

3 December 2018

The Manager  
ASX Market Announcements  
Australian Securities Exchange  
Exchange Centre  
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20 Bridge Street  
Sydney NSW 2000

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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 an information meeting 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



# NZ Shareholder Meeting December 2018

**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

**90** YEARS OF INVESTMENT  
EXPERIENCE

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# Our Investment Approach

# AFIC is a Long Term Investor in a Diversified Portfolio of Quality Companies



# Investment Objectives

A long term investor seeking:

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▶ To grow dividends over the medium to long term.

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

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# Financial Results

NZ Shareholder Meeting December 2018

**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

# Financial Results \$A

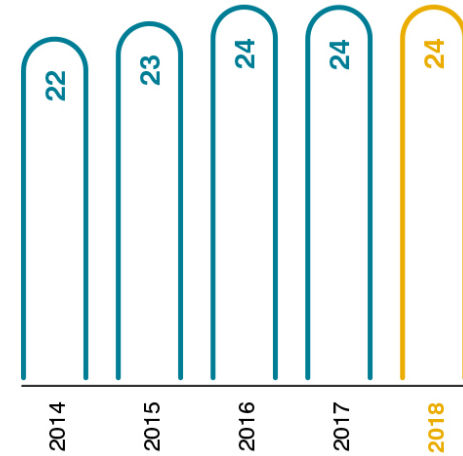
Net Profit After Tax (\$ Million)



Net Profit Per Share (Cents)



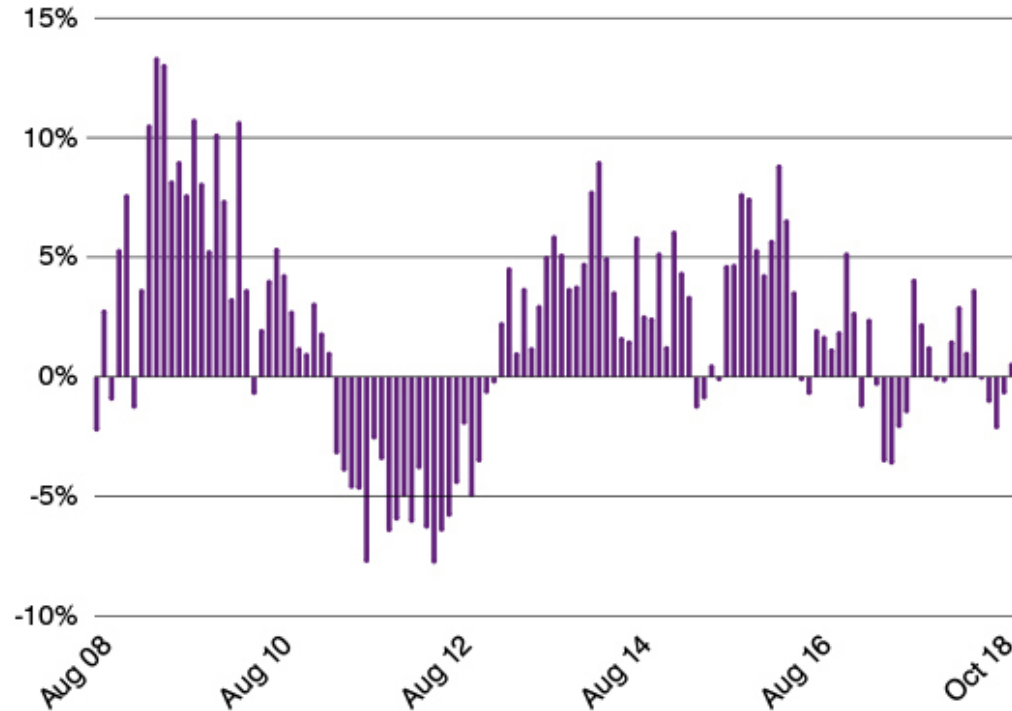
Dividends Per Share (Cents)



