

22 February 2021

The Manager
ASX Market Announcements
Australian Securities Exchange
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Electronic Lodgement

**Australian Foundation Investment Company Limited
Half Year Review to 31 December 2020**

Dear Sir / Madam

Please find attached the Half Year Review to 31 December 2020 that is being sent to shareholders.

Yours faithfully



Matthew Rowe
Company Secretary

Release authorised by Matthew Rowe, Company Secretary

**Half-Year Review
to 31 December**

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20

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

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AUSTRALIAN FOUNDATION
INVESTMENT COMPANY
IS A LISTED INVESTMENT
COMPANY INVESTING
IN AUSTRALIAN AND
NEW ZEALAND EQUITIES.

Half-Year in Summary

2020

| | | |
|--|-------------------------------------|--|
| Profit for the Half-Year | \$84.1m | Down 42.4% from 2019 |
| Fully Franked Interim Dividend | 10¢ | 10 cents in 2019 |
| 6 Month Total Portfolio Return | 15.2% Including franking* | S&P/ASX 200 Accumulation Index including franking* 13.7% |
| 6 Month Total Shareholder Return | 22.5% | Share price plus dividend |
| Management Expense Ratio (Annualised) | 0.10% | 0.10% in 2019 |
| Total Portfolio | \$8.1b | Including cash at 31 December \$8.0 billion in 2019 |

* Assumes an investor can take full advantage of the franking credits.

About the Company

Australian Foundation Investment Company (AFIC) is a listed investment company investing in Australian and New Zealand equities.

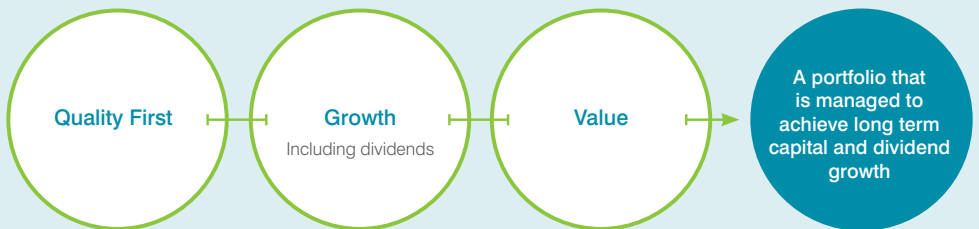
Investment Objectives

The Company aims to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and growth in capital invested.

The Company's primary investment goals are:

- to pay dividends which, over time, grow faster than the rate of inflation; and
- to provide attractive total returns over the medium to long term.

How AFIC Invests – What We Look For in Companies



Approach to Investing

The investment philosophy is built on taking a medium to long term view on companies in a diversified portfolio with an emphasis on identifying quality companies that are likely to sustainably grow their earnings and dividends over this timeframe.

Quality in this context is an outcome of our assessment of the board and management as well as some key financial metrics. These include return on capital employed, return on equity, the level of gearing in the balance sheet, margins and free cash flow. The structure of the industry and a company's competitive position in this industry is also an important indicator of quality. Linked to this assessment of quality is the ability of companies to grow earnings over time, which ultimately should produce good dividend growth.

As a long term investor, Environmental, Social and Governance (ESG) analysis is integrated into AFIC's investment framework:

- AFIC will seek to invest in companies that have strong governance and risk management processes that include environmental and social risks.
- The remuneration structures proposed and used by the Boards of the companies in which AFIC invests are assessed as we are seeking remuneration plans and outcomes that align with AFIC's (and AFIC's own investors) interests as long term shareholders.
- AFIC supports engagement with its investee companies on these issues, and will vote as shareholders accordingly.

Recognising value is also an important aspect of sound long term investing. Short term measures such as the price earnings ratio, price to book or price to sales may be of some value, but aren't necessarily strong predictors of future performance. Our assessment of value tries to capture the opportunity a business has to prosper and thrive over the medium to long term.

In building the investment portfolio in this way, we believe we can offer investors a well-diversified portfolio of high-quality companies that is intended to deliver total returns ahead of the Australian equity market and with less volatility over the long term.

The Company also uses options written against a small proportion of its investments and a small trading portfolio to generate additional income.

