

Past performance is not indicative of future performance.

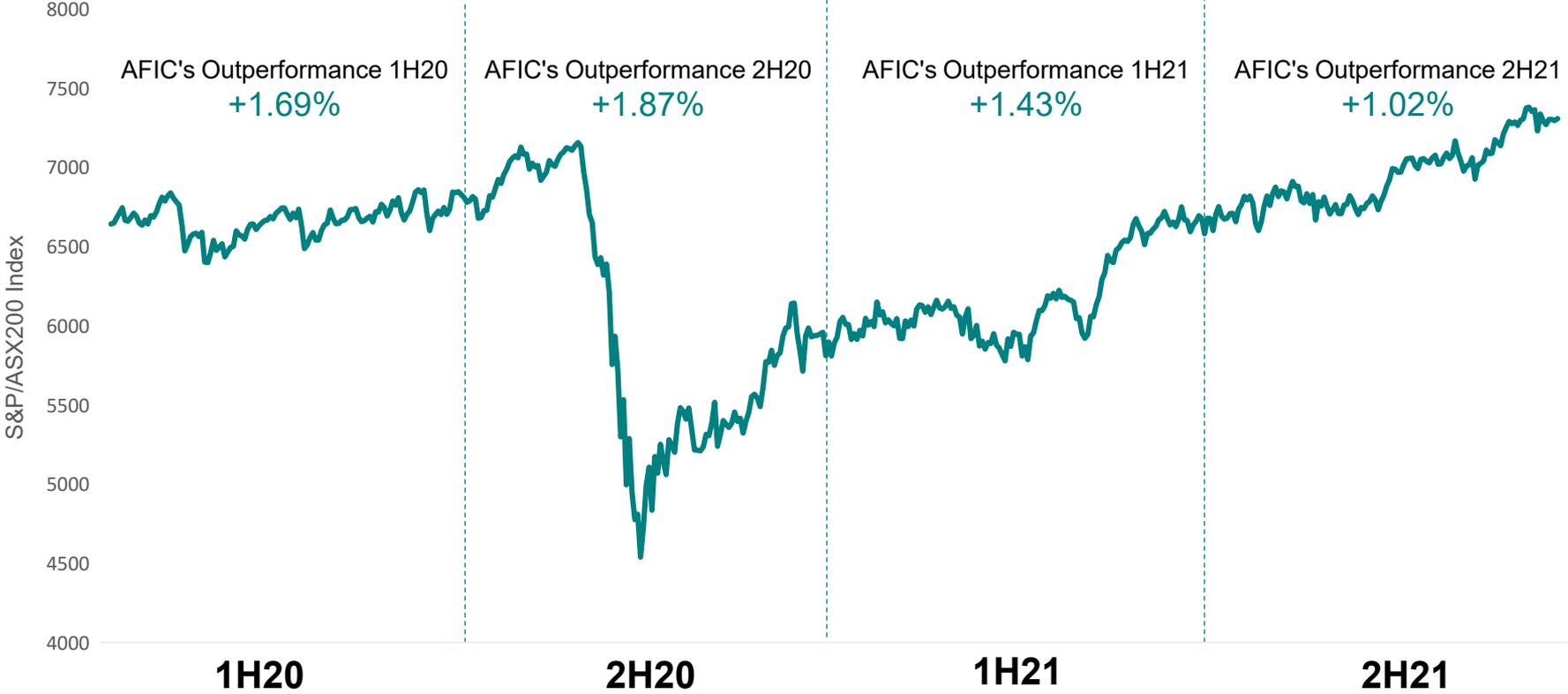
Over the 4-year period to 31 August 2021 AFIC has a higher portfolio return with less volatility than the S&P/ASX 200 Index (both exclude franking)



Source: Mercer Investment Performance Survey of Wholesale-Equity – Australia. Note AFIC's return is after tax paid and costs. The universe for Wholesale-Equity – Australia returns are before tax and after fees

Note AFIC share price returns have a significantly lower volatility (beta and standard deviation) than the Index.

