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30 August 2021

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

Electronic Lodgement

Australian Foundation Investment Company Limited
Statutory Annual Report, Annual Shareholder Review and
Annual General Meeting Documentation

Dear Sir / Madam

Please find attached the 2021 Statutory Annual Report, Annual Shareholder Review and Annual General Meeting Documentation being sent to shareholders.

Yours faithfully

Matthew Rowe
Company Secretary

Authorised by the Company Secretary

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Annual Report 2021

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

Contents

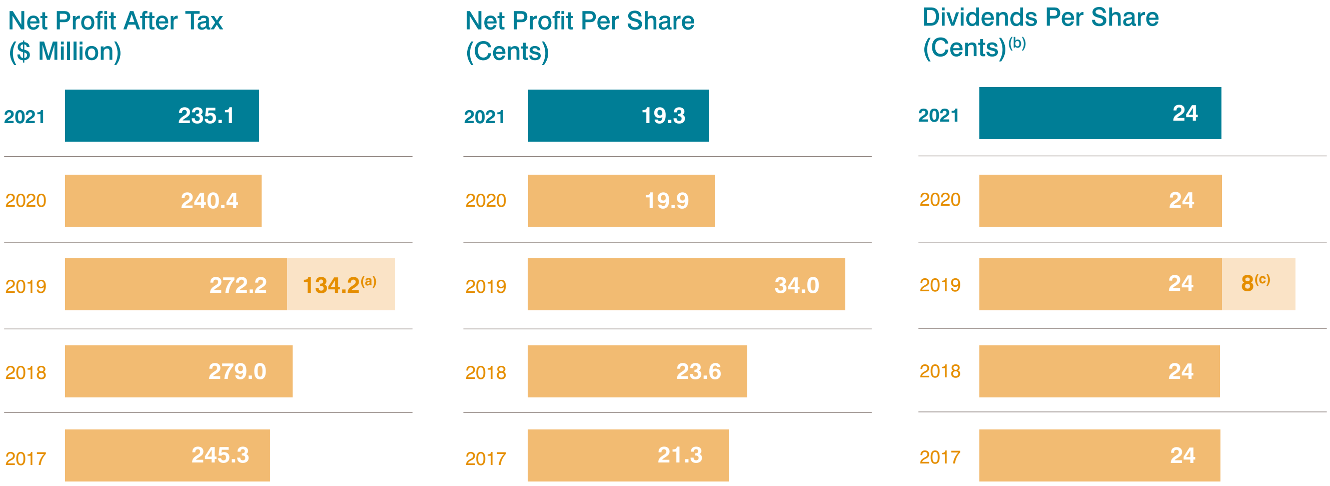
Year in Summary

	2021		
Profit for the Year	$235.1m		$240.4m in 2020. Down 2.2%
Fully Franked Dividend	14¢ Final	24¢ Total	24 cents total in 2020
Total Shareholder Return	35.2%		Share price plus dividend, including franking*
Total Portfolio Return	31.9% Including franking*		S&P/ASX 200 Accumulation Index including franking* 29.1%
Management Expense Ratio	0.14%		0.13% in 2020
Total Portfolio	$9.1b		Including cash at 30 June. $7.2 billion in 2020

* Assumes a shareholder can take full advantage of the franking credits.

DIRECTORS' REPORT

5 Year Summary



Notes

(a) Participation in the Rio Tinto and BHP off-market share buy-backs, special dividends and the receipt of a dividend because of the Coles demerger from Wesfarmers.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was 2021: 4.29 cents, 2020: 7.14 cents, 2019: 7.14 cents, 2018: 2.86 cents, 2017: nil.

(c) 8 cents fully franked special dividend paid with the interim dividend.

(d) Net asset backing per share based on year-end data before the provision for the final dividend. The figures do not include a provision for capital gains tax that would apply if all securities held as non-current investments had been sold at balance date as Directors do not intend to dispose of the portfolio.

(e) Excludes cash.

Investments at Market Value ($ Million)[e]

2021	8,978
2020	7,122
2019	7,566
2018	7,274
2017	6,790

Net Asset Backing Per Share ($)[d]

2021	7.45
2020	5.96
2019	6.49
2018	6.27
2017	5.89

Number of Shareholders (30 June)

2021	159,500
2020	153,588
2019	138,671
2018	129,948
2017	119,463

About the Company

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

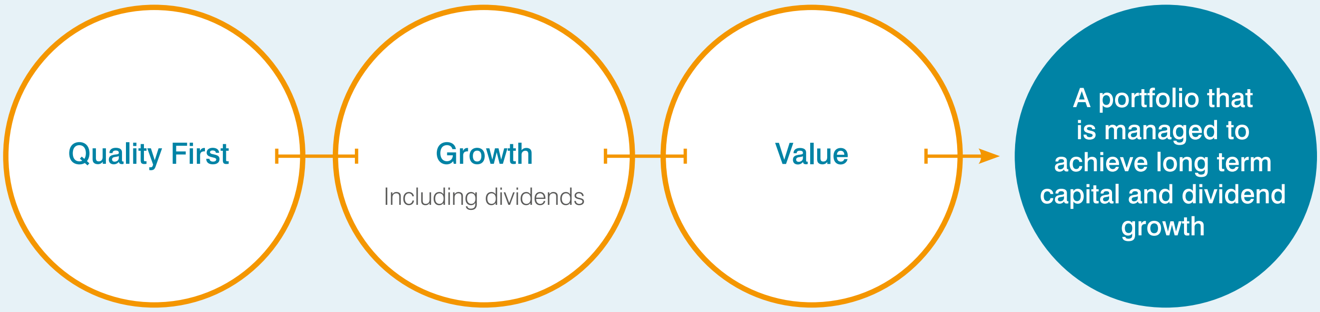
Investment Objectives

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

Investment Philosophy

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 time frame.

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.

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 twelve months to 30 June 2021 this was 0.14 per cent, or 14 cents for each $100 invested.

Approach to Environmental, Social and Governance (ESG) Issues When Investing

Assessment of Environmental, Social and Governance (ESG) issues is an important part of our investment process. As a long term investor, we seek to invest in companies that have strong governance

and risk management processes, which includes consideration of environmental and social risks. We regularly review companies to ensure ongoing alignment with our investment framework:

- We believe environmental factors, including the impact of climate change, can have a material impact on society. These factors are considered when assessing a company's assets, long term sustainability of earnings and cash flow, cost of capital and future growth opportunities.
- We believe that aligning ourselves with high-quality management and boards building sustainable long term businesses is the best approach to avoiding socially harmful businesses. We are attracted to companies that act in the best interest of all their stakeholders, including their employees, customers, suppliers, and wider communities.
- We invest in high-quality companies with strong governance processes, and management and boards whose interests are closely aligned with shareholders. The investment process includes an assessment of their past performance, history of capital allocation, level of accountability, mix of skills, relevant experience and succession planning. We also closely scrutinise a company's degree of transparency and disclosure.

Engagement with Companies

Voting on resolutions is one of the key functions that a shareholder has in ensuring better long term returns and management of investment risk:

- We take input from proxy advisers but conduct our own evaluation of the merits of any resolution.
- We vote on all company resolutions as part of our regular engagement with the companies in the portfolio.
- We actively engage with companies when we have concerns those resolutions are not aligned with shareholders' interests.

We acknowledge that high-quality companies may face ESG challenges from time to time. We seek to stay engaged with the companies and satisfy ourselves that the issues are taken seriously and worked through constructively. Ideally, in this instance, we seek to remain invested to influence a satisfactory outcome for stakeholders.

Profit and Dividend

The full year profit was $235.1 million, down from $240.4 million in the previous corresponding period. The profit to 30 June 2021 includes a demerger dividend of $36.5 million (which was non-cash and carries no franking) resulting from the Endeavour Group demerger from Woolworths Group. Excluding this one-off item, the profit figure to 30 June 2021 was $198.6 million. This fall in profit versus the corresponding period last year was a result of the decline in underlying income as the economic impact of the COVID-19 pandemic continued to limit dividends for many holdings in the portfolio.

Earnings per share were 19.3 cents (16.3 cents excluding the Endeavour demerger dividend), down from 19.9 cents. AFIC, as a long-standing listed investment company, has reserves that can be used in difficult times. Drawing upon these reserves and some realised capital gains after tax generated by some sales in the portfolio, the final dividend was maintained at 14 cents per share fully franked despite the fall in income over the year. Total fully franked dividends applicable for the year are 24 cents per share, the same as last year. Despite the significant disruption to income arising from COVID-19 over the last two years, AFIC has maintained its dividends to shareholders through this period.

Three cents of the final dividend are sourced from taxable capital gains, on which the Company has paid or will pay tax. The amount of the pre-tax attributable gain on this portion of the dividend, known as an 'LIC capital gain', is therefore 4.29 cents. The enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

The Australian share market delivered a very strong performance for the financial year (Figure 1) as concerns about the lingering effects of COVID-19 were put aside by the positive stimulus provided by Government and central banks, and better than expected company earnings. The positive mood of investors was also reinforced by the efficacy of vaccines and their deployment in a number of major markets.

