

8 October 2019

The Manager
ASX Market Announcements
Australian Securities Exchange
Exchange Centre
Level 4
20 Bridge Street
Sydney NSW 2000

Australian Foundation
Investment Company Limited
ABN 56 004 147 120
Level 21, 101 Collins St
Melbourne VIC 3000
T 03 9650 9911
F 03 9650 9100
invest@afi.com.au
afi.com.au

Electronic Lodgement

**Australian Foundation Investment Company Limited
2019 Annual General Meeting – Chairman’s Address and Presentation**

Dear Sir / Madam

Please find attached the Chairman’s address and presentation that will be delivered to shareholders at the Company’s Annual General Meeting to be held today.

Yours faithfully



Matthew Rowe
Company Secretary

Chairman's Address

During the year there have been several changes on our board. As many of you will be aware Terry Campbell retired from the AFIC board and chairmanship at the end of the AGM last year. Terry had made a very valuable contribution to AFIC over 34 years. In January Jacquie Hey retired from the board after nearly 6 years of service. Her experience and skills in the telecommunications space had been of particular value to us. We wish her well with her busy workload at Bendigo Bank, which she chairs, Qantas, AGL and other non ASX listed roles. In May we were very pleased to announce that Rebecca Dee-Bradbury had joined the board. She will provide some observations on her experience and skills when we consider her election in item 4 of our agenda. Suffice to say she brings great experience in consumer based markets, both in Australia and offshore, along with a number of years board service on two ASX listed companies – BlueScope steel and Graincorp – which has provided insights into other quite different global markets.

The first item of business is consideration of the financial statements and accounts. As usual I will place this item after the other items of business in order to maximize time for questions or comment. However I will comment on a couple of matters which may come up and which are relevant.

Topical is the fact that ASIC has recently doubled the potential size of shareholder purchase plans from \$15,000 to \$30,000 per shareholder per annum.

We are cogniscent of the keenness of a number of our shareholders for SPP's and we do like to provide the opportunity for them to increase their shareholdings. However there are a couple of very relevant considerations that I will mention. It would not make sense for us to be raising additional equity at times when we do not see good opportunities to invest profitably for you.

Secondly there is a fairness issue amongst our shareholders as a SPP proportionately allows smaller shareholders a much greater opportunity to invest (in contrast to a conventional rights issue) and consequently has a dilutionary effect on some of our shareholders.

We have undertaken 3 SPP's in the last decade and will certainly consider undertaking another when we feel it is appropriate. Also our DRP has been in continual operation for the last decade and our DSSP for the last six years.

The second issue which comes up regularly is the question of whether we should publish all proxy votes which we lodge.

This is an issue that we consider regularly. To date we feel that we have more influence presenting our views face to face with, often, the chair of the ASX companies in our own board room. Where there is a significant difference of view, this can involve a direct vote against an issue or an abstain with a warning that if our concerns are not

addressed by next year we will be voting against. We also believe our voting needs to be tailored to the company e.g. what may be appropriate for a start-up business where the CEO has a big shareholding exposure aligned with the shareholders may be inappropriate in a top 10 company. Public disclosure of votes for /against or abstain catch none of the detail and finer nuances of what can be very complex issues.

Annual General Meeting 2019



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.

We wanted to thank you again for response to the shareholder survey on franking

- A strong response with close to 17,000 replies received from AFIC shareholders
- We acknowledge not all shareholders agreed with the approach – the vast majority were however supportive
- Helped us formulate our approach and educate key stakeholders
- We are committed to supporting our shareholders when appropriate
- Your voice made a considerable contribution to the debate



Financial Results

Annual General Meeting 2019

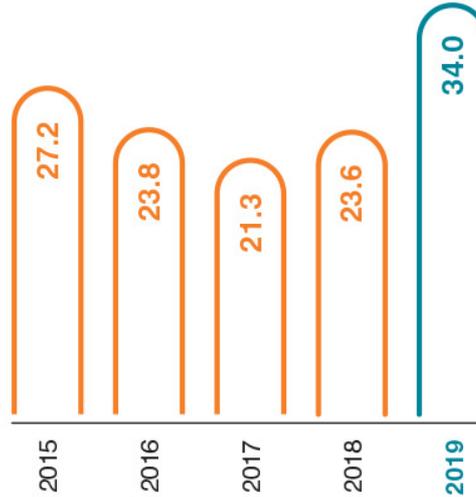
**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Financial results