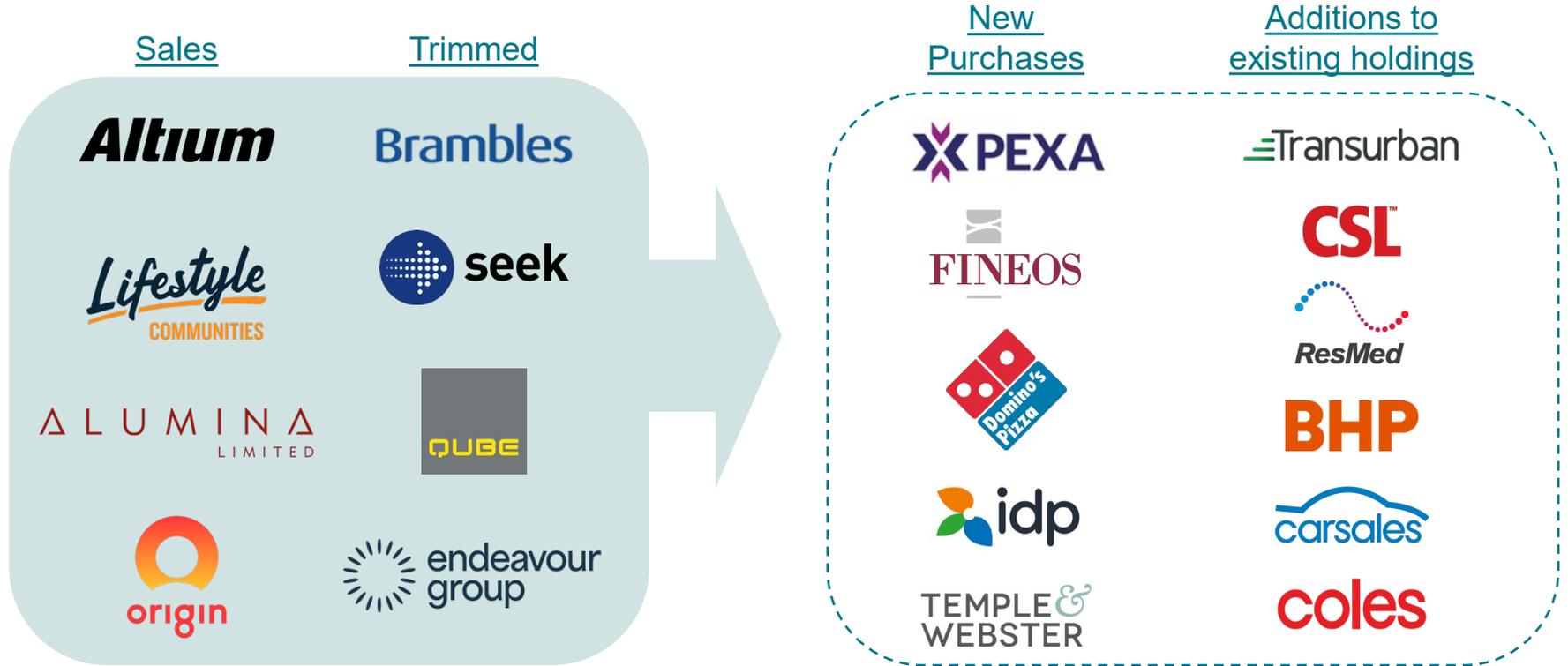
AFIC's Performance relative to the Index (FY20-FY21)



