



NZ SHAREHOLDER MEETING AUCKLAND DECEMBER 2016

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

DISCLAIMER

Australian Foundation Investment Company Limited and its subsidiary AICS (AFSL 303209), their related entities and each of their respective directors, officers and agents (together the Disclosers) have prepared the information contained in these materials in good faith. However, no warranty (express or implied) is made as to the accuracy, completeness or reliability of any statements, estimates or opinions or other information contained in these materials (any of which may change without notice) and to the maximum extent permitted by law, the Disclosers disclaim all liability and responsibility (including, without limitation, any liability arising from fault or negligence on the part of any or all of the Disclosers) for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from these materials.

This information has been prepared and provided by AICS. To the extent that it includes any financial product advice, the advice is of a general nature only and does not take into account any individual's objectives, financial situation or particular needs. Before making an investment decision an individual should assess whether it meets their own needs and consult a financial advisor.

INTRODUCTION



SHAREHOLDER MEETING NZ DECEMBER 2016

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

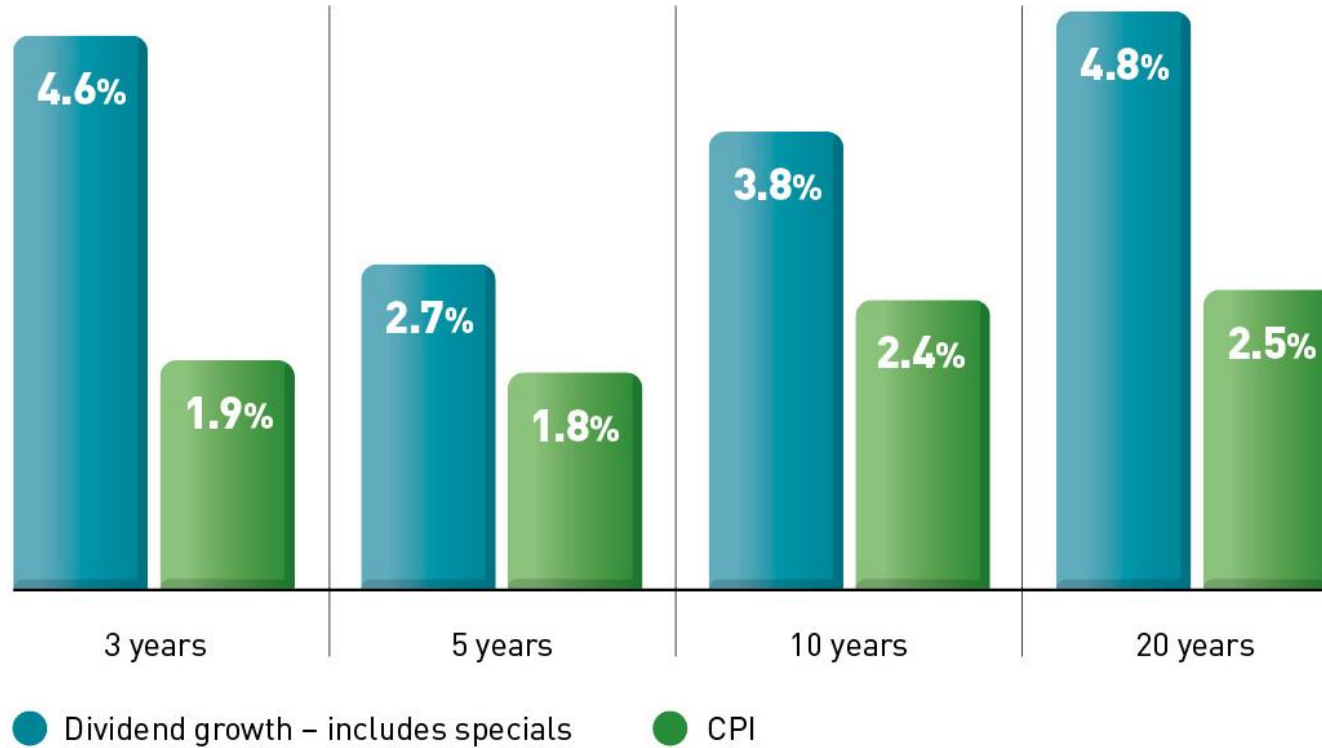
HOW WE INVEST – WHAT WE LOOK FOR IN COMPANIES



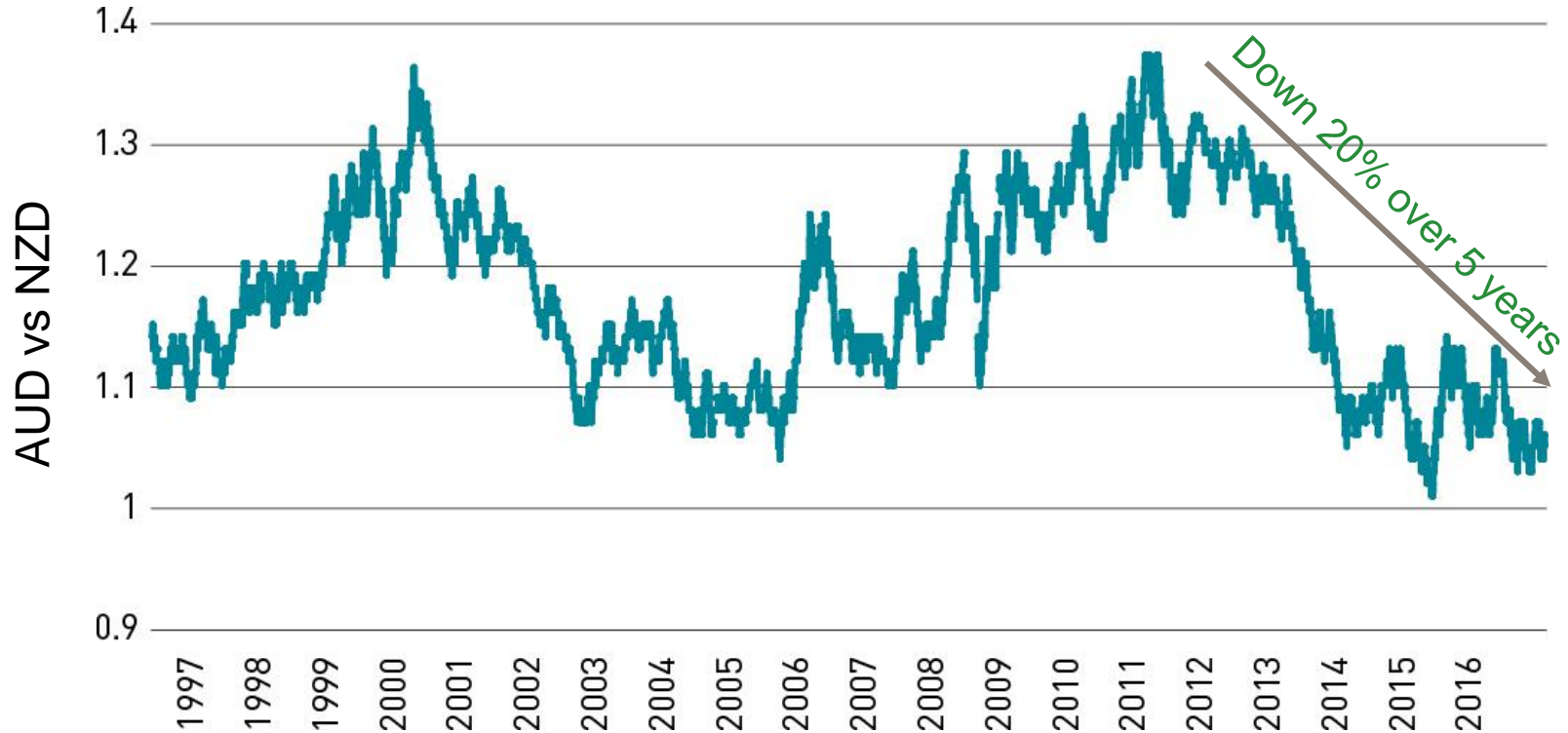
INVESTMENT OBJECTIVES

- ▶ To grow dividends over the medium to long term.
- ▶ To give investors attractive total returns over the medium to long term.