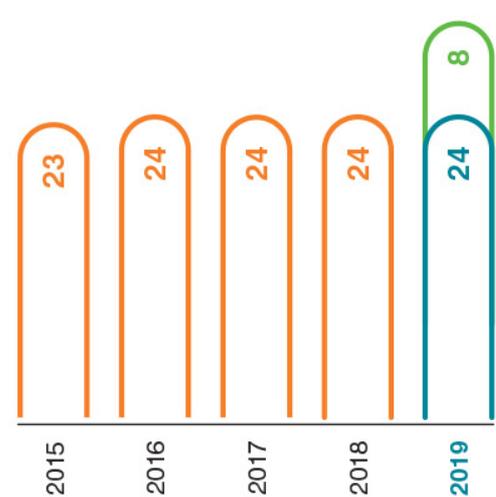
Net Profit After Tax (\$ Million)



Net Profit Per Share (Cents)



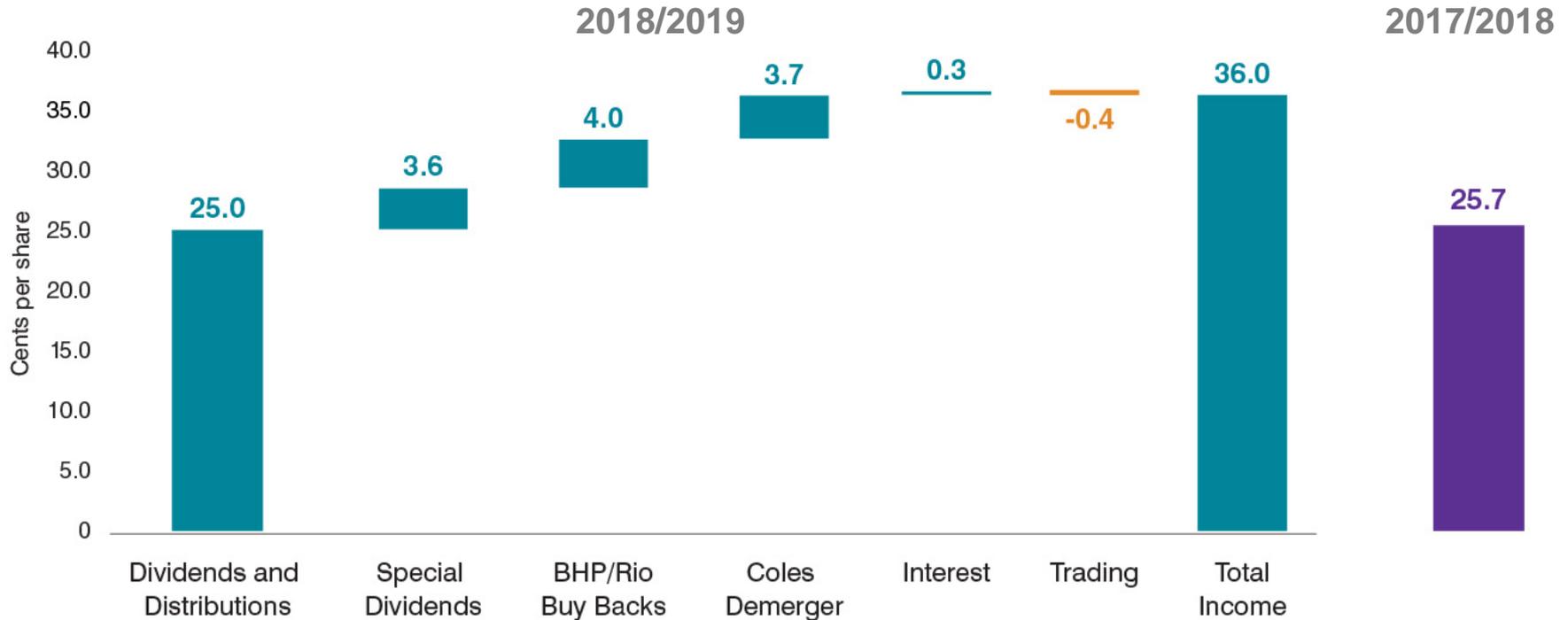
Dividends Per Share (Cents)