Source: FactSet

— ASX200 Performance

Portfolio Update - Recent Transactions

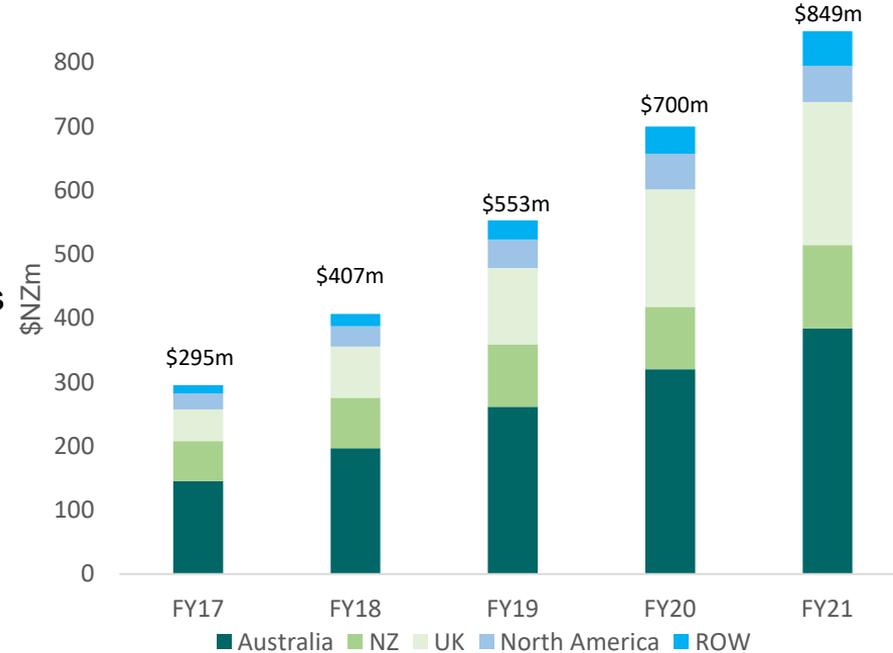




Core holdings with significant long-term opportunity

- Strong market positions in Australia, New Zealand and the UK with growing presence in rest of world
- Software-as-a-service (SAAS) revenue model and leading SAAS economics delivers superior returns
- Cloud accounting penetration continues to grow globally driven by Government digitization initiatives
- Strong subscriber and ARPU growth supported by high R&D investment and acquisitions
- Long runway of growth with large growing global addressable markets

Xero Revenue: FY17-FY21

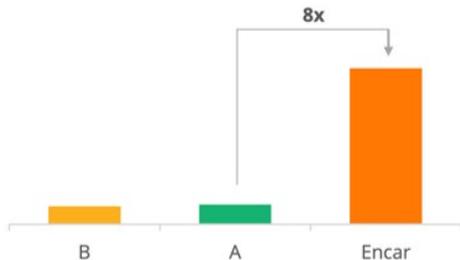


Source: Xero

- Dominant market position in used car classifieds in Australia with 4.4m average monthly unique audience (4.5x lead over nearest competitor).
- Growing contribution from international businesses, now represents ~35% of group profit.
- “Carsales Select” to facilitate a fully digital car buying/selling experience for consumers and dealers.

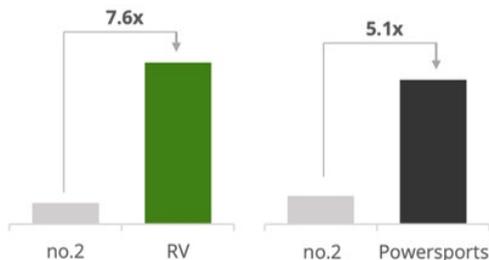
SOUTH KOREA (ENCAR)

Full year market share v competition



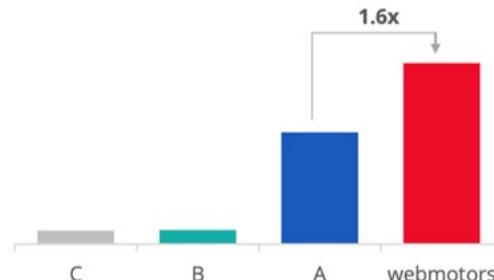
US (TRADER INTERACTIVE)

Recreational market share



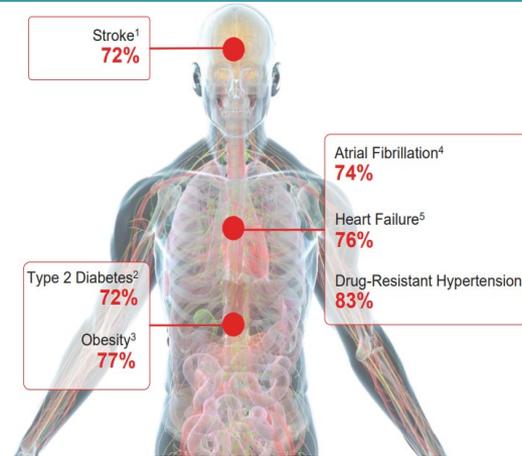
BRAZIL (WEBMOTORS)

