

2 December 2019

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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



Matthew Rowe  
Company Secretary



**New Zealand Shareholder Meetings  
December 2019**

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# Financial Results

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# Financial results\*

Net Profit After Tax (\$ Million)



Net Profit Per Share (Cents)



Dividends Per Share (Cents)

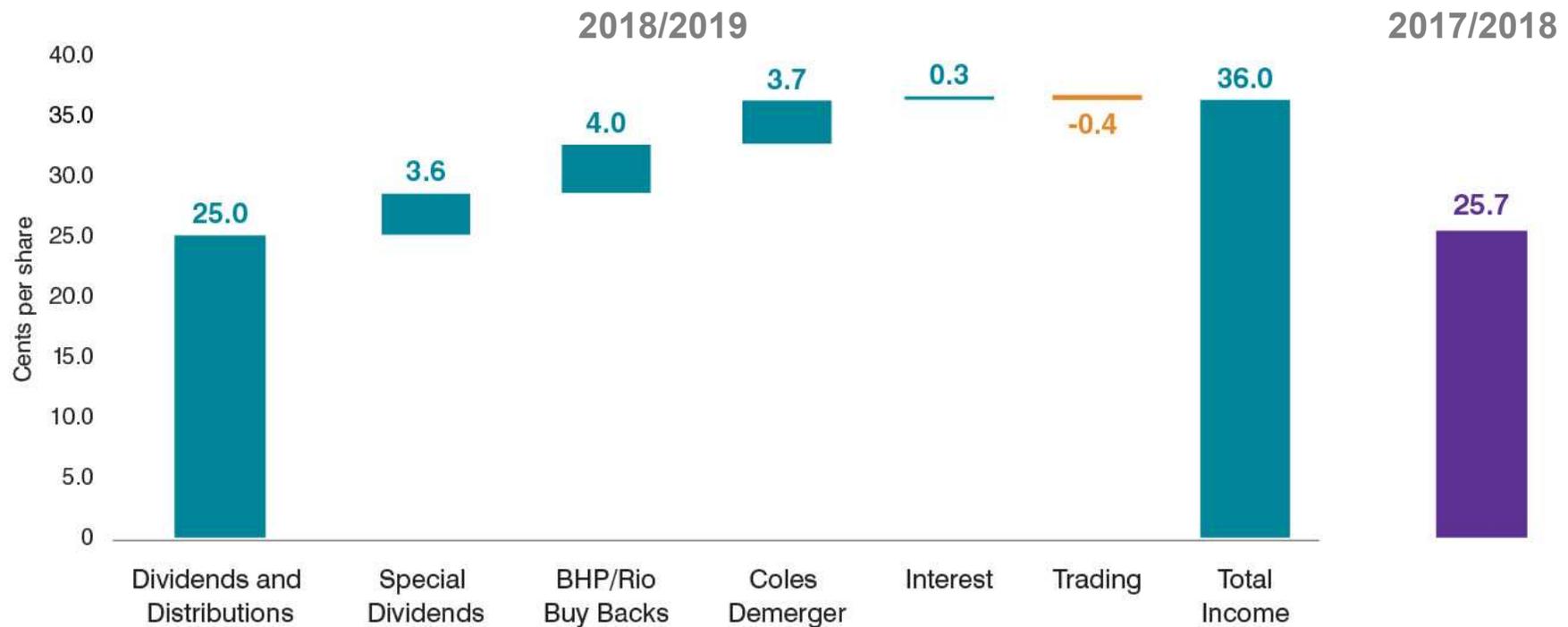


8 special dividend paid with interim dividend

Management expense ratio of 0.13%

\*in Australian dollars and cents

## 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

\*in Australian cents

A blue-tinted photograph of a laboratory setting. In the foreground, several glass test tubes are arranged in a row. A glass pipette is positioned above them, with a single drop of liquid about to fall. The background is softly blurred, showing more laboratory equipment. A teal-colored rectangular box is overlaid on the left side of the image, containing the text 'Our Approach'.