*Management expense ratio of 0.14%*



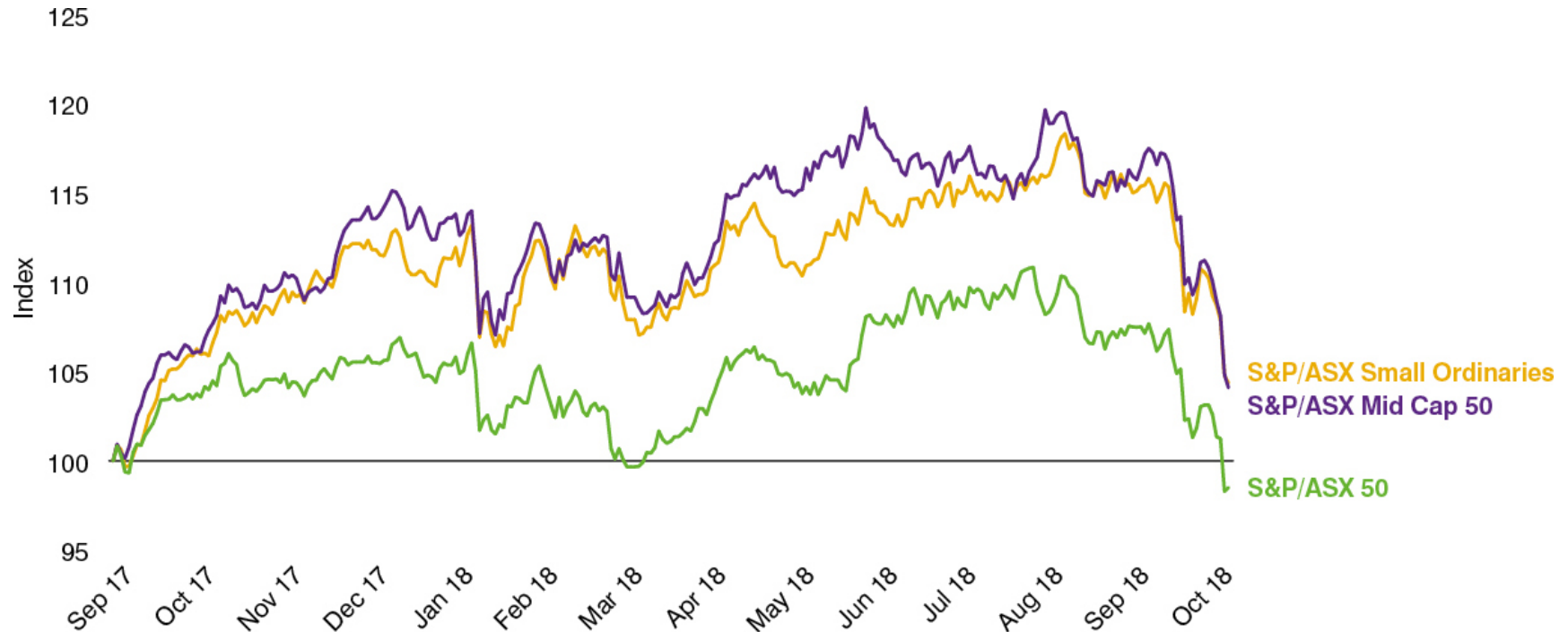
# Share Price was trading at a 4% premium to Net Asset Backing at 31 October 2018





# Market Settings and the Portfolio

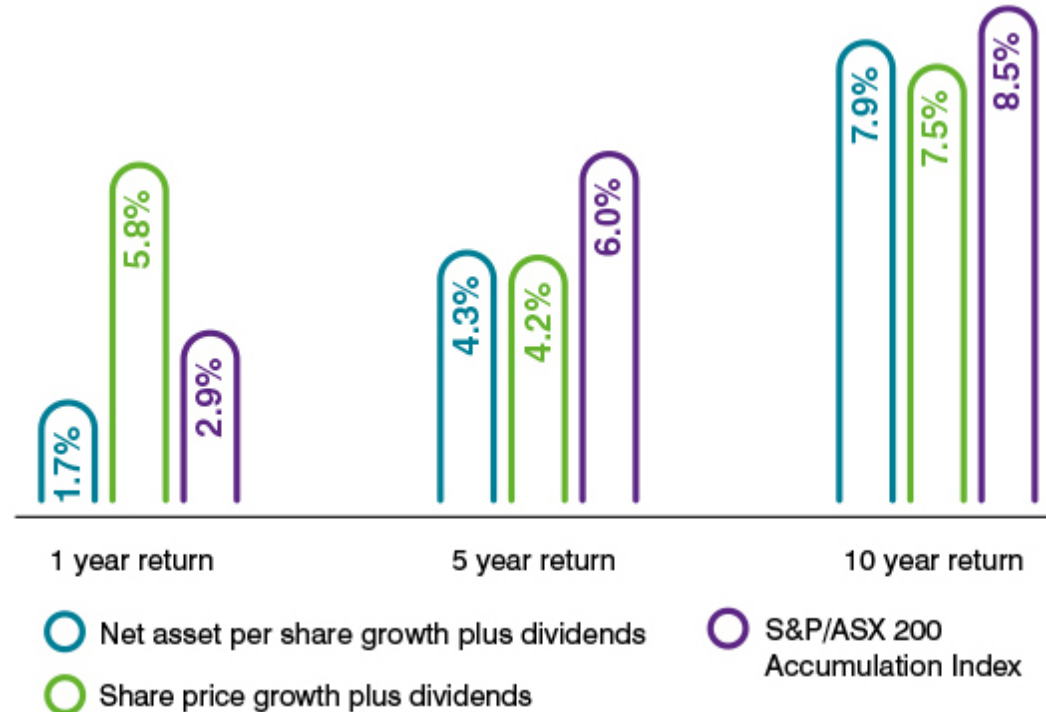
# In a difficult market large companies have underperformed over the year to 31 October 2018



