

27 March 2020



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ASX Market Announcements  
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## **Electronic Lodgement**

### **Australian Foundation Investment Company Limited Teleconference/ Webcast Presentation**

Please find attached the presentation to be given at the Shareholder Teleconference/ Webcast being held today, **Friday 27 March 2020 at 10.00 a.m. (AEDT)**.

To join the webcast please use the below link (this is available under the news section on the Company's website, [afi.com.au](http://afi.com.au)).

**Webcast Link:** <https://edge.media-server.com/mmc/p/edawvd29> (This link will open directly in your internet browser).

Alternatively to join via the teleconference, please use the details below:

**Telephone:**            **1800 148 258 (free call within Australia)**  
                              **1300 157 230 (mobile, free call within Australia)**  
                              **+61 2 8038 5271 (outside Australia)**  
**Conference ID:**       **1064645**

On calling the number you will be greeted by an operator. Quote "1064645" and you will be connected to the briefing. The operator will also outline the process for asking questions. International Dial-In Numbers will be available via the Company's website.

The presentation is also available on the Company's website.

ASX Release authorised by the Company Secretary, Matthew Rowe.



**Shareholder Teleconference  
March 2020**

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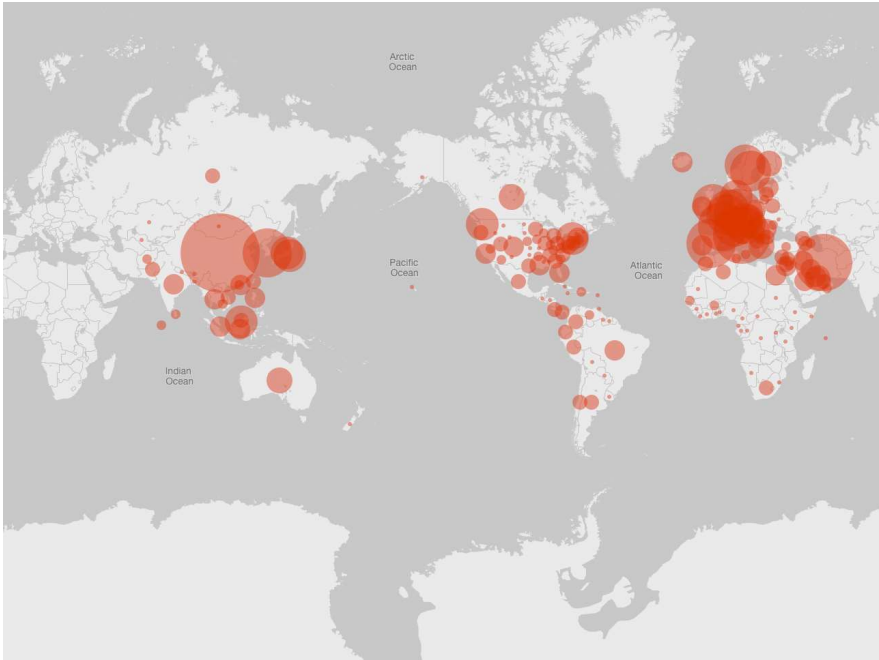


# The Market

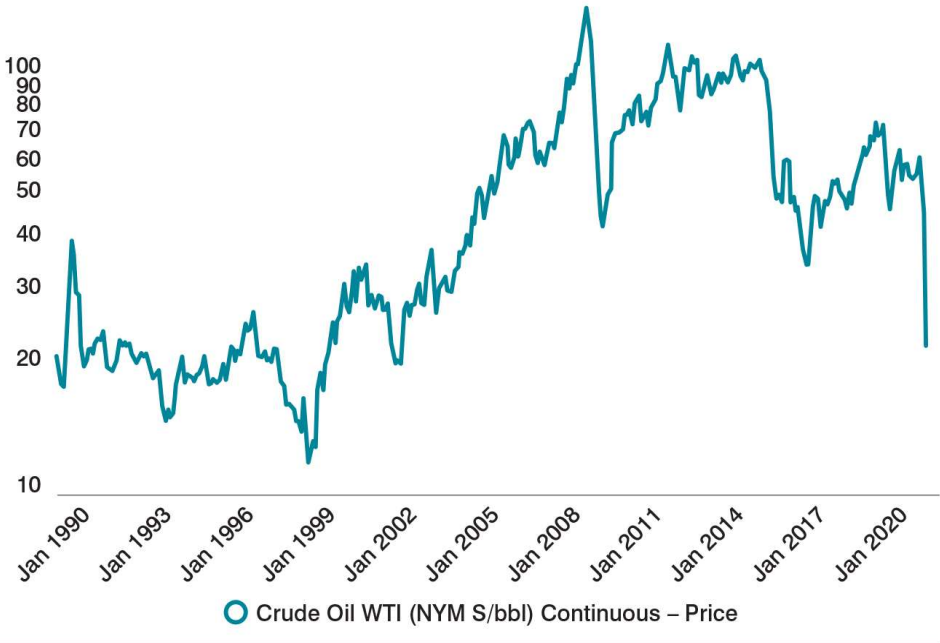
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# The Market