## Our Approach

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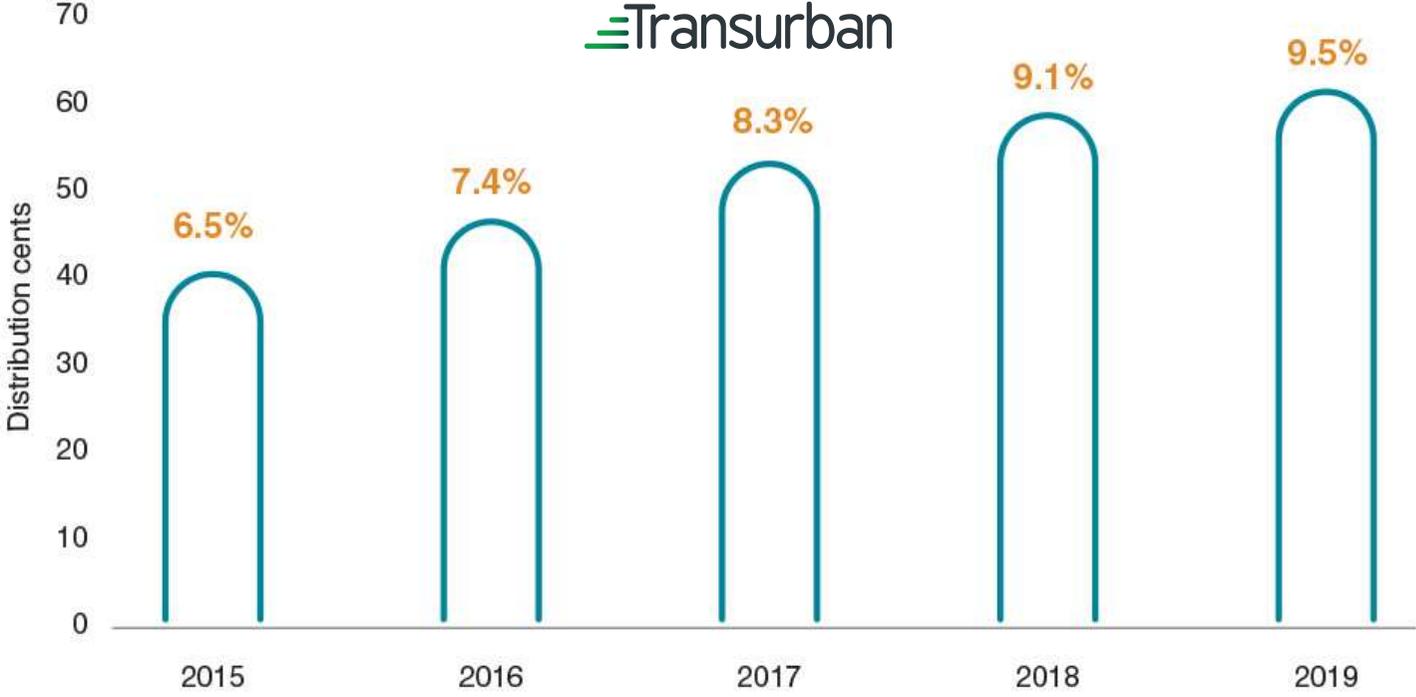
## How we operate as a Listed Investment Company