Source: FactSet

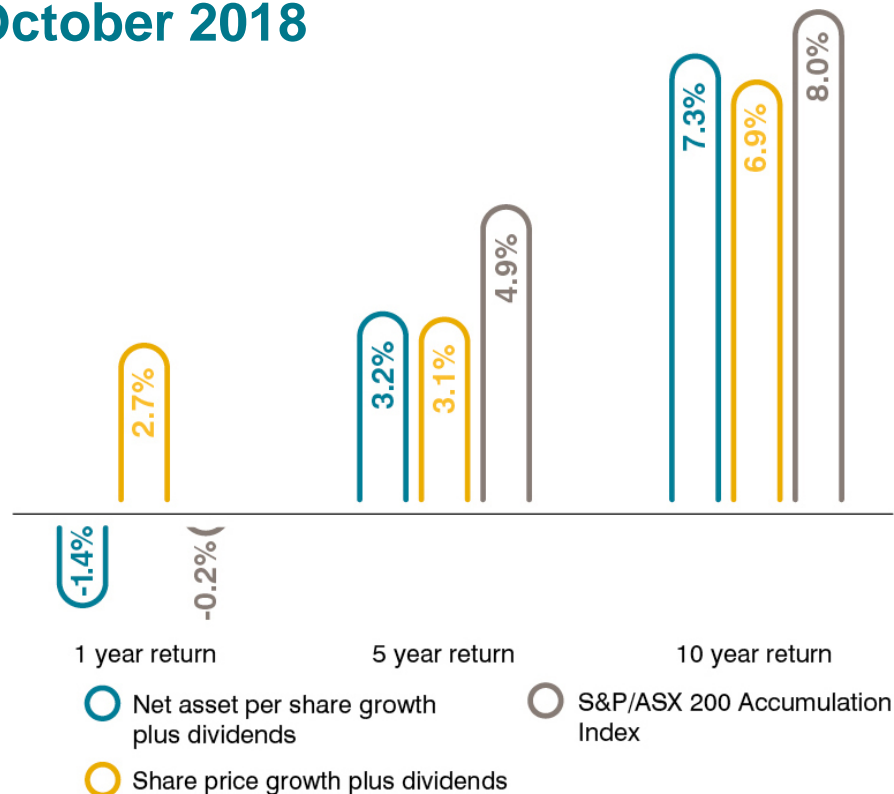


# Relative Portfolio and Share Price Performance, Per Annum \$A Returns to 31 October 2018



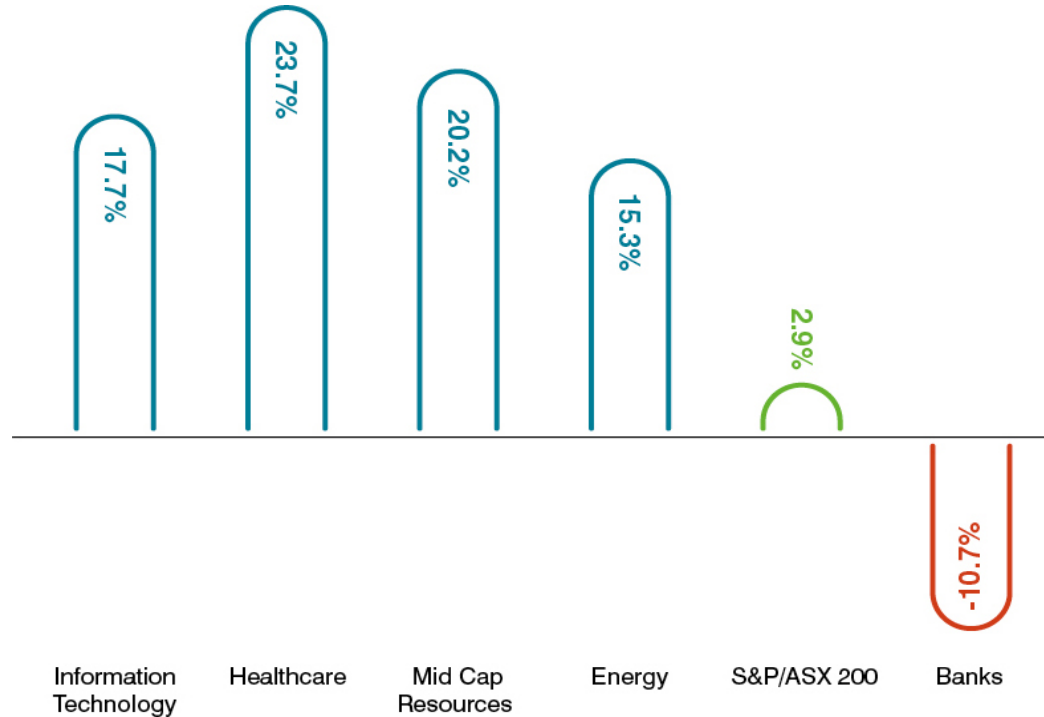
Note: performance figures for AFIC are after tax paid and costs.

# Relative Portfolio and Share Price Performance, Per Annum \$NZ Returns to 31 October 2018



Note: performance figures for AFIC are after tax paid and costs.

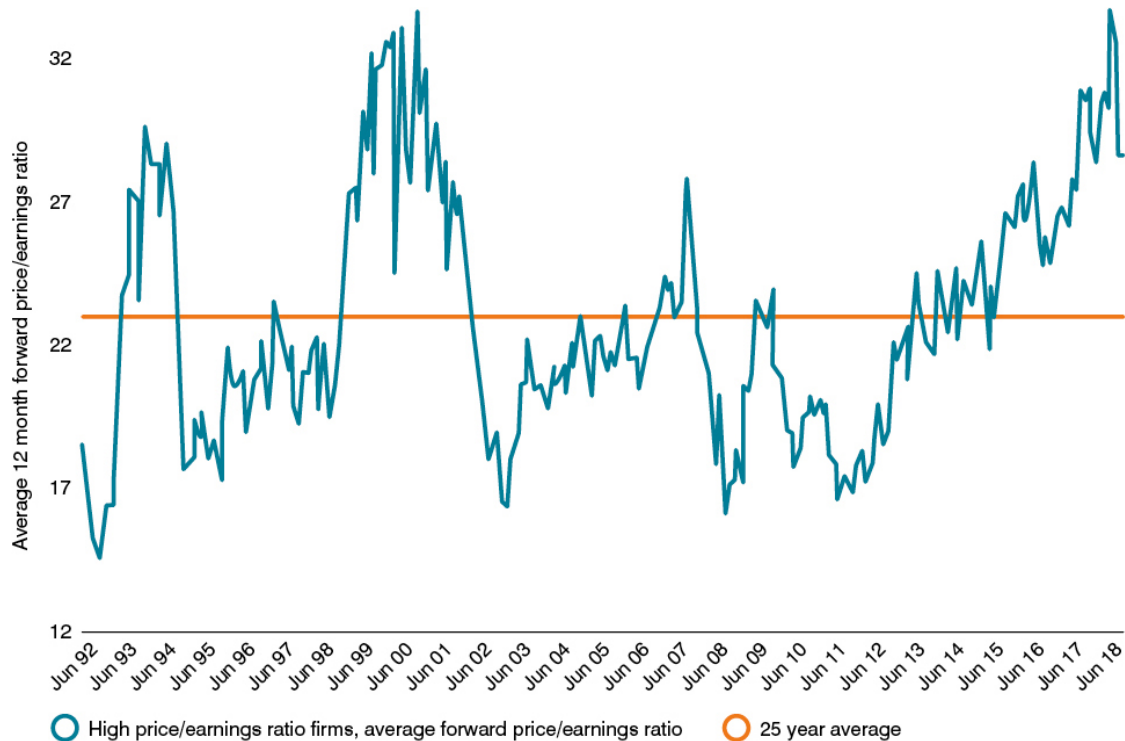
# Despite the recent fall some sectors have delivered strong returns with banks at the other extreme – one year returns to 31 October 2018