From time to time, some borrowings may be used where potential investment returns justify the use of debt. This is managed within very conservative limits, as determined by the Board.

AFIC is managed for the benefit of its shareholders with fees based on the recovery of costs rather than as a fixed percentage of the portfolio. There are no performance fees. As a result, the benefit of scale over time results in a very low expense ratio for investors. For the six months to 31 December 2020, this was 0.10 per cent (annualised), or 10 cents for each \$100 invested.

Review of Operations and Activities

Profit and Dividend

Half-year profit was \$84.1 million, down from \$146.1 million in the corresponding period last year.

Difficult operating conditions arising from the COVID-19 pandemic meant investment income for the six months to 31 December 2020 was \$95.2 million, down from \$164.1 million in the corresponding period last year. The biggest reductions came from the major banks, BHP, Macquarie Group and Transurban, while a number of companies in the portfolio did not pay a dividend during the half.

Despite the fall in the half-year earnings per share to 6.9 cents, the interim dividend for the half-year is 10 cents per share, fully franked, the same as the previous corresponding period. Part of the interim dividend this year has been funded from reserves.

The management expense ratio for AFIC is 0.10 per cent (annualised), with no performance fees.

Portfolio Returns and Positioning

The Australian equity market was pushed higher in the first half of the financial year (Figure 1) as global markets rallied on the back of very low interest rates, significant government stimulus and increased confidence about effective vaccines for the COVID-19 pandemic. This is despite the negative impact the pandemic is having on corporate earnings and renewed outbreaks of the virus in key global economies.

The increase in the Australian market has been driven by the information technology sector (Figure 2), driven largely by the ongoing momentum of Afterpay (which AFIC does

not hold), and the performance of Xero and NEXTDC, and the materials sector (with BHP and Rio Tinto very strong on the back of a very high iron ore price). Industrials and banks underperformed over the 12-month period. However, banks have been strong over the six months to 31 December 2020, as economic conditions improved and there appeared to be a better outlook for a reduced level of bad debts arising from deferred loans in housing.

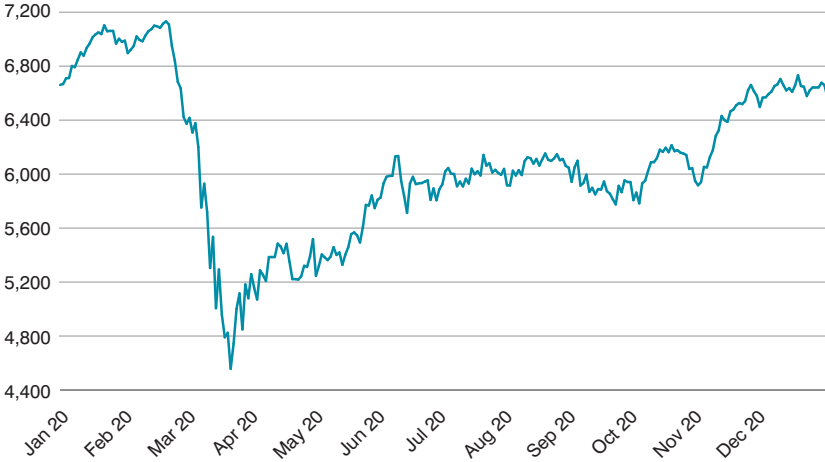
Through this period, AFIC has continued to focus the portfolio on quality businesses with a competitive advantage, strong returns on invested capital and resilient balance sheets. This has delivered a satisfactory portfolio performance despite not being in some of the more cyclical sectors of the market which have rebounded more recently as investors look for value in previously underperforming sectors, such as travel.

AFIC's portfolio was up 15.2 per cent for the six months to 31 December 2020 compared with the S&P/ASX 200 Accumulation Index, which was up 13.7 per cent over the same period. These figures include the benefit of franking credits, with AFIC's performance numbers after costs.

Companies in the portfolio that contributed strongly to returns through the six-month period were Commonwealth Bank, BHP, Mainfreight, Xero, Wesfarmers, James Hardie Industries, ARB Corporation and Reece.