COVID-19



Oil Price

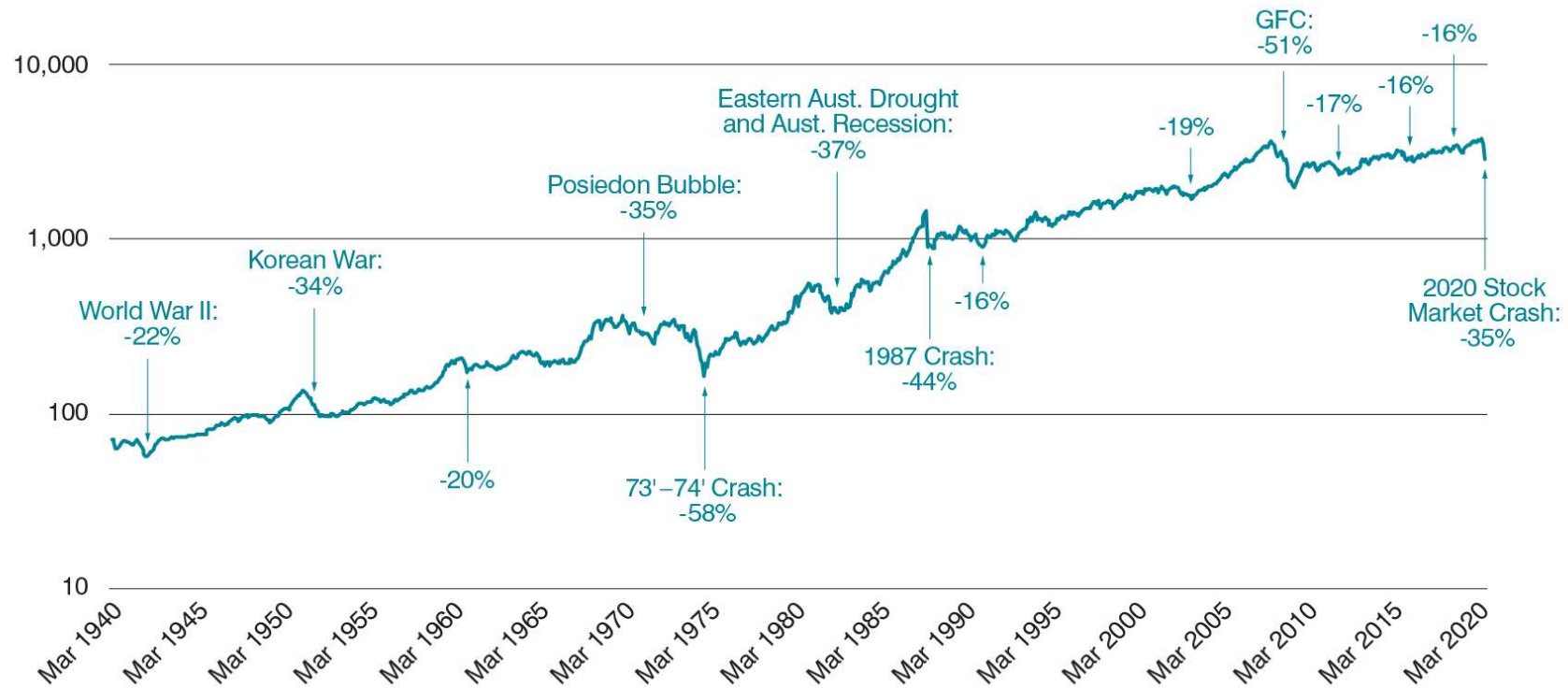


Source FactSet

## Isolation/shut down in China appears to be working

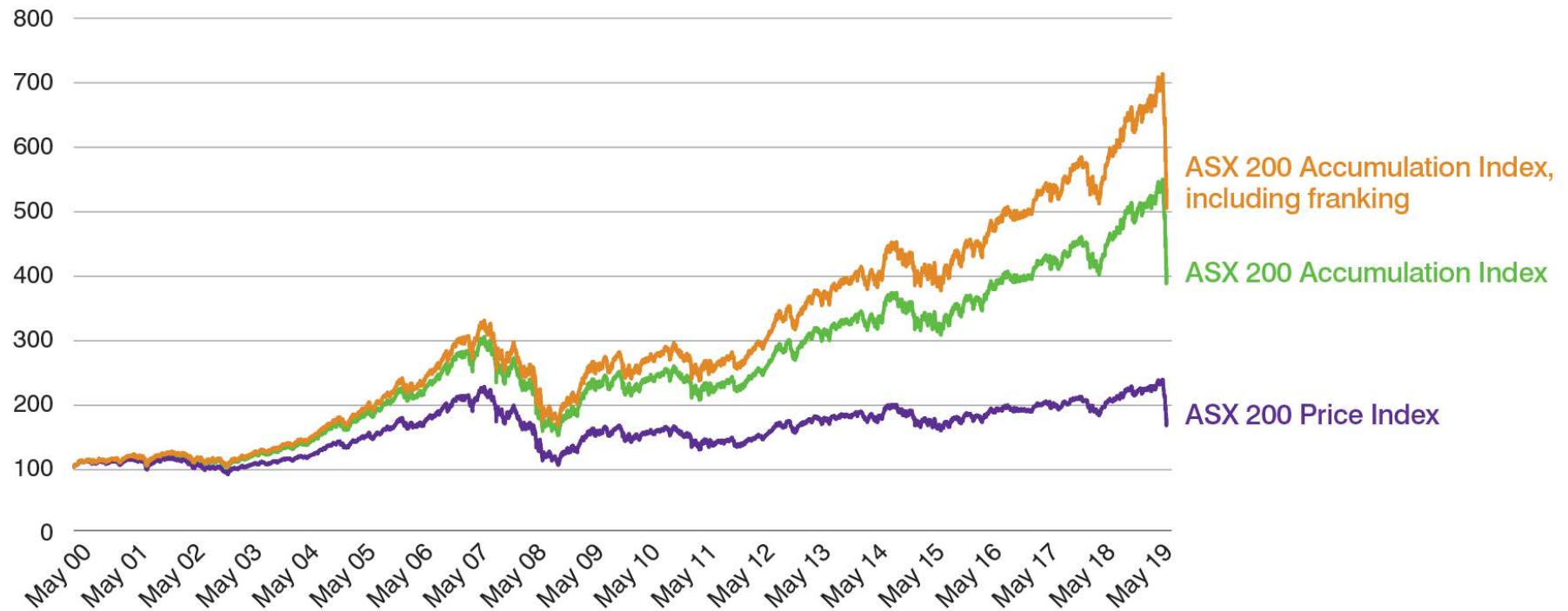
- 5 months since first case detected.
- China official data suggests downward trend in new COVID-19 cases.
- Most businesses have returned to 60%-70% of normal activity.
- Coal consumption by power plants is back to 78% of the level in the corresponding period last year.
- Manufacturing activity PMI likely to rebound in March.
- China may be the test case for how long this will play out.
- However, a severe global recession remains the base case as we move into the next 6 months.