Returns include dividends



However growth' stocks still trade at an average P/E of 29 times, a 28% premium to their 25-year history...



Source: FactSet, Goldman Sachs Global Investment Research.

# Market moves as well as purchases/sales have changed the profile of the Portfolio – top 10 holdings 31 October 2018

Rank	Company	% of Portfolio	Major changes – % as at Oct 2017	
1	Commonwealth Bank of Australia	7.9%	↓	8.9%
2	BHP*	6.6%	↑	5.4%
3	Westpac Banking Corporation	6.0%	↓	7.4%
4	CSL	5.2%	↑	3.7%
5	Wesfarmers	4.5%		
6	Transurban Group*	3.8%		
7	Rio Tinto	3.7%		
8	National Australia Bank	3.4%	↓	4.7%
9	Australia and New Zealand Banking Group	3.2%	↓	3.7%
10	Macquarie Group	3.0%	↑	1.3%

\* Options were outstanding against part of the holding.

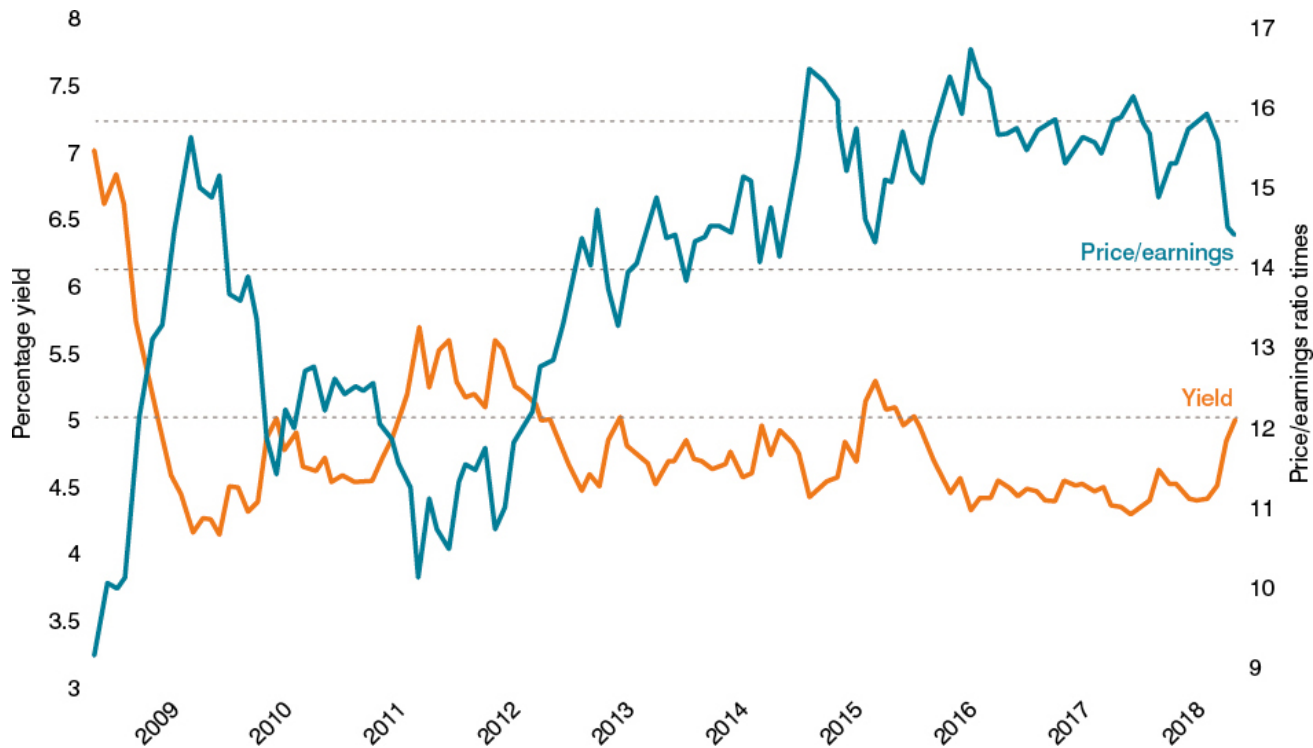
# Market moves as well as purchases/sales have changed the profile of the Portfolio – next 10 holdings 31 October 2018

Rank	Company	% of Portfolio		Major changes – % as at Oct 2017
11	Woolworths*	2.7%	↑	1.9%
12	Amcor	2.4%		
13	Woodside Petroleum*	1.9%	↑	1.5%
14	Brambles	1.9%		
15	Oil Search	1.9%		
16	Telstra Corporation	1.8%	↓	2.7%
17	Sydney Airport*	1.6%	↑	Not in top 20
18	James Hardie Industries	1.4%	↑	1.0%
19	Computershare	1.3%	↑	1.0%
20	Qube Holdings	1.2%		

\* Options were outstanding against part of holding.