8 special dividend paid with interim dividend

Management expense ratio of 0.13%

Income per share in 2018/19 was high because of a number of 'one-off' factors



Note expenses and tax equate to approximately 2 cents per share for both financial years



Our Approach

How we operate as a Listed Investment Company

Shareholders
own the
Company

Disciplined
investment
approach

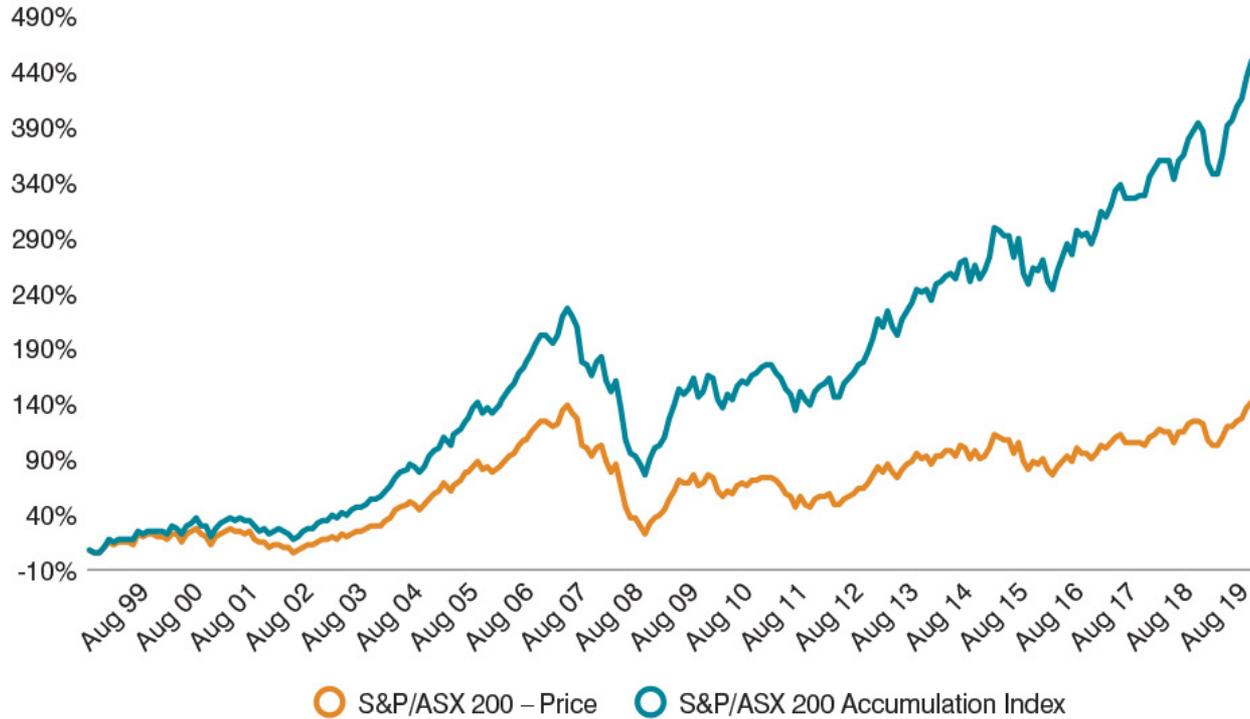