# Dividends are a key driver of shareholder returns in Australia



**Effective yield (in orange) 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**



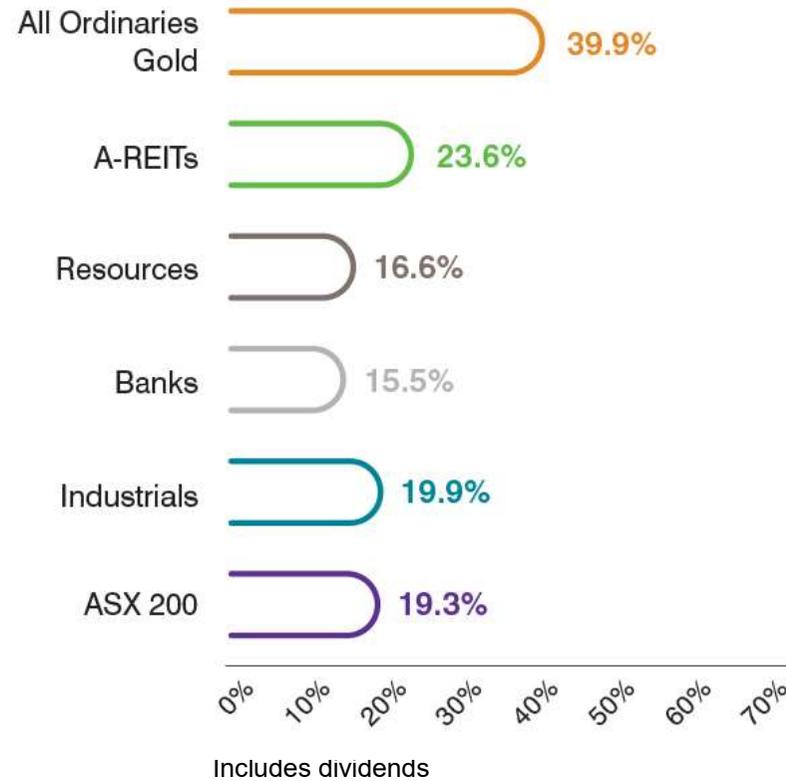


## Market Settings and the Portfolio

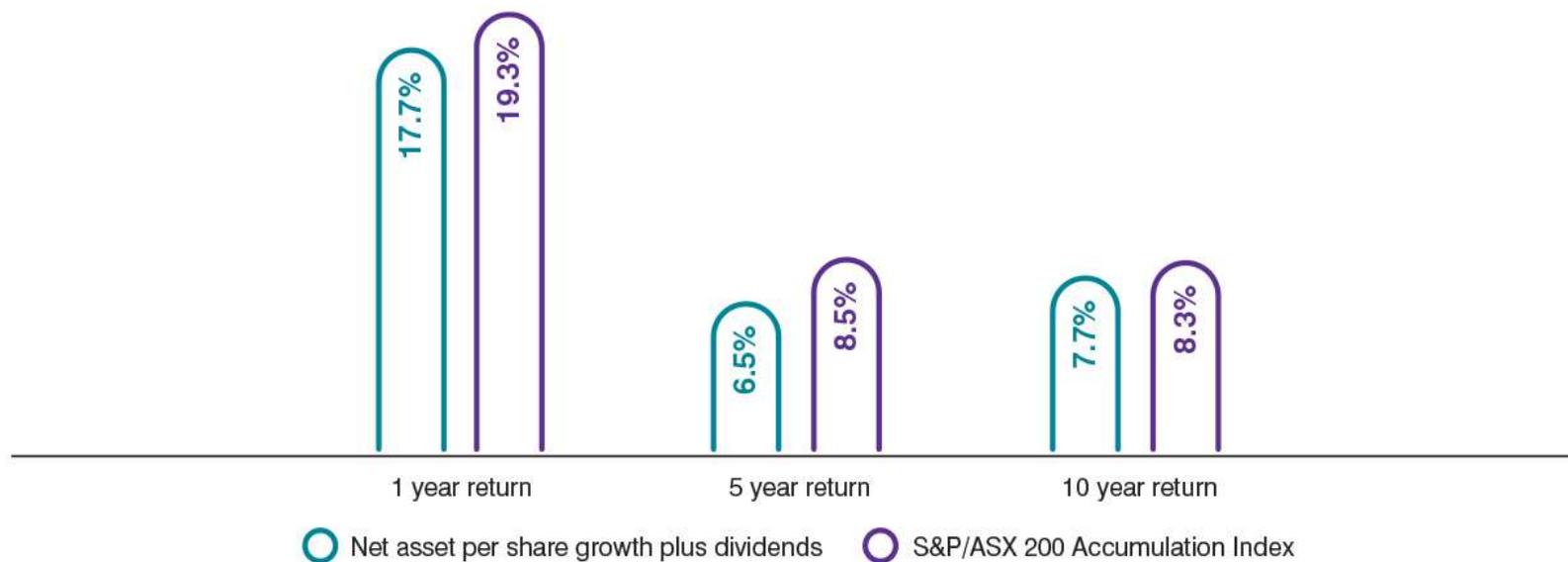
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## Market and key sector performance – year to 31 October 2019