# The pull back in valuations and the increase in effective dividend yields has provided AFIC with selective opportunities



Source: FactSet.

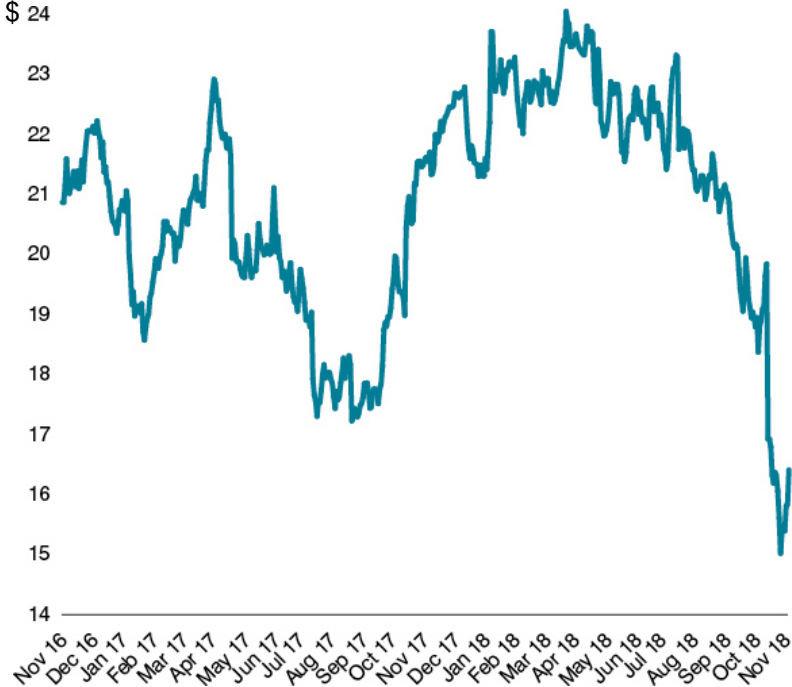
# Some additions to the Portfolio during very recent market volatility