Full year market share v competition



Source: Carsales

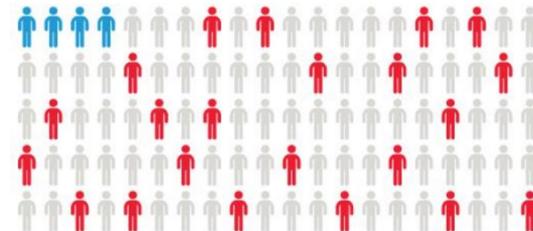
- Market leader in the treatment of Obstructive Sleep Apnea (OSA).
- Condition remains largely undiagnosed. Proven link between the incidence of obesity and requirement for OSA treatment.
- Significant investment in Research and Development being 7% of sales.
- Resmed investing in raising consumer awareness around OSA.
- High return on capital with a strong balance sheet.



**Sleep apnea is more than 80% undiagnosed...
... and is highly prevalent in other chronic conditions**

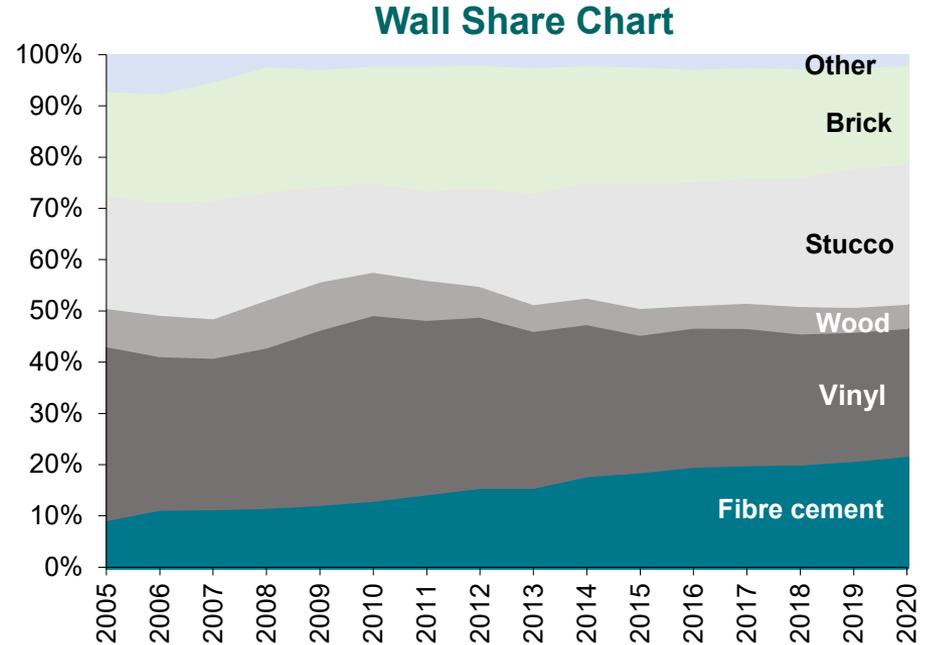
For every 100 U.S. adults...

4 KNOW THEY HAVE SLEEP APNEA



22 DON'T KNOW THEY HAVE IT

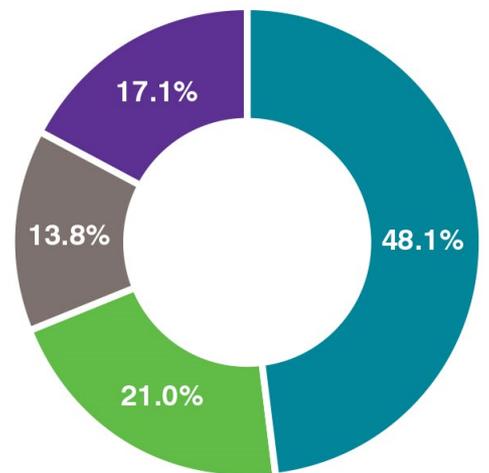
- Market leader in fibre cement siding with more than 90% market share
- Fibre cement market share has doubled since 2005, all other materials have declined.
- Favourably exposed to the shift to lightweight materials being less carbon intensive
- High return on capital and strong balance sheet.