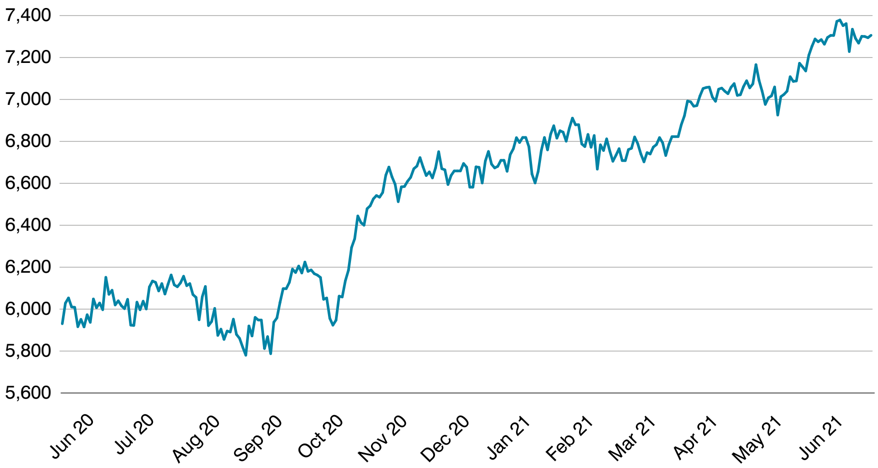
The increase in the Australian market was widespread across sectors, with information technology and the banking sectors very strong (Figure 2). The banking sector has risen from previous lows during the year supported by a recovering economy, lower bad debt charges and more sustainable dividend payout ratios.

The S&P/ASX 200 Accumulation Index delivered a positive performance in 11 of the 12 months for the financial year, culminating in a 12-month return of 29.1 per cent, including franking – one of the strongest returns on record. AFIC's portfolio outperformed over this period, with a return of 31.9 per cent, which also includes the benefit of franking.

Companies in the portfolio that contributed strongly to the positive relative return to the Index through the 12-month period were Reece, Mainfreight, ARB Corporation, James Hardie Industries and ALS.

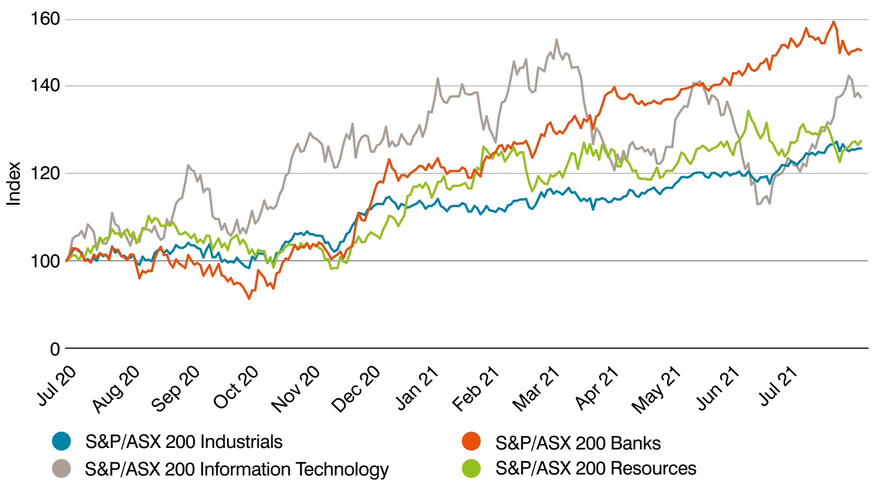
The long term performance of the portfolio, which is better aligned with the Company's investment timeframes, was 11.0 per cent per annum for the 10 years to 30 June 2021. This is slightly ahead of the Index return over the same period of 10.8 per cent. Both of these figures include the benefit of franking. AFIC's performance numbers are after costs.

Figure 1: Performance of the S&P/ASX 200 Price Index for the Financial Year



Source: FactSet

Figure 2: Performance of Selected Sectors of the Market



Source: FactSet

The short and long term performance have been achieved with low portfolio turnover, providing very tax-effective returns for shareholders. These returns have also been delivered with very low volatility, achieving an attractive profile of return relative to risk for investors.

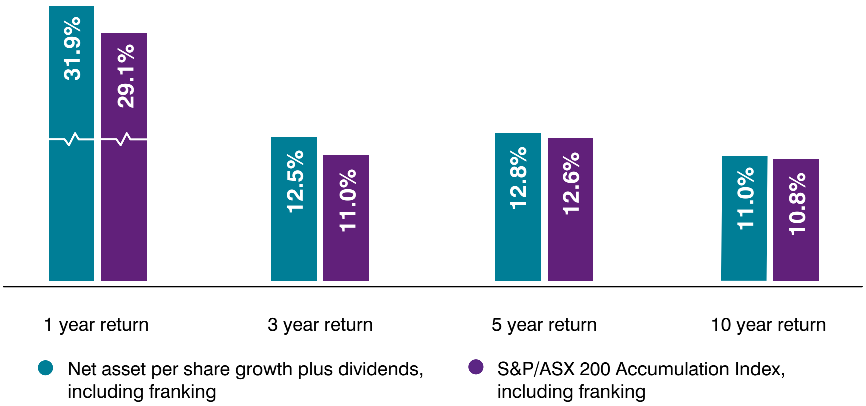
Positioning the Portfolio

A number of purchases were undertaken during the financial year. The largest was participation in the IPO of PEXA Group. While the pricing reflected the strong market conditions towards the end of the period, the company appears well positioned as a good long term investment. Other new holdings added to the portfolio were Endeavour Group, due to its demerger from Woolworths Group, FINEOS Corporation (including participation in its placement), Domino's Pizza Enterprises, Temple & Webster, Nanosonics and IDP Education. Periods of volatility throughout the year also provided opportunities to add to holdings with strong market positions such as Woolworths Group and ASX.

Details of companies added to the portfolio during the financial year:

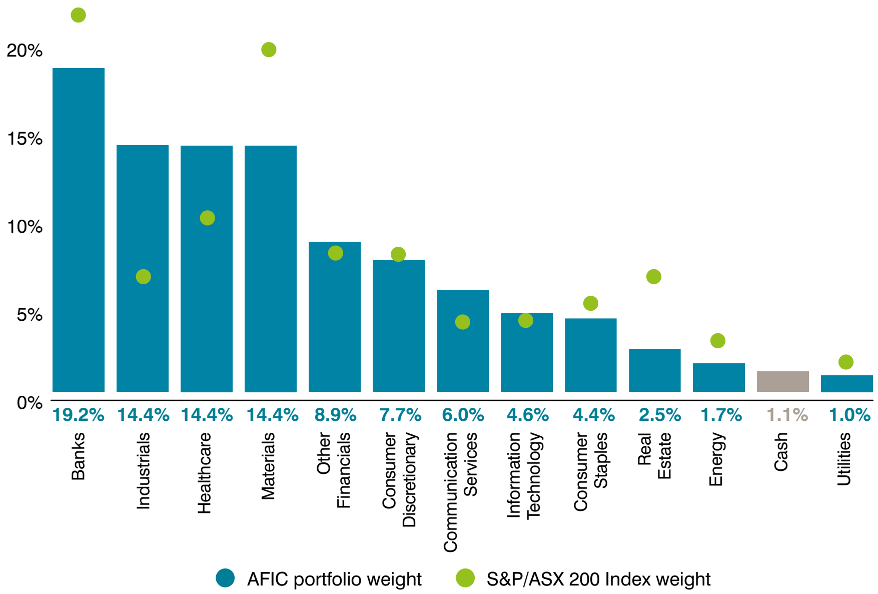
- PEXA Group engages in the development and provision of electronic conveyancing system in Australia and the United Kingdom.
- FINEOS Corporation is a global software company that provides software solutions to the life, accident and health insurance industry.
- Domino's Pizza Enterprises engages in the management of retail food outlets and franchise services. It operates through the following geographical segments: Australia/New Zealand, Europe and Japan.
- Temple & Webster is a leading online retailer of furnishings and homewares in Australia.
- Nanosonics is a developer of infection control and decontamination products with a market-leading position in ultrasound disinfection.
- IDP Education is an international education organisation offering student placement in Australia, New Zealand, the United States, United Kingdom, Republic of Ireland and Canada.

Figure 3: Portfolio Performance – Per Annum Returns to 30 June 2021



Assumes an investor can take full advantage of franking credits. Past performance is not indicative of future performance.

Figure 4: AFIC Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2021 – Excludes International Holdings



Major sales included the complete disposal of holdings in South32, Alumina and Brickworks, and these funds were deployed elsewhere in the portfolio. There was also some trimming of the positions in Qube Holdings, Brambles and Oil Search.

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

International Portfolio

As first signalled at the AGM in October 2020, a small part of our funds, $48 million (which represents approximately 0.5 per cent of the portfolio) was invested into a diversified global equities portfolio during the latter half of the financial year.

