

4 December 2017

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ASX Market Announcements
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Electronic Lodgement

**Australian Foundation Investment Company Limited
NZ Information Meetings – Presentation**

Dear Sir / Madam

Please find attached a presentation that will be delivered to shareholders at information meetings being held in New Zealand.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'M. Rowe', with a stylized, flowing script.

Matthew Rowe
Company Secretary

An aerial photograph of a port area. In the foreground, there are large red gantry cranes used for loading and unloading shipping containers from a vessel. The containers are stacked in neat rows, with many yellow ones visible. The water is a deep blue. In the background, there's a paved area with more containers and some vehicles. The overall scene is one of active industrial work.

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Introduction

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How AFIC Invests – What we look for in Companies

Quality First



Growth
Including dividends



Value



A portfolio that is actively managed to achieve long-term capital and dividend growth

Quality in this context is an outcome of our assessment of the board and management, outlook for the industry as well as some key financial metrics.

Ability of companies to grow earnings over time, which ultimately should produce good dividend growth.

Value tries to capture the opportunity a business has to prosper and thrive over the medium to long term. Look further than short term measures of P/E's and other valuation metrics.

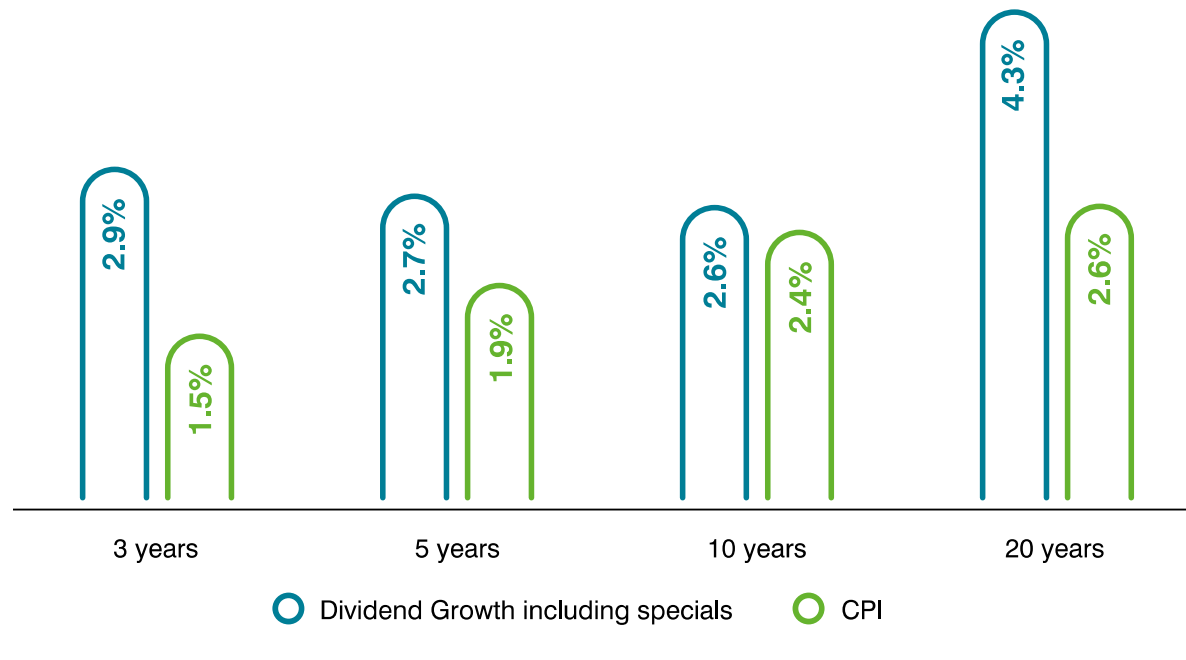
Investment Objectives

A long term investor seeking:

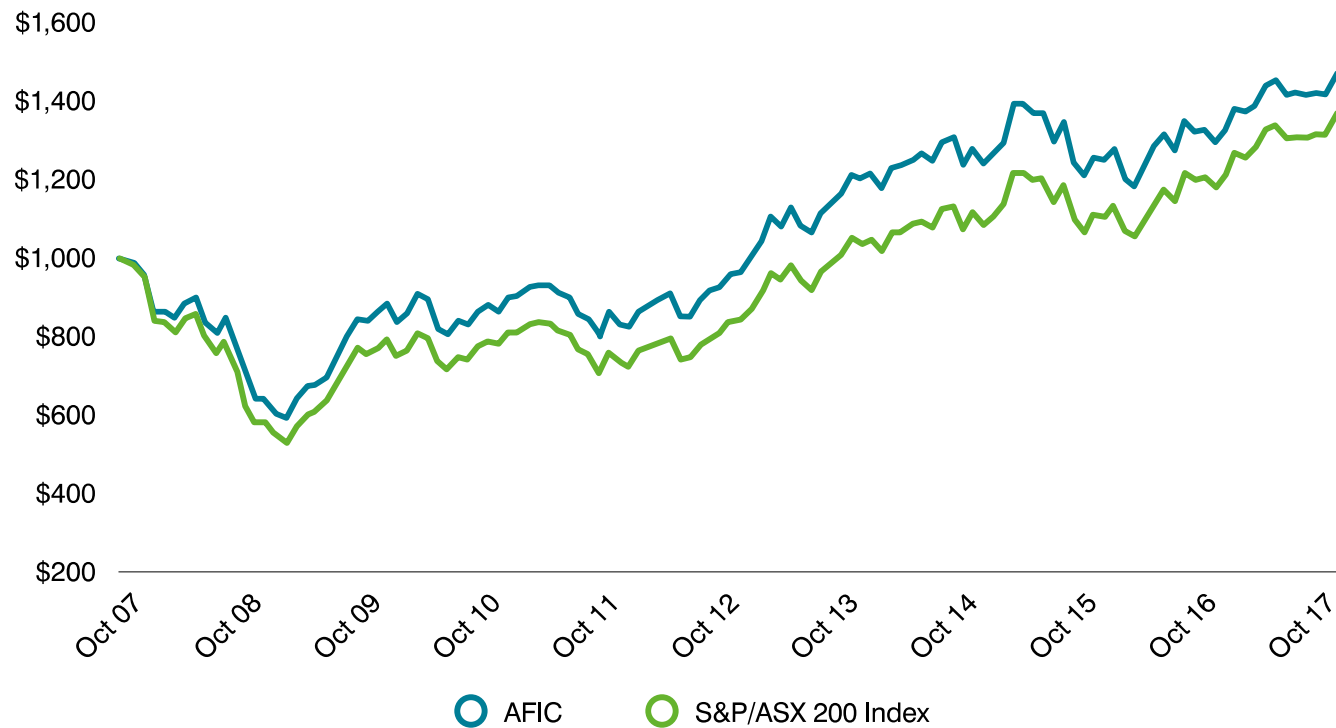
▶ To grow dividends over the medium to long term.

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

Dividends – Compound Growth Per Annum in \$A to 30 June 2017



Long Term Portfolio (NTA) Growth in \$A Against the Index – 10 Years to 31 October 2017



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A photograph of a city skyline at dusk or dawn. Several tall skyscrapers are visible, some with lights on. In the foreground, a train is blurred, moving horizontally across the frame. The sky is a mix of orange, pink, and blue.

Results and Shareholder Returns

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Full Year Financial Summary – 30 June 2017

Profit for the Year

A\$245.3m

Down 7.7% from 2016

Dividend

14.9¢ 25.4¢

Final (NZ ¢)*

Total (NZ ¢)