Source: Macquarie, US Census Bureau's Characteristics of Housing survey

Top 30 holdings – 31 August 2021

Total Portfolio 64 Holdings

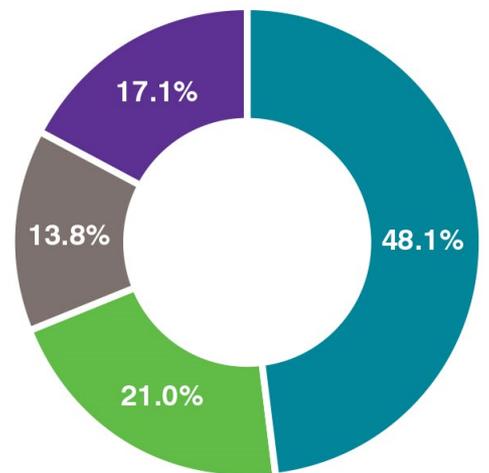


● Top 10 ● Next 11 to 20
● Next 21 to 30 ● Remainder

Rank	Company	% of Portfolio
1	Commonwealth Bank of Australia	8.4%
2	CSL	7.3%
3	BHP Group	6.5%
4	Wesfarmers	4.7%
5	Westpac Banking Corporation	4.3%
6	Macquarie Group	3.9%
7	Transurban Group	3.7%
8	National Australia Bank	3.3%
9	Mainfreight	3.1%
10	Woolworths Group	2.9%

Top 30 holdings – 31 August 2021 continued

Total Portfolio 64 Holdings

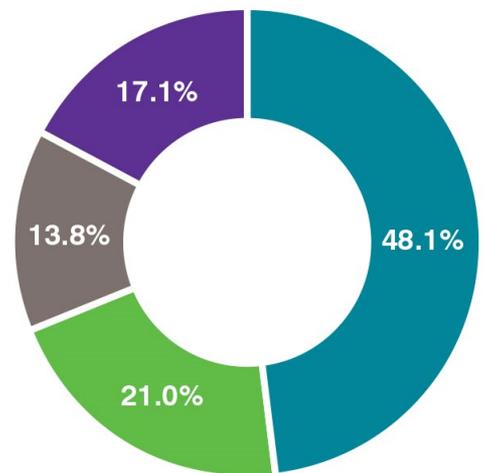


Rank	Company	% of Portfolio
11	James Hardie Industries*	2.7%
12	Australia and New Zealand Banking Group	2.5%
13	Rio Tinto	2.2%
14	Telstra Corporation*	2.2%
15	Sydney Airport	2.2%
16	Amcor	2.2%
17	ARB Corporation	1.9%
18	ResMed	1.8%
19	Sonic Healthcare	1.7%
20	Goodman Group	1.6%

* Options were outstanding against part of the holding.

Top 30 holdings – 31 August 2021 continued

Total Portfolio 64 Holdings



● Top 10 ● Next 11 to 20
● Next 21 to 30 ● Remainder

Rank	Company	% of Portfolio
21	Carsales.com	1.6%
22	Reece	1.6%
23	Coles Group	1.6%
24	Ramsay Health Care	1.4%
25	Xero	1.3%
26	ASX	1.3%
27	Fisher & Paykel Healthcare Corporation	1.3%
28	Seek	1.3%
29	IRESS	1.2%
30	Brambles	1.2%



Closing Comments

Outlook

- 🕒 We are mindful of:
 - China growth slowing.
 - Inflationary environment and potential end of rate easing cycle.
 - Company dividends recovering.

- 🕒 Outlook for earnings growth remains solid, companies with international earnings relatively better positioned to deliver.

- 🕒 Holding a diversified portfolio of quality companies remains appropriate.

International Portfolio

- 🌐 Invested a small amount (\$47m/50bps) in International companies in May 2021.
- 🌐 Portfolio holdings in 39 companies.
- 🌐 Performance so far has been encouraging.
- 🌐 Applying the AFIC way of investing to International companies.
- 🌐 Looking to build a consistent track record.

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