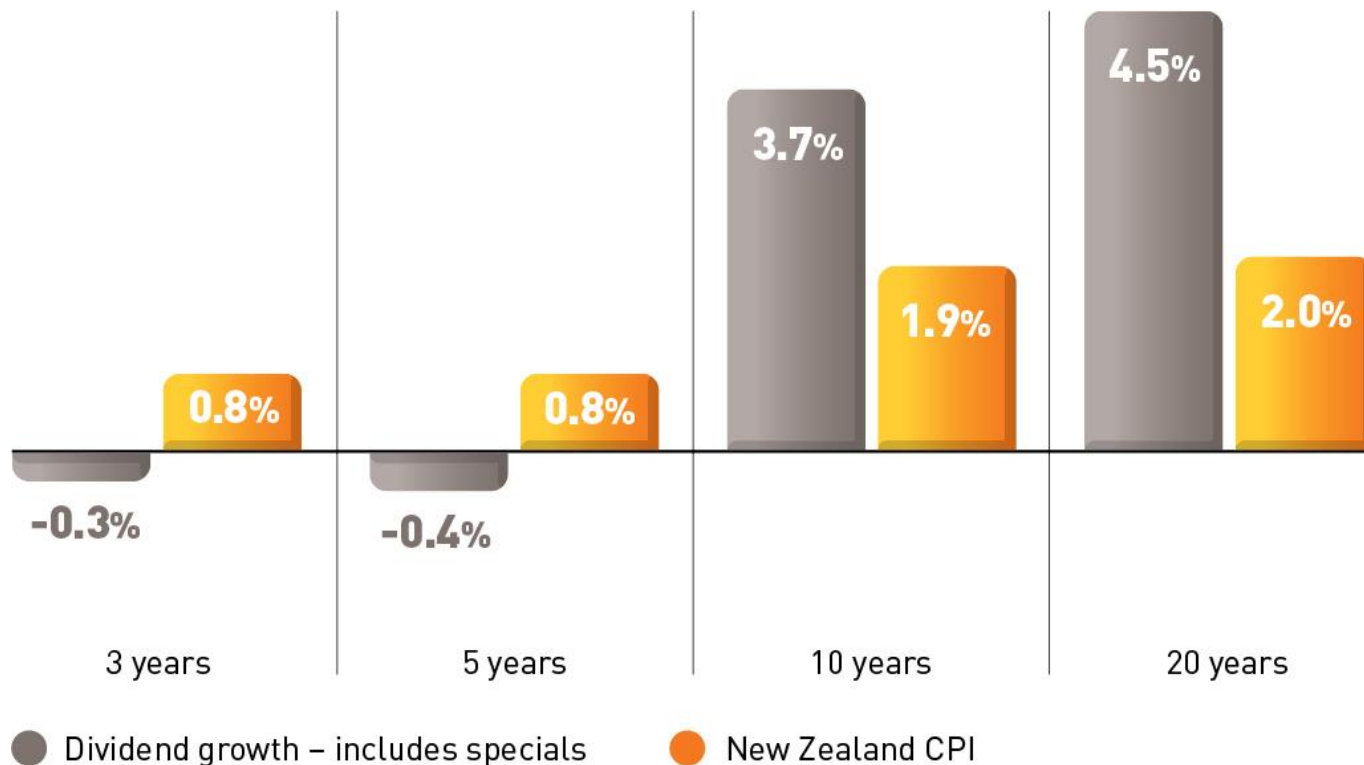
DIVIDENDS (A\$) – COMPOUND GROWTH PER ANNUM



