



Half-Year Review to  
31 December 2014

EXPERIENCE  
INCOME  
GROWTH

**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

The Company's primary investment goals are:

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

## CONTENTS

- 1 Half-Year in Summary
- 2 Review of Operations and Activities
- 10 Top 25 Investments
- 11 Income Statement
- 12 Balance Sheet
- 13 Summarised Statement of Changes in Equity
- 14 Holdings of Securities
- 18 Major Transactions in the Investment Portfolio

- 19 Major Transactions in the Trading Portfolio
- 20 Company Particulars
- 21 Shareholder Meetings

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

# HALF-YEAR IN SUMMARY

---

## PROFIT FOR THE HALF-YEAR

---

**\$132.0m**

---

Down 3.7% from 2013

---

---

## TOTAL 6 MONTH SHAREHOLDER RETURN

---

**+0.1%**

---

Share price plus dividend

---

---

## FULLY FRANKED INTERIM DIVIDEND

---

**9.0¢**

---

+1 cent per share

---

---

## MANAGEMENT EXPENSE RATIO

---

**0.17%** Annualised

---

0.18% last year

---

---

## TOTAL 6 MONTH PORTFOLIO RETURN

---

**+1.5%**

---

S&P/ASX 200 Accumulation Index +2.5%

---

---

## TOTAL PORTFOLIO

---

**\$6.5b**  
Including cash at 31.12.14

---

\$6.3 billion in 2013

---

# REVIEW OF OPERATIONS AND ACTIVITIES

## Profit and Dividend

Profit for the half-year was \$132.0 million. The corresponding period's profit figure last year of \$137.0 million included demerger dividends of \$11.0 million received from Amcor and Brambles. Excluding these one-off dividends profit was up 4.7 per cent.

As foreshadowed in the announcement of the financial year result to 30 June 2014, the Board has increased the interim dividend by 1 cent a share to 9 cents per share fully franked.

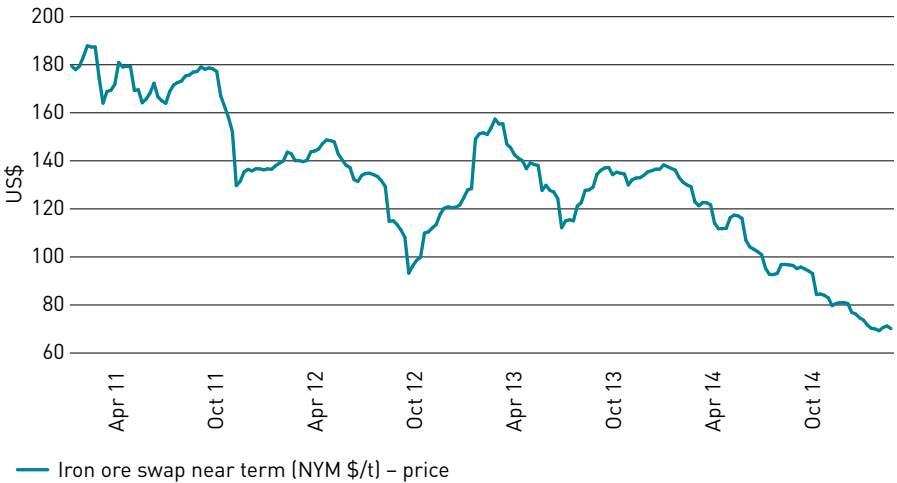
## Portfolio

Despite a promising start to the financial year, the market was significantly impacted by the fall in iron ore and oil prices as well the increased nervousness about global economic conditions outside of the United States.