Figure 5: Share Price Premium/Discount to Net Asset Backing

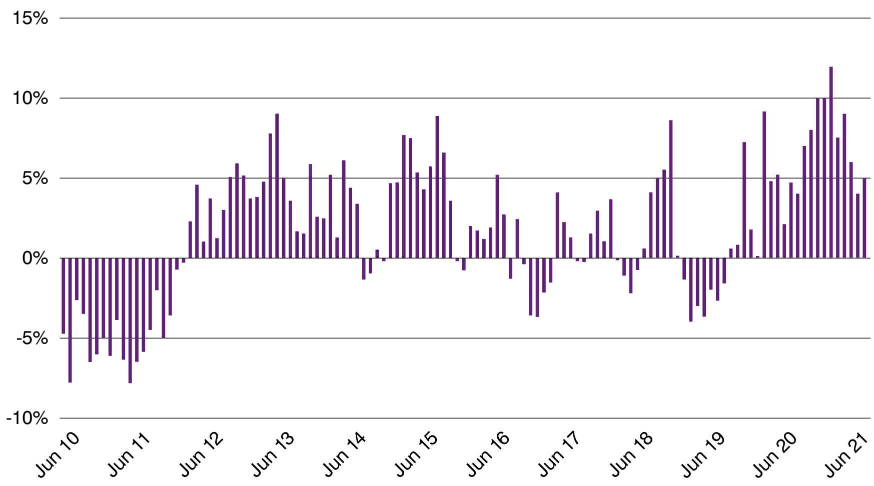
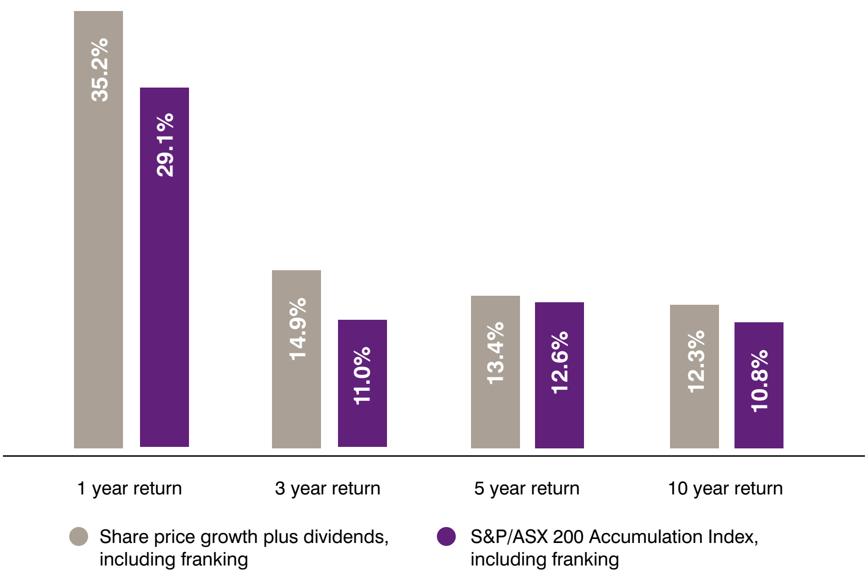


Figure 6: Share Price Return – to 30 June 2021



Leveraging our investment philosophy in the domestic market, the approach to international equities is similar. The international strategy invests in publicly listed companies outside the Australian and New Zealand markets with a medium to long term investment time horizon. It focuses on high-quality companies with strong management teams and competitive advantages that we view as sustainable, often underpinned by long term secular growth trends. With inherent business characteristics that allow these companies to generate an attractive return on capital, the selected companies are expected to generate a reasonable level of return for our shareholders through a combination of earnings growth and dividends. We look to invest at a starting valuation that is sensible in the context of the expected return and the risk associated with each investment.

Holdings at 30 June 2021 are listed on page 69.

This activity is potentially a precursor to establishing a separate low-cost international Listed Investment Company in the future.

Share Price Return

The share price return, including reinvestment of dividends and franking credits, over the 12 months to 30 June 2021 was 35.2 per cent, which is ahead of the portfolio return for the year. The share price was trading at a premium of 5.0 per cent to the net asset backing (before tax on unrealised gains) at the end of June 2021, whereas at 30 June 2020 the premium was 2.2 per cent (Figure 5).

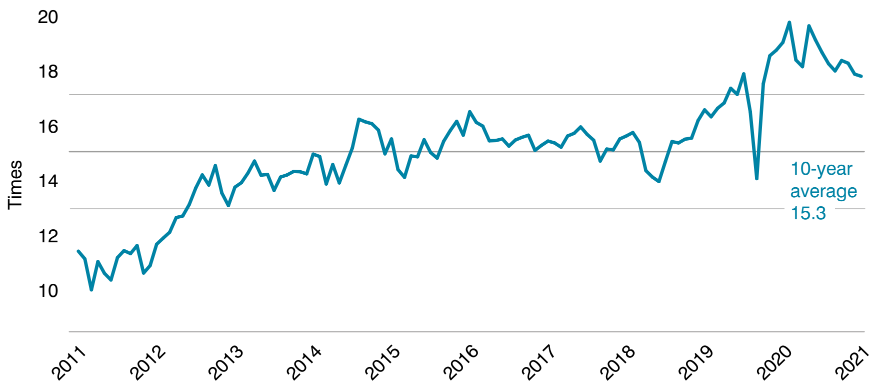
Importantly, the long term, 10-year return is 12.3 per cent for the share price in comparison to 10.8 per cent for the Index. The figures for the Index and share price assumes a shareholder can take full advantage of the franking credits attached to the dividends paid (Figure 6.).

Outlook

Equity markets delivered near-record growth over the year with valuations recovering from the effects of COVID-19 as interest rates remain very low (Figure 7). However, the outlook for corporate earnings remains uncertain, as supportive government stimulus measures are unlikely to be repeated and underlying economic conditions remain variable. Cost inflation is also starting to percolate, and companies are facing disruption to their supply chains which may lead to rising costs for many companies. In this environment, it is our expectation that market volatility will increase over the coming 12 months.

In recent years we have increased the weighting of holdings in the portfolio that meet our definition of quality companies. In an economy where input costs may be rising, we believe the companies in the portfolio are generally well positioned given their market strength and ability to further leverage their efficiencies. Any pressure on valuations because of these conditions may result in purchases in more of our preferred companies at attractive prices. At present, we are looking to remain patient with our capital until these opportunities present themselves.

Figure 7: Valuation of the Market – Price Earnings Ratio of the S&P/ASX 200 Index



Source: FactSet

Directorship Matters

Ms Julie Fahey was appointed as an Independent Non-Executive Director of the Company on 22 April 2021.

Ms Fahey has over 30 years of experience in technology, including in major organisations such as Western Mining, Exxon, Roy Morgan, General Motors and SAP, covering consulting, software vendor and Chief Information Officer roles.

In addition to her industry experience, she spent 10 years at KPMG as a Partner with the firm, during which time she held roles as National Lead Partner Telecommunications, Media and Technology, and National Managing Partner – Markets. Ms Fahey was also a member of the KPMG National Executive Committee.

Ms Fahey is a Non-Executive Director of Seek Limited, IRESS Limited, Vocus Group Limited, Datacom Group Limited, CenITex and a member of the Australian Red Cross Blood Service Board and the La Trobe University Council.

Mr Craig Drummond was appointed as an Independent Non-Executive Director of the Company on 1 July 2021.

Mr Drummond was Chief Executive Officer of Medibank Private Limited from 2016 to 2021. He has had over 30 years' experience in the financial sector – Group Executive Finance and Strategy at National Australia Bank from 2013 to 2016, Bank of America Merrill Lynch as Chief Executive Officer and Country Head from 2009 to 2013, and Goldman Sachs JBWere (1986 to 2009) in various roles (including being a leading investment analyst and subsequently Director of Research and Investment Strategy) culminating in being appointed Chief Executive Officer.

Mr Drummond is a Senior Fellow of the Financial Services Institute of Australasia and is a Chartered Accountant. He is a Non-Executive Director of Transurban and is President of the Geelong Football Club. He is also a Governor of the Ian Potter Foundation.

We are delighted to welcome both Ms Fahey and Mr Drummond to the Board. Their depth of knowledge and experience will be of great assistance to the Company.

Mr Ross Barker retired as a Director on 30 June 2021. Mr Barker transitioned to Non-Executive Director in January 2018 having been appointed Chief Executive Officer of the Company in February 2001 and Managing Director in October 2001. Prior to October 2001 he was an Alternate Director of the Company, a position he had held since April 1987. Mr Barker was integrally involved, through the late 1990s and early 2000s, in building AFIC's capabilities to be a fully and strongly independent entity in its own right.

His contribution to Board deliberations will be missed. The Board wishes to record its thanks to Mr Barker for his valued and outstanding service to the Company and to shareholders for almost 35 years and wishes him well for the future.

Top 25 Investments

As at 30 June 2021

Includes investments held in both the investment and trading portfolios.

Value at Closing Prices at 30 June 2021

		Total Value $ Million	% of the Portfolio
1	Commonwealth Bank of Australia	789.0	8.8
2	BHP Group	651.5	7.3
3	CSL	623.2	6.9
4	Wesfarmers	435.7	4.9
5	Westpac Banking Corporation	401.2	4.5
6	Macquarie Group	345.2	3.8
7	Transurban Group	339.6	3.8
8	National Australia Bank	292.5	3.3
9	Woolworths Group	244.6	2.7
10	Australia and New Zealand Banking Group	238.9	2.7
11	Rio Tinto	235.8	2.6
12	Mainfreight	234.0	2.6
13	James Hardie Industries*	207.6	2.3
14	Telstra Corporation*	204.3	2.3
15	Amcor	175.5	2.0
16	Reece	170.0	1.9
17	ARB Corporation	151.3	1.7
18	Sydney Airport	148.3	1.7
19	Sonic Healthcare	142.2	1.6
20	Goodman Group	141.5	1.6
21	ResMed	139.2	1.6
22	Coles Group	120.8	1.3
23	Seek	120.7	1.3
24	Ramsay Health Care	120.5	1.3
25	Carsales.com	119.6	1.3
Total		**6,792.9**	
As percentage of total portfolio value (excludes cash)			75.7%

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

Capital Changes

The following changes occurred to the Company' share capital during the year:

- Under the Company's Dividend Substitution Share Plan, 776,243 new shares were issued at nil cost in September 2020 and 527,443 new shares were issued at nil cost in February 2021.
- Under the Company's Dividend Reinvestment Plan, 5,581,720 new shares were issued at a price of $6.30 in September 2020 and 3,586,947 new shares were issued at a price of $7.10 in February 2021.

The Company's buy-back facility remains open although no shares were bought back during the year.