Transparent

Tax effective

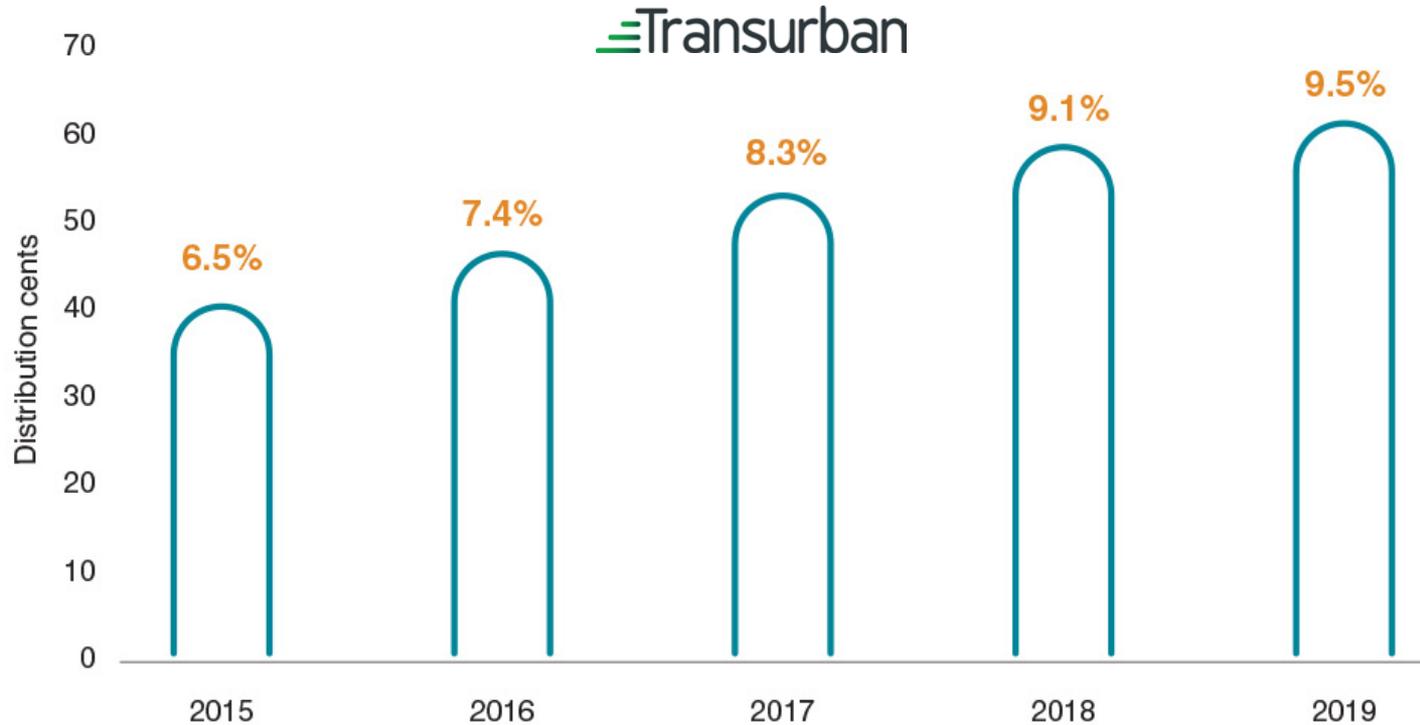
Very low cost –
no performance
fees

Benefits of a
close end fund

Dividends are a key driver of shareholder returns in Australia



Effective yield (in yellow) on AFIC's average cost base of \$6.18 in Transurban highlights the benefit of being a long term investor having retained capital working for you