Same as 2016

* 3 NZ cents of imputation credits

Management Expense Ratio

0.14%

0.16% in 2016

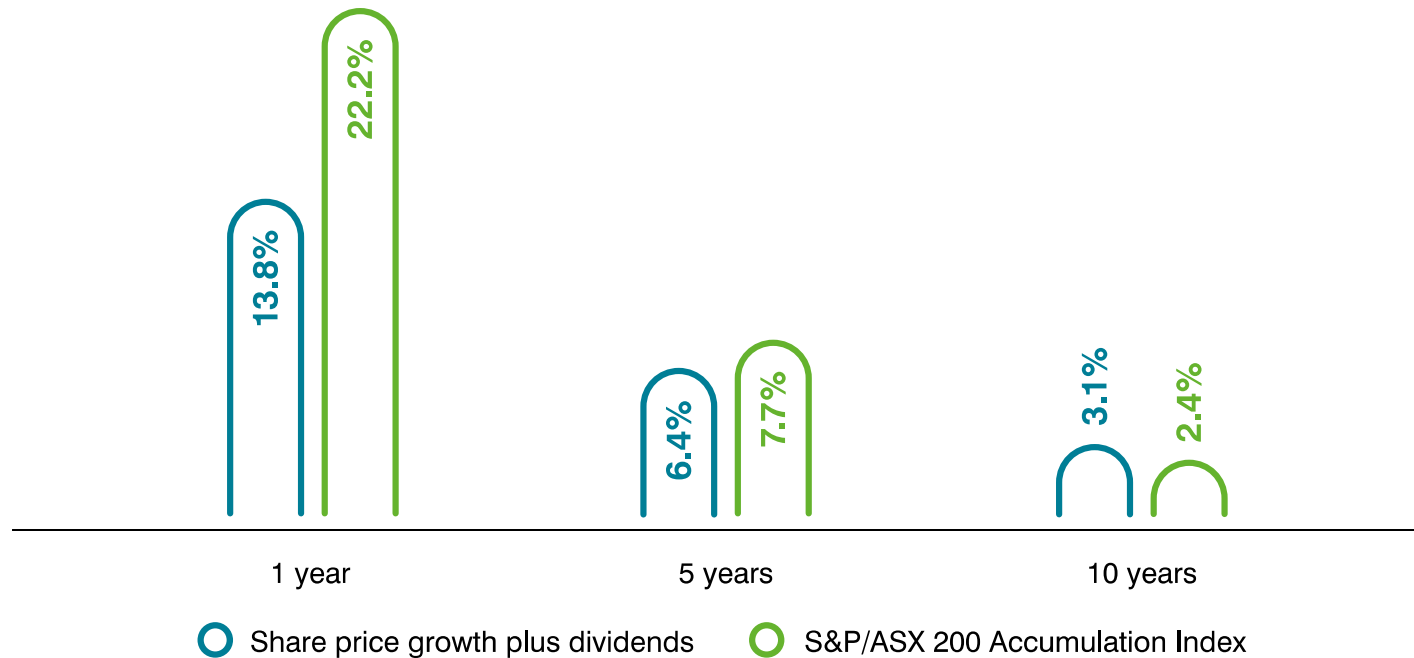
Total Portfolio

A\$6.9b

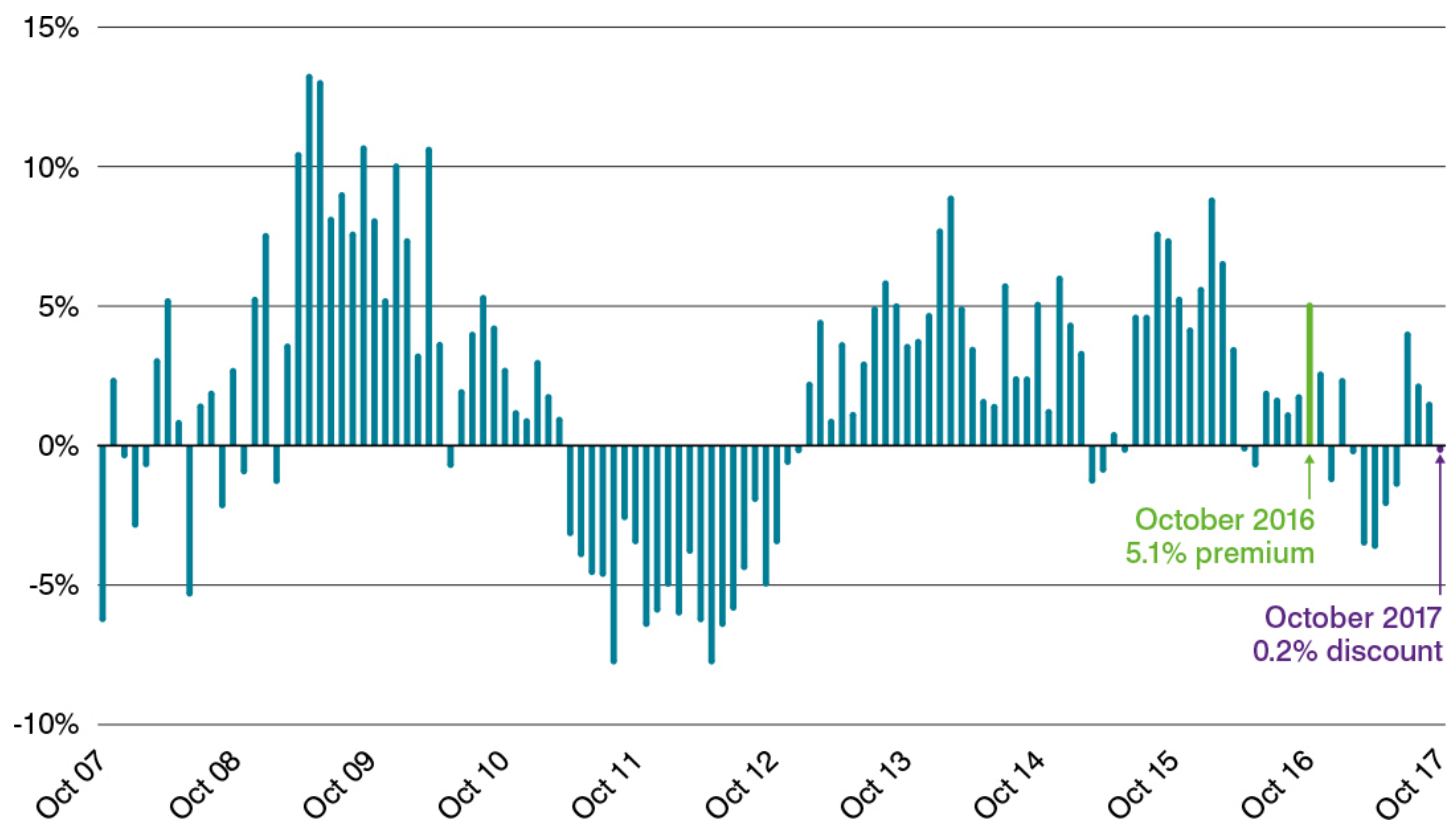
Including cash at 30 June

A\$6.4 billion in 2016

Recent Share Price Return has reflected the move to small discount from premium last year – Performance Per Annum to 31 October 2017 in \$NZ