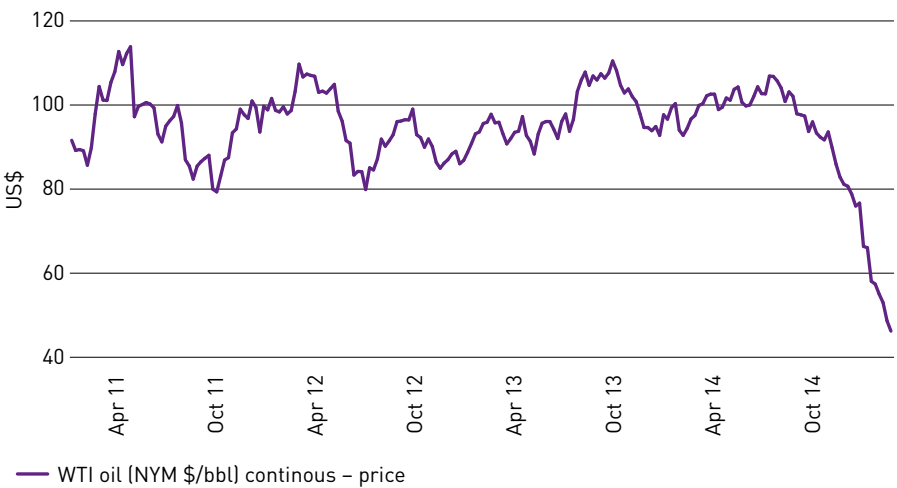




**Figure 1: Iron ore price**



**Figure 2: Oil price**



Source: FactSet.

# REVIEW OF OPERATIONS AND ACTIVITIES

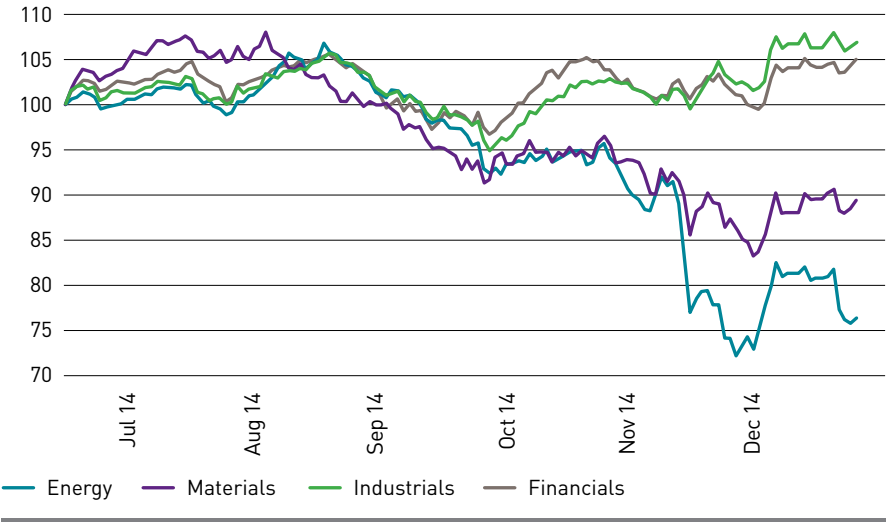
continued

Figure 3 highlights the impact of the fall in oil and iron ore prices on the performance of these sectors relative to other major sectors in the market over the six months to 31 December 2014.

AFIC's portfolio has not been immune from this, but as a long term investor we remain confident the portfolio is well positioned in quality companies with strong balance sheets.

The portfolio return for the six months was 1.5 per cent with strong contributions from Commonwealth Bank, Telstra, Amcor and Transurban offset by the performance of resource and energy companies such as BHP Billiton, Santos and Oil Search. The S&P/ASX 200 Accumulation Index over this period was up 2.5 per cent, although the Resources Accumulation Index (combined energy and material sectors) was down 15.1 per cent. The 12 month return for AFIC was 4.2 per cent versus the S&P/ASX 200 Accumulation Index return of 5.6 per cent.

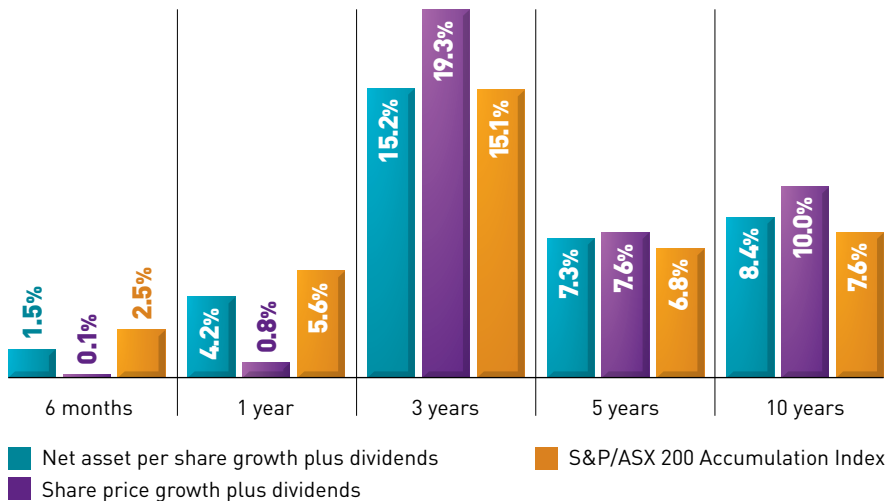
**Figure 3: Major sector returns – six months to 31 December 2014**