Market Settings and the Portfolio

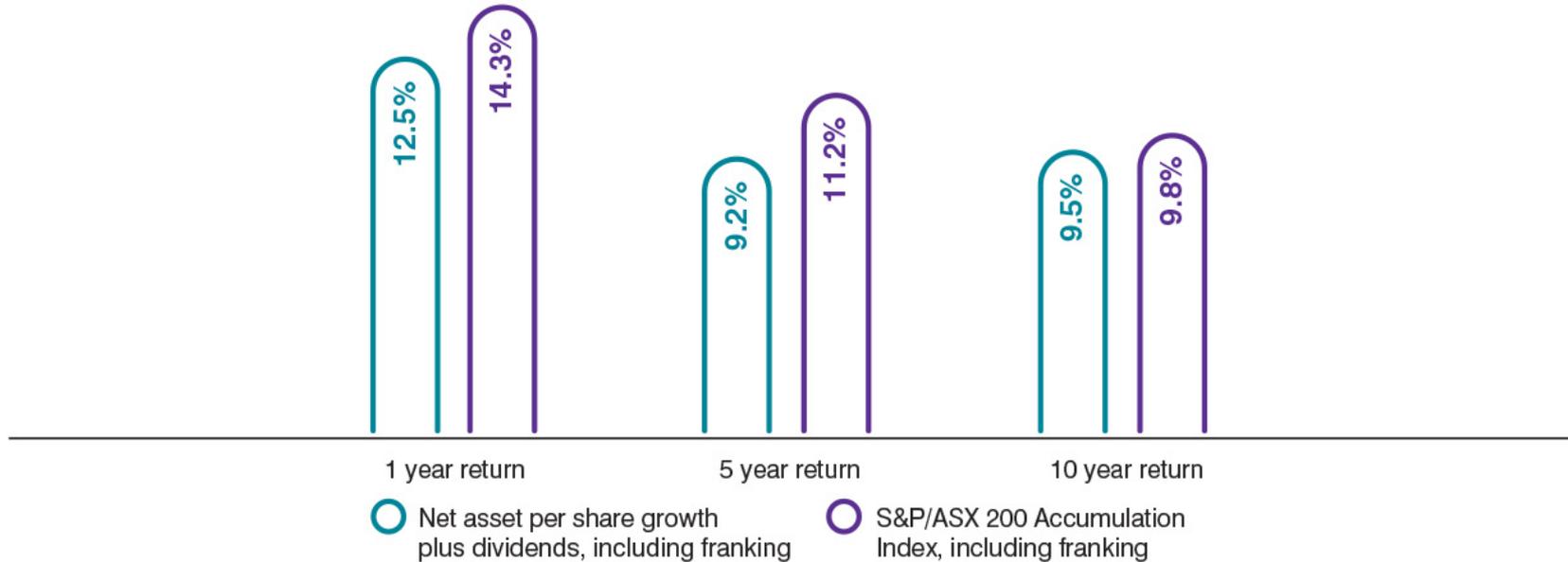
Annual General Meeting 2019

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Market and key sector performance – Year to 30 September 2019



Relative portfolio performance, including franking – per annum returns to 30 September 2019



* 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. It should be noted that Index returns for the market do not include management expenses or tax.

Recent AFIC portfolio performance relative to the index

- Underweight REIT's – risk of capital loss with share prices well above asset backing
- No exposure to Gold sector – not a typical AFIC stock: short mine life, volatile price, limited dividends
- Underweight Technology sector (i.e. hot stocks) – valuation growth far exceeding earnings growth



High P/E firms trade at a 73% premium to the market, which is 23% above the long term average

Source: Goldman Sachs Research

We are currently facing heightened volatility in equity markets

- Trade Wars
- Brexit
- Middle East tensions/conflict
- Weakening manufacturing data globally
- Falling bond yields – uncharted territory
- Equity valuations elevated against long term averages

However this uncertain backdrop is providing selective opportunities to acquire quality companies exhibiting value.

AFIC offers a diversified portfolio of quality stocks

What we look for:

- Sustainable competitive advantage – unique assets producing strong returns on capital
- Strong management team and board
- Recurring, predictable earnings are preferred
- Financial strength – strong cash flow and balance sheet
- Businesses that can grow over the long term, producing growing dividends
- Nursery stocks – developing the above attributes
- Look to buy when we see long term value

AFIC portfolio

Portfolio attributes:

- Diversified portfolio of quality holdings
- Low turnover

Portfolio positioning:

- Reduced number of stocks with capital reinvested in quality companies
- Increased exposure to preferred companies

A number of holdings have been sold – total holdings down from 85 to 71 over the past 12 months



Concern about sustainable competitive advantage.

Incitec Pivot Limited

Low return profile.



Concern about sustainable competitive advantage.



Concern about sustainable competitive advantage.



UNIBAIL-RODAMCO-WESTFIELD

Over geared balance sheet.

Using proceeds to increase exposure to preferred companies



Competitive advantage in growing green energy opportunities with strong ROE and balance sheet.



Strong management team, high returns, lowest cost, good balance sheet, investing for future earnings growth, strong growth profile.



Global market-leader in the development of logistics property. Has a strong growth profile, sound ROE and strong balance sheet. Owner\Driver company.



High quality portfolio of difficult to replicate assets and fits well with an ageing population. Strong financial metrics and management/board.

Using proceeds to increase exposure to preferred companies continued



Very strong market position with broadening distribution network and sustainable competitive advantage. Strong balance sheet.



Attractive monopolistic assets which generate attractive returns. Opportunities to invest to generate further growth. Strong management team.