Share Price at a small discount to Net Asset Backing end October 2017



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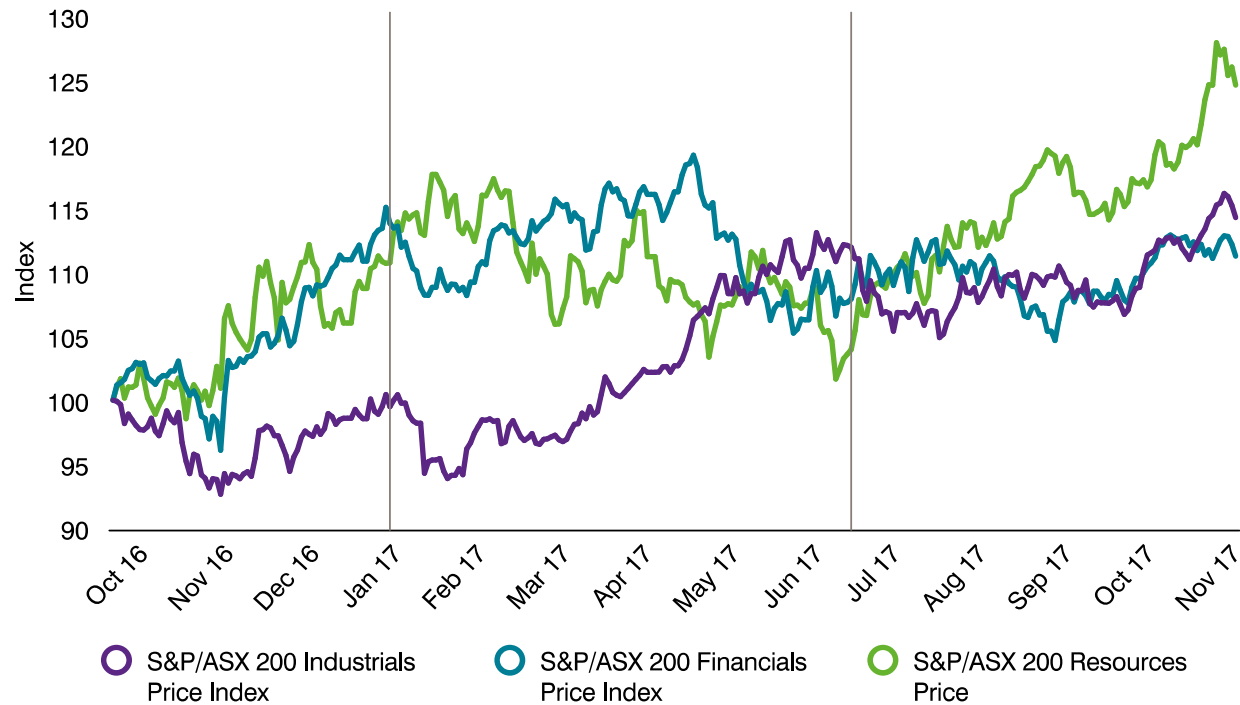


The Market and the Portfolio

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Resources have Outperformed Banks and Industrials

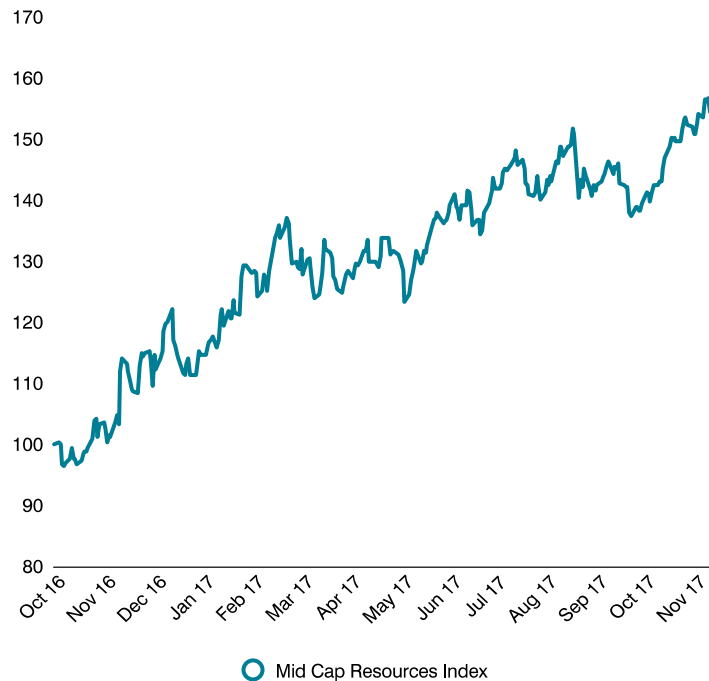


Source: FactSet

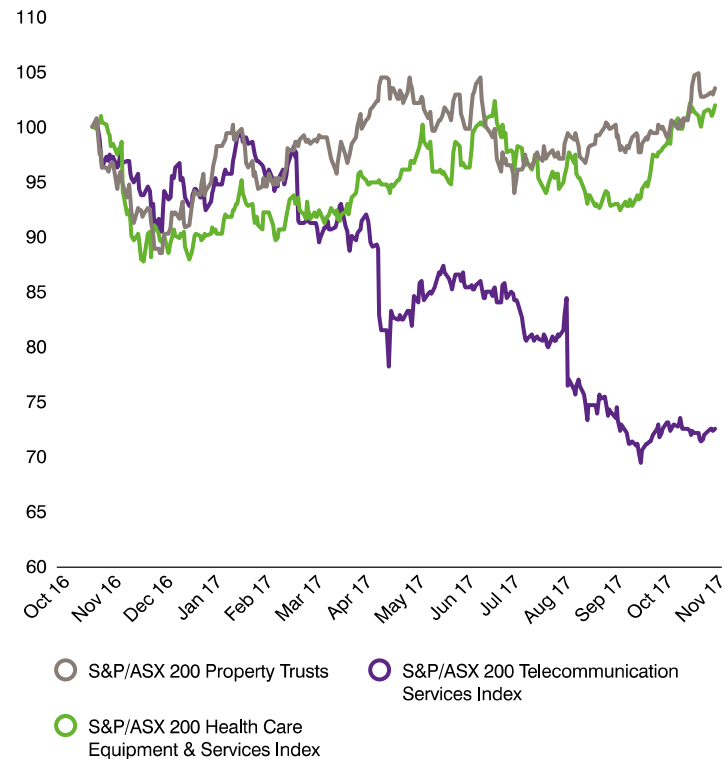
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Mid Cap Resources Have Been Very Strong – Other Sectors Have Been Weak