## In perspective... the very long term returns of the Australian share market – All Ordinaries Price Index since 1940





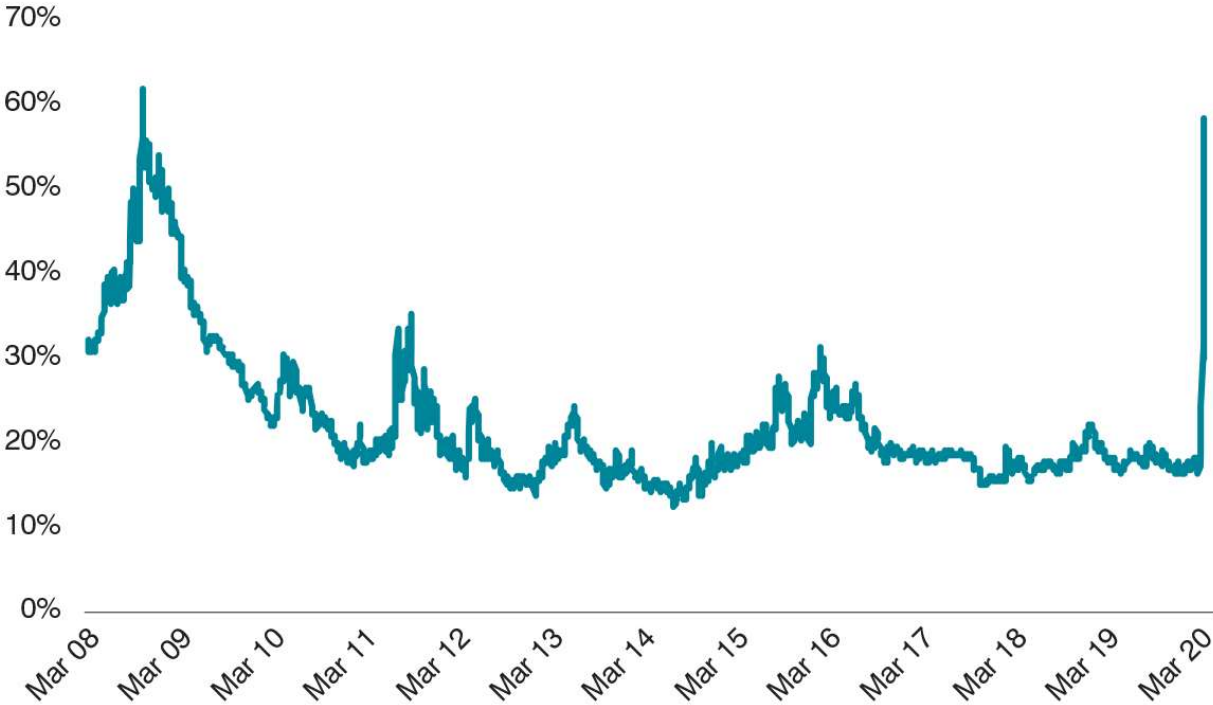
## Dividends and the attached franking add significantly to long term returns in the Australian market





# Volatility in equity markets is back at GFC levels

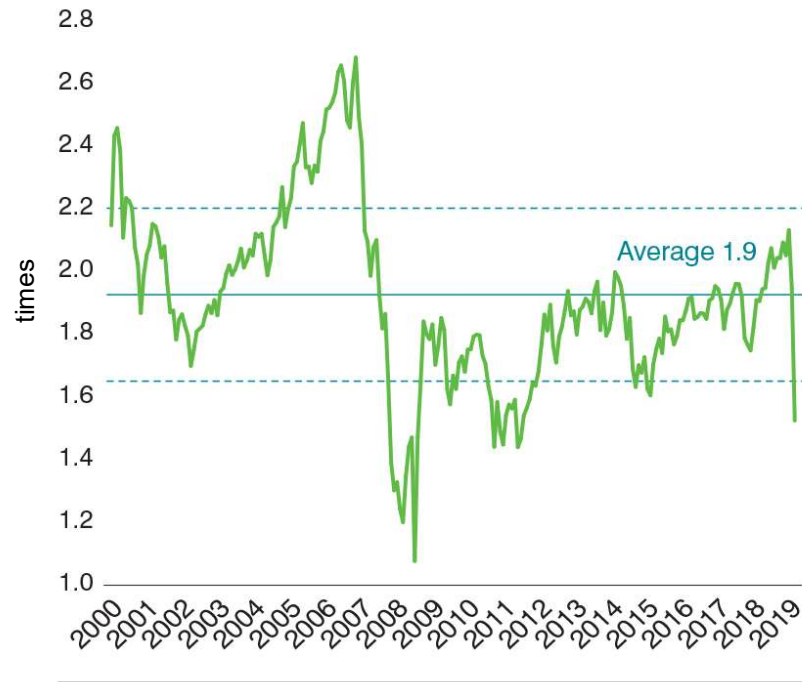
ASX 50 Implied Volatility



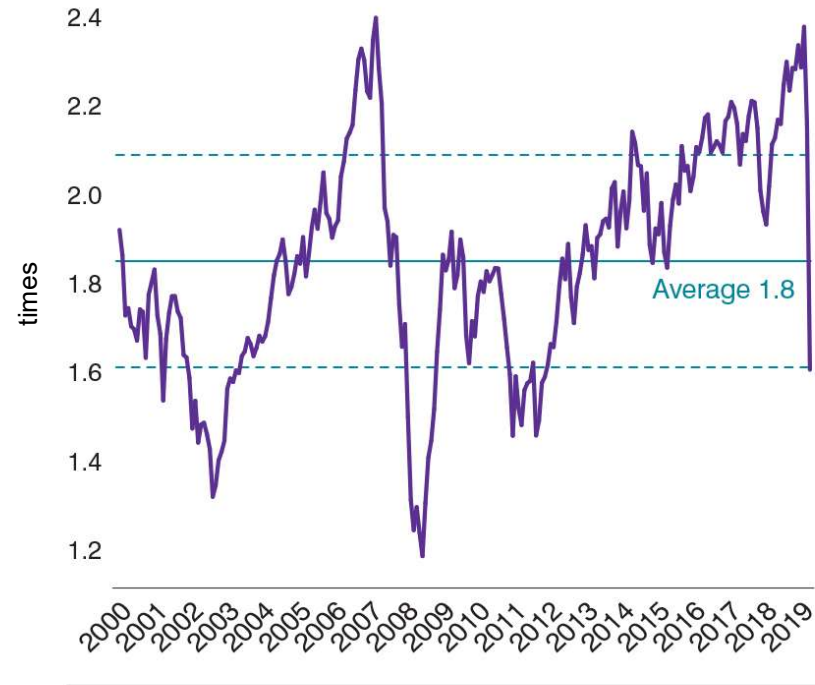
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## Long term value in the context of the recent market moves