Consistent with its approach as a long term investor, the 10 year return to 31 December 2014 for AFIC was 8.4 per cent versus the index return of 7.6 per cent. AFIC's performance numbers are after expenses and tax paid whereas the index does not have expenses or tax.

AFIC continued to grow the diversity of the portfolio with new additions through Initial Public Offerings (IPOs) such as Regis Healthcare, Healthscope, Ashley Services Group and the purchase of a holding in Cover-More Group. Major additions to existing holdings were CSL, AGL Energy via its capital raising and Asciano.

**Figure 4: Portfolio and share price performance to 31 December 2014\***



Note: AFIC's net asset per share growth plus dividend series is calculated after management fees, income tax and capital gains tax on realised sales of investments. It should be noted that index returns for the market do not include management expenses or tax.

This chart does not include the benefit of franking credits attached to dividends paid by AFIC and any listed investment company capital gain distributions made.

\* All figures are annualised other than six month returns.

# REVIEW OF OPERATIONS AND ACTIVITIES

## continued

Details of major new additions to the portfolio are:

- **Regis Healthcare** is one of the largest and most geographically diversified private Australian residential aged care providers, operating a large portfolio of high quality aged care facilities. Regis was formed in the early 1990s and listed on the Australian Securities Exchange (ASX) in October 2014.
- **Healthscope** is one of Australia's leading private healthcare operators, providing services through three divisions: hospitals, pathology and medical centres. Formed in 1985, the Healthscope Group has a long history in the private healthcare industry, and was initially listed on the ASX in 1994. In October 2010 the Healthscope business was acquired by a consortium of private equity funds and was relisted on the ASX in July 2014.
- **Ashley Services Group** is a diversified company operating in the training, recruitment and labour hire industries within Australia. Its training business is one of Australia's largest non-government Vocational Education and Training (VET) providers and its labour hire business is a leading provider to the warehouse and logistics industries. Ashley Services Group listed in August 2014.

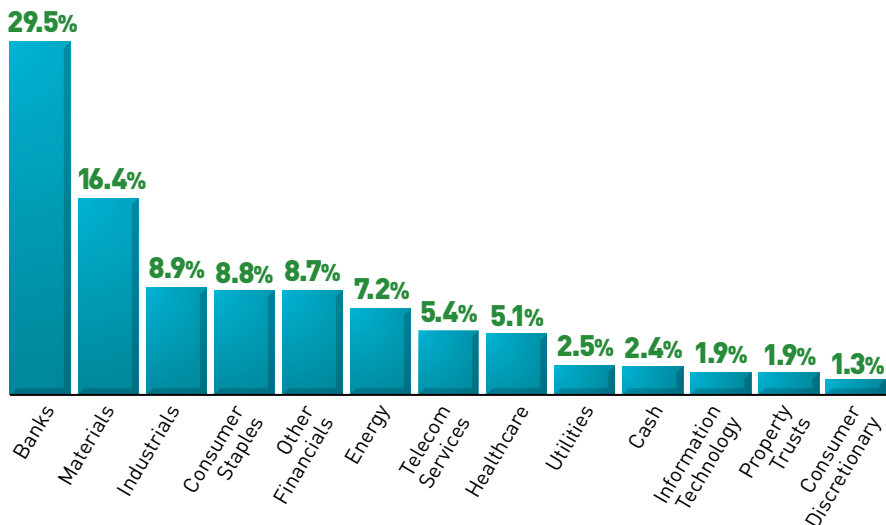
- **Cover-More Group** is a specialist and integrated travel insurance and medical assistance provider. The company holds the leading market position in Australia with over 40 per cent market share through 25,000 active agents. It is also steadily growing its footprint in Asia. Cover-More Group was established in 1986 and listed on the ASX in December 2013.