The Company's contributed equity, net of share issue costs, rose $60.5 million to $3.0 billion. At the close of the year the Company had 1,221 million shares on issue.

Dividends

Directors have declared a fully franked final dividend of 14 cents per share, the same as last year.

The dividends paid during the year ended 30 June 2021 were as follows:

	$'000
Final dividend for the year ended 30 June 2020 of 14 cents fully franked at 30 per cent paid 1 September 2020	164,556
Interim dividend for the year ended 30 June 2021 of 10 cents per share fully franked at 30 per cent, paid 23 February 2021	117,917
	282,473

Dividend Substitution Share Plan (DSSP)

The Company has in place a Dividend Substitution Share Plan.

This enables shareholders to elect to receive shares in the Company instead of dividends, forgoing any franking credit and LIC gains that would otherwise be attached to the dividend but deferring any tax due on the receipt of such shares (for Australian tax payers) until such time as the shareholding is sold. Shareholders will need to seek their own taxation advice in determining if this plan is suitable for them.

Further details are available on the Company's website or by request from the Company's Share Registrar.

Financial Condition

The Company's primary source of funds consists of its shareholders' funds. The Company also had agreements with Commonwealth Bank of Australia for loan facilities totalling $50 million (see Note D2). The facilities were not used during the year. The Board takes a prudent and conservative approach to the use of borrowed funds. Currently, when used, they are maintained within a limit of 10 per cent of total assets. As at 30 June 2021, the facilities are undrawn.

Listed Investment Company Capital Gains

Listed Investment Companies (LIC) which make capital gains on the sale of investments held for more than one year are able to attach to their dividends an LIC capital gains amount which some shareholders are able to use to claim a tax deduction. This is called an 'LIC capital gain attributable part'. The purpose of this is to put shareholders in Listed Investment Companies on a similar footing with holders of managed investment trusts with respect to capital gains tax on the sale of underlying investments.

Tax legislation sets out the definition of a 'Listed Investment Company' which AFIC satisfies. Furthermore, from time to time the Company sells securities out of the investment portfolio held for more than one year which may result in capital gains being made and tax being paid. The Company is therefore on occasion in a position to be able to make available to shareholders a LIC capital gain attributable part with our dividends.

In respect of this year's final dividend of 14.0 cents per share for the year ended 30 June 2021, it carries with it a 4.29 cents per share LIC capital gain attributable part (2020: 7.14 cents). The amount which shareholders may be able to claim as a tax deduction depends on their individual situation. Further details are provided in the dividend statements.

Likely Developments

The Company intends to continue investing on behalf of its shareholders as it has been doing since 1928. The results of these investment activities will depend upon the performance of the companies and securities in which we invest. Their performance in turn depends on many economic factors (macro, which include economic growth rates, inflation, interest rates, exchange rates and taxation levels and micro which includes industry economics and competitive behaviour) and their approach to, and management of, material Environmental, Social and Governance (ESG) risks.

We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly, we do not provide a forecast of the likely results of our activities. However, the Company's focus is on results over the medium to long term and its twin objectives are to grow dividends at a rate faster than inflation and to provide shareholders with attractive capital growth.

Significant Changes in the State of Affairs

Directors are not aware of any other significant changes in the operations of the Company, or the environment in which it operates, that will adversely affect the results in subsequent years.

Events Since Balance Date

The Directors are not aware of any matter or circumstance not otherwise disclosed in the financial statements or the Directors' Report which has arisen since the end of the financial year that has affected or may affect the operations, or the results of those operations, or the state of affairs of the Company in subsequent financial years.

Environmental Regulations

The Company's operations are such that they are not directly materially affected by environmental regulations.

Rounding of Amounts

The Company is of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Instrument, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Corporate Governance Statement

The Company's Corporate Governance Statement for the financial year ended 30 June 2021 will be found on the Company's website at:

afi.com.au/corporate-governance

As an overseas listed issuer on the New Zealand Stock Exchange (NZX), the Company is generally deemed to comply with the NZX Listing Rules provided that the Company remains listed on the ASX, complies with the ASX Listing Rules and provides the NZX with all the information and notices that it provides to the ASX.

Board Members

John Paterson

Chairman and Independent Non-Executive Director

BCom (Hons) (Melb), CPA, F Fin

Chairman of the Investment Committee. Member of the Remuneration, Nomination and Audit Committees. Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Paterson is a company Director who was appointed to the Board in June 2005 and Chairman in 2018. He was a former Alternate Director of the Company for Mr Campbell from April 1987 to June 2005. He is Chairman of Djerriwarrh Investments Limited. He was formerly a Director of Goldman Sachs JBWere and is a former member of the Board of Guardians of Australia's Future Fund.

Mark Freeman

Managing Director

BE, MBA, Grad Dip App Fin (Sec Inst), AMP (INSEAD)

Managing Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS). Member of the Investment Committee.

Mr Freeman became Chief Executive Officer and Managing Director in January 2018 having been Chief Investment Officer since joining the Company in February 2007. Prior to this he was a Partner with Goldman Sachs JBWere where he spent 12 years advising the investment companies on their investment and dealing activities. He has a deep knowledge and experience of investments markets and the Company's approaches, policies and processes. He is also Managing Director of Djerriwarrh Investments Limited, AMCIL Limited and Mirrabooka Investments Limited.

Rebecca Dee-Bradbury

Independent Non-Executive Director

BBus, GAICD

Member of the Investment and Nomination Committees.

Ms Dee-Bradbury was previously Chief Executive Officer/President of Developed Markets (Asia Pacific and ANZ) for Mondelez from 2010 to 2014. Before joining Mondelez Ms Dee-Bradbury was Group CEO of the global Barbeques Galore group, and has held other senior executive roles in organisations including Maxxium, Burger King Corporation and Lion Nathan/Pepsi Cola Bottlers. Ms Dee-Bradbury is a Non-Executive Director of BlueScope Steel Limited (appointed April 2014), a Director of Energy Australia Holdings following her appointment in April 2017, an inaugural member of the Business Advisory Board at Monash Business School and a member of Chief Executive Women and of the Women Corporate Directors Foundation. Ms Dee-Bradbury was formerly a Non-Executive Director of Grain Corp Limited (from 2014 to 2020) and Tower Limited (NZ) until her resignation in 2016 and a former member of the Federal Government's Asian Century Strategic Advisory Board.

Craig Drummond

Independent Non-Executive Director

BCom (Melb), SF FIN, FCA

Mr Drummond was appointed to the Board in July 2021. He was Chief Executive Officer of Medibank Private Limited from 2016 to 2021. He has had over 30 years' experience in the financial sector – Group Executive Finance and Strategy at NAB from 2013 to 2016, Bank of America Merrill Lynch as Chief Executive Officer and Country Head from 2009 to 2013, Goldman Sachs JBWere (1986 to 2009), in various roles (including being a leading investment analyst and subsequently Director of Research and Investment Strategy) culminating in being appointed Chief Executive Officer.

Mr Drummond is a Senior Fellow of the Financial Services Institute of Australasia and is a Chartered Accountant. He is also a Non-Executive Director of Transurban and is President of the Geelong Football Club. He is also a Governor of the Ian Potter Foundation.

Julie Fahey

Independent Non-Executive Director

BAS

Ms Fahey was appointed to the Board in April 2021. She has over 30 years of experience in technology, including in major organisations such as Western Mining, Exxon, Roy Morgan, General Motors and SAP, covering consulting, software vendor and Chief Information Officer roles. In addition to her industry experience, Ms Fahey spent 10 years at KPMG as a partner with the firm, during which time she held roles as National Lead Partner Telecommunications, Media and Technology, and National Managing Partner – Markets. Ms Fahey was also a member of the KPMG National Executive Committee.

Ms Fahey is a Non-Executive Director of Seek Limited, IRESS Limited, Vocus Group Limited, Datacom Group Limited, CenITex and a member of the Australian Red Cross Blood Service Board and the La Trobe University Council.

Graeme R Liebelt

Independent Non-Executive Director

B Ec (Hons), FAICD FTSE

Chairman of the Remuneration Committee.

Mr Liebelt was appointed to the Board in June 2012. He is Chairman of Amcor Limited, a Director of Australia and New Zealand Banking Group Limited, and a Director of Carey Baptist Grammar School. He is a Fellow of the Australian Academy of Technological Sciences and Engineering and a Fellow of the Australian Institute of Company Directors. He was formerly Chairman and Director of DuluxGroup Limited, Chairman and Director of the Global Foundation, Deputy Chairman of Melbourne Business School and Managing Director and CEO of Orica Limited.

David A Peever

Independent Non-Executive Director

BEc, MSC (Mineral Economics)

Member of the Audit and Investment Committees.

Mr Peever was appointed to the Board in November 2013. He was Managing Director of Rio Tinto Australia from 2009 to 2014. He is Chairman of Brisbane Airport Group Pty Ltd. He chaired the Minister of Defence's First Principles Review of Defence and following the acceptance of the review by Government was Chair of the Oversight Board which helped guide implementation (with Defence) of the Review's recommendations. Mr Peever is also a Non-Executive Chairman of Naval Group Australia. He is a former member of the Foreign Investment Review Board, former Chair of Cricket Australia, a former Director of the Stars Foundation, a not for profit body which promotes education of Indigenous girls and also a former Vice Chairman of the Minerals Council of Australia and was a Director of the Business Council of Australia.

Catherine M Walter AM

Independent Non-Executive Director

LLB (Hons), LLM, MBA (Melb), FAICD

Member of the Investment, Remuneration and Audit Committees. Chairman of the Nomination Committee.