**James Hardie**

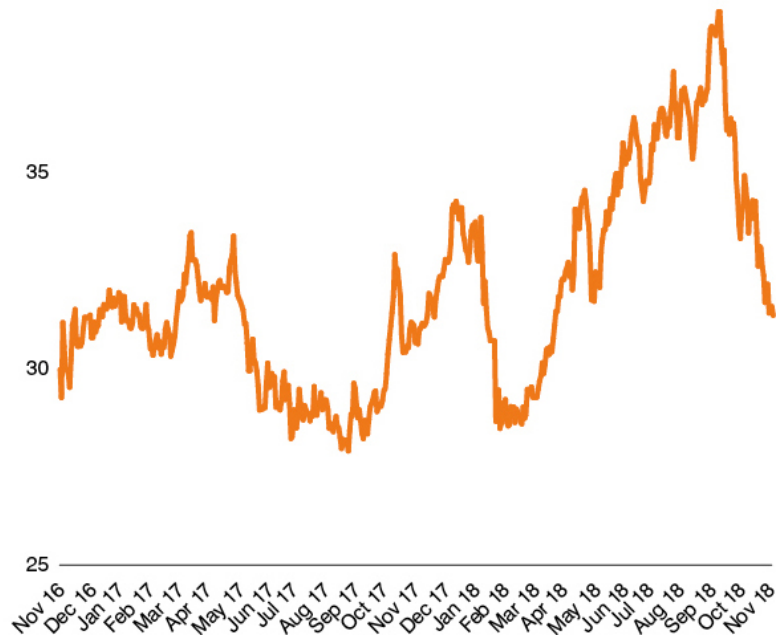
Share price

\$ 24



Share price

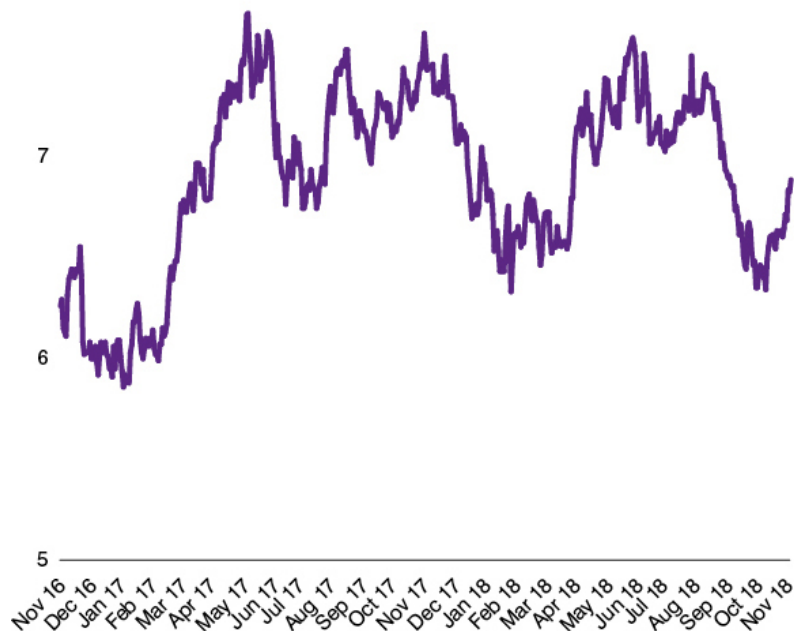
\$ 40



# Some additions to the Portfolio during very recent market volatility con't.



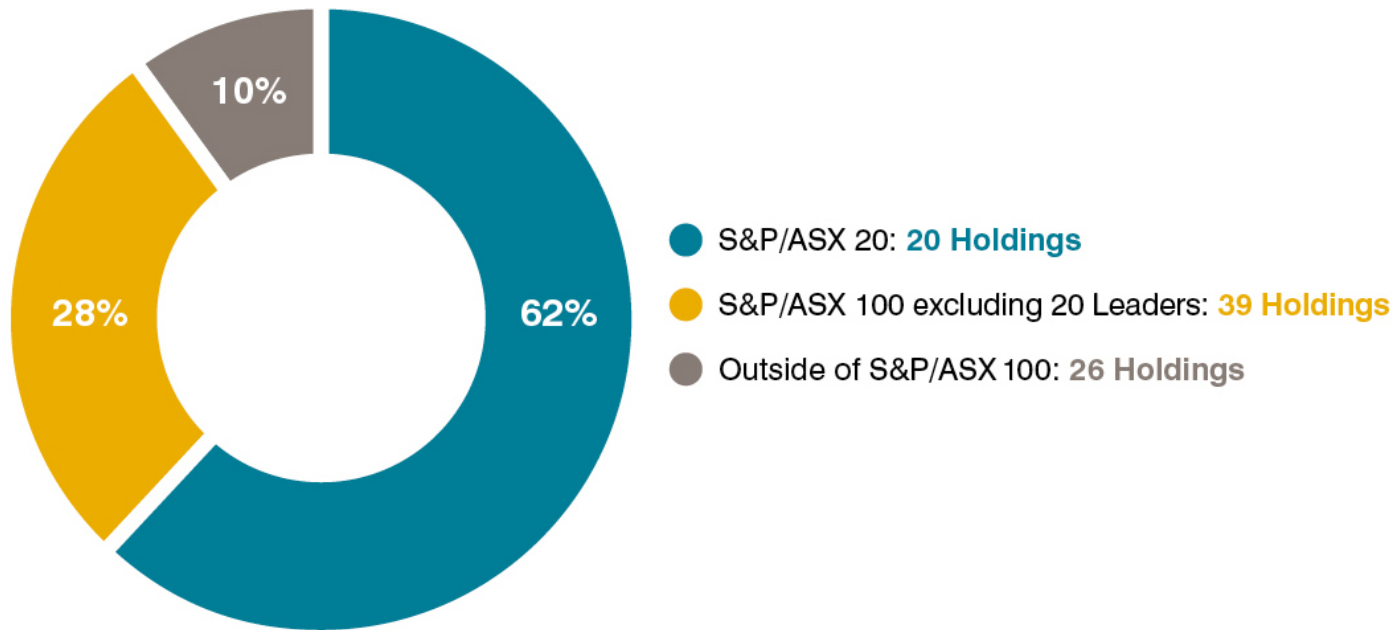
Share price  
\$8



Share price  
\$3.5



## Profile of the portfolio by size of company October 2018 – looking for growth opportunities some of which is outside of large companies



# The other interesting feature of the portfolio is the exposure to businesses with revenue generated from overseas – 43% of the portfolio

Key examples:

- BHP Billiton
- CSL
- Rio Tinto
- Amcor
- Oil Search
- Macquarie Group
- Woodside Petroleum
- Brambles
- James Hardie Industries
- Computershare
- Seek
- ResMed
- Fisher & Paykel Healthcare
- Mainfreight

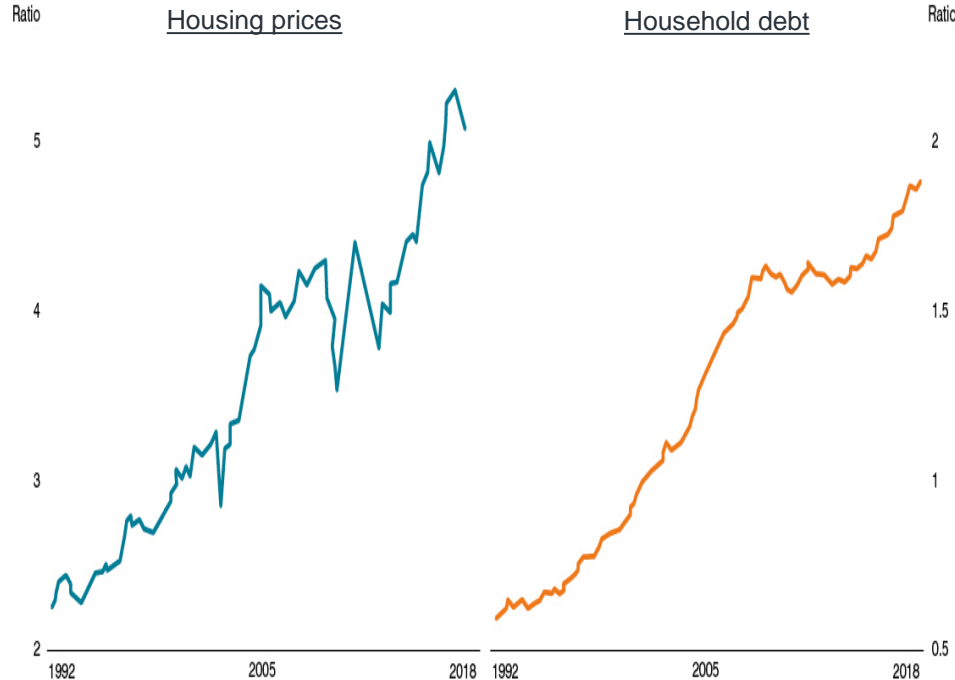
Source: FactSet, AFIC.