The Company operates a relatively small buy and write portfolio within the investment portfolio where stocks are purchased with the specific intent of selling call options against these holdings. This activity is intended to generate additional income. There may also be realised gains if the options are exercised and sold at a profit. Given the strong rise in their respective share prices during the six month period, call options were exercised in Telstra, Transurban, Suncorp, CSL and Insurance Australia Group.

AFIC presently has a portfolio comprising 96 companies, up from 88 companies at 30 June 2014. Figure 5 highlights the profile of the portfolio by the various sectors of the market at the end of the calendar year. In comparison to December last year, the major changes have been in healthcare (up from 3.2 per cent last year), telecommunication services (up from 4.7 per cent last year), materials (down from 19.0 per cent last year) and energy (down from 8.9 per cent last year).



**Figure 5: Investment by sector as at 31 December 2014**



## Outlook

The Australian equities market in our view is currently a challenging place to invest. Stocks with high dividend yields and/or a reliable earnings outlook such as in healthcare, telecommunication services and infrastructure have enjoyed strong share price growth. Also, companies with exposure to US dollar earnings have risen as the US dollar has strengthened.

The resources and energy sectors have been hard hit. Whilst value may well be starting to emerge in these sectors and related service companies as investors have retreated from these areas, we are still cautious about adding to existing holdings.

For AFIC's portfolio we remain comfortable with our major holdings in the energy sector given the long term nature of the projects and the relatively low cost of their

# REVIEW OF OPERATIONS AND ACTIVITIES

## continued

operations. Notwithstanding the different challenges each face in the short term, each should produce good cash flows over the long term as the supply/demand balance for energy markets improves.

A similar approach is relevant for our holdings in the resources sector. AFIC's exposure here is primarily through BHP Billiton and Rio Tinto. Both of these companies are relatively low cost producers of iron ore. In this context, we consider them to be well placed to generate sound returns, particularly given their strong balance sheets.

For the broader market the fall in the Australian dollar, the benefits to consumers of a lower oil price and continuation of low interest rates may provide support. However, these factors could take some time to be reflected in corporate earnings and confidence.

As long term investors we can afford to be patient. We currently have cash of \$154 million to invest. The choppy markets we have been experiencing inevitably provide opportunities to acquire sound companies at attractive prices as other investors react to short term conditions. From time to time there are also opportunities from the active market in new companies seeking to be publicly listed.



# TOP 25 INVESTMENTS

As at 31 December 2014

Includes investments held in both the investment and trading portfolios.

## Valued at closing prices at 31 December 2014

	Total Value \$ Million	% of Portfolio
1 Commonwealth Bank of Australia	726.6	11.4
2 Westpac Banking Corporation	604.7	9.5
3 BHP Billiton*	416.2	6.6
4 National Australia Bank*	317.2	5.0
5 Telstra Corporation*	314.2	4.9
6 Wesfarmers	309.7	4.9
7 Australia & New Zealand Banking Group	272.4	4.3
8 Rio Tinto	211.8	3.3
9 Woolworths	184.1	2.9
10 Amcor	174.7	2.7
11 Transurban Group	157.3	2.5
12 Oil Search*	132.2	2.1
13 Woodside Petroleum	124.8	2.0
14 Brambles	118.8	1.9
15 AMP	110.6	1.7
16 Computershare	96.2	1.5
17 CSL*	93.4	1.5
18 QBE Insurance Group	92.9	1.5
19 AGL Energy	81.5	1.3
20 Origin Energy	81.2	1.3
21 Ramsay Health Care	77.7	1.2
22 APA Group	77.0	1.2
23 Incitec Pivot	70.3	1.1
24 Santos	66.3	1.0
25 Milton Corporation	64.5	1.0
<b>Total</b>	<b>4,976.2</b>	
As a percentage of total portfolio value (excludes cash)		78.3%

\* Indicates that options were outstanding against part of the holding.