Mrs Walter is an Australian lawyer and company Director. She was appointed to the Board in August 2002. Mrs Walter is Chair of Melbourne Genomics Health Alliance and the Financial Adviser Standards and Ethics Authority (FASEA). Mrs Walter is a Director of the RBA's Payments System Board and Chair of the Helen Macpherson Smith Trust. She was formerly Chair of Federation Square Pty Ltd and Australian Synchrotron Company Ltd, Deputy Chair of Victorian Funds Management Corporation and a Director of ASX, National Australia Bank Ltd, Orica Ltd and Melbourne Business School.

Board Members
continued

Peter J Williams

Independent Non-Executive Director

Dip.All, MAICD, FAIM

Chairman of the Audit Committee. Member of the Investment and Nomination Committees. Chairman of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Williams was appointed to the Board in February 2010. He is Chairman of NAB Trustees Services Limited (NAB Subsidiary), Director of Cricket Victoria Ltd and ARUMA (formerly House with No Steps), an Advisory Board Member of TLC Aged Care Limited and Chairman of MIPS Advisory Committee for FIIG Securities Limited. Mr Williams was formerly Managing Director of Equity Trustees Limited, Director and Treasurer of Foundation for Young Australians, Chairman of Olympic Park Sports Medical Centre Pty Ltd, a Director of the Trustee Corporations Association of Australia, a Director of the Australian Baseball Federation Inc and a General Manager with AXA/National Mutual in Australia and Hong Kong.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2021 and the numbers of meetings attended by each Director were:

	Board		Investment		Audit		Remuneration		Nomination	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
J Paterson	12	12	20	20	4	4	2	2	4	4
M Freeman	12	12	20	20	-	4[#]	-	2[#]	-	-
RE Barker**	12	12	20	19	-	4[#]	-	2[#]	-	1[#]
RP Dee-Bradbury	12	11	20	18	-	4[#]	-	-	4	4
JA Fahey	3^	3	-	2[#]	-	1[#]	-	-	-	-
GR Liebelt	12	12	-	13[#]	-	3[#]	2	2	-	1[#]
DA Peever	12	12	3*	16	4	4	-	-	-	1[#]
CM Walter	12	12	20	20	4	4	2	2	4	4
PJ Williams	12	11	20	19	4	4	-	2[#]	4	4

Attended meetings by invitation.
* Mr DA Peever was appointed to the Investment Committee on 19 May 2021.
** Mr RE Barker retired from the Board on 30 June 2021.
^ Ms JA Fahey was appointed to the Board on 22 April 2021.

Insurance of Directors and Officers

During the financial year, the Company paid insurance premiums to insure the Directors and officers named in this report to the extent allowable by law. The terms of the insurance contract preclude disclosure of further details.

Senior Executives

Geoffrey N Driver

General Manager, Business Development and Investor Relations

B Ec, Grad Dip Finance, MAICD

Mr Driver joined the Company in January 2003. Previously, he was with National Australia Bank Ltd for 18 years in various roles covering business strategy, marketing, distribution, investor relations and business operations. Mr Driver was formerly Chairman of Trust for Nature (Victoria).

Andrew JB Porter

Chief Financial Officer

MA (Hons) (St And), FCA, MAICD

Mr Porter joined the Company in January 2005. He is a Chartered Accountant and has had over 26 years' experience in accounting and financial management both in the United Kingdom with Andersen Consulting and Credit Suisse First Boston, and in Australia where he was Regional Chief Operating Officer for the Corporate and Investment Banking Division of CSFB. He is the immediate former Chair of The Group of 100 (G100), the peak body for CFOs and remains on the Board, is a Director of the Auditing and Assurance Standards Board (AUASB) and a Director of the Anglican Foundation.

Matthew Rowe

Company Secretary

BA (Hons), MSc Corp Gov, FGIA, FCIS

Mr Rowe joined the Company in July 2016. He is a Chartered Secretary with over 15 years of experience in corporate governance with a particular focus in listed investment companies. He was previously a corporate governance advisor at a professional services firm which included acting as Company Secretary for three ASX listed companies. Prior to that Mr Rowe was the Company Secretarial Manager for a funds management company based in the United Kingdom.

Remuneration Report

Contents

The Directors present AFIC's 2021 Remuneration Report which outlines key aspects of our remuneration policy and remuneration awarded this year.

As outlined in last year's Remuneration Report, the Remuneration Committee has adjusted the metrics used to calculate the vesting of both the annual and long term incentive. The effects have been:

1. To increase the proportion of incentive that vests should the investment performance of AFIC and the other LICs to which the Executives provide services outperform the relevant benchmarks (from 37 per cent to 60 per cent).
2. To increase the amount of incentive that vests according to the performance of the other LICs, thus reducing the overall cost to AFIC (from 53 per cent to 40 per cent – see below).
3. AFIC Shareholder Return (i.e. the movement of the Company's share price plus dividends reinvested) is now measured under the Long Term Incentive Plan (LTIP), not the Annual Incentive. Note that this change is effective from the 2020-2024 LTIP.

The Directors believe that these changes further enhance the long term alignment of the incentive plans with shareholders' interests. It should be noted that AFIC also invests directly or indirectly in these other LICs, so their performance impacts AFIC's performance. The new incentive plans are also designed to enhance employee retention, which is expected to bring benefits to AFIC shareholders.

Shareholders should be aware that AFIC does not bear the total cost of remuneration alone. Due to agreements that the Group's subsidiary, Australian Investment Company Services Limited (AICS) also has with Djerriwarrh Investments Limited, Mirrabooka Investments Limited and AMCIL Limited, a substantial proportion of the total remuneration cost (usually 30 per cent to 40 per cent, depending on the individual), is borne by these other companies (collectively, the 'LICs'). AICS expenses the total amount and recovers the proportion borne by the investment companies through the fees that it charges. This report, therefore, shows the total expense that is borne by AICS and the remuneration that an individual receives. Each investment company bears the cost directly of any incentive paid due to that company's outperformance of the relevant benchmarks. This is accomplished by adjusting the amounts payable by each company in the following year, and these adjustments will therefore appear on a lagging basis.

The report is structured as follows:

Appendix

1. Remuneration Policy, Link to Performance and Outcomes

1.1 What is Our Remuneration Policy?

AFIC is an investor in securities listed primarily in Australia and New Zealand. Our primary objectives are to grow dividends at a faster rate than inflation and provide shareholders with capital growth over the medium to long term. To achieve this, we need to attract and retain professional, competent and highly motivated Executives and staff through offering attractive remuneration arrangements which:

- reflect market conditions;
- recognise the skills, experience, roles and responsibilities of the individuals;
- align with shareholder interests; and
- align with the risk management strategies.

Generally, we seek to set total remuneration at the upper or second quartile of the sectors in which we operate.

Periodically, we review our remuneration policies and plans seeking to ensure that they continue to meet these objectives.

Remuneration for the Group's Executives has two main elements:

- fixed annual remuneration (FAR), and
- performance-related pay, being annual incentives and long term incentives (LTI).

FAR is determined with reference to levels necessary to recruit and retain staff with the relevant skills and experience in the industry in which the Group operates. We utilise external input, seeking to ensure that the FAR meets these conditions. This includes industry data provided by the Financial Institutions Remuneration Group Inc. (FIRG) and McLagan for the financial services industry. The costs of the FAR (and the personal element of the annual incentive) are allocated to the LICs based on an internal estimate of work performed which is subject to Board approval.

Through performance-related pay, the remuneration is adjusted to reflect the risks that the Company and its shareholders face and how the Company has responded to those risks. In particular:

- The key performance indicators chosen to determine performance-related pay are those that the Company considers most relevant to its objectives of improving shareholder wealth over the medium to long term, whilst also considering the relative levels of risk.
- The focus is on performance over the medium to long term, with only a small proportion of both annual incentives and LTI being dependent on a single year's performance.
- Executives agree to invest 25 per cent of the pre-tax annual cash incentive in AFIC shares and/or shares of the other investment companies (AMCIL Limited, Djerriwarrh Investments Limited and Mirrabooka Investments Limited) and to hold these shares for a minimum of four years.

The Board may, at its discretion, direct that any performance rights that are yet to vest or to be tested be cancelled in the event of negative issues that arise, including material misstatement of the Company's financial statements.

1.2 What is Our Target Remuneration Mix?

The target remuneration mix for Executives is as follows:

Managing Director's Target Remuneration Mix

- Fixed annual remuneration **59%**
- Annual incentive **29%**
- Long term incentive **12%**

Other Executives' Target Remuneration Mix

- Fixed annual remuneration **69%**
- Annual incentive **21%**
- Long term incentive **10%**

1.3 How is the Remuneration Paid in 2021 Linked to Performance?

1.3.1 Fixed Remuneration

Most Executives received modest inflationary increases in their fixed annual remuneration this year. AFIC continues to operate in a highly competitive market, and salary levels are reviewed at least annually with the aim of remunerating its Executives to the extent required to attract and retain Executives who are leaders in their field.

1.3.2 Performance-related Pay

This section shows:

- How Annual Incentive measurements are split between AFIC and the other investment companies.

	%	Result
AFIC investment performance	32	Table 2
AFIC other metrics	8	Table 1
Percentage of Annual Incentive determined by AFIC performance	**40**	
Other LIC investment performance	28	Table 15
Other LIC other metrics	12	Table 15
Percentage of Annual Incentive determined by other LICs performance	**40**	
Total percentage of Annual Incentive determined by AFIC/other LIC performance	**80**	
Personal metrics	20	n/a
	100	

See Table 5 for more details on the measures used in determining the Annual Incentives.

- The outcomes for the two long term incentive awards (LTI) that were tested for vesting during the year are shown in Table 3.