THE AUSTRALIAN DOLLAR HAS FALLEN AGAINST THE NZ DOLLAR OVER RECENT YEARS



DIVIDENDS (NZ\$) – COMPOUND GROWTH PER ANNUM





RESULTS & SHAREHOLDER RETURNS

SHAREHOLDER MEETINGS OCTOBER 2016

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

FULL YEAR FINANCIAL SUMMARY– 30 JUNE 2016

PROFIT FOR THE YEAR

A\$265.8m

▼ Down 9.5% from 2015

FULLY FRANKED DIVIDEND

14.7¢ **25.4¢**
Final Total

▲ Up 0.7 cent (NZ) from 2015

MANAGEMENT EXPENSE RATIO

0.16%

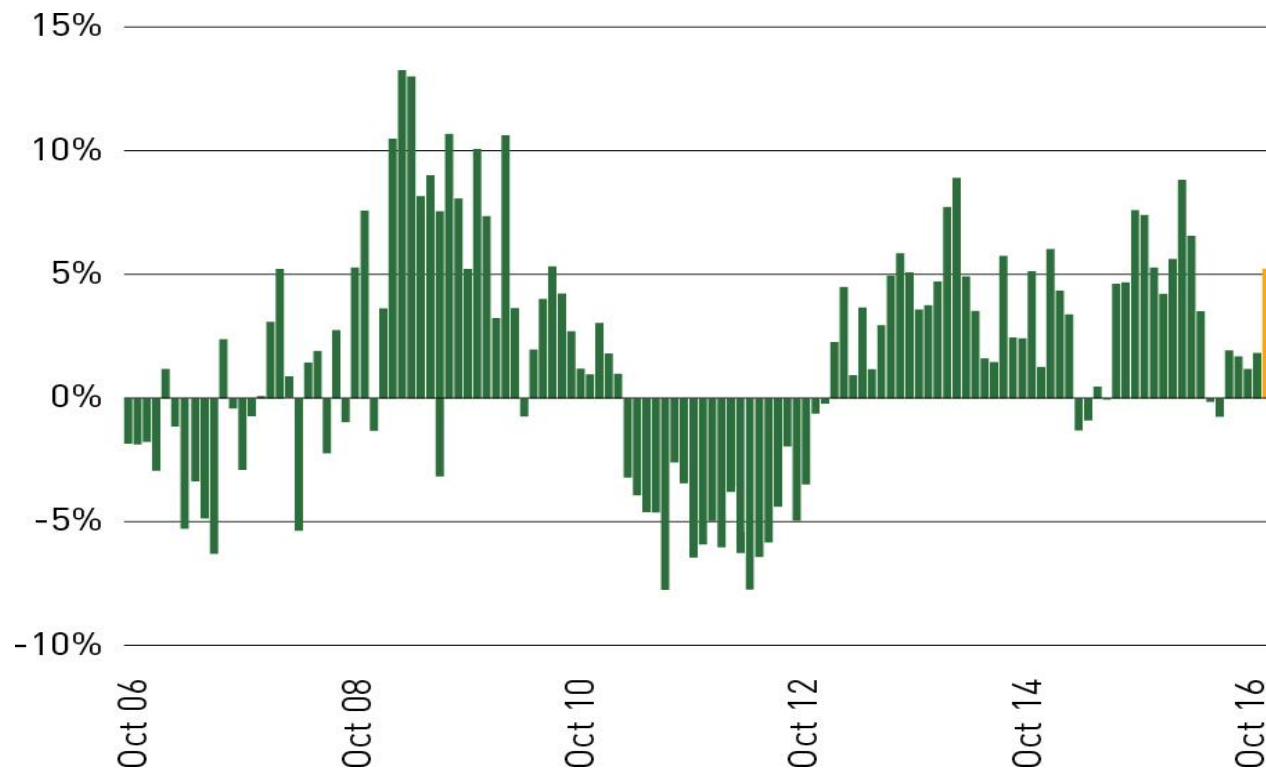
0.16% in 2015

TOTAL PORTFOLIO

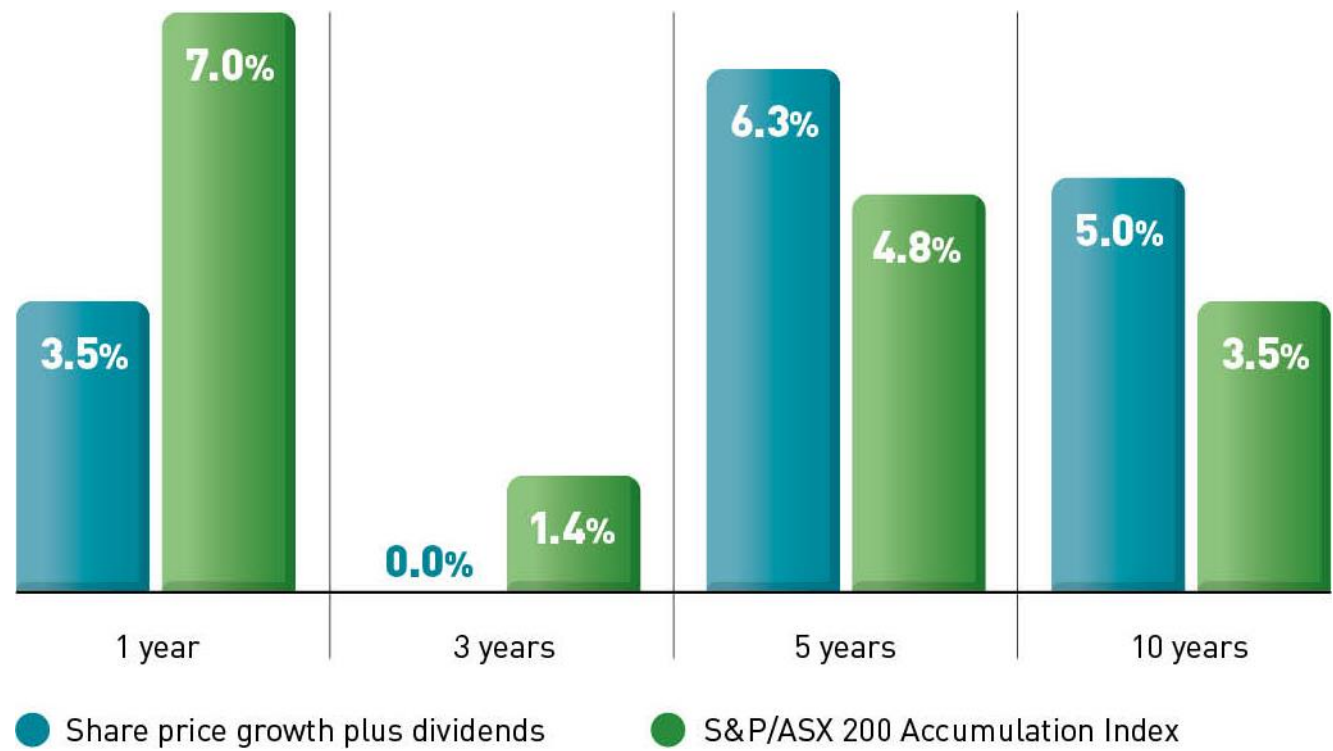
A\$6.4b Including cash at 30 June

A\$6.6 billion in 2015

SHARE PRICE IS AT 5.1% PREMIUM TO NET ASSET BACKING



SHARE PRICE RETURN IN \$NZ –PER ANNUM RETURN TO 31 OCTOBER 2016



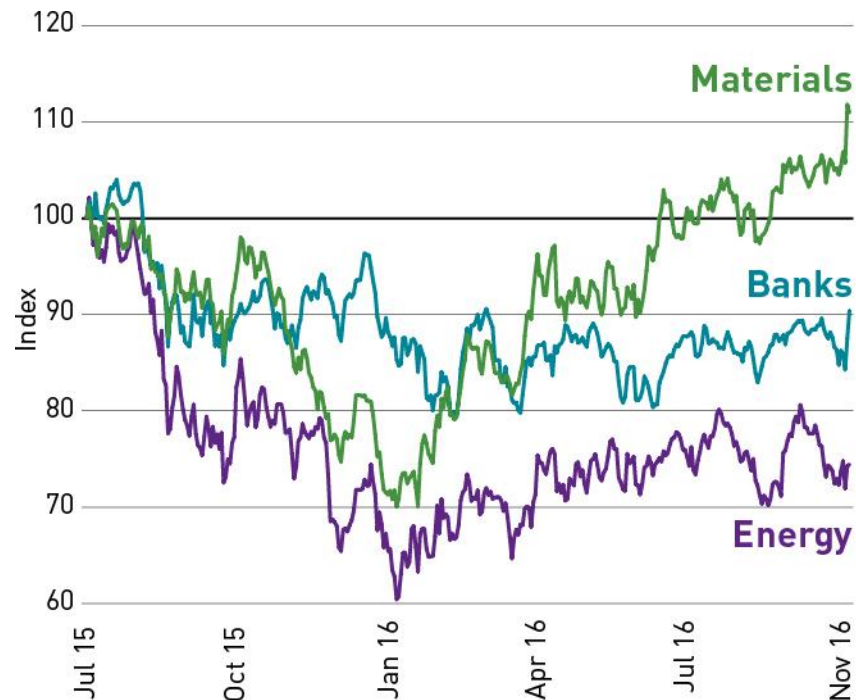
A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are reflected in each other, creating a complex geometric pattern. The sky is visible at the top, and the overall color palette is dominated by blues and greys.