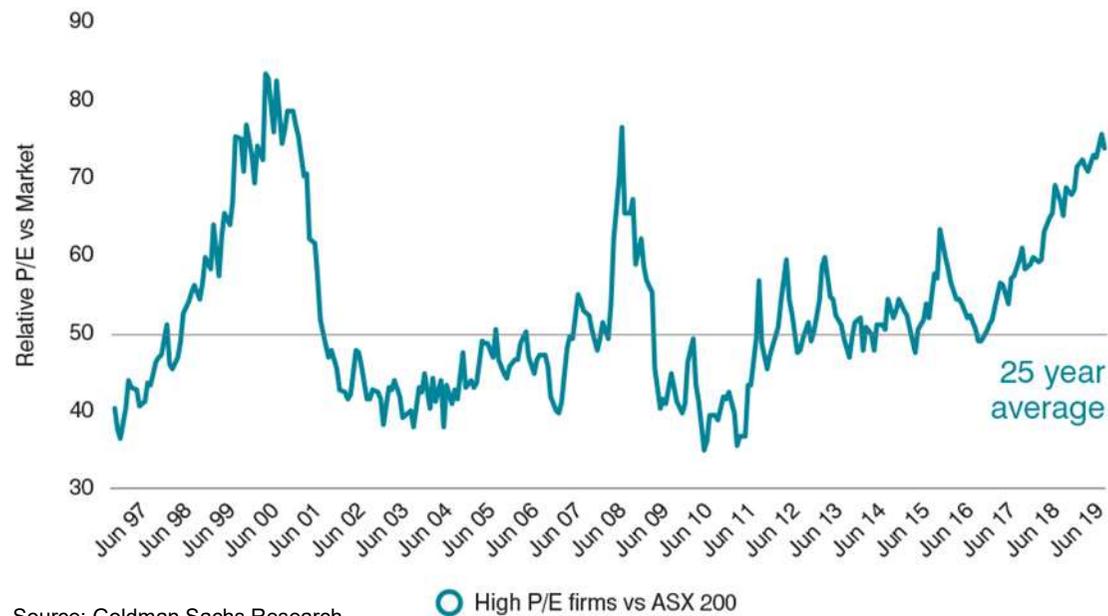
## Relative portfolio performance – per annum returns to 31 October 2019



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.

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**Incitec Pivot Limited**

Low return profile.

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Concern about sustainable competitive advantage.

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Concern about sustainable competitive advantage.

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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.

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

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

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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.

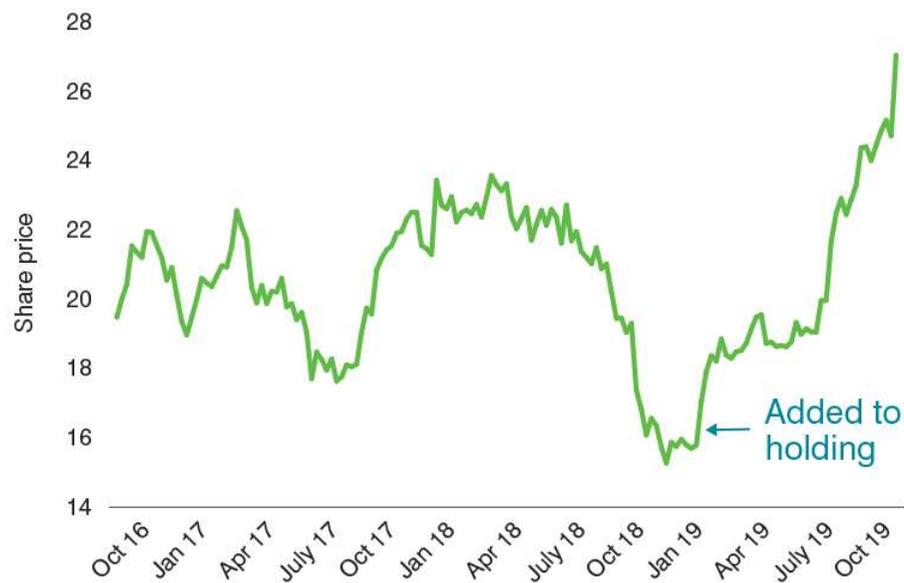
## Examples of what we look for – Wesfarmers