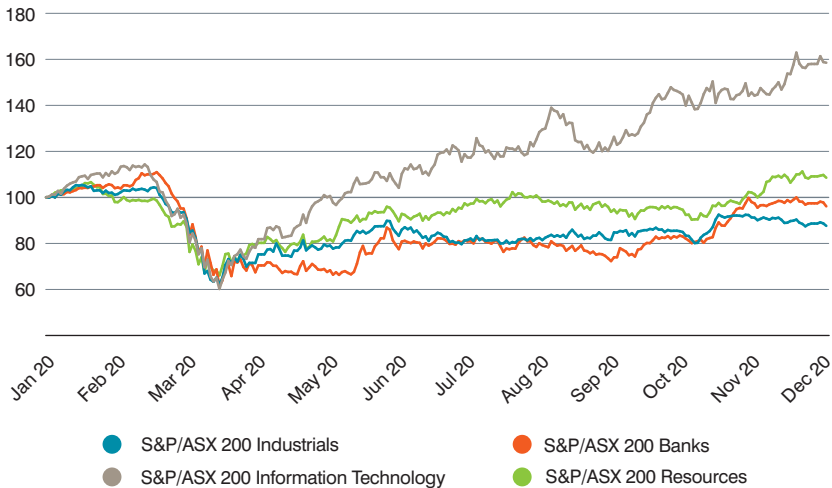
For the 12 months to 31 December 2020, the portfolio return, including franking, was 5.8 per cent. The return from the S&P/ASX 200 Accumulation Index over this period, including franking, was 2.4 per cent (Figure 3 on page 6).

Figure 1: S&P/ASX 200 Index – 12 Months to 31 December 2020



Source FactSet

Figure 2: Selected Sectors Total Return – 12 Months to 31 December 2020



Source FactSet

Review of Operations and Activities

continued

Portfolio Adjustments

Portfolio turnover was lower during the past six months than in previous periods. Repositioning of the portfolio in prior years has produced an increased weighting toward our preferred companies with little need for extensive adjustments. At 31 December 2020, there were 61 companies in the portfolio.

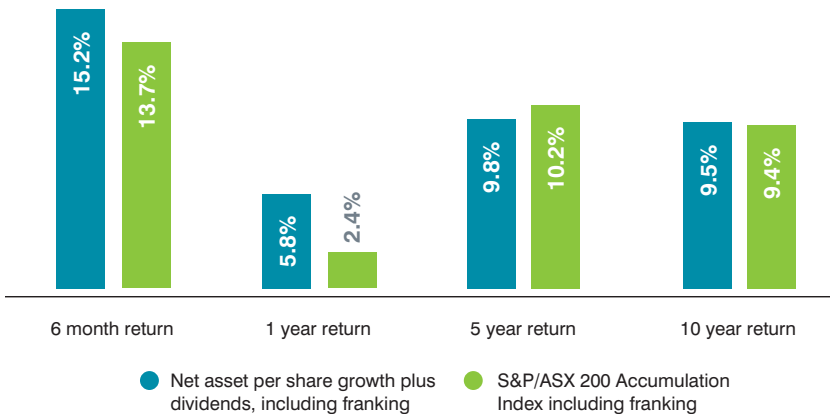
Having taken advantage of the large market falls in March and April 2020 to participate in selected capital raisings, further volatility during the past six months has provided opportunities to add to holdings in Woolworths, CSL and ASX. The purchase of Sydney Airport stock was through the participation in their entitlement issue. Two new companies were

also added: Fineos, a software business for insurance, and Nanosonics, a medical device company.

Major sales included the complete disposal of South32, reduction of the holding in Alumina and a trimming of the holdings in Oil Search and Cleanaway Waste Management. Other sales included a reduction in James Hardie Industries, as the share price ran up very strongly through the period, and National Australia Bank, as the share price made strong gains following its capital raising in May 2020.