# INCOME STATEMENT

For the half-year ended 31 December 2014

	Half-Year 2014 \$'000	Half-Year 2013 \$'000
Dividends and distributions	142,273	144,980
Revenue from deposits and bank bills	1,632	3,331
Other revenue	16	4
Net gains on trading portfolio and non-equity investments	5,747	5,621
<b>Income from operating activities</b>	<b>149,668</b>	<b>153,936</b>
Finance costs	(8,491)	(10,591)
Administration expenses	(5,444)	(5,131)
<b>Profit before income tax expense</b>	<b>135,733</b>	<b>138,214</b>
Income tax expense	(3,743)	(1,179)
<b>Profit for the half-year</b>	<b>131,990</b>	<b>137,035</b>
	<b>Cents</b>	<b>Cents</b>
<b>Earnings per share</b>	<b>12.35</b>	<b>13.16</b>

# BALANCE SHEET

As at 31 December 2014

	31 Dec 2014 \$'000	30 June 2014 \$'000
<b>Current assets</b>		
Cash	154,438	69,084
Receivables	10,808	65,758
Trading portfolio	2,401	-
<b>Total current assets</b>	<b>167,647</b>	<b>134,842</b>
<b>Non-current assets</b>		
Fixtures and fittings	10	76
Investment portfolio	6,350,200	6,326,268
Deferred tax assets	1,414	864
<b>Total non-current assets</b>	<b>6,351,624</b>	<b>6,327,208</b>
<b>Total assets</b>	<b>6,519,271</b>	<b>6,462,050</b>
<b>Current liabilities</b>		
Payables	5,241	6,128
Tax payable	9,419	13,419
Borrowings	-	100,000
Provisions	1,878	1,980
Trading portfolio (options)	-	2,598
Interest rate hedging contracts	-	281
<b>Total current liabilities</b>	<b>16,538</b>	<b>124,406</b>
<b>Non-current liabilities</b>		
Provisions	1,770	1,704
Convertible notes	202,669	203,779
Deferred tax liabilities – investment portfolio	935,322	948,009
<b>Total non-current liabilities</b>	<b>1,139,761</b>	<b>1,153,492</b>
<b>Total liabilities</b>	<b>1,156,299</b>	<b>1,277,898</b>
<b>Net assets</b>	<b>5,362,972</b>	<b>5,184,152</b>
<b>Shareholders' equity</b>		
Share capital	2,280,318	2,064,986
Revaluation reserve	2,219,755	2,253,053
Realised capital gains reserve	327,234	317,624
General reserve	23,637	23,637
Interest rate hedging reserve	-	(281)
Retained profits	512,028	525,133
<b>Total shareholders' equity (including minority interests)</b>	<b>5,362,972</b>	<b>5,184,152</b>



# SUMMARISED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2014

	Half-Year 2014 \$'000	Half-Year 2013 \$'000
Total equity at the beginning of the half-year	5,184,152	4,626,692
Dividends paid	(145,077)	(143,800)
Dividend Reinvestment Plan/convertible notes	31,107	29,237
Share Purchase Plan	184,671	-
Other share capital adjustments	(446)	44
<b>Total transactions with shareholders</b>	<b>70,255</b>	<b>(114,519)</b>
Profit for the half-year	131,990	137,035
Revaluation of investment portfolio	(33,007)	621,690
Provision for tax on revaluation	9,301	(187,006)
Revaluation of investment portfolio (after tax)	(23,706)	434,684
Net movement in fair value for interest rate swaps	281	600
<b>Total comprehensive income for the half-year</b>	<b>108,565</b>	<b>572,319</b>
Realised gains on securities sold	13,003	10,083
Tax (expense)/credit on realised gains on securities sold	(3,393)	407
<b>Net realised gains on securities sold</b>	<b>9,610</b>	<b>10,490</b>
Transfer from revaluation reserve to realised gains reserve	(9,610)	(10,490)
<b>Total equity at the end of the half-year</b>	<b>5,362,972</b>	<b>5,084,492</b>

A full set of AFIC's final accounts are available on the Company's website.

# HOLDINGS OF SECURITIES

As at 31 December 2014

Individual investments for the combined investment and trading portfolios as at 31 December 2014 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website [afi.com.au](http://afi.com.au)

Individual holdings in the portfolios may change during the course of the year. In addition, holdings which are part of the trading portfolio may be subject to call options or sale commitments, by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
AGL	AGL Energy	6,100	81,493
AHD	Amalgamated Holdings	1,030	11,044
AIA	Auckland International Airport	1,170	4,809
AIO*	Asciano	3,555	21,275
ALQ	ALS	4,942	26,541
AMC	Amcor	12,864	174,695
AMP	AMP	20,100	110,552
ANN	Ansell	1,284	28,913
ANZ	Australia & New Zealand Banking Group	8,488	272,371
APA	APA Group	10,340	77,033
APE	AP Eagers	325	1,942
ARP	ARB Corporation	948	10,780
ASH	Ashley Services Group	4,819	7,663
ASX*	ASX	550	20,138
AWC	Alumina	14,323	25,710
AZJ*	Aurizon Holdings	2,980	13,707
BGA	Bega Cheese	2,203	11,344
BHP*	BHP Billiton	14,171	416,189
BKL	Blackmores	36	1,274
BKN	Bradken	5,500	26,015
BKW	Brickworks	1,503	18,201
BLD	Boral	4,008	21,245
BRU	Buru Energy	3,390	1,475