Refer to Sections 2.2 and 2.3 for explanations of the measures used.

2021 was a very strong year for the investment performance for AFIC. This has helped AFIC outperform its benchmarks for all of the years under consideration – one, three, five and 10 years. This was echoed by strong outperformance from AMCIL and Mirrabooka. In the case of these two LICs, performance was such that stretch targets were achieved. Following a reset of the strategy for Djerriwarrh, this LIC outperformed over the short term (one-year period) but fell short of the return benchmark over the medium to longer term. However, the other objective for Djerriwarrh, to pay a higher yield than the market, has been met over all the years assessed.

It should be noted that AFIC's returns are after taxes and expenses and represent the 'net' return to shareholders, whereas Index returns do not include either. Furthermore, many returns quoted by managed funds exclude either tax or expenses, or both. The use of 'gross returns' mitigates the tax disparity to some extent, as it adds back franking credits to the nominal dividend that the Index pays, and also that AFIC pays.

The management expense ratio (MER – see Table 11) continues to be of importance to the Board. Despite the increase in expenses flagged last year due to the commencement of the international portfolio, the MER increased only marginally to 0.14 per cent, thanks to tight expense control elsewhere and the increase in portfolio value during the year largely outweighing these additional costs. It is expected that next year's expenses will be higher as a full year's expenses for the international portfolio team is borne and due to the consequences of a higher percentage of incentive vesting for the 2020–2021 year than was the case in the current year. The Board exercised its discretion in this area.

The 2017–2021 award under the Executive Long Term Incentive Plan was available for vesting as of 30 June 2021. However, the calculations needed to determine how much actually vests are not performed until after the date of the Annual Report. Therefore, the full amount that may vest is shown, and the actual settlement of the 2017–2021 award will take place in the year ended 30 June 2022. The actual amount settled will be reported in the relevant year. The 2016–2020 award vested in part for the year ended 30 June 2020. The total shareholder return of AFIC was 8.45 per cent per annum over the four-year vesting period, which was above the Target Benchmark, as independently verified by external consultants. 25.5 per cent of the 50 per cent available under this metric was therefore deemed to have vested.

The total portfolio return over the same period was narrowly behind its benchmark and therefore no incentive vested under this metric. A total of 74.5 per cent of the total was forfeited. It is this forfeiture which is reflected in Table 4 on page 22.

The investment team LTIP to which Mr Freeman was entitled encompasses all of the investment companies (unlike the Executives Plan for which only the AFIC performance is counted) and is measured over four years for all of the investment companies. The data show outperformance for Mirrabooka and AMCIL whilst AFIC, although it outperformed its Index, did not do so by 20 per cent and consequently only part of the award under this measure vested. Djerriwarrh underperformed. Consequently, 68.9 per cent of the available LTIP was deemed to have vested. Detailed information about the performance of each investment company is provided in Section E of the Appendix (Table 15).

Table 1: Non-investment Return Performance Measures

Performance Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Growth in net operating result	1.1%	-3.0%	Unfavourable ●
Management expense ratio	n/a	0.14%	Favourable ●

Outcome
● Achieved
● Partially achieved
● Not achieved

Table 2: Investment Return Performance Measures

Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Investment return – 1 year	27.80%	30.28%	Favourable ●
Investment return – 3 years	9.59%	11.13%	Favourable ●
Investment return – 5 years	11.16%	11.37%	Favourable ●
Investment return – 10 years	9.26%	9.42%	Favourable ●
Gross return – 1 year	29.12%	31.92%	Favourable ●
Gross return – 3 years	10.99%	12.49%	Favourable ●
Gross return – 5 years	12.64%	12.76%	Favourable ●
Gross return – 10 years	10.85%	10.96%	Favourable ●

Outcome
● Achieved
● Partially achieved
● Not achieved

Table 3: Vesting and Forfeiture of Long Term Incentives During the Year

Award Date	Assessment Dates	Measure Tested	Benchmark Result	AFIC Result	% Vested	% Forfeited
ELTIP – performance rights*						
1 July 2016	30 June 2020	Total gross shareholder return	8.42%	8.45%	25.5%	24.5%
		Total portfolio return	6.52%	6.48%	0%	50%
Investment team LTI						
1 July 2017	30 June 2021	Gross return	11.89%	12.54%	68.9%	31.1%

* Of the rights awarded on 1 July 2016, 74.5 per cent were forfeited as the relevant targets were not achieved and 25.5 per cent vested. For the investment team LTI, outperformance by AFIC (to a limited extent), Mirrabooka and AMCIL mean that some vesting occurred. See Table 15.

1.3.3 Remuneration Outcomes

Table 4 discloses the actual remuneration outcomes received by the Company's Executives during the year and the LTI that may vest in future years. These amounts are different to the statutory remuneration expense disclosed in Table 7. The Directors consider the information about remuneration outcomes in Table 4 relevant for users because the statutory remuneration expense includes accounting charges for long term incentives that may or may not be received in future years.

Table 4: Actual Executive Remuneration Outcomes

	Total FAR $	Annual Incentive $	Prior Years' LTI Received* $	Total Remune-ration $	Annual Incentive Forfeited $	LTI Forfeited $	Possible Future LTI (to Vest Over Next 4 Years)# $
Mark Freeman – Managing Director							
2021	884,340	409,538	57,333	1,351,211	(32,632)	(25,867)	851,543
2020	867,000	232,443	25,376	1,124,819	(199,584)	(141,024)	549,116
Andrew Porter – Chief Financial Officer							
2021	693,600	190,976	31,362	915,938	(17,104)	(91,707)	577,261
2020	680,000	108,344	-	788,344	(96,492)	(112,238)	454,773
Geoff Driver – General Manager – Business Development and Investor Relations							
2021	571,200	158,474	25,842	755,516	(12,886)	(75,767)	475,533
2020	560,000	87,881	-	647,881	(80,808)	(92,484)	374,684
Matthew Rowe – Company Secretary							
2021	300,000	83,142	9,838	392,980	(6,858)	(28,772)	226,533
2020	275,000	43,238	-	318,238	(39,600)	-	164,608

For Mark Freeman, the amount forfeited is the difference between the target amount that would have been paid if all targets were met and the amount paid, under the investment team LTI. The amount shown for the other Executives is the amount that would have been paid to them with respect to the 2016–2020 LTIP in the event that all targets had been achieved (2020: 2015–2019 LTIP – note Matthew Rowe was not eligible). See Table 3.

The value of annual incentive forfeited is the difference between the target amount and the amount awarded. See Table 10.

The differences between the amounts disclosed in Table 4 and the amounts in Table 7 are as follows:

* Prior year's LTI received in Table 4 shows the value of performance shares that vested during the year, measured at the price on the day that they were received. In respect of Mark Freeman, it shows the cash payment received in respect of LTIP vesting from his time as Chief Investment Officer. In contrast, Table 7 shows the accounting expense recognised in relation to the LTI Plans during the year.

\# The future LTI in Table 4 reflects potential future remuneration that may be received by the Executives over the next four years if the performance conditions are satisfied. This includes the estimated amounts payable under the two LTIP Plans assuming the performance conditions will be satisfied at the time of vesting. For accounting purposes, these amounts are recognised as expense over the vesting period.

Ross Barker, who retired on 31 December 2017 as Managing Director, is not included in the above table or in Table 7 as he ceased to be an Executive. However, he is still entitled to ELTIP for the years in which he was employed (see Table 12). $60,993 (25.5 per cent) of ELTIP for the 2016–2020 year vested during the year ended 30 June 2021, and the after-tax amount was used to purchase AFIC shares. Mr Barker thus forfeited $178,357 (74.5 per cent) of ELTIP. At the end of 30 June 2021, the total value of the ELTIP yet to vest for Mr Barker was $147,934 for the 2017–2021 plan, which is the last plan under which he is entitled to an award.

Information about Non-Executive Director remuneration is provided in Section 5 Non-Executive Director remuneration.

2. Structure of Remuneration

2.1 Fixed Annual Remuneration (FAR)

The FAR component of an Executive's remuneration comprises base salary, superannuation guarantee contributions and fringe benefits. Executives can elect to receive a portion of their FAR in the form of additional superannuation contributions or fringe benefits. This will not affect the gross amount payable by the Group.

2.2 Annual Incentive

Table 5 on the following page outlines the key terms and conditions of the annual incentive plan.

Table 5: Annual Incentives – Key Terms and Conditions

	MD	Other Executives
Targeted % of FAR	50 per cent	30 per cent
Objectives	Align remuneration with the creation of shareholder wealth over the past year and over a longer period. Measures reflect the management of the Group and the other investment companies, as well as the key investment returns that reflect the creation of shareholder wealth.	
Performance measures	• Company performance (20 per cent) • Investment performance (60 per cent) • Personal objectives (20 per cent) • See Table 11 for more details	
Relative weightings of investment companies for investment and company-related performance	AFIC: 40 per cent Djerriwarrh Investments Limited: 16 per cent AMCIL Limited: 12 per cent Mirrabooka Investments Limited: 12 per cent Personal objectives: 20 per cent (allocated on same basis as FAR)	
Delivery of award	Incentive is paid in cash, but 25 per cent of the pre-tax amount received is used by recipients to acquire shares in AFIC and/or the other investment companies which they agree to hold for minimum of four years.	
Performance measured in 2021	Investment measures all achieved as was MER. EPS target not achieved.	
Outcomes for 2021 (see Table 10 for details)	92.6 per cent	Average 92.2 per cent

The performance measures of each annual incentive plan are reviewed by the Remuneration Committee. The Committee may, from time to time, revise the performance conditions and weightings in order to better meet the objectives of the annual incentive policies. They may also change or suspend any part of the incentive payment arrangements. If relevant targets are not achieved but performance is close to the target, some of the incentive may be paid. This would be noted as 'partially achieved' in Table 2. Where stretch levels of performance are achieved above target, then higher amounts may be paid. To date, total annual incentives paid to each Executive have never exceeded target.