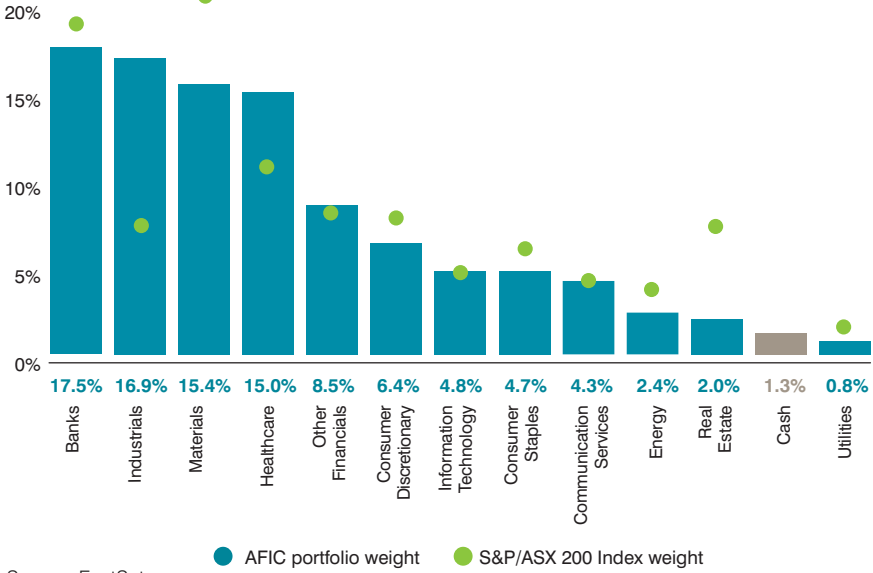
Figure 4 highlights the profile of AFIC's portfolio by the various sectors of the market at the end of the calendar year and how it differs from the Index.

**Figure 3: Portfolio Performance (Including the Full Benefit of Franking)
– to 31 December 2020**



Per annum returns other than for six months. AFIC's performance numbers are after costs.

Figure 4: AFIC Investment by Sector Versus the S&P/ASX 200 Index as at 31 December 2020



Source: FactSet



Review of Operations and Activities

continued

Share Price and Returns

Figure 5 highlights where AFIC's share price was trading relative to the net asset backing at 31 December 2020. Over the six-month period the share price has moved from a 2 per cent premium at 30 June 2020 to a premium of 10 per cent to net asset backing by 31 December 2020.

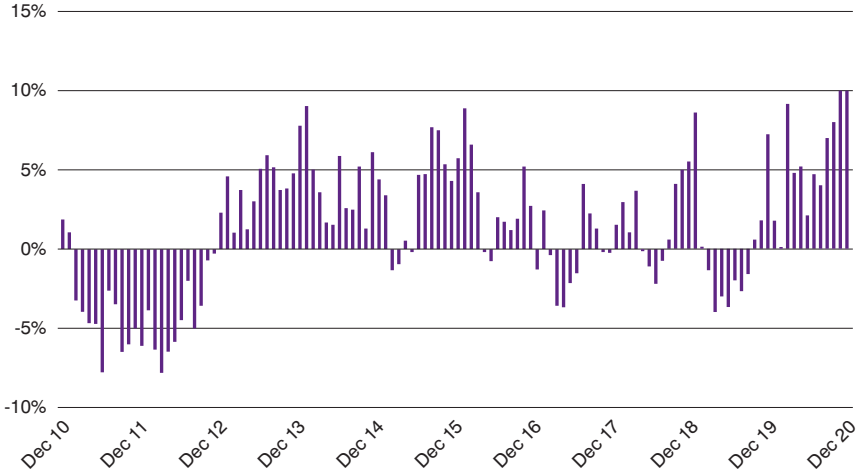
This change in the premium is reflected in the recent strong share price return relative to the S&P/ASX 200 Accumulation Index for the six-month period to 31 December 2020 (Figure 6). Importantly, the long term 10-year return is 8.4 per cent for the share price in comparison to 7.8 per cent for the Index. The figures for the Index and share price do not include any benefit a shareholder can derive from the franking credits attached to the dividends paid.

International Portfolio

At the AGM held in October 2020, we highlighted that AFIC was considering investing a small part of its funds (1.5 per cent) in a diversified global equities portfolio of high-quality listed companies. As highlighted at the time, we believe it will add to the growth prospects and diversification of our existing Australian-based portfolio. We are expecting funds to be invested in the coming months. In the future, when the performance of this portfolio has been assessed, we will consider whether it represents an opportunity for our shareholders and other investors to invest in this global portfolio directly.