Price to Book –  
S&P/ASX 200 Index



Price to Sales –  
S&P/ASX 200 Index





## Our Approach

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## AFIC is a long standing traditional LIC that is different to an Index ETF i.e. S&P/ASX 200 ETF

Shareholders own the Company	Only 66 Companies in the Portfolio	Transparent
Distributions are after tax paid	Reserves may help stability of dividends	Investment benefits of a close end fund

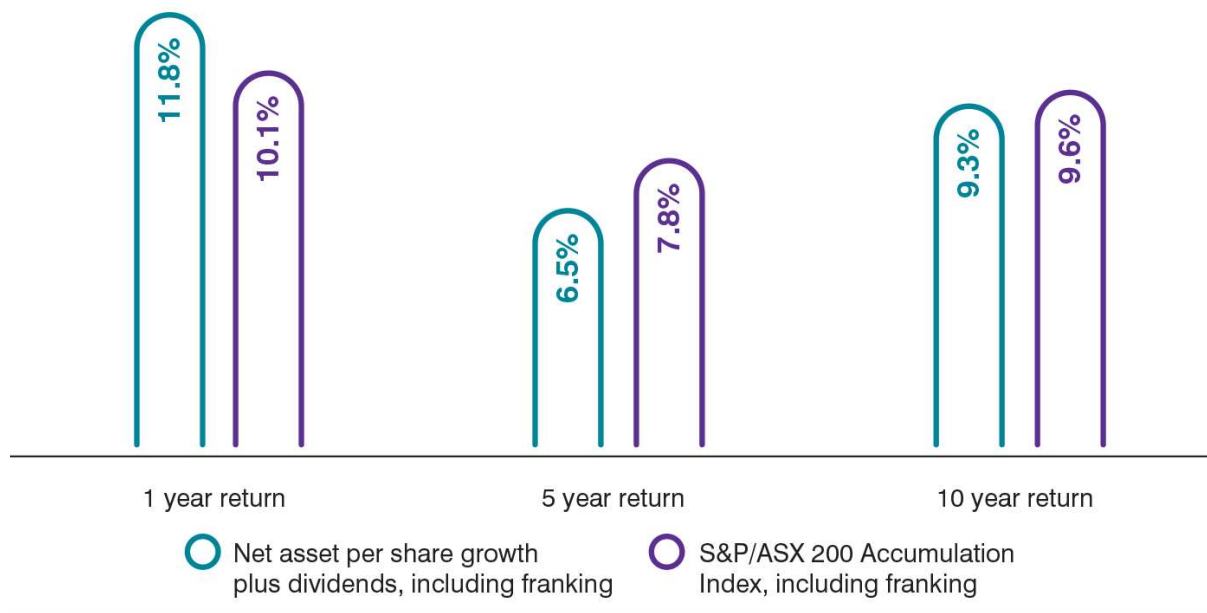


## AFIC offers a diversified portfolio of quality stocks

### 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

## Relative portfolio performance, including franking – per annum returns to end February 2020



\* 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.

Note the S&P/ASX 200 Accumulation Index has fallen by approximately 22% over the month of March to date.






## Impact of recent market moves

Estimate of NTA before tax at 13 March 2020 was \$5.53 cents per share:

- A fall of 12.8% from the beginning of March to 13 March
- The S&P/ASX 200 Index fell 13.5% over the same period






Note the S&P/ASX 200 Accumulation Index has fallen by approximately 22% over the month of March to date.