THE MARKET & THE PORTFOLIO

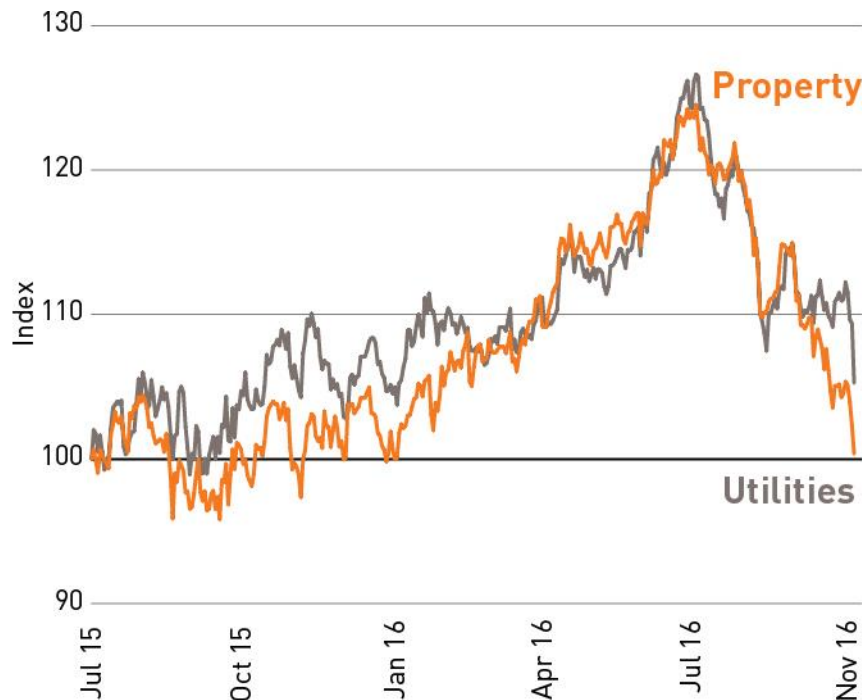
SHAREHOLDER MEETING NZ DECEMBER 2016

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

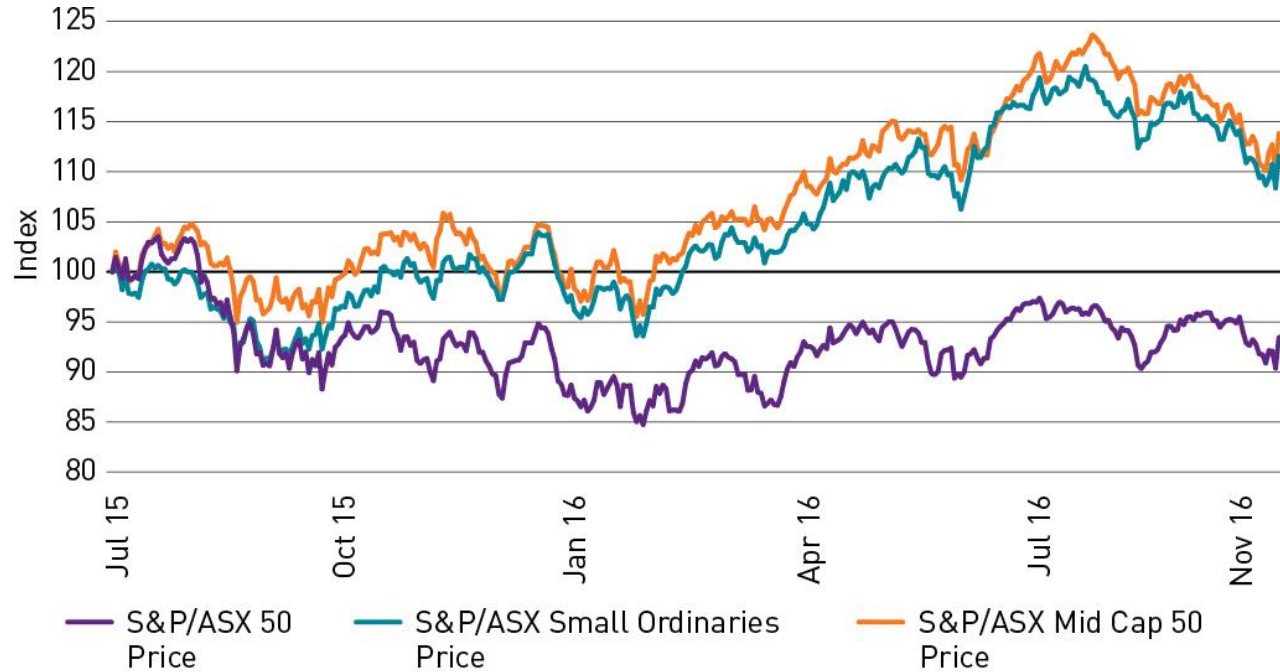
LOW GROWTH AND LOW INTEREST RATES HAVE PRODUCED UNUSUAL MARKET CONDITIONS



Source: FactSet



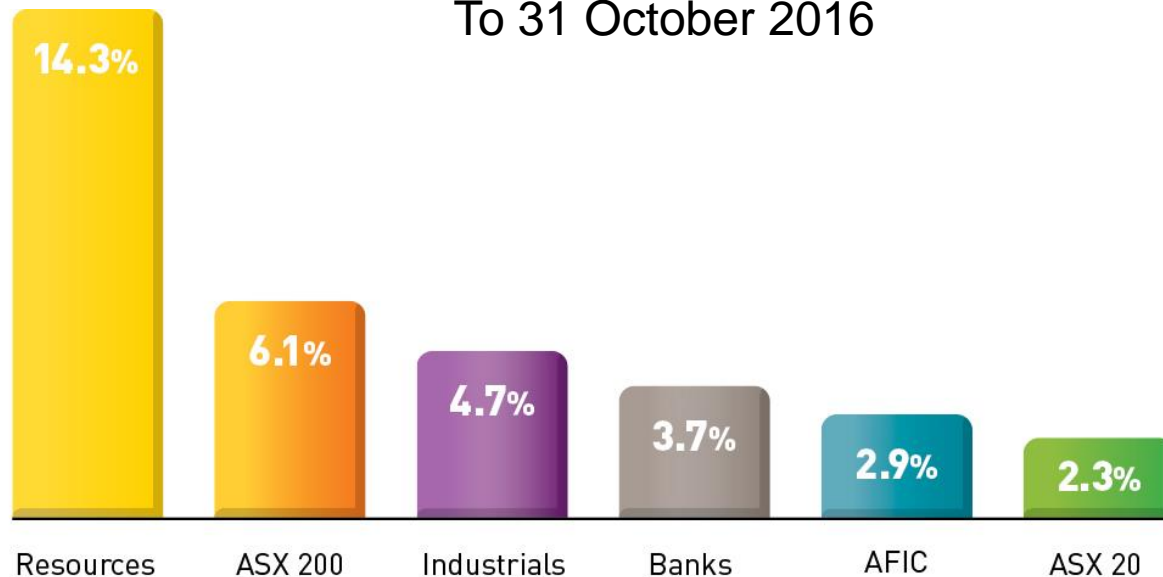
SMALL AND MID CAP COMPANIES SUBSTANTIALLY OUTPERFORMED LARGER COMPANIES OVER THE YEAR