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
BXB	Brambles	11,174	118,775
CAJ	Capitol Health	8,405	7,144
CBA	Commonwealth Bank of Australia	8,483	726,560
CCL	Coca-Cola Amatil	5,160	48,091
CPU	Computershare	8,156	96,245
CSL*	CSL	1,082	93,409
CSR	CSR	2,492	9,720
CTX*	Caltex Australia	655	22,319
CVO	Cover-More Group	3,287	6,262
CWP	Cedar Woods Properties	4,060	24,361
DJW	Djerriwarrh Investments	8,597	39,630
DLX	DuluxGroup	2,556	14,825
DUI	Diversified United Investment	12,030	40,903
DUIN	Diversified United Investment (New)	1,333	4,411
EQT	Equity Trustees	1,456	28,124
FBU	Fletcher Building	1,115	8,832
FDC*	Federation Centres	1,500	4,232
FLT*	Flight Centre Travel Group	241	7,859
US listed	Twenty-First Century Fox	459	21,550
FPH	Fisher & Paykel Healthcare	1,206	7,140
HSO	Healthscope	3,810	10,362
IAG*	Insurance Australia Group	3,500	21,859
ICQ	iCar Asia	4,155	4,529
ILU	Iluka Resources	2,367	14,084
IPL	Incitec Pivot	22,029	70,273
IPP	iProperty Group	5,326	14,274
IRE	IRESS	2,709	29,018
IVC	InvoCare	1,200	14,520
JHC	Japara Healthcare	8,394	17,293
JHX*	James Hardie Industries	1,230	16,175
LIC	Lifestyle Communities	3,837	7,060
MIR	Mirrabooka Investments	8,728	22,256
MLT	Milton Corporation	14,403	64,525

# HOLDINGS OF SECURITIES continued

As at 31 December 2014

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
MQA*	Macquarie Atlas Roads Group	1,000	3,193
NAB*	National Australia Bank	9,442	317,237
NVN	Novion Property Group	19,000	40,280
ORA	Orora	12,864	25,085
ORG	Origin Energy	6,957	81,193
ORI	Orica	2,712	51,385
OSH*	Oil Search	16,783	132,162
PHG	Pulse Health	7,967	3,426
PPT	Perpetual	1,031	47,739
QBE	QBE Insurance Group	8,290	92,935
QUB*	Qube Holdings	13,760	33,365
REC	Recall Holdings	2,235	16,067
REG	Regis Healthcare	2,466	10,011
RHC	Ramsay Health Care	1,360	77,656
RIO	Rio Tinto	3,652	211,802
RMD	ResMed	2,700	18,738
SAI	SAI Global	2,500	10,000
SCG	Scentre Group	11,437	40,029
SEK*	Seek	1,330	22,848
SHL*	Sonic Healthcare	2,080	38,431
SOL	Washington H Soul Pattinson	1,709	23,373
SRX	Sirtex Medical	220	6,241
STO	Santos	8,037	66,303
SUN*	Suncorp Group	1,516	21,302
SXY	Senex Energy	46,467	14,870

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
SYD	Sydney Airport	6,782	31,943
TCL	Transurban Group	18,335	157,317
TGG	Templeton Global Growth Fund	9,685	13,849
TLS*	Telstra Corporation	52,645	314,212
TOL	Toll Holdings	8,133	47,901
TOX	Tox Free Solutions	10,661	25,374
TPM	TPG Telecom	4,277	28,868
TWE*	Treasury Wine Estates	3,758	17,703
VOC	Vocus Communications	966	6,181
WBC	Westpac Banking Corporation	18,236	604,713
WES	Wesfarmers	7,423	309,669
WFD*	Westfield Corporation	4,599	41,299
WOR	WorleyParsons	310	3,125
WOW	Woolworths	6,000	184,080
WPL	Woodside Petroleum	3,283	124,782
<b>Total</b>			<b>6,337,712</b>

\* Part of the security was subject to call options written by the Company.