## Top 15 Overweight Positions in AFIC






	Portfolio	ASX 200 Index	
 Transurban	4.50%	2.34%	Very unique toll road assets which benefit from population growth and have set inflation linked pricing. Further opportunities to add new growth projects which support long term cash flow growth.
 LINFOIL	1.73%	NZX listed	Emerging leader in logistics solutions globally. Unique owner/driver culture which enables long term view of investment.
 Wesfarmers	4.06%	2.79%	Bunnings (60% of Wesfarmers) is a leading DIY retailer generating very attractive growth and returns. Lowest cost and scale provide competitive advantage. Management very focused on growing returns on capital. Strong balance sheet.
 amcor	2.54%	0.96%	Global Leader in consumer packaging with a strong balance sheet and highly rated management team.
 MACQUARIE	3.01%	2.08%	Competitive advantage in growing green energy opportunities with a strong Return on Equity and balance sheet. Strong owner culture.



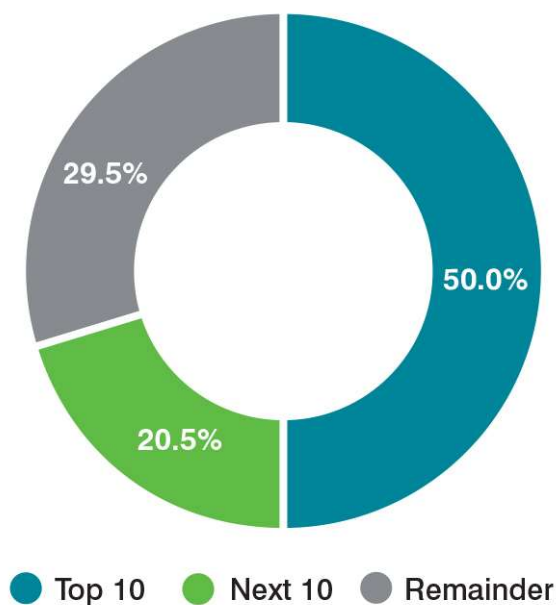
## Top 15 Overweight Positions in AFIC continued

	Portfolio	ASX 200 Index	
 <b>JamesHardie</b>	1.64%	0.60%	Very strong market position with broadening distribution network and sustainable competitive advantage. Strong balance sheet.
 <b>Fisher &amp; Paykel</b> HEALTHCARE	1.97%	0.75%	Leading manufacturer of respiratory and humidification medical products, with a near monopoly position in humidified high flow oxygen therapy. High quality management who have been in the business for many years.
 <b>RAMSAY</b> HEALTH CARE	1.63%	0.65%	High quality portfolio of difficult to replicate hospital assets, with growth driven by an ageing population. Solid financial metrics and quality management.
 <b>reece</b>	0.89%	Not included	Founder led management team who have built a successful Australian business which generates attractive returns. Seeking to replicate this in the United States.
 <b>Sydney Airport</b>	1.95%	0.91%	Attractive monopolistic assets which generate attractive returns. Opportunities to invest to generate further growth. Strong management team.

## Top 15 Overweight Positions in AFIC continued

	Portfolio	ASX 200 Index	
	1.12%	0.24%	Quality portfolio of difficult to replicate assets seeking to reduce freight costs and benefit from the modal shift from road to rail. Focused management who take a long term view.
	1.55%	0.78%	High quality portfolio of pathology assets globally. Opportunities to increase scale via industry consolidation. Medical leadership culture.
	1.03%	0.21%	Dominant market position in Australia auto classifieds with a growing presence in South Korea and South America. Technology investment provides competitive advantage. Strong management team.
	1.51%	0.26%	Leading manufacturer of obstructive sleep apnea and home respiratory products globally, with a focus on 'connected care'. Growth is underpinned by the large unmet need in the treatment of sleep apnea and respiratory diseases.
	0.99%	0.33%	Dominant market position in the provision of online employment classifieds in Australia and New Zealand. Emerging market opportunities in China, South East Asia and South America.