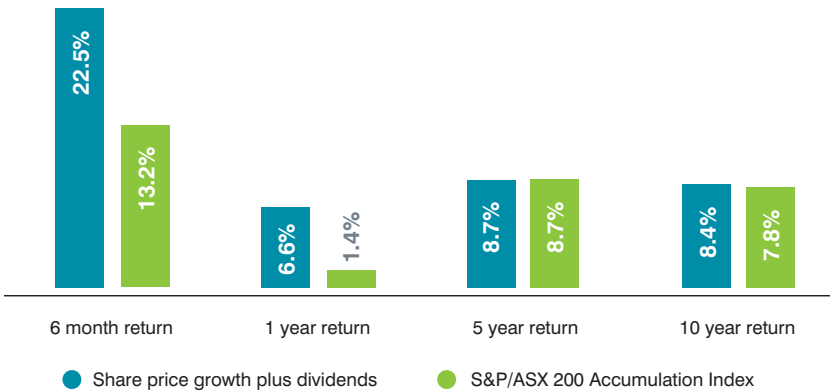


Figure 5: Share Price Relative to Net Asset Backing Per Share



Source: FactSet

Figure 6: Share Price Return – to 31 December 2020



Per annum returns other than for six months.



Review of Operations and Activities

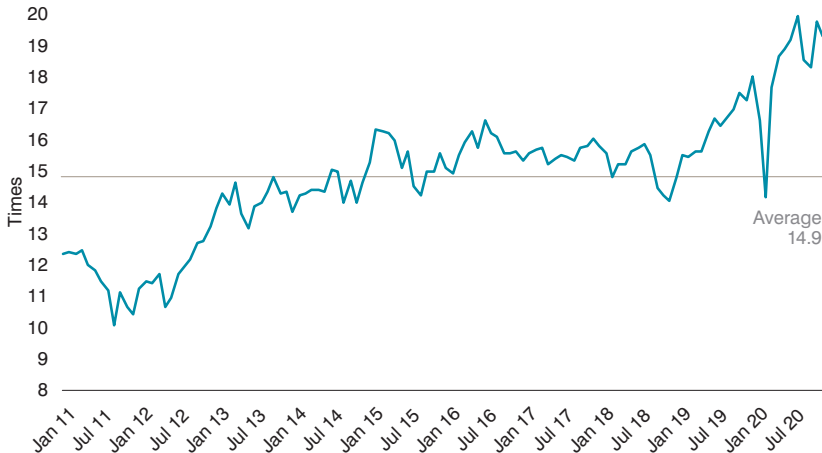
continued

Outlook

The immediate course of the pandemic remains uncertain as does the outlook for corporate earnings and dividends. The longevity and effectiveness of monetary policy and fiscal stimulus appear to remain key to underlying economic conditions, as does the potential effectiveness of COVID-19 vaccines moving into the new calendar year. In addition, the change in administration in the United States and the nature of geopolitical relationships with China across the globe may

further impact international equity markets. While equity markets are continuing to be heavily influenced by low interest rates, and with valuations for many companies at a high point (Figure 7), any negative sentiment could produce significant volatility. We believe the portfolio is well positioned for the long term should this occur. AFIC has sufficient funds available should good buying opportunities arise in the second half of the financial year during any market weakness.

Figure 7: S&P/ASX 200 Price Earnings Ratio



Source: FactSet



Top 25 Investments

As at 31 December 2020

Includes investments held in both the investment and trading portfolios.