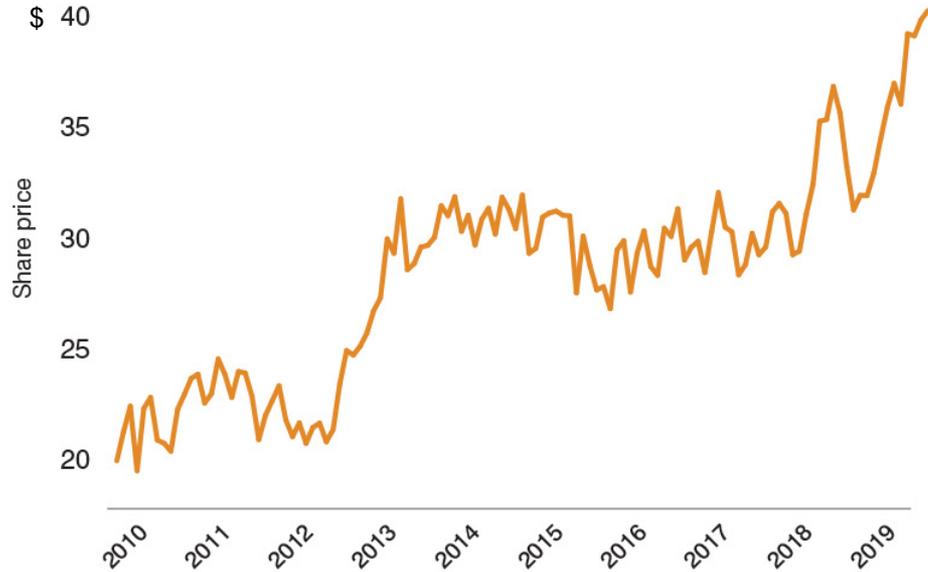


High quality portfolio of pathology assets globally. Opportunities to increase scale via industry consolidation. Medical leadership culture.



High quality portfolio of pipeline assets with high degree of earning consistency. Have opportunities to add new projects over next few years to drive growth.

Examples of what we look for – Wesfarmers



Source: FactSet.

- Market leadership position in Australian and New Zealand hardware
- Strong management team
- Consistent earnings growth
- Strong balance sheet post the demerger of Coles
- Strong returns well above the cost of capital

Recent volatility has provided buying opportunities in quality companies – James Hardie Industries



Source: FactSet.

- Leadership position in Fibre Cement exterior cladding market in the US
- Fibre Cement siding only represents 20% of the siding market
- Strong cash flow reinvested back into the business at attractive returns – plant/technology
- Large number of growth opportunities
- Quality leadership team
- ‘Self help’ drivers delivering growth above housing cycle growth

Recent volatility has provided buying opportunities in quality companies – National Australia Bank



Source: FactSet.

- Maximum negative news around the Royal Commission
- Stock was exhibiting value, yielding 6.7% fully franked
- However earnings growth likely to be low in the short term
- Long term banks will remain a key part of financing the Australian economy
- Still producing a good ROE
- Can use options to enhance yield

Selected “Nursery” holdings

1.5% of the portfolio



- Dominate position in logistics
- Moorebank opportunity is significant
- Backable team of people, owner/driver characteristics

0.7% of the portfolio



- Leadership position in accounting software
- Cloud based technology
- Dominant in Australia, NZ, growing in the UK and US
- Invest heavily in their product
- Initially owner/driver

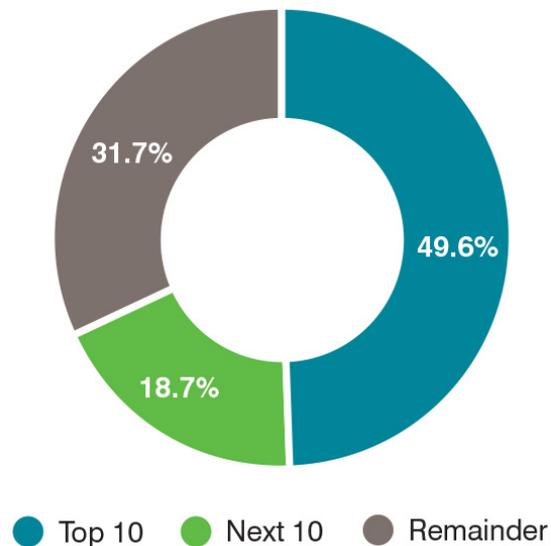
0.4% of the portfolio



N E X T D C

- Growing leadership position in strongly growing data market
- Good ROIC when facilities fully utilised