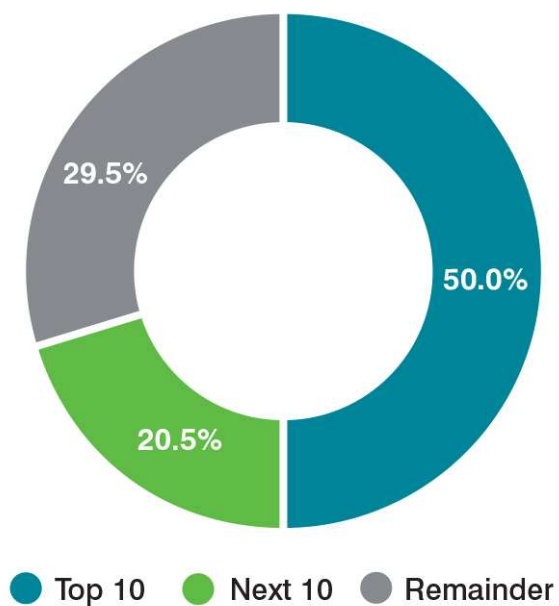
## Top 20 holdings as at 24 March 2020



Rank	Company	% of Portfolio
1	CSL	10.5%
2	Commonwealth Bank of Australia	7.8%
3	BHP Group*	6.8%
4	Transurban Group	4.5%
5	Wesfarmers	4.1%
6	Westpac Banking Corporation	4.0%
7	Woolworths Group	3.6%
8	National Australia Bank	3.0%
9	Macquarie Group	3.0%
10	Telstra Corporation*	2.7%

\* Options were outstanding against part of the holding.

## Top 20 holdings as at 24 March 2020 continued

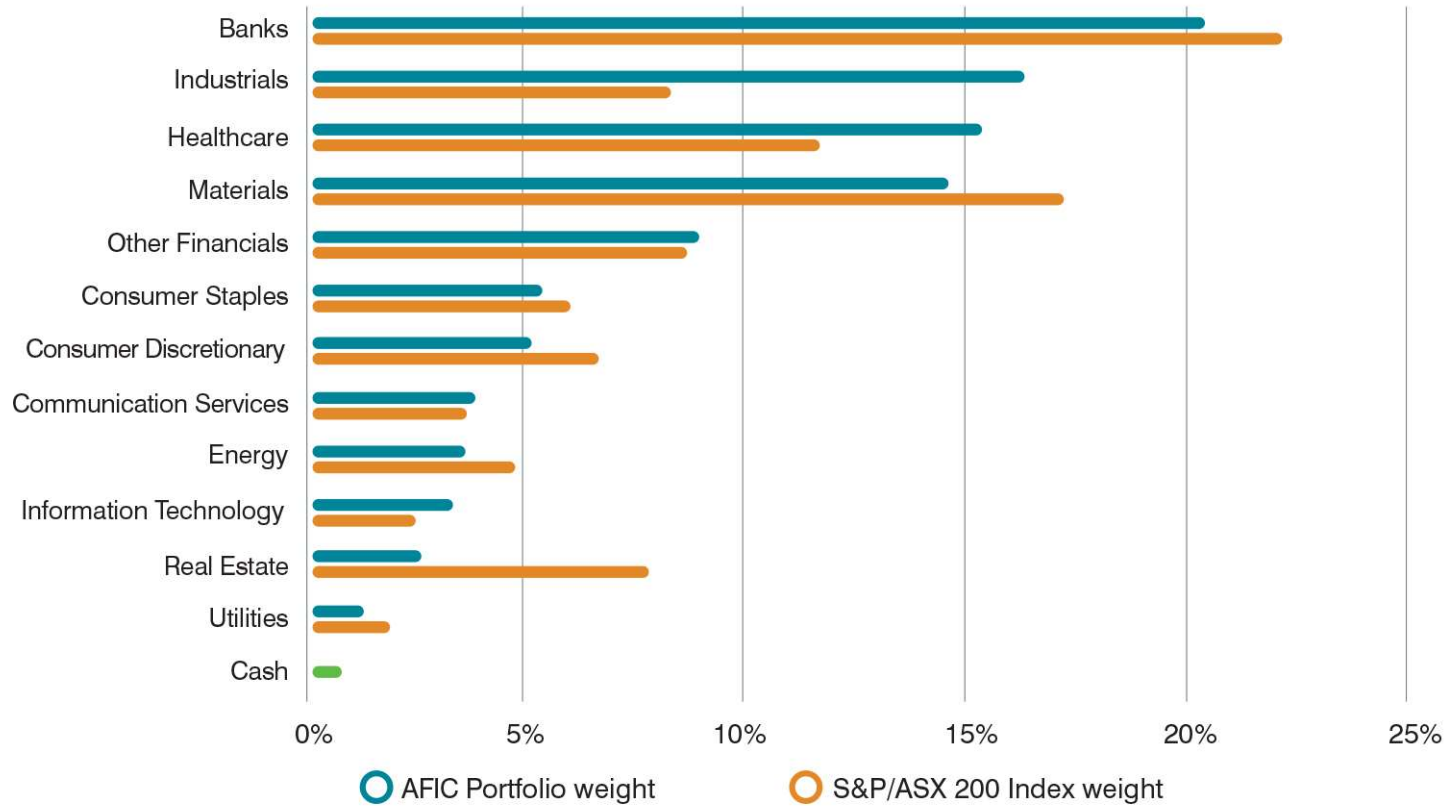


Rank	Company	% of Portfolio
11	Rio Tinto	2.7%
12	Amcor	2.5%
13	Australia and New Zealand Banking Group	2.4%
14	Brambles	2.1%
15	Coles Group	2.0%
16	Fisher and Paykel Healthcare	2.0%
17	Sydney Airport	1.9%
18	Mainfreight	1.7%
19	James Hardie Industries	1.6%
20	Ramsay Health Care	1.6%