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



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

0.8% of the portfolio



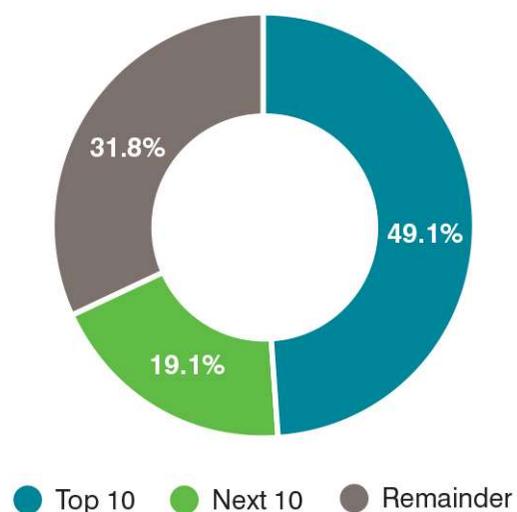
- Leadership position in accounting software
- Cloud based technology
- Dominant in Australia, NZ, growing in the UK and US
- Invest heavily in their product
- Initially owner/driver

0.4% of the portfolio



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

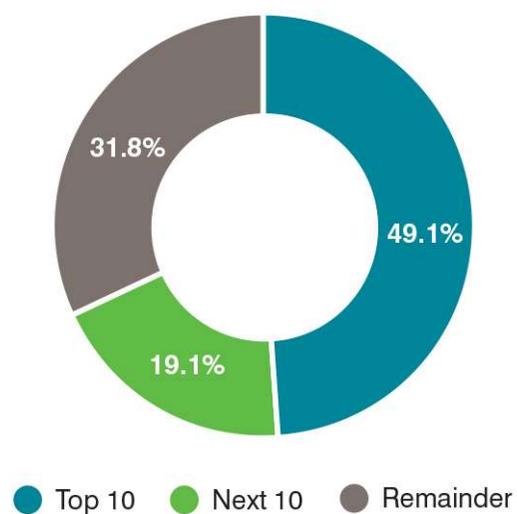
## Top 20 holdings as at 31 October 2019



Rank	Company	% of Portfolio
1	Commonwealth Bank of Australia	8.0%
2	CSL	6.9%
3	BHP Group*	6.3%
4	Westpac Banking Corporation	5.7%
5	National Australia Bank*	4.7%
6	Transurban Group	4.4%
7	Macquarie Group	3.7%
8	Wesfarmers	3.5%
9	Australia and New Zealand Banking Group*	3.2%
10	Woolworths Group	2.7%

\* Options were outstanding against part of the holding.

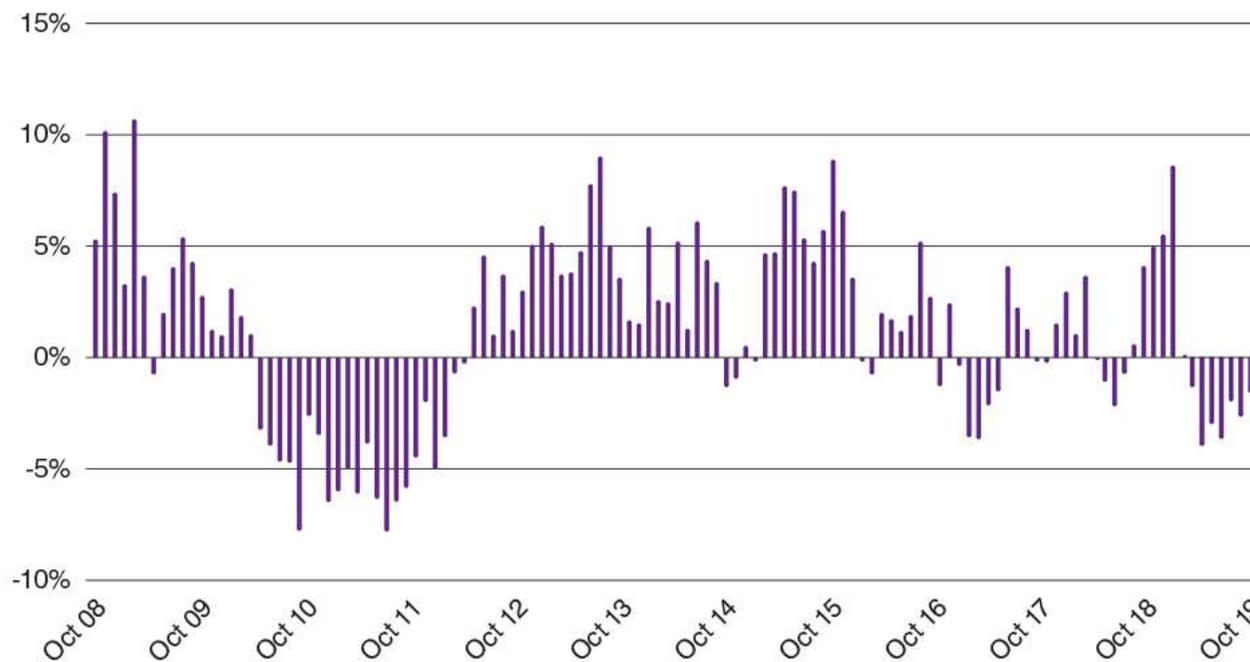
## Top 20 holdings as at 31 October 2019 continued