Code	Convertible Notes, Preference Shares and Other Interest Bearing Securities	Number Held '000	Market Value \$'000
PPCG	Peet 9.5% Convertible Notes	26	2,756
RHCPA	Ramsay Health Care convertible adjustable rate equity securities	115	12,133
<b>Total</b>			<b>14,889</b>

## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above \$5 Million)	Cost \$'000
CSL	16,612
AGL Energy	11,183
Regis Healthcare	9,000
Healthscope	8,000
Ashley Services Group	8,000
Asciano	7,600
Cover-More Group	7,021
Japara Healthcare	5,043

Disposals (Above \$5 Million)	Proceeds \$'000
Telstra Corporation (from the exercise of call options)	13,900
Transurban Group (from the exercise of call options)	11,171
Suncorp Group (from the exercise of call options)	10,877
Woolworths (\$3.6 million from buy and write portfolio)	10,054
APA Group	9,889
CSL (from the exercise of call options)	9,479
Insurance Australia Group (from the exercise of call options)	5,417



## MAJOR TRANSACTIONS IN THE TRADING PORTFOLIO

	Cost \$'000
Net Acquisitions (Above \$2 Million)	
Diversified United Investment (New)	3,998

# COMPANY PARTICULARS

## **Australian Foundation Investment Company Limited (AFIC)**

ABN 56 004 147 120

AFIC is a listed investment company.  
As such it is an investor in equities  
and similar securities on the stock  
market primarily in Australia.

### **Directors**

Terrence A Campbell AO, Chairman

Ross E Barker, Managing Director

Jacqueline C Hey

Graeme R Liebelt

John Paterson

David A Peever

Fergus D Ryan AO

Catherine M Walter AM

Peter J Williams

### **Company Secretaries**

Simon M Pordage

Andrew JB Porter

### **Auditor**

PricewaterhouseCoopers

Chartered Accountants

### **Country of Incorporation**

Australia

### **Registered Office**

Level 21, 101 Collins Street

Melbourne Victoria 3000

### **Mail Address**

Mail Box 146

101 Collins Street

Melbourne Victoria 3000

### **Contact Details**

**Telephone** (03) 9650 9911

**Facsimile** (03) 9650 9100

**Email** [invest@afi.com.au](mailto:invest@afi.com.au)

**Website** [www.afi.com.au](http://www.afi.com.au)

For enquiries regarding net asset backing  
(as advised each month to the Australian  
Securities Exchange):

**Telephone** 1800 780 784 (toll free)

### **Securities Registrar**

Computershare Investor Services Pty Ltd

Yarra Falls, 452 Johnston Street

Abbotsford Victoria 3067

### **Shareholder**

**Enquiry Lines** 1300 662 270 (Australia)  
0800 333 501 (from New Zealand)  
+61 3 9415 4373 (from overseas)

**Facsimile** (03) 9473 2500

**Website** [www.investorcentre.com.au/contact](http://www.investorcentre.com.au/contact)

### **Share Registrar**

For all enquiries relating to shareholdings,  
dividends and related matters, please contact  
the share registrar in your country.

### **Australian and New Zealand Securities Exchange Codes**

**AFI** Ordinary shares (ASX and NZX)

**AFIG** Unsecured convertible notes (ASX)

# SHAREHOLDER MEETINGS

## Melbourne Meeting

Time 10.00am  
Date Monday 16 March 2015  
Venue RACV City Club  
Location 501 Bourke Street  
Melbourne

## Adelaide Meeting

Time 10.00am  
Date Tuesday 17 March 2015  
Venue Adelaide Festival Centre  
Location King William Road  
Adelaide

## Canberra Meeting

Time 10.00am  
Date Monday 23 March 2015  
Venue Hyatt Hotel Canberra  
Location 120 Commonwealth Avenue  
Yarralumla

## Sydney Meeting

Time 10.00am  
Date Tuesday 24 March 2015  
Venue Four Seasons Hotel  
Location 199 George Street  
Sydney

## Perth Meeting

Time 10.00am  
Date Monday 30 March 2015  
Venue Pan Pacific Perth  
Location 207 Adelaide Terrace  
Perth