Value at Closing Prices at 31 December 2020

| | | Total Value \$ Million | % of the Portfolio |
|--------------|---|---------------------------|-----------------------|
| 1 | Commonwealth Bank of Australia | 648.7 | 8.1 |
| 2 | CSL | 615.7 | 7.7 |
| 3 | BHP Group* | 590.6 | 7.4 |
| 4 | Wesfarmers | 371.5 | 4.7 |
| 5 | Transurban Group | 322.9 | 4.1 |
| 6 | Westpac Banking Corporation | 301.1 | 3.8 |
| 7 | Macquarie Group | 300.4 | 3.8 |
| 8 | National Australia Bank* | 271.5 | 3.4 |
| 9 | Woolworths Group | 249.2 | 3.1 |
| 10 | Rio Tinto* | 227.3 | 2.9 |
| 11 | Mainfreight | 211.9 | 2.7 |
| 12 | Australia and New Zealand Banking Group | 192.7 | 2.4 |
| 13 | Amcor | 177.9 | 2.2 |
| 14 | James Hardie Industries* | 175.4 | 2.2 |
| 15 | Sydney Airport* | 163.9 | 2.1 |
| 16 | Telstra Corporation | 162.4 | 2.0 |
| 17 | Brambles | 128.7 | 1.6 |
| 18 | Coles Group | 128.2 | 1.6 |
| 19 | Xero | 127.8 | 1.6 |
| 20 | Goodman Group | 126.4 | 1.6 |
| 21 | Sonic Healthcare | 119.1 | 1.5 |
| 22 | Ramsay Health Care | 119.1 | 1.5 |
| 23 | Seek | 118.7 | 1.5 |
| 24 | Reece | 117.7 | 1.5 |
| 25 | ResMed | 110.3 | 1.4 |
| Total | | 6,079.1 | |

As percentage of total portfolio value (excludes cash)

76.3%

* Indicates that options were outstanding against part of the holding.

Income Statement

For the Half-Year Ended 31 December 2020

| | Half-Year 2020 \$'000 | Half-Year 2019 \$'000 |
|---|-----------------------------|-----------------------------|
| Dividends and distributions | 93,837 | 153,929 |
| Revenue from deposits and bank bills | 95 | 1,109 |
| Net gains/(losses) on trading portfolio | (1,009) | 6,628 |
| Other revenue | - | 21 |
| Total income | 92,923 | 161,687 |
| Finance costs | (1,122) | (462) |
| Administration expenses | (3,680) | (3,874) |
| Profit before income tax | 88,121 | 157,351 |
| Income tax | (3,987) | (11,250) |
| Profit for the half-year | 84,134 | 146,101 |
| | Cents | Cents |
| Earnings per share | 6.89 | 12.10 |

Balance Sheet

As at 31 December 2020

| | 31 Dec 2020 \$'000 | 30 June 2020 \$'000 |
|--|--------------------------|---------------------------|
| Current assets | | |
| Cash | 103,222 | 111,318 |
| Receivables | 6,545 | 17,347 |
| Trading portfolio | 2,157 | 4,304 |
| Tax refund due | 3,802 | - |
| Total current assets | 115,726 | 132,969 |
| Non-current assets | | |
| Investment portfolio | 7,969,157 | 7,117,970 |
| Deferred tax assets | 4,119 | 872 |
| Total non-current assets | 7,973,276 | 7,118,842 |
| Total assets | 8,089,002 | 7,251,811 |
| Current liabilities | | |
| Payables | 1,427 | 884 |
| Tax payable | - | 30,771 |
| Provisions | 3,402 | 4,765 |
| Total current liabilities | 4,829 | 36,420 |
| Non-current liabilities | | |
| Provisions | 667 | 1,375 |
| Deferred tax liabilities – investment portfolio | 1,253,986 | 973,499 |
| Total non-current liabilities | 1,254,653 | 974,874 |
| Total liabilities | 1,259,482 | 1,011,294 |
| Net assets | 6,829,520 | 6,240,517 |
| Shareholders' equity | | |
| Share capital | 2,982,378 | 2,947,293 |
| Revaluation reserve | 2,795,749 | 2,166,030 |
| Realised capital gains reserve | 343,563 | 397,712 |
| General reserve | 23,637 | 23,637 |
| Retained profits | 684,193 | 705,845 |
| Total shareholders' equity (including minority interests) | 6,829,520 | 6,240,517 |