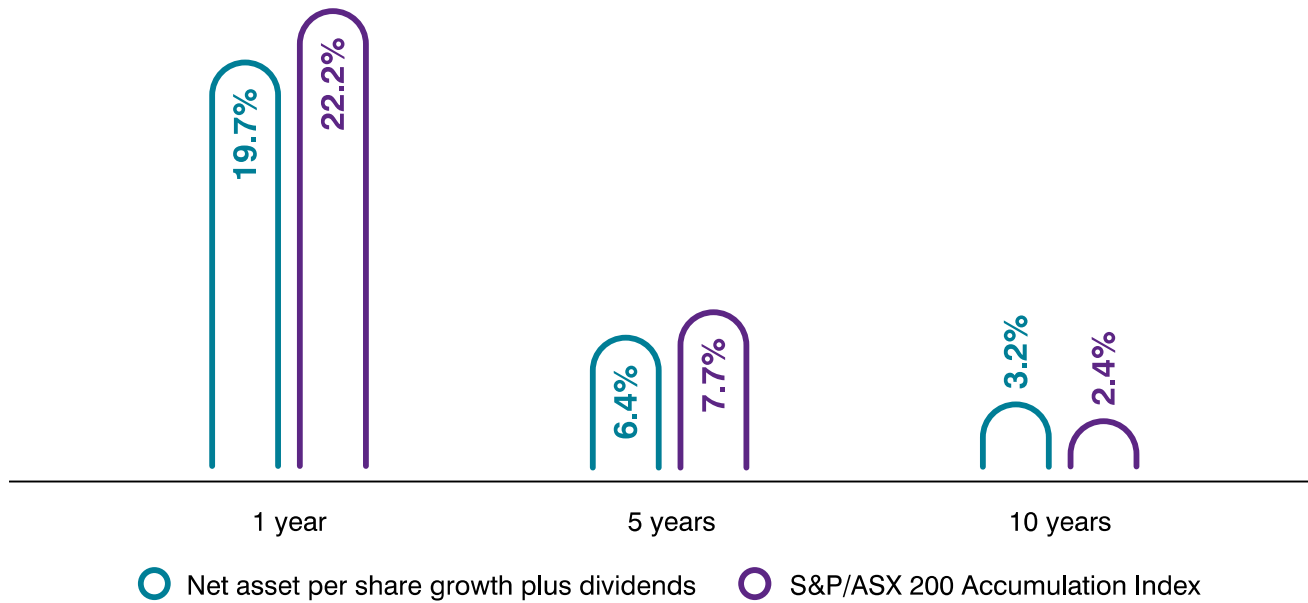
Source: FactSet



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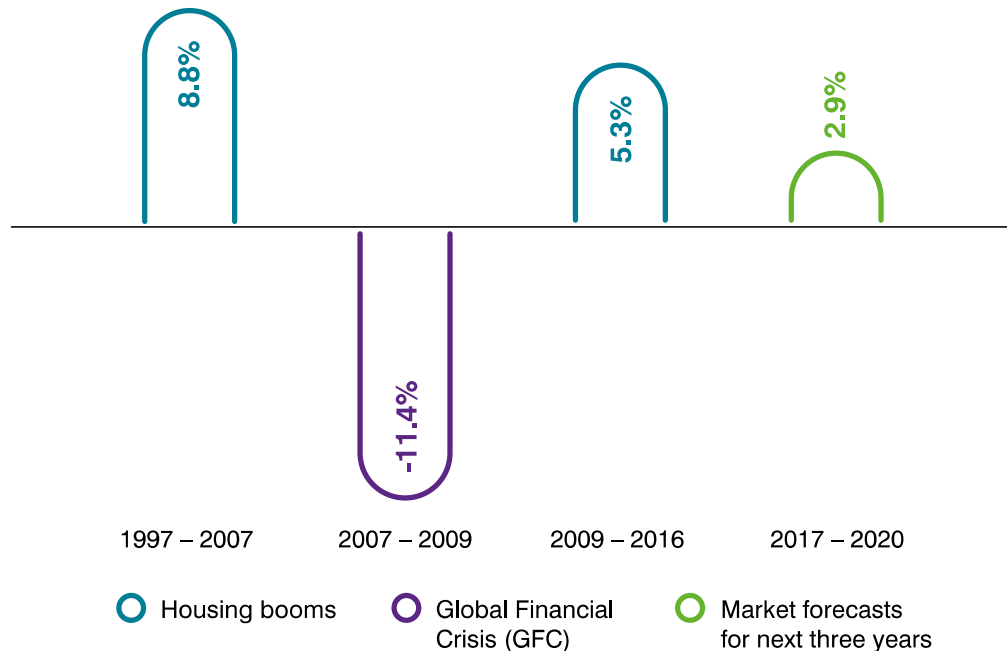
Portfolio Performance in \$NZ – Per Annum Return to 31 October 2017



After tax and expenses.