For more detailed information about the annual incentive performance conditions and outcomes for 2021 please refer to Section B Annual Incentives: Details of Outcomes and Conditions in the Appendix.

2.3 Long Term Incentive Plans (LTIP)

As is the case for the annual incentives, there are also two LTI Plans, one for the Executives (excluding the CIO) which is called the ELTIP, and one for the CIO (this is the last year that amounts vest under the plan, the old 'Investment Team' LTIP). Table 6 outlines the purpose and the key terms and conditions of each plan.

Table 6: Long Term Incentives – Key Terms and Conditions

	Executive LTIP (Performance Rights)	Investment Team LTI Plan
Target	50 per cent of targeted annual incentive	20 per cent of FAR
Objectives	Align remuneration with growth in shareholder wealth over a forward-looking period of four years. Reward outperformance.	
Performance measures	See Table 15 in the Appendix for details.	See Table 15 in the Appendix for details.
Performance for awards tested in 2021 (Table 3)	July 2016: 25.5 per cent vested (see Table 3).	July 2017: 68.9 per cent vested (see Table 3).

For more detailed information about the LTI Plans and their performance conditions, including vesting schedules and outcomes for 2021, please refer to Section C Long Term Incentives: Details of Outcomes and Conditions in the Appendix.

3. Executive Remuneration Expense

This section discloses the remuneration expense recognised under accounting standards for each Executive (Table 7). These amounts are different to the remuneration outcomes disclosed in Table 4 as noted in that table.

Table 7: Remuneration Expense

	Short Term	Post-employment		Short Term	Long Term Share-based Payments			
	Base Salary $	Super-annuation $	Total Fixed Remuneration $	Annual Incentives $	LTI Cash-settled* $	Other Long Term Payments* $	Total Remuneration $	% Fixed/ Performance Related
Mark Freeman – Managing Director								
2021	859,340	25,000	884,340	409,538	282,468	(120,224)	1,456,122	61%/39%
2020	842,000	25,000	867,000	232,443	117,747	(100,800)	1,116,390	78%/22%
Andrew Porter – Chief Financial Officer								
2021	668,600	25,000	693,600	190,976	107,598	-	992,174	70%/30%
2020	655,000	25,000	680,000	108,344	3,818	-	792,162	86%/14%
Geoff Driver – General Manager – Business Development and Investor Relations								
2021	546,200	25,000	571,200	158,474	88,423	-	818,097	70%/30%
2020	535,000	25,000	560,000	87,881	3,134	-	651,015	86%/14%
Matthew Rowe – Company Secretary								
2021	275,476	24,524	300,000	83,142	48,345	-	431,487	70%/30%
2020	251,142	23,858	275,000	43,238	41,951	-	360,189	76%/24%

* Includes amounts credited for non-vesting.

4. Contract Terms

Each Executive is employed under an open-ended contract, the terms of which can be varied by mutual agreement. There are no contractual provisions for cessation of employment other than statutory requirements. Either the Company or the Executive can give notice in accordance with statutory requirements. There are no specific payments to be made as a consequence of termination beyond those required by statute. Should there be any payments, these will be at the Board's discretion.

Material breaches of the terms of employment will normally result in the termination of an Executive's employment.

5. Non-Executive Director Remuneration

Shareholders approve the maximum aggregate amount of remuneration per year available to be allocated between Non-Executive Directors (NEDs). In proposing the amount for consideration by shareholders, the Remuneration Committee takes into account the time demands made on Directors together with such factors as the general level of fees paid to Australian corporate Directors.

For NEDs, who are charged with the responsibility of oversight of the Company's activities, a fixed annual fee is paid with no element of performance-related pay.

The amount approved at the AGM in October 2019 was $1,250,000 per annum, which is the maximum amount that may be paid in total to all NEDs. Retirement allowances for Directors were frozen at 30 June 2004.

On appointment, the Company enters into a deed of access and indemnity with each NED. There are no termination payments due at the cessation of office, and any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

The amounts paid to each NED, and the figures for the corresponding period, are set out in Table 8.

Table 8: Non-Executive Director Remuneration

	Primary (Fee/ Base Salary) $	Post-employment (Superannuation) $	Total Remuneration $
J Paterson – Chairman			
2021	179,222	17,028	196,250
2020	178,080	16,920	195,000
RE Barker – Non-Executive Director (retired 30 June 2021)			
2021	89,611	8,514	98,125
2020	89,040	8,460	97,500
RP Dee-Bradbury – Non-Executive Director			
2021	96,010	2,115	98,125
2020	93,270	4,230	97,500
JA Fahey – Non-Executive Director (appointed 22 April 2021)			
2021	17,562	1,668	19,230
GR Liebelt – Non-Executive Director			
2021	98,125	-	98,125
2020	89,040	8,460	97,500
DA Peever – Non-Executive Director			
2021	89,611	8,514	98,125
2020	89,040	8,460	97,500
CM Walter AM – Non-Executive Director			
2021	89,611	8,514	98,125
2020	89,040	8,460	97,500
PJ Williams – Non-Executive Director			
2021	89,611	8,514	98,125
2020	89,040	8,460	97,500
Total remuneration of Non-Executive Directors			
2021	749,363	54,867	804,230
2020	716,550	63,450	780,000

Amounts Payable on Retirement

The amounts payable to the current NEDs who were in office at 30 June 2004, which will be paid when they retire, are set out in Table 9. These amounts were expensed in prior years as the retirement allowances accrued.

Table 9: Non-Executive Director Retirement Allowance

	Amount Payable on Retirement $
CM Walter AM	42,385
Total	**42,385**

Appendix

A. Remuneration Governance

Responsibilities of the Board and the Remuneration Committee

It is the Board's responsibility to review and approve the recommendations of the Remuneration Committee.

For more information, the Charter of the Board is available on the Company's website.

The Remuneration Committee's primary responsibilities include:

- reviewing the level of fees for NEDs and the Chairman;
- reviewing the Managing Director's remuneration arrangements;
- evaluating the Managing Director's performance;
- reviewing the remuneration arrangements for other senior Executives;
- monitoring legislative developments with regards to Executive remuneration; and
- monitoring the Group's compliance with requirements in this area.

For more information, the Charter of the Remuneration Committee is available on the Company's website.

The Remuneration Committee is composed of three NEDs (GR Liebelt (Chairman), J Paterson and CM Walter AM) and meets at least twice per year.

Policy on Hedging

The Company provides no lending or leveraging arrangements to its Executives, who are prohibited by Company policy from entering into hedging arrangements that mitigate the possibility that 'at risk' incentive payments may not vest.

Use of Remuneration Consultants

A report was commissioned by the Remuneration Committee from Mercers during the year with regard to the benchmarking of remuneration for all staff.

The Managing Director makes recommendations to the Remuneration Committee with regards to the remuneration levels and structure of the key management personnel (KMP).

Mercers are also employed as an organisation to provide market performance data with regard to Australian domestic funds. These data are used, amongst other things, as one of the components to determine the vesting of the ELTIP.

During the year, Mercers were paid $72,765 for their work benchmarking salary levels, and $14,920 for the provision of data (all inclusive of GST).

Ernst & Young reviews the calculations used in determining the vesting of awards and certifies them as being correct and in accordance with the terms and conditions of the ELTIP.

Ernst & Young were paid $17,510 (inclusive of GST) during the year ended 30 June 2021 for general remuneration advice which consisted of verifying the calculations used for the vesting of the ELTIP (2020: $14,729 for a report on NED fee benchmarking) and during the year the Group also paid $166,683 for other professional advice received which included acting as the internal auditor for AICS and general taxation and accountancy advice (2020: $111,210) (all including GST).

Ernst & Young were remunerated on an invoiced basis, based on work performed.

The Company also participates in the annual McLagan and FIRG surveys of fund managers to understand current remuneration levels and practices.

B. Annual Incentives: Details of Outcomes and Conditions

Table 10 below shows the annual incentives paid to individual Executives as a result of AFIC's and the other investment companies' performance on financial metrics and the individual's achievement of their own personal objectives. Table 11 sets out the detailed terms and conditions of the annual incentives. For a high-level summary see Section 2.2 and Table 5.