Source: FactSet

ONE YEAR RETURN OF AFIC AND MAJOR SECTORS OF THE MARKET (\$A) – INCLUDES DIVIDENDS

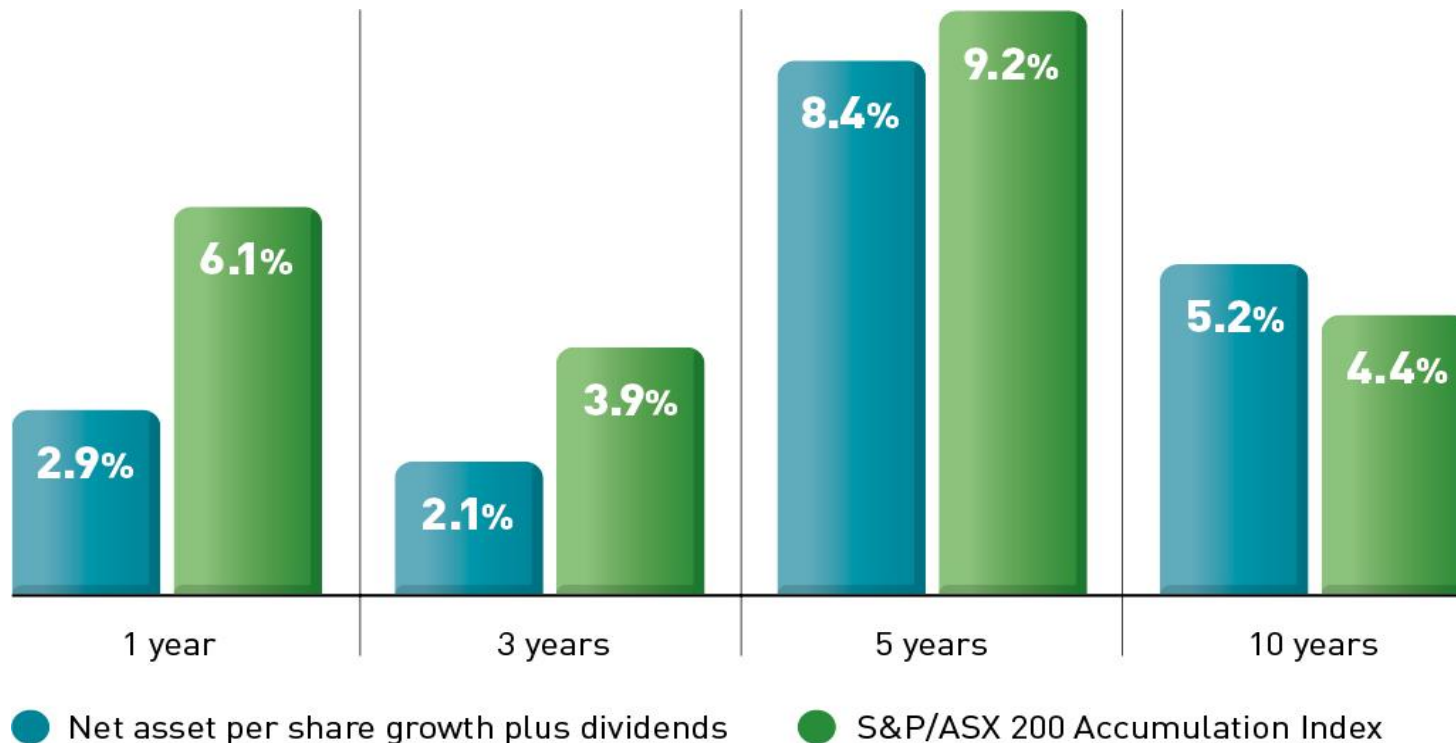
To 31 October 2016



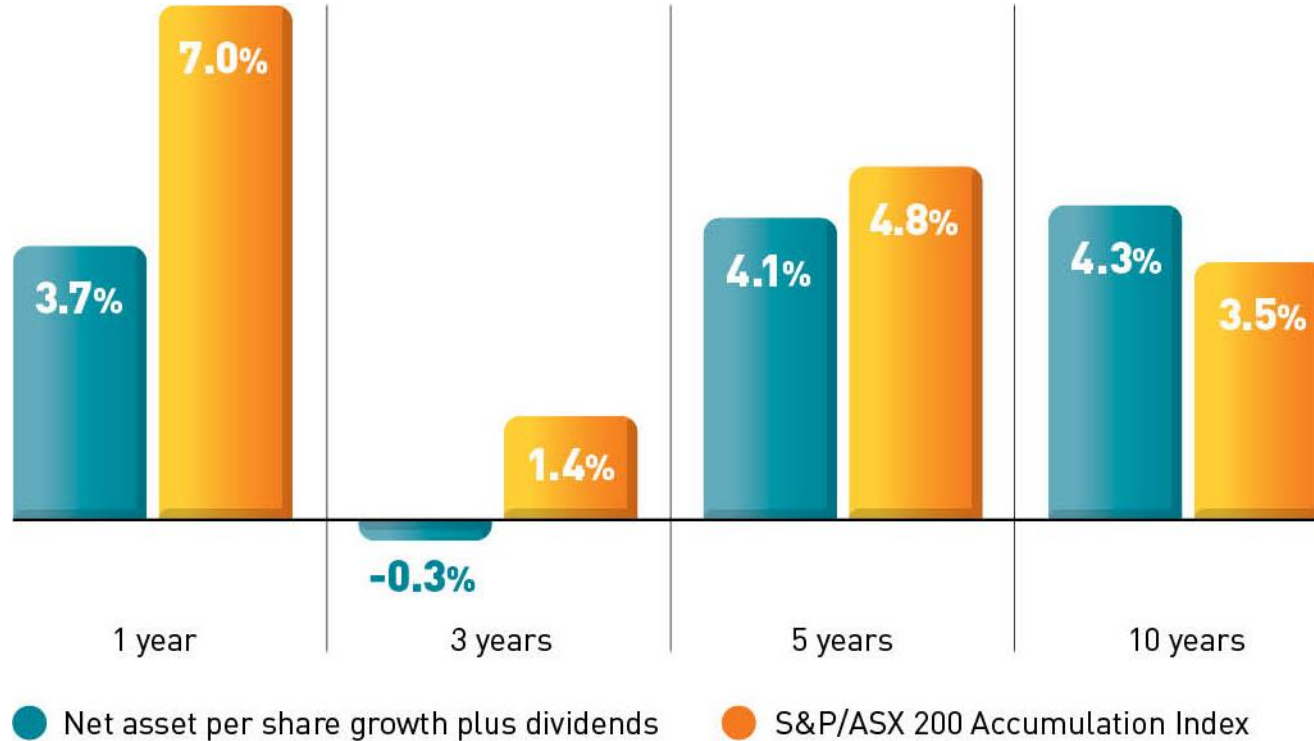
Source: FactSet

The top 20 companies in the index are challenged for growth – we have been changing the profile of the portfolio to reflect this