Banks Face a More Challenging Earnings Environment

Big 4 Banks – Compound Annual Earnings Per Share Growth



- Revenue growth more challenging given household gearing and political pressures.
- Cost reduction efforts based on technology increasingly in focus.
- Normalisation of bad debt charges will be a headwind.
- Forecast yield for the sector remains attractive at 6% before franking (8.6% after franking).
- Option activities can boost income returns.

As do the Telecommunications Sector and Supermarkets



Telecommunications Sector

- Margin pressure from NBN implementation
- Increasing competition with 4th mobile operator
- Introduction of 5G mobile technology



Supermarkets

- Improving performance from Woolworths
- Aldi continues to grow
- Potential new entrants

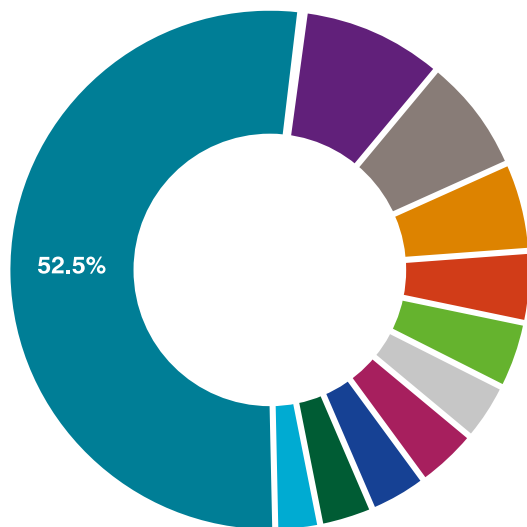
Although the Outlook for Resources Sector is Improving



Resources Sector

- Global growth is improving
- Earnings and dividends are recovering
- Balance sheets are now strong
- Management now focused on delivering value to shareholders

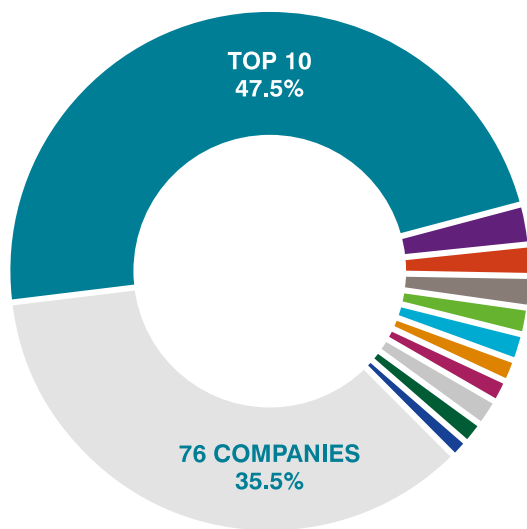
Portfolio at 31 October 2017 – Top 10 Holdings Represent 47.5% of the Portfolio



- Commonwealth Bank of Australia **8.9%**
- Westpac Banking Corporation **7.4%**
- BHP* **5.4%**
- National Australia Bank* **4.7%**
- Wesfarmers **4.1%**
- CSL* **3.7%**
- Australia and New Zealand Banking Group **3.7%**
- Rio Tinto **3.7%**
- Transurban Group **3.2%**
- Amcor **2.8%**

* Indicates that options were outstanding against part the holdings.

Portfolio at 31 October 2017 – Next 10 Represent 16.9% of the Portfolio



- Telstra **2.7%**
- Woolworths **1.9%**
- Brambles* **1.8%**
- Oil Search **1.8%**
- AGL Energy **1.6%**
- Treasury Wine Estates* **1.5%**
- Woodside Petroleum **1.5%**
- AMP **1.4%**
- Ramsay Health Care **1.4%**
- Macquarie Group* **1.3%**

* Indicates that options were outstanding against part the holdings.