\* Options were outstanding against part of the holding.



## AFIC Sector Weights vs the S&P/ASX 200 Index

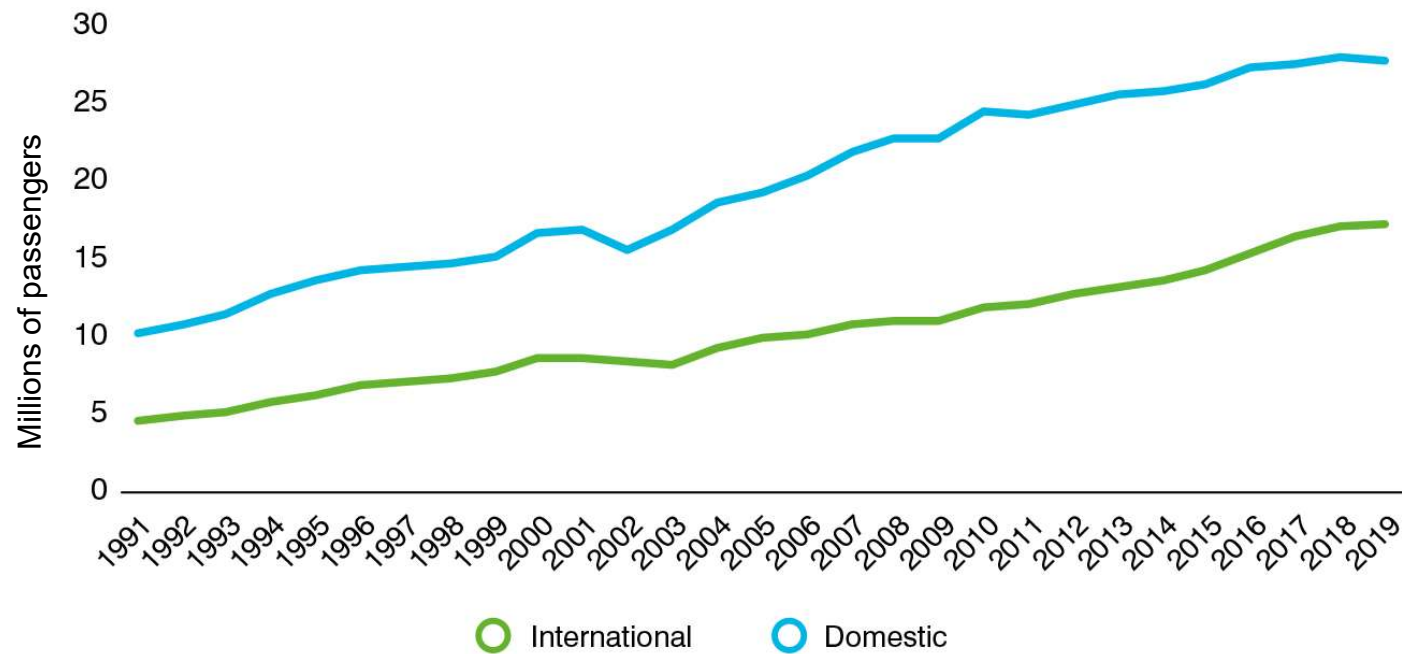


# Major additions for the financial year to date – Investment Portfolio



## Sydney Airport has seen a significant reduction in its share price

The long run passenger trajectory is very positive despite any short term setbacks





## Closing Remarks

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## Going forward

- Duration of this health crisis is the key – severe government action will help.
- Strong likelihood of a global recession – u shaped or a v shaped recovery?
- In a world of already low interest rates, large fiscal response has been necessary.
- Stocks are relatively cheap in comparison to bond markets – usually a good time to buy but need to be very selective and patient.
- AFIC has a quality long term portfolio with a focus on quality balance sheets in a period of expected economic stress.
- We have a portfolio of very strong companies that will come through this period – history shows us economies and markets will recover.

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