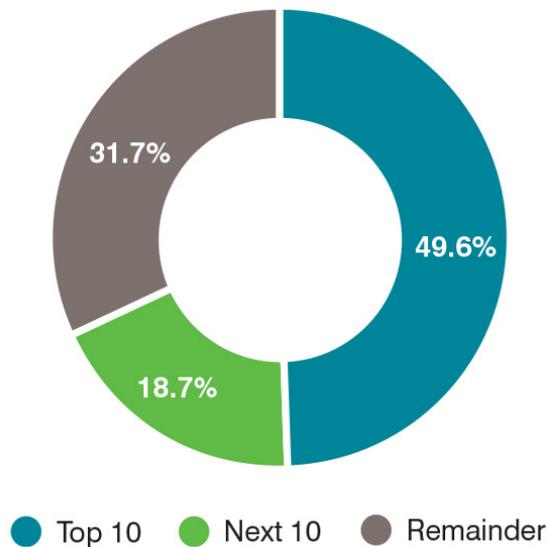
Top 20 holdings as at 30 September 2019



Rank	Company	% of Portfolio
1	Commonwealth Bank of Australia	8.3%
2	BHP*	6.4%
3	CSL	6.4%
4	Westpac Banking Corporation	6.0%
5	National Australia Bank*	4.9%
6	Transurban	4.4%
7	Macquarie Group	3.6%
8	Wesfarmers	3.5%
9	Australia and New Zealand Banking Group*	3.4%
10	Woolworths Group	2.7%

* Options were outstanding against part of the holding.

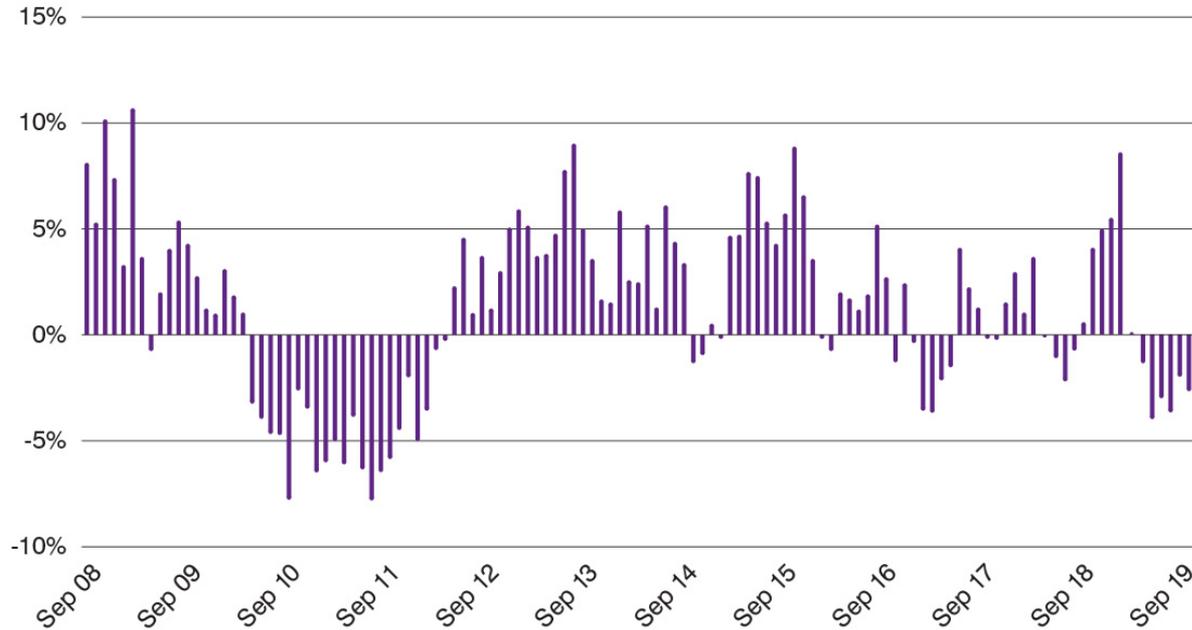
Top 20 holdings as at 30 September 2019 continued



Rank	Company	% of Portfolio
11	Rio Tinto	2.3%
12	Amcor	2.3%
13	Sydney Airport	2.0%
14	James Hardie Industries	2.0%
15	Telstra Corporation	1.8%
16	Woodside Petroleum*	1.8%
17	Brambles	1.8%
18	Oil Search*	1.7%
19	Mainfreight	1.5%
20	Sonic Healthcare	1.5%

* Options were outstanding against part of the holding.