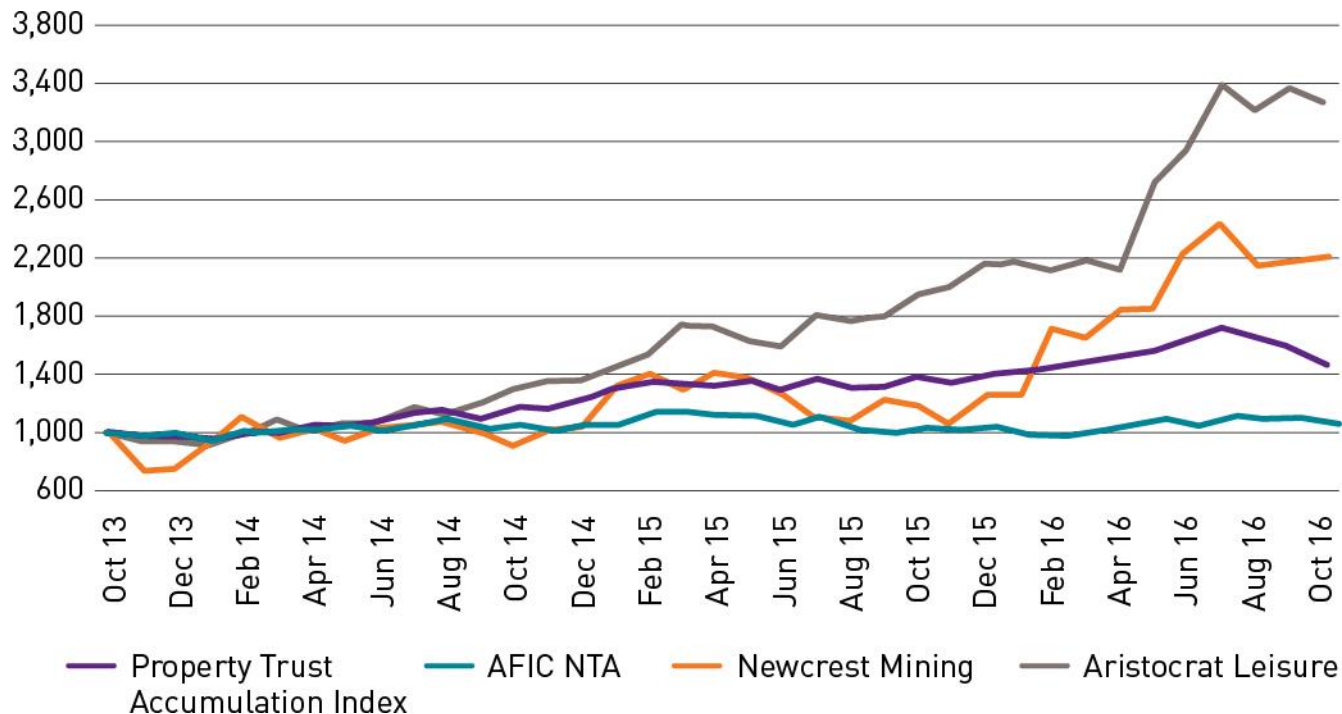
PORTFOLIO PERFORMANCE IN \$A – PER ANNUM RETURN TO 31 OCTOBER 2016



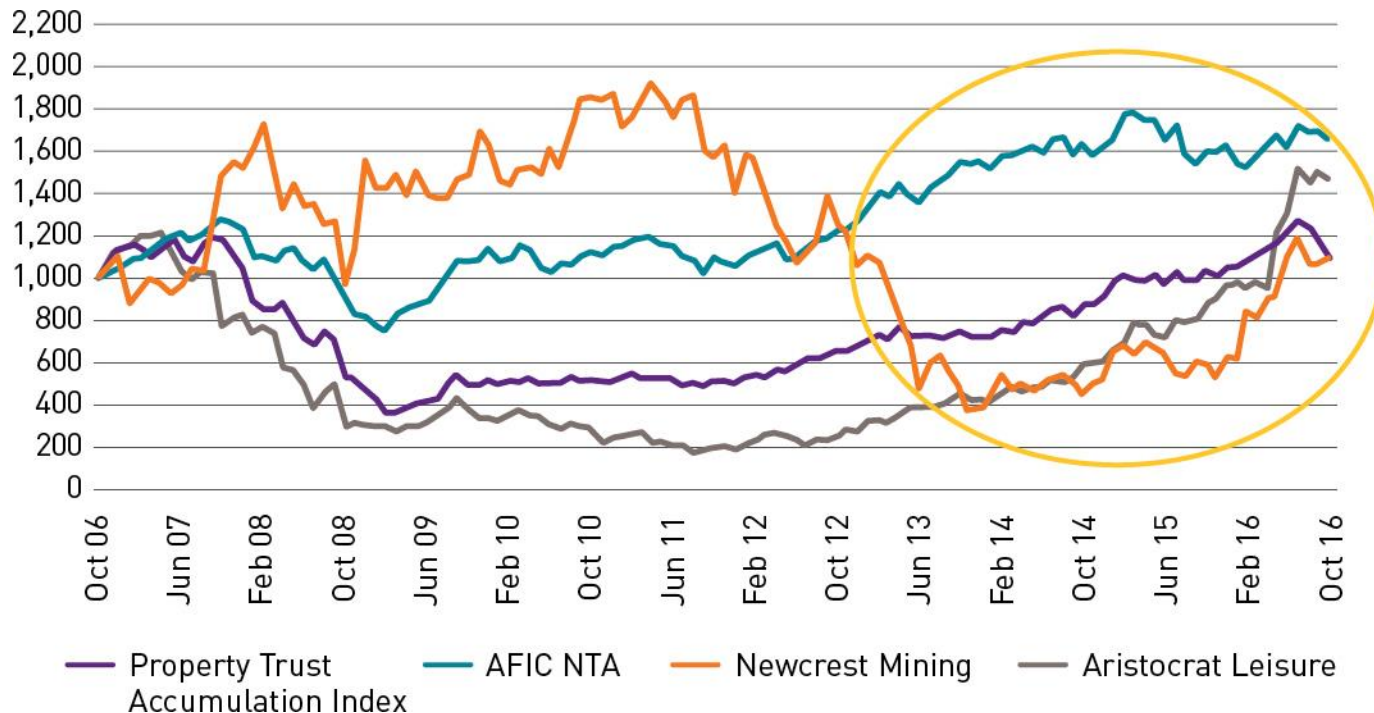
PORTFOLIO PERFORMANCE IN \$NZ – PER ANNUM RETURN TO 31 OCTOBER 2016



AFIC IS NOT A SIGNIFICANT INVESTOR IN PROPERTY TRUSTS GOLD AND GAMBLING SECTORS – THIS CAN SOMETIMES AFFECT PERFORMANCE – 3 YEARS



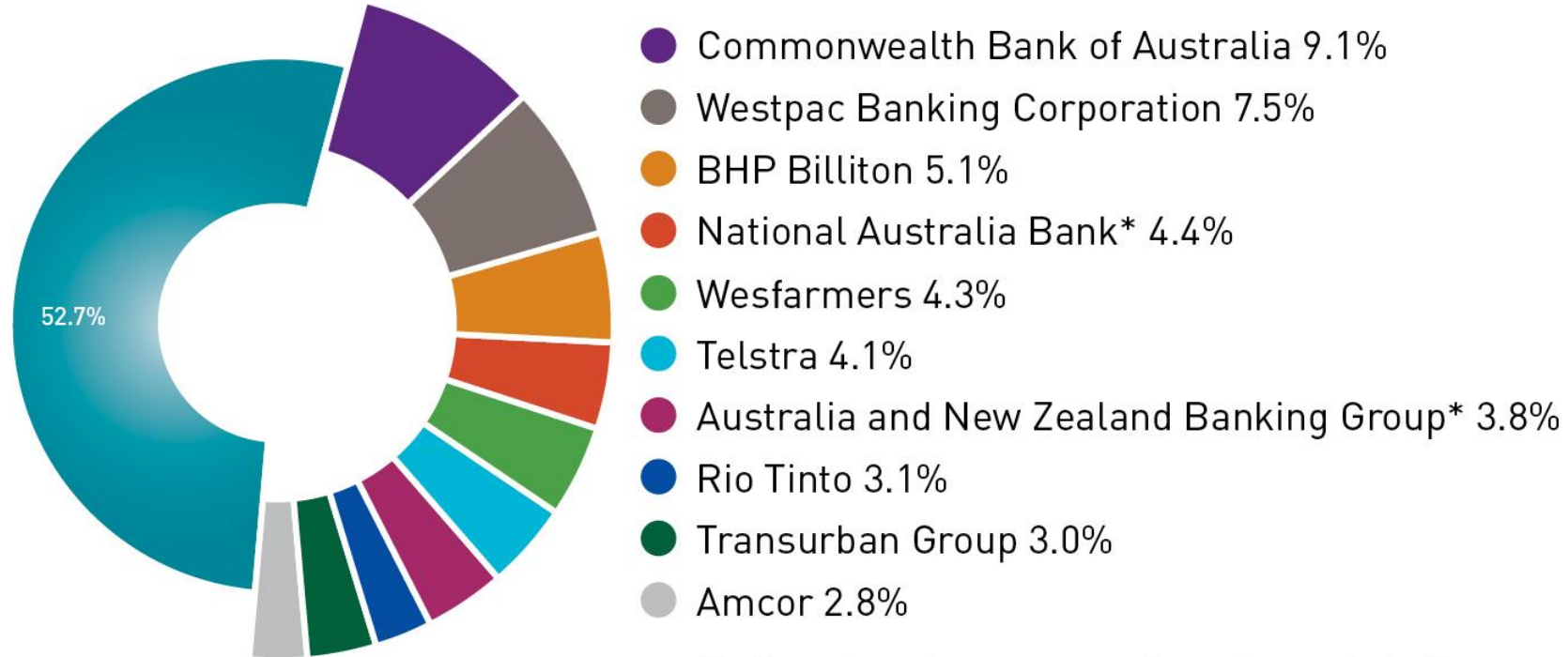
AFIC IS NOT A SIGNIFICANT INVESTOR IN PROPERTY TRUSTS GOLD AND GAMBLING SECTORS – THIS CAN SOMETIMES AFFECT PERFORMANCE – 10 YEARS



WHAT HAVE WE BEEN DOING?

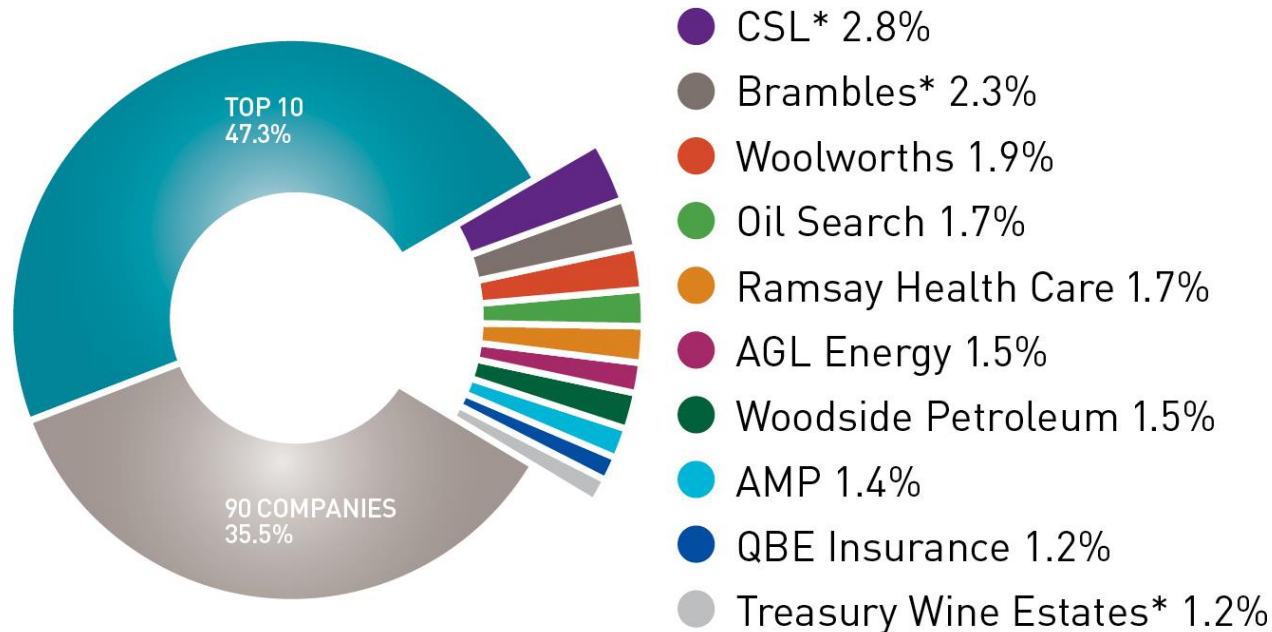
- Marginally reduced exposure to:
 - banks;
 - energy;
 - supermarkets; and
 - selected interest rate sensitive holdings.
- Further adding stocks with better growth outlook.
- Used market volatility to generate income from buy and write portfolio.

PORTFOLIO AT 31 OCTOBER 2016 – TOP 10 HOLDINGS REPRESENT 47.3% OF THE PORTFOLIO



* Indicates that options were outstanding against part the holdings.