Some Recent Adjustments to the Portfolio

Added

Westfield



CSL



James Hardie



Reduced

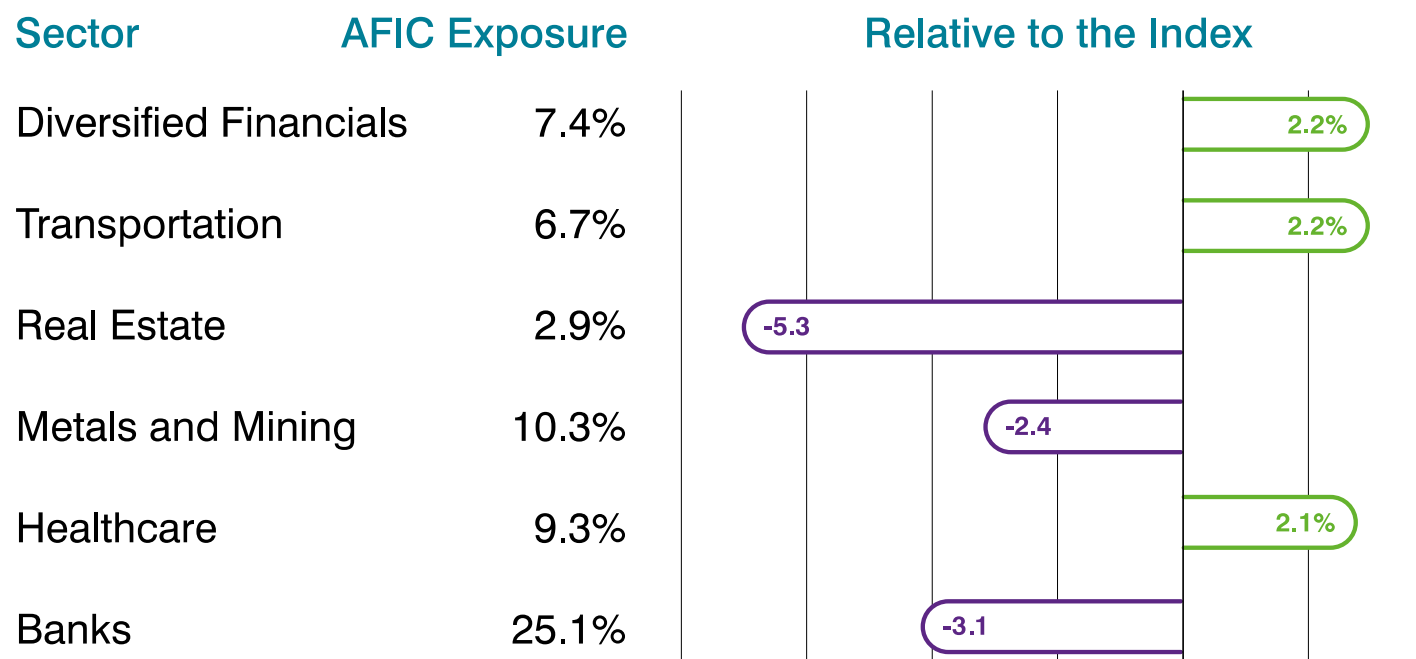


Incitec Pivot Limited



complete sale

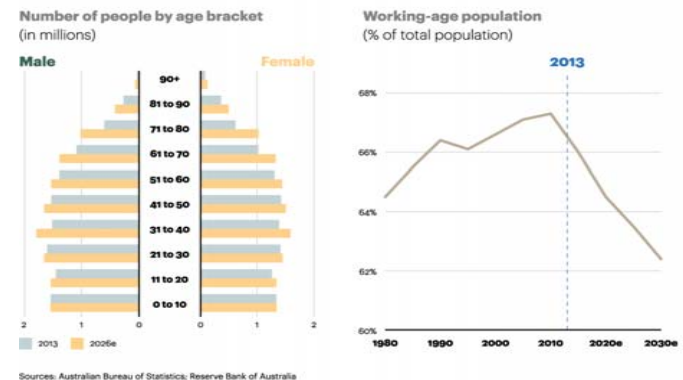
AFIC's Portfolio vs the ASX 200 Index – Major Variations



Long Term Themes Being Considered

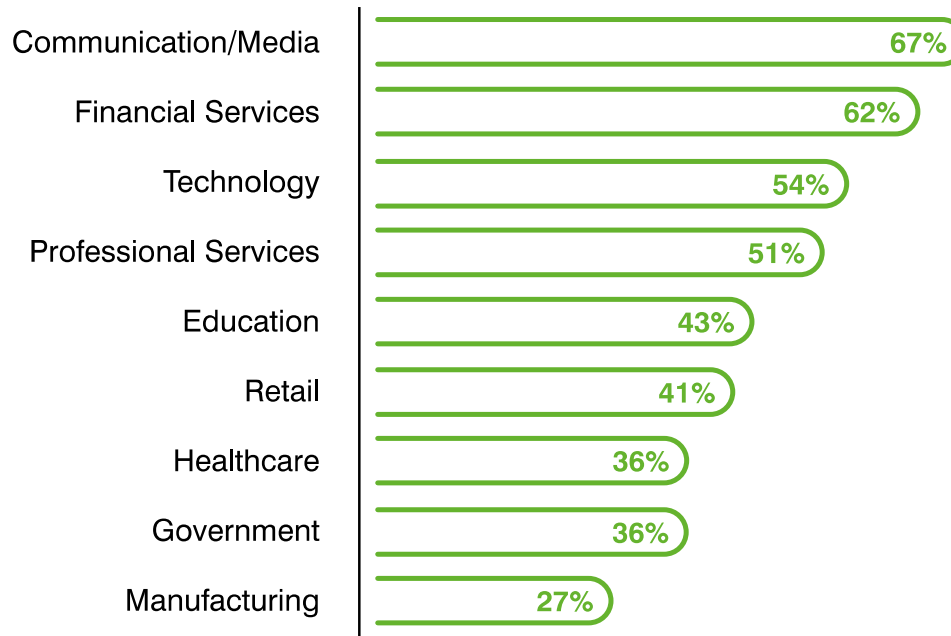


Figure 20
Demographics of Australia



Disruption Very Likely for Some Industries

Percentage (%) indicating how likely it is that their industry will be disrupted by digital



Source: Harvard Business Review 2016.