Summarised Statement of Changes in Equity

For the Half-Year Ended 31 December 2020

| | Half-Year 2020 \$'000 | Half-Year 2019 \$'000 |
|--|-----------------------------|-----------------------------|
| Total equity at the beginning of the half-year | 6,240,517 | 6,624,746 |
| Dividends paid | (164,556) | (164,150) |
| Dividend Reinvestment Plan | 35,165 | 34,407 |
| Other share capital adjustments | (80) | (76) |
| Total transactions with shareholders | (129,471) | (129,819) |
| Profit for the half-year | 84,134 | 146,101 |
| Revaluation of investment portfolio | 908,353 | 219,411 |
| Provision for tax on revaluation | (274,013) | (68,366) |
| Revaluation of investment portfolio (after tax) | 634,340 | 151,045 |
| Total comprehensive income for the half-year | 718,474 | 297,146 |
| Realised gains/(losses) on securities sold | (1,854) | 16,857 |
| Tax on realised gains/(losses) on securities sold | 6,475 | (22,045) |
| Net realised gains/(losses) on securities sold | 4,621 | (5,188) |
| Transfer from revaluation reserve to realised gains reserve | (4,621) | 5,188 |
| Total equity at the end of the half-year | 6,829,520 | 6,792,073 |

A full set of AFIC's interim accounts are available on the Company's website.

Holdings of Securities

As at 31 December 2020

Individual investments for the combined investment and trading portfolios as at 31 December 2020 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au.

Individual holdings in the portfolios may change during the course of the year. In addition, holdings which are part of the trading portfolio may be subject to call options or sale commitments by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

| Code | Ordinary Shares, Trust Units or Stapled Securities | Number Held '000 | Market Value \$'000 |
|------|---|------------------------|---------------------------|
| AIA | Auckland International Airport | 6,073 | 43,546 |
| ALQ | ALS | 7,012 | 67,387 |
| ALU | Altium | 396 | 13,443 |
| AMC | Ancor | 11,600 | 177,945 |
| ANN | Ansell | 1,079 | 37,523 |
| ANZ | Australia and New Zealand Banking Group | 8,488 | 192,671 |
| APA | APA Group | 6,665 | 64,317 |
| ARB | ARB Corporation | 3,503 | 107,884 |
| ASX | ASX | 1,243 | 89,462 |
| AUB | AUB Group | 2,526 | 40,893 |
| AWC | Alumina | 6,413 | 11,768 |
| BHP* | BHP Group | 13,935 | 590,570 |
| BKW | Brickworks | 1,369 | 26,277 |
| BXB | Brambles | 12,139 | 128,670 |
| CAR | Carsales.com | 5,033 | 100,711 |
| CBA | Commonwealth Bank of Australia | 7,900 | 648,669 |
| COH | Cochlear | 334 | 63,072 |

| Code | Ordinary Shares, Trust Units or Stapled Securities | Number Held '000 | Market Value \$'000 |
|-------------|---|---------------------------------|------------------------------------|
| COL | Coles Group | 7,068 | 128,204 |
| CPU | Computershare | 4,380 | 63,904 |
| CSL | CSL | 2,174 | 615,722 |
| CWY | Cleanaway Waste Management | 17,014 | 39,983 |
| DJW | Djerriwarrh Investments | 7,505 | 23,267 |
| DUI | Diversified United Investment | 12,030 | 57,865 |
| EQT | EQT Holdings | 1,322 | 34,996 |
| FCL | Fineos Corporation | 4,707 | 17,417 |
| FPH | Fisher & Paykel Healthcare Corporation | 3,485 | 107,861 |
| GMG | Goodman Group | 6,685 | 126,413 |
| IAG* | Insurance Australia Group | 9,527 | 44,670 |
| IRE | IRESS | 6,591 | 69,933 |
| IVC | InvoCare | 3,512 | 40,217 |
| JHX* | James Hardie Industries | 4,590 | 175,424 |
| LIC | Lifestyle Communities | 2,776 | 35,510 |
| MFT | Mainfreight (NZX listed) | 3,268 | 211,916 |
| MIR | Mirrabooka Investments | 8,728 | 28,365 |
| MLT | Milton Corporation | 9,776 | 46,631 |
| MQG | Macquarie Group | 2,170 | 300,437 |
| NAB* | National Australia Bank | 12,055 | 271,525 |
| NAN | Nanosonics | 3,011 | 24,175 |
| NWL | Netwealth Group | 1,445 | 23,033 |
| NXT | NEXTDC | 7,864 | 96,183 |
| ORG | Origin Energy | 6,500 | 30,940 |
| ORI | Orica | 2,226 | 33,720 |