# Australian Banks – growth in household debt has been a major tailwind

## Housing Prices and Household Debt

Ratio to annual household disposable income

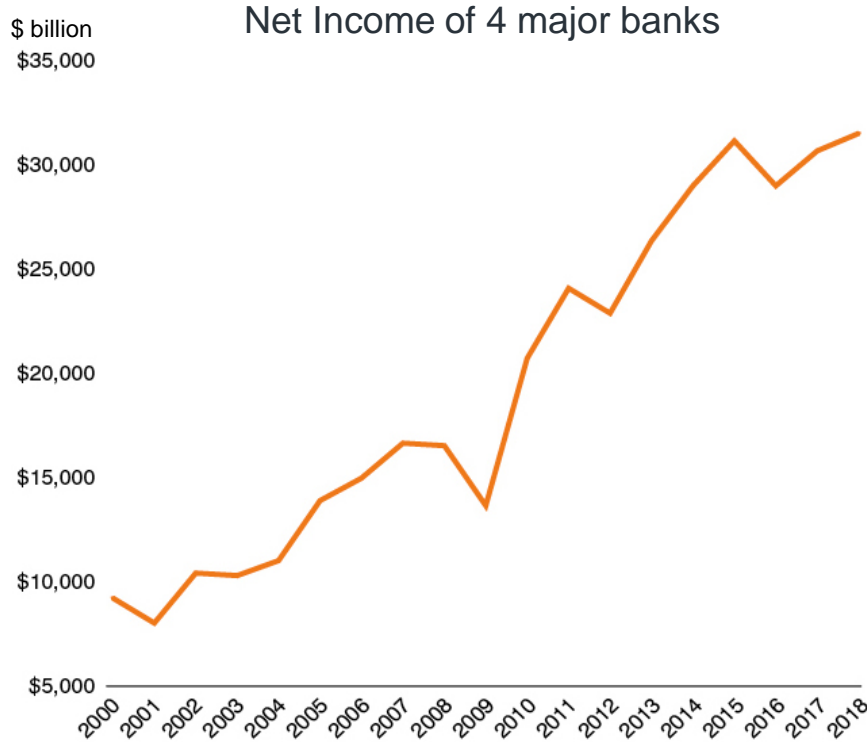


Sources: ABS; APM; APRA; Core Logic; RBA.

Upward trend in housing prices driven by increased household debt:

- Growing population, with immigration a key component.
- Supportive commodity cycle.
- Unbroken record of economic growth.
- Low interest rates post GFC.
- Easier credit standards.

# Australian Banks – Net Income growth has been strong on the back of these trends however going forward.....



Source: FactSet

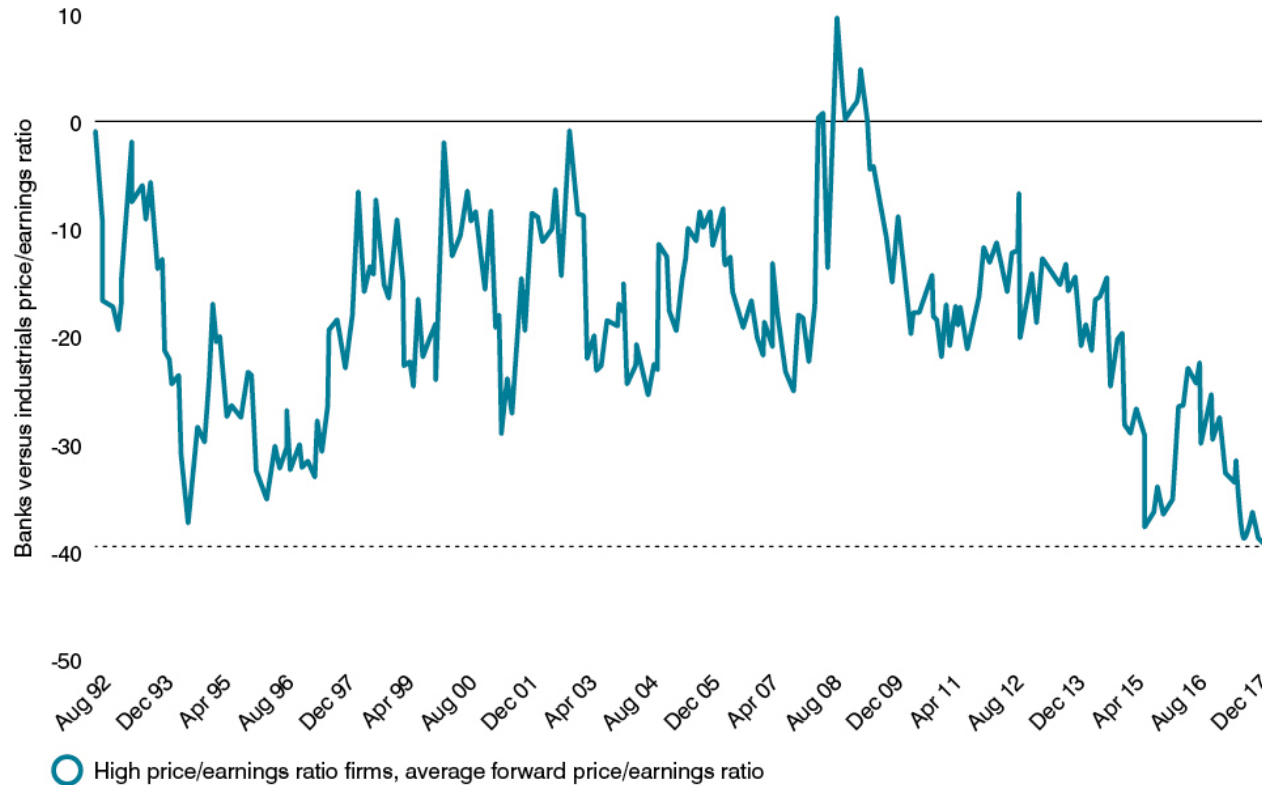
## Credit growth likely to be more subdued:

- Lower income growth.
- Tighter lending standards:
  - APRA
  - Hayne Royal Commission
  - Slowing foreign investment in housing

## Impact on Bank Sector

- Lower balance sheet growth.
- Higher regulatory costs.
- Slowing housing market can be healthy.
- Banks will look to drive further costs out.
- Benign profit growth but dividends stable.

## Banks currently trade at a 40% discount to Industrial stocks, 20% below the 25-year average...



Source: FactSet, Goldman Sachs Global Investment Research.

# Featured Holdings – Macquarie Group



Source: FactSet.

What we like:

- Owner driver culture.
- Infrastructure exposure.
  - Energy (renewable)
  - Emerging markets
  - GDP/ population growth
- Technology exposure.

# Featured Holdings – Woolworths



Source: FactSet.

What we like:

- 'New' management with clear strategy.
- Progress on turnaround:
  - Australian supermarkets regained market leadership
  - IT Investment
  - Exit Masters
  - Simplify BigW
- Next phase: Ongoing investment opportunities.
- From here, maintain focus.
- Stable profit and dividend growth.



# Featured Holdings – Reliance Worldwide



Source: FactSet.

## What we like:

- Category leader in Push to Connect plumbing fittings market.
- Innovative company with R&D focus.
- Multiple growth drivers in North American and European markets.
- Self funding, cash generative business model.
- Strong balance sheet.
- Participated in rights issue.



# Closing Remarks

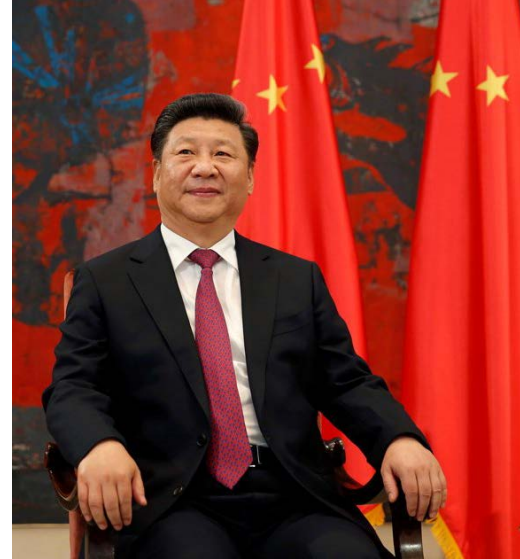
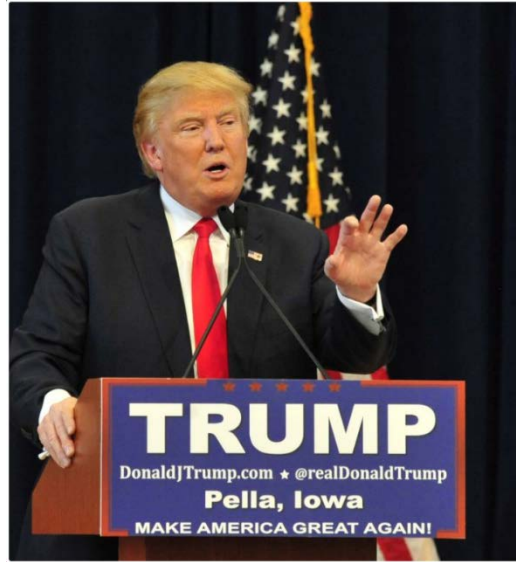
## Current Issues We Are Focusing On

- Met with 100+ companies in recent reporting season.
- Investment team visited UK/Europe/US in September and in November will be visiting China/HK.
- Themes:
  - Australian credit growth/ housing market – slowing.
  - Continued impact of technology on businesses, including emergence of new opportunities.
  - Finding value – expected long term growth versus what you have to currently pay.
  - Fallout from trade disputes.
  - Impact of rising interest rates in the US on equity markets.

## Last 10 years and next 10 years?

	Last 10 years	Coming 10 years?
Interest Rates	Falling	Rising
Wage Pressure	Benign	Rising
Transport Costs	Benign	Rising (US trucks, etc)
Excess Capacity (Industrial, other)	High	Reducing
US Corporate Profit Margins	Rising	Potential peak
Investor Focus	Earnings growth	Valuation
Corporate's use of capital	Buybacks	Investing
Price earnings multiple	Rising	Falling?
Inflation	Benign	Rising?

Other factors are still at play...





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