PORTFOLIO AT 31 OCTOBER 2016 – NEXT 10 REPRESENT 17.2% OF THE PORTFOLIO



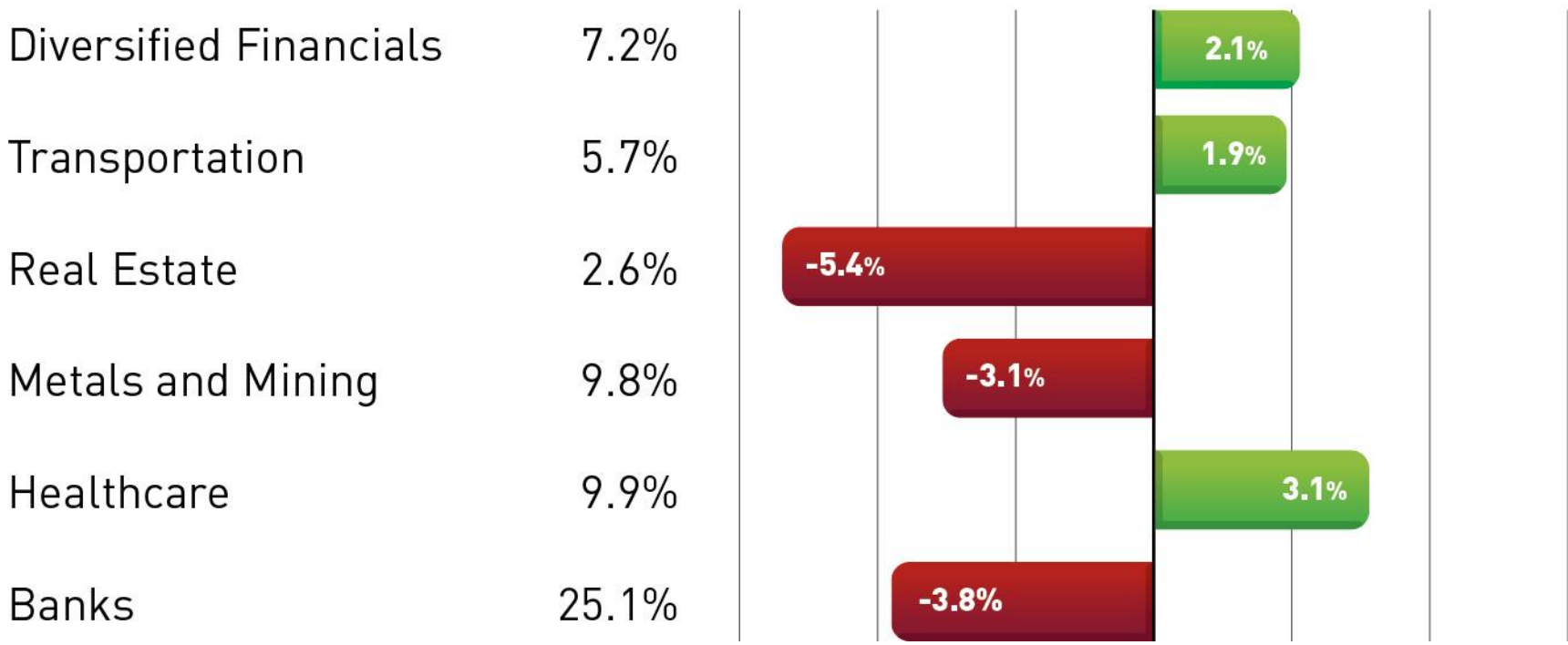
* Indicates that options were outstanding against part the holdings.

AFIC'S PORTFOLIO VS THE ASX 200 INDEX – MAJOR VARIATIONS

Sector

AFIC Exposure

Relative to the Index



MAJOR ADDITIONS TO THE PORTFOLIO OVER THE LAST 3 YEARS

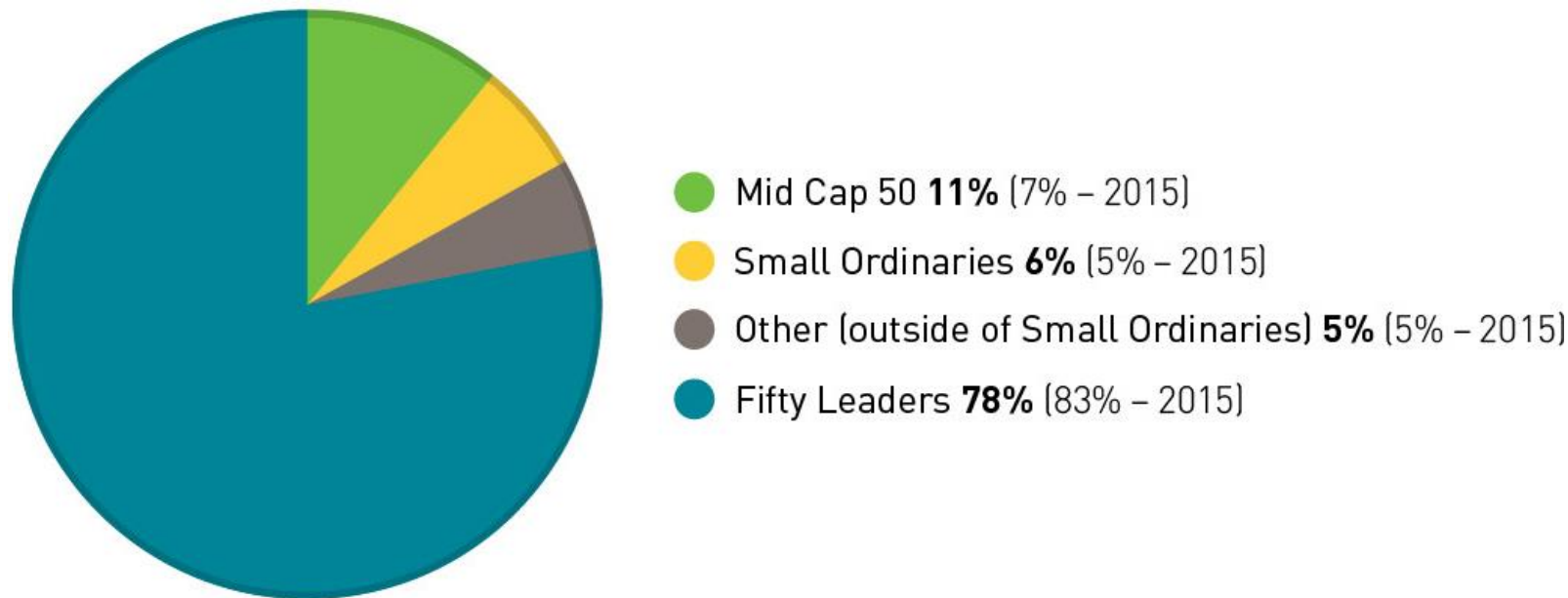


MAJOR ADDITIONS TO THE PORTFOLIO OVER THE LAST 3 YEARS (continued)

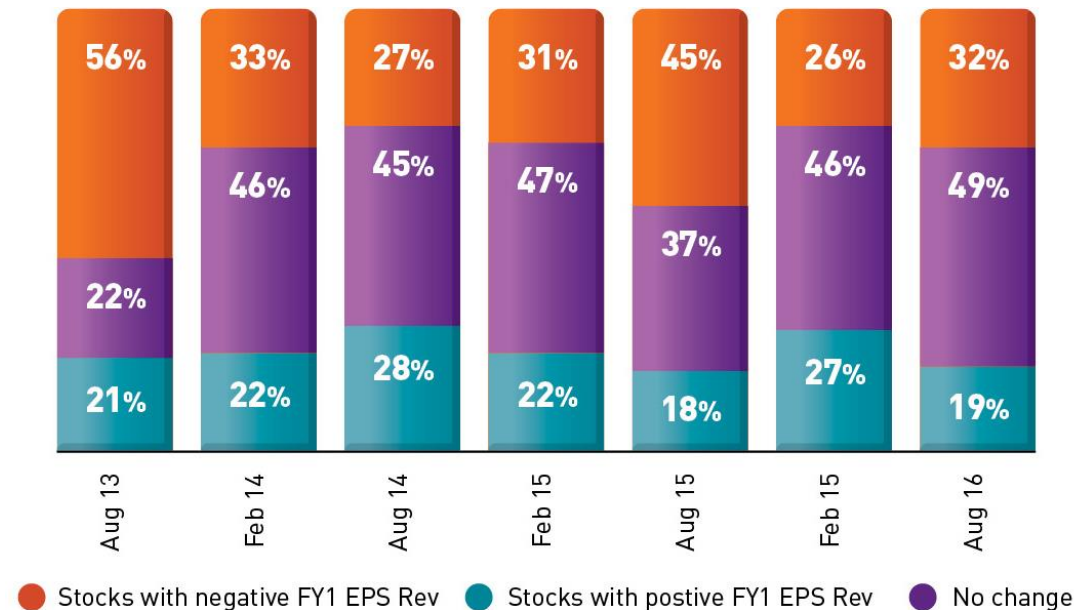
- The addition of these companies have further diversified the portfolio.
- Only A\$170 million was invested in these companies 3 years ago – many are new to the portfolio.
- Currently represent over A\$1bn in value in the portfolio.
- Original cost of all of these companies purchased at various periods over the last 3 years is A\$700m.