In strong markets AFIC's share price can sometimes trade at a discount to NTA – at end September 2019 the discount was 1.6%





Closing Remarks

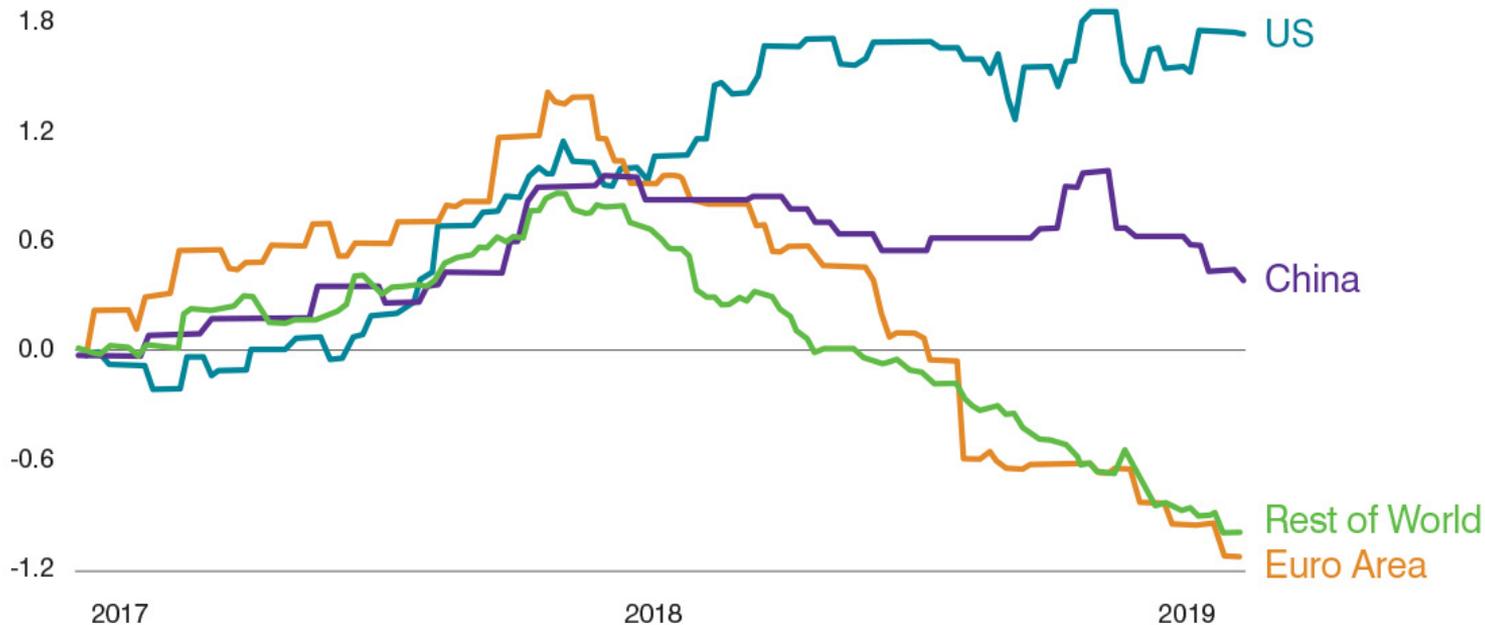
Asset Prices are at extremes

- Gold price is very high
- Bond Prices are elevated
- US and Australian equity markets close to all time highs
- Equity valuations are extreme for many stocks in the Australian market

US is still holding up the global economy as others weaken

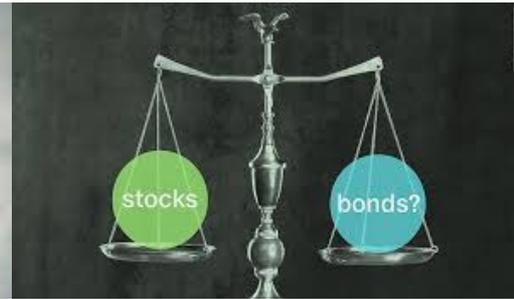
J.P. Morgan Forecast Revision Index

Cumulative % point revision to rolling forecast of GDP (Q-1, Q, Q+1, Q+2)



Source: J.P. Morgan

Heightened volatility in equity markets



We believe we have a very strong portfolio of high quality companies exhibiting strong returns on invested capital, that have strong balance sheets that reduce risk and that provide strategic flexibility for these businesses

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**