Holdings of Securities

As at 31 December 2020 continued

| Code | Ordinary Shares, Trust Units or Stapled Securities | Number Held '000 | Market Value \$'000 |
|--------------|---|------------------------|---------------------------|
| OSH | Oil Search | 19,185 | 71,177 |
| QUB | Qube Holdings | 35,302 | 103,788 |
| REA | REA Group | 553 | 82,291 |
| REH | Reece | 7,951 | 117,679 |
| RHC | Ramsay Health Care | 1,915 | 119,075 |
| RIO* | Rio Tinto | 2,001 | 227,302 |
| RMD | ResMed | 4,050 | 110,282 |
| RWC | Reliance Worldwide Corporation | 11,463 | 46,426 |
| RYM | Ryman Healthcare (NZX listed) | 880 | 12,470 |
| SEK | Seek | 4,160 | 118,674 |
| SHL | Sonic Healthcare | 3,704 | 119,090 |
| SYD* | Sydney Airport | 25,606 | 163,922 |
| TCL | Transurban Group | 23,637 | 322,878 |
| TLS | Telstra Corporation | 54,510 | 162,440 |
| WBC | Westpac Banking Corporation | 15,545 | 301,107 |
| WES | Wesfarmers | 7,372 | 371,549 |
| WOW | Woolworths Group | 6,339 | 249,175 |
| WPL* | Woodside Petroleum | 4,020 | 91,058 |
| XRO | Xero | 871 | 127,807 |
| Total | | | 7,971,314 |

* Indicates that options were outstanding against part of the holding.

Major Transactions in the Investment Portfolio

| Acquisitions | Cost (\$'000) |
|---|--------------------------|
| Woolworths Group | 25,158 |
| Fineos Corporation | 20,998 |
| Sydney Airport (1 for 5.15 entitlement offer) | 18,986 |
| Nanosonics | 18,518 |
| CSL | 15,071 |
| ASX | 14,808 |

| Disposals | Proceeds (\$'000) |
|----------------------------|------------------------------|
| South32 [#] | 35,848 |
| Alumina | 22,869 |
| Oil Search | 21,471 |
| James Hardie Industries | 18,949 |
| Cleanaway Waste Management | 17,961 |
| National Australia Bank | 15,456 |

[#] Complete disposal from the portfolio.

New Companies Added to the Investment Portfolio

Fineos Corporation

Nanosonics

Company Particulars

Australian Foundation Investment Company Limited (AFIC)

ABN 56 004 147 120

AFIC is a listed investment company. As such it is an investor in equities and similar securities on the stock market primarily in Australia.

Directors

John Paterson, Chairman
Robert M Freeman, Managing Director
Ross E Barker
Rebecca P Dee-Bradbury
Graeme R Liebelt
David A Peever
Catherine M Walter AM
Peter J Williams

Company Secretaries

Matthew J Rowe
Andrew JB Porter

Auditor

PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation

Australia

Registered Office and Mailing Address

Level 21, 101 Collins Street
Melbourne Victoria 3000

Contact Details

Telephone (03) 9650 9911
Facsimile (03) 9650 9100
Website afi.com.au
Email invest@afi.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange)

Telephone 1800 780 784 (toll free)

Shareholder Information

Securities Registrar

Computershare Investor Services Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

AFIC Shareholder

Enquiry Lines 1300 662 270 (Australia)
0800 333 501 (New Zealand)
+61 3 9415 4373
(from overseas)

Facsimile (03) 9473 2500

Website investorcentre.com.au/contact

Share Registrar

For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar in your country.

Securities Exchange Codes

AFI Ordinary shares (ASX and NZX)

Shareholder Meeting

Note the shareholder meetings which are usually held in March in various capital cities have been replaced by a webinar/telephone briefing to be held on 16 March 2021 at 10.00am.

Registration details for the webinar and dial-in phone number for teleconference participants have been provided in a separate invitation letter/email to shareholders.

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**