SMALL AND MID CAP STOCKS HAVE GONE TO 22% FROM 17% LAST YEAR

31 October 2016



COMMENTS ON THE RECENT REPORTING SEASON



Source: GS Research

- No more bad news than normal but few positive surprises.
- Revenue growth remains subdued.
- Large number of 'one-off' impairments/write offs.
- Dividends reduced, particularly in commodity companies.
- However outside of banks the market is expecting a strong recovery in 2017 earnings.

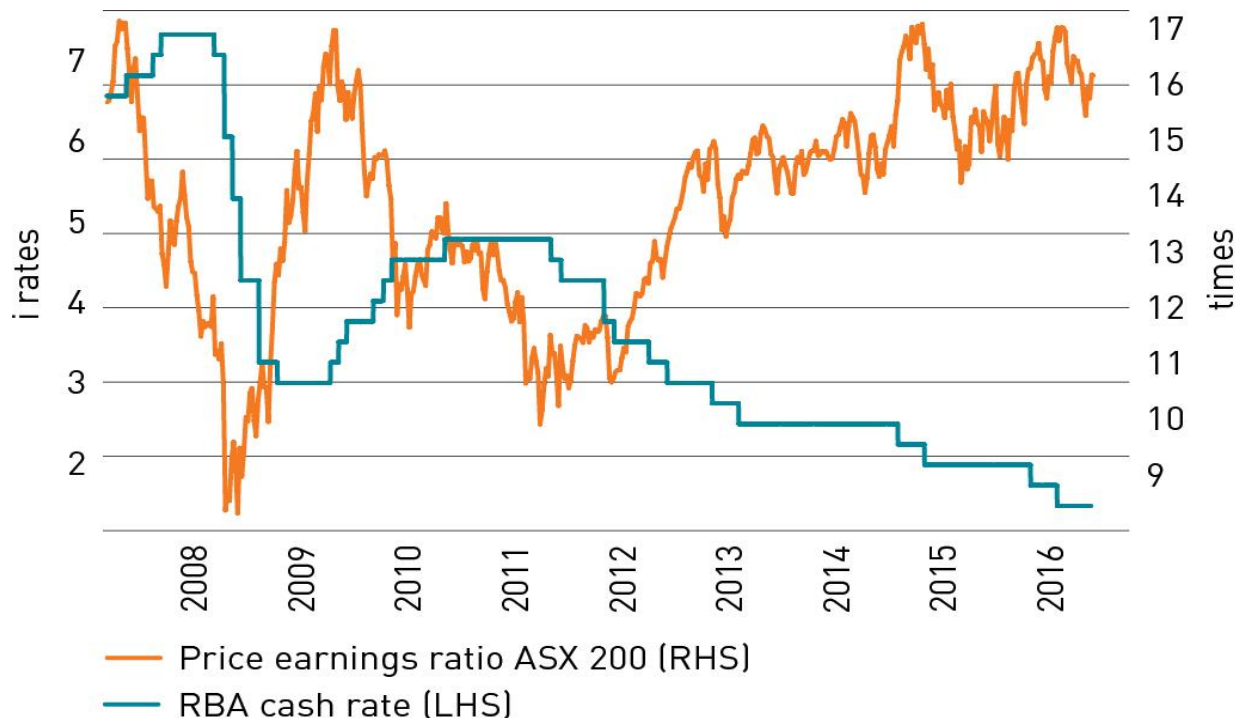


LOOKING AHEAD

SHAREHOLDER MEETING NZ DECEMBER 2016

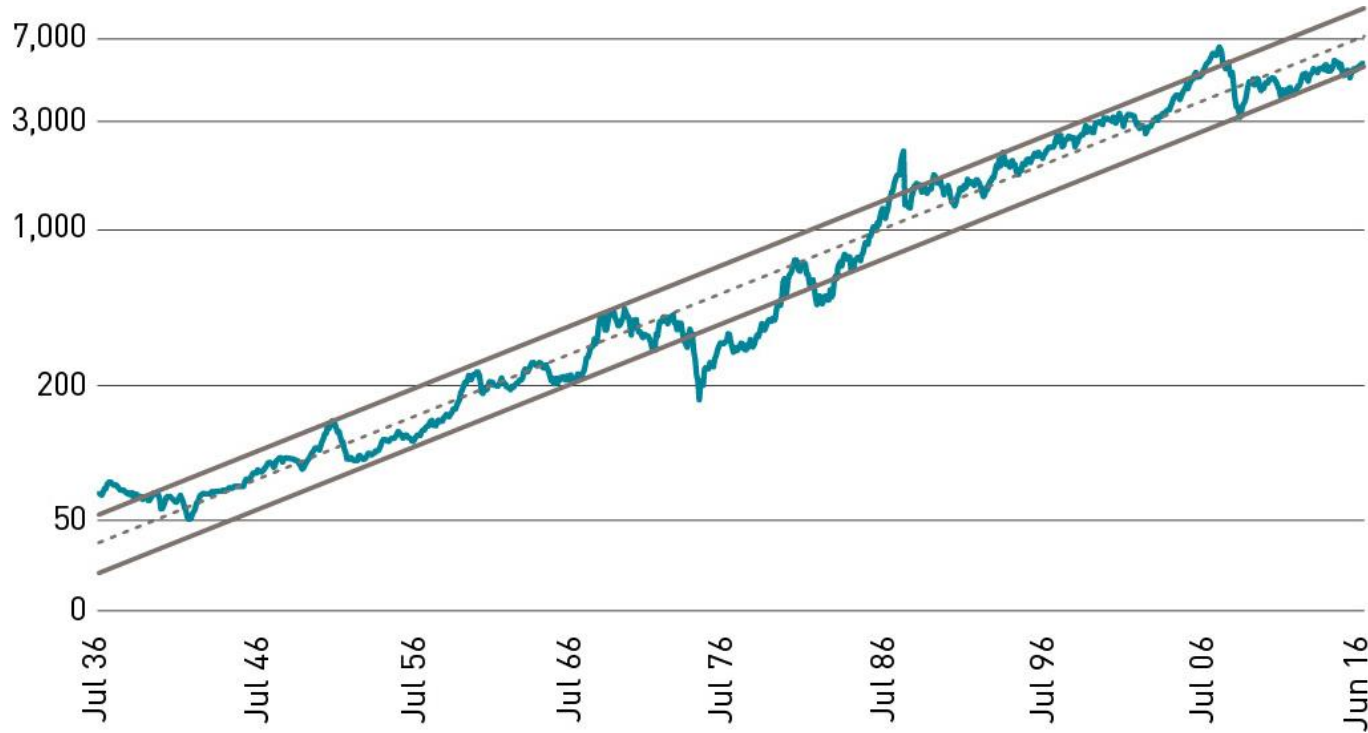
AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

LOW INTEREST RATES HAVE DRIVEN VALUATIONS HIGHER



Source: FactSet

WHAT THE LONG TERM TREND OF THE AUSTRALIAN MARKET LOOKS LIKE (A\$)



WHERE DOES THIS LEAVE US?



**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**