Rank	Company	% of Portfolio
11	Rio Tinto	2.3%
12	Amcor	2.3%
13	Sydney Airport	2.2%
14	James Hardie Industries	2.0%
15	Brambles	1.9%
16	Woodside Petroleum*	1.9%
17	Telstra Corporation	1.8%
18	Oil Search*	1.7%
19	Ramsay Health Care	1.6%
20	Mainfreight	1.6%

\* 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 October 2019 the premium was 0.5%**





## Closing Remarks

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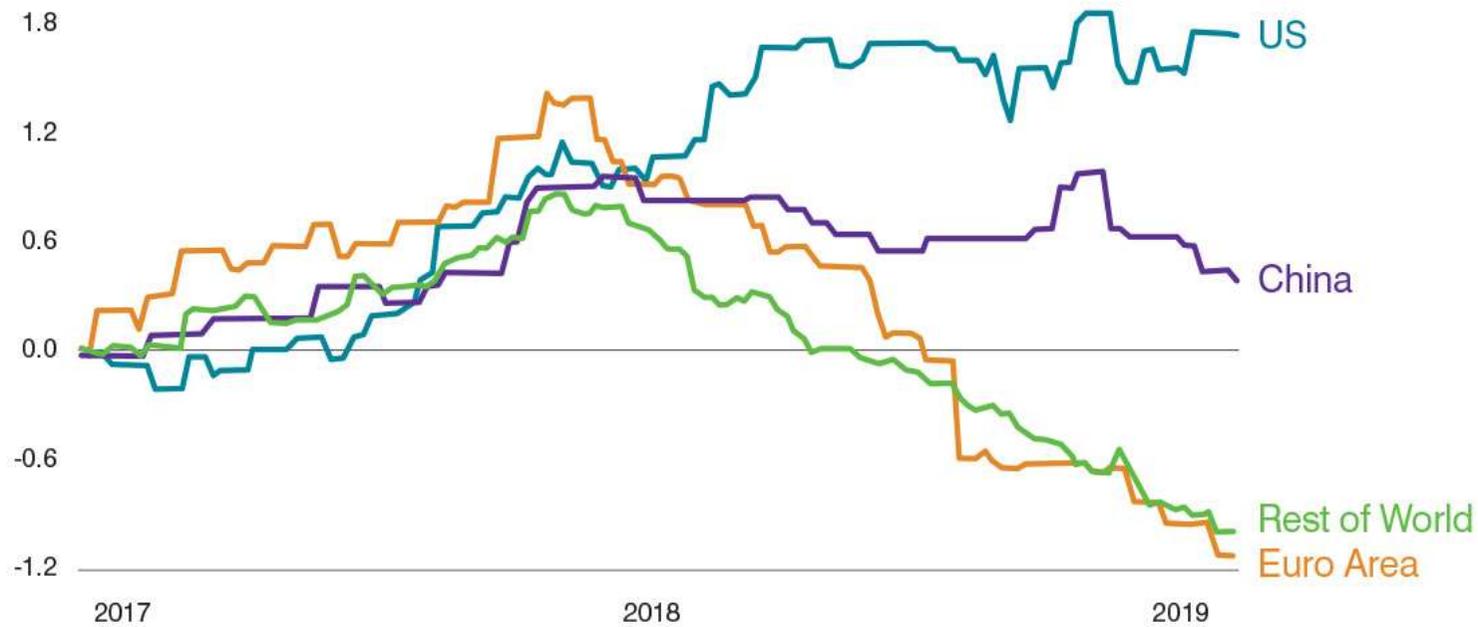
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## Asset prices are at extremes

- 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.**

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