Implications for Portfolio Management

- Change in business is occurring more rapidly.
- We need to research our companies to consider whether they have a sustainable competitive advantage, how will they be disrupted and to what extent.
- We are looking to keep abreast of these short and long term changes.
- Positioning of the portfolio likely to change more often than in the past.

The background of the slide features a photograph of two utility poles against a sunset sky. The sky transitions from a pale yellow at the horizon to a light orange at the top. A dark teal horizontal bar is positioned above the title, and a light blue geometric shape, resembling a stylized 'A' or a large triangle, is overlaid on the left side of the image. The title 'Looking Ahead' is written in a dark teal, sans-serif font within the light blue area.

Looking Ahead

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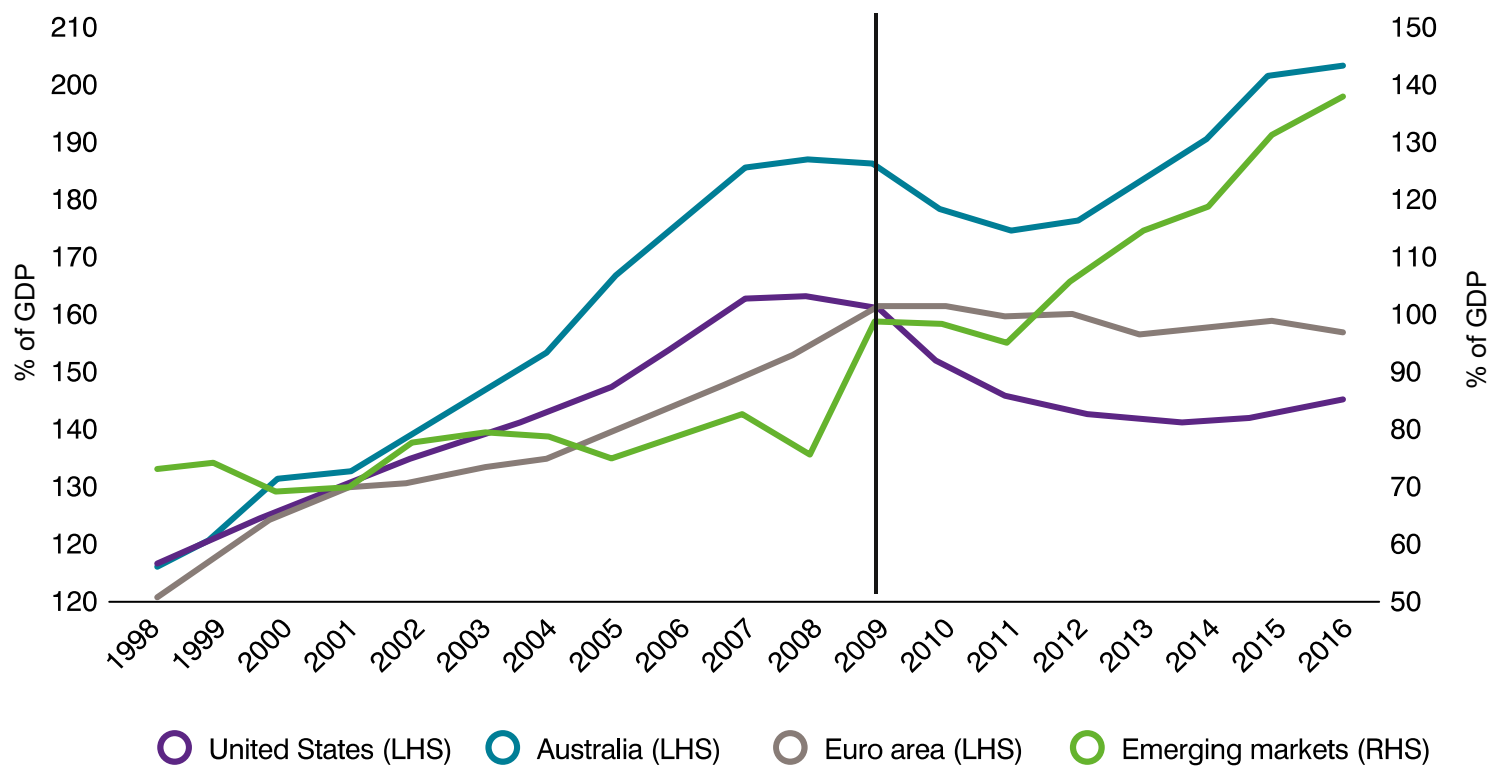
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Global Growth has become less volatile and improving – G20 Real GDP over 20 Years



Source: FactSet

Although with High Debt Levels (Private Non-Financial Debt) – 20 Year Picture



Source: BIS

In an Environment of Low Global Interest Rates – is this likely to continue?



In Summary

- The Australian equity market is likely to face somewhat difficult conditions as many large companies continue to face growth headwinds.
- However, we believe the portfolio is well placed following recent adjustments.
- We will continue to use buy and write strategies to supplement income.
- Look to add to targeted positions in market weakness which will occur from time to time.
- Cash position and facilities are adequate to take advantage of opportunities.

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