Table 10: Annual Incentive Outcomes

Executive	% of Target Paid	$ Paid	% of Target Forfeited	$ Forfeited
Mark Freeman	92.6%	$409,538	7.4%	$32,632
Geoff Driver	92.5%	$158,474	7.5%	$12,886
Matthew Rowe	92.4%	$83,142	7.6%	$6,858
Andrew Porter	91.8%	$190,976	8.2%	$17,104

Table 11: Executive Annual Incentive Performance Conditions

Performance Areas and Relative Weighting	Performance Measures	Purpose of Measure
Company performance (20 per cent) The relevant weightings of the investment companies are: • AFIC: 50 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 15 per cent • Mirrabooka Investments Limited: 15 per cent	• Operating result – measured against prior years. • Management expense ratio (MER): at Board discretion, generally measured against prior years' results. • Dividend yield (DJW only).	• Net operating result reflects the ability of the Company to meet its stated aim of 'paying out dividends which, over time, grow faster than the rate of inflation.' The dividends of both MIR and AMH vary from year to year and is not a key objective for those companies. This metric is thus not considered appropriate for them. • MER reflects the costs of running the Company. • Maintaining a dividend yield being above the market's is an important object for DJW.
Investment performance (60 per cent) The relevant weightings of the investment companies are: • AFIC: 50 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 15 per cent • Mirrabooka Investments Limited: 15 per cent	• Relative investment return: measure of the return on the portfolio invested (including cash) over the previous one, three, five and 10 years, relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka and modified S&P ASX 200 Accumulation Index for Djerriwarrh). • Gross return (GR): measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous one, three, five and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka and modified S&P ASX 200 Accumulation Index for Djerriwarrh).	The Board considers that the metrics used reflect, over the medium to long term, the stated objectives of the Company, namely 'to provide attractive total returns and pay dividends, which, over time, grow faster than the rate of inflation'. • Investment return: reflects the returns generated by the mix of the investments that the Company has invested in. These reflect the value added to shareholders' wealth by the investment decisions of the Company. • Gross return (GR): reflects the movement in the value of the underlying portfolio over the period with the additional recognition of the importance of franking credits. Note: The Remuneration Committee has discretion to determine, at the time of the review, what it considers to be the appropriate level of return to be used.
Personal objectives (20 per cent) These costs are allocated to AFIC and to the LICs on the same proportion as the FAR	Includes: • advice to the Board; • succession planning; • management of staff; • risk management; and • shareholder stewardship. These measures all contribute to the efficient running of the Group, and the other investment companies, enhancing investment outcomes.	Personal objectives are included in incentive calculations to encourage outperformance on non-financial metrics. These metrics can be important determinants of business success in the medium term. The Managing Director reviews the performance of each Executive with the Remuneration Committee, and the Remuneration Committee alone determines how the Managing Director is performing against these objectives. 50 per cent is awarded based on the individual's capability and improvement and 50 per cent on alignment with the Company's values and culture.

C. Long Term Incentives: Details of Outcomes and Conditions

This section shows the outstanding cash bonuses under the ELTIP and the investment team LTI Schemes (Table 12). It also explains the detailed terms and conditions of the two LTIs that are currently in operation (Table 13). For a high-level overview see Section 2.3 of the main body of the Remuneration Report.

Table 12: Vesting of ELTIP and Investment Team LTI

ELTIP Award Date	Vesting Date Subject to Performance Hurdles	Value at Award Date $	Number of Rights Awarded	Value Per Right $	Award Vested for the Year Number of Rights/%	Value Yet to Vest 30 June 2021 $
Ross Barker – Managing Director (until 31 December 2017)						
1 July 2016	30 June 2020	$185,975	33,205	$5.601	8,462/25.5%	-
1 July 2017	30 June 2021	$92,888	16,153	$5.757	-	$147,934
						$147,934
Mark Freeman – Managing Director (from 1 January 2018)						
1 Jan 2018	30 June 2021	$85,000	14,765	$5.757	-	$135,227
1 July 2018	30 June 2022	$170,000	27,974	$6.077	-	$246,194
1 July 2019	30 June 2023	$173,400	28,217	$6.145	-	$235,807
1 July 2020	30 June 2024	$176,868	29,125	$6.073		$234,315
						$851,543
Andrew Porter – Chief Financial Officer						
1 July 2016	30 June 2020	$95,625	17,074	$5.601	4,351/25.5%	-
1 July 2017	30 June 2021	$98,016	17,026	$5.757	-	$155,934
1 July 2018	30 June 2022	$99,976	16,451	$6.077	-	$144,785
1 July 2019	30 June 2023	$102,000	16,598	$6.145	-	$138,710
1 July 2020	30 June 2024	$104,040	17,132	$6.073	-	$137,832
						$577,261
Geoff Driver – General Manager – Business Development and Investor Relations						
1 July 2016	30 June 2020	$78,795	14,069	$5.601	3,585/25.5%	-
1 July 2017	30 June 2021	$80,765	14,030	$5.757	-	$128,489
1 July 2018	30 June 2022	$82,380	13,556	$6.077	-	$119,303
1 July 2019	30 June 2023	$84,000	13,669	$6.145	-	$114,232
J July 2020	30 June 2024	$85,680	14,109	$6.073	-	$113,509
						$475,533
Matthew Rowe – Company Secretary (joined 11 July 2016)						
11 July 2016	30 June 2020	$30,000	5,356	$5.601	1,365/25.5%	-
1 July 2017	30 June 2021	$35,250	6,123	$5.757	-	$56,079
1 July 2018	30 June 2022	$37,800	6,220	$6.077	-	$54,742
1 July 2019	30 June 2023	$41,250	6,713	$6.145	-	$56,096
1 July 2020	30 June 2024	$45,000	7,410	$6.073	-	$59,616
						$226,533

Investment Team LTI Award Date	Vesting Date Subject to Performance Hurdles	Target Amount $	Award Vested for the Year $	Award Vested for the Year %	Value Yet to Vest 30 June 2021 $
Mark Freeman – Chief Investment Officer (investment team LTI) – until 31 December 2017					
1 July 2017	30 June 2021	$83,200	57,333	68.9%	-
					-

See Table 4 for actual amounts vested and Table 3 for details of vesting calculations.

The value of the outstanding ELTIP performance rights as in the table above was estimated at 30 June 2021 using the Total Share Return (TSR – which includes dividends reinvested) based on a closing price on 30 June 2021 of AFI shares of $7.82 (the TSR for AFI at 30 June 2021 was 12.3 per cent p.a. for four years, 12.9 per cent p.a. for three years, 16.1 per cent for two years and 33.1 per cent for one year.

Actual amounts awarded may vary from this amount, depending on performance over the four-year vesting period.

During the year, 15.25 per cent of the 2016–2020 Investment Team Long Term Incentive that vested in the prior year was paid to Mr Freeman. 68.9 per cent of the 2017-2021 Investment Team Long Term Incentive vested and will be paid in the year ended 30 June 2022.

Table 13: Long Term Incentive Plans

ELTIP (Performance Rights)		
Nature of grant	Rights to receive cash that must then be used by the Executives to acquire AFIC shares on market.	
Performance conditions	1. Total gross shareholder return (50 per cent): the movement in the AFIC share price, grossed up to reflect the value of franking credits. This is compared to that of the market such that only outperformance is rewarded. Outperformance of this Index over time should be an indicator of the value added by the Company to shareholders' wealth. Both the Company's return and the Index return are smoothed over 30 days to remove excess volatility. 2. Total portfolio return (50 per cent): the movement in the net asset backing of the Company (per share) plus the dividends paid by the Company reinvested. This compares AFIC's investment performance against that of other fund managers (based on the Mercer Investment Consulting Survey of Australian Retail Fund Managers which provides the industry benchmark of funds management performance over the relevant period), so that only outperformance relative to its peers is rewarded. Note that from the 2020–2024 Plan onwards total gross shareholder return will be the only performance condition. This is balanced by the removal of TSR from the Annual Incentive performance conditions.	
Vesting schedule: total gross shareholder return	**Company performance relative to gross accumulation index**	**Percentage of rights vesting**
	Underperformance	0 per cent
	< or = 20 per cent outperformance	Straight line between 25 per cent and 50 per cent
	> 20 per cent outperformance	50 per cent
Vesting schedule: total portfolio return	**Company performance**	**Percentage of rights vesting**
	Less than median performance	0 per cent
	Median to < or = 75th percentile	Straight line between 25 per cent and 50 per cent
	> 75 per cent percentile	50 per cent
Valuation of performance rights	At 1 July each year, the 30-day volume weighted average price of AFIC shares up to, but not including 1 July will be calculated. The amount of ELTIP available will then be divided by this average price to determine the number of performance rights that may vest in four years' time. The value of the performance rights will be adjusted each year by the total shareholder return for the year, calculated based on the 30-day volume weighted average price of AFIC shares up to 1 July. At vesting time, the value of the performance rights that will vest is converted to cash, based on the value of the rights at that time.	
Accounting treatment	Under current accounting standards, the ELTIP scheme is classified as a cash-settled scheme. The expected amount payable upon vesting must therefore be estimated each year and adjusted not only for the likelihood of vesting, but also for changes in the value of the performance rights. In the first year, 25 per cent of the expected amount payable will be booked as an expense. At the end of the second year, 50 per cent of the new expected final value less the amount booked in the previous year will be booked. At the end of the third year, 75 per cent of the total estimated final value less amounts previously expensed will be booked. At the end of the fourth year, the actual liability will be calculated and a balancing adjustment made.	

Table 13: Long Term Incentive Plans continued

Investment Team LTI Plan		
Nature of grant	Cash or shares, at discretion of the Company.	
Performance condition	Gross return which measures the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits. This return is compared to the relevant accumulating index as set out below.	
Indices which investment portfolios are assessed against	**Investment portfolio**	**Relevant accumulation index**
	AFIC (60 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
	Djerriwarrh Investments Limited (25 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
	Mirrabooka Investments Limited (10 per cent)	S&P/ASX Mid Cap 50 Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index, grossed up for franking credits
	AMCIL Limited (5 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
Vesting schedule: Company gross return	**Company performance relative to the relevant accumulation index**	**Percentage of rights vesting**
	< 90 per cent performance	0 per cent
	90 – 99 per cent performance	Board discretion
	> 100 per cent up to 110 per cent performance	Straight line between 50 per cent and 100 per cent
	> 110 per cent up to 120 per cent performance	Straight line between 100 per cent and 150 per cent
	120 per cent + performance	150 per cent

For details of Incentive Plans that vested or were awarded in the comparative year, please see the 2020 Annual Report, available on the Company's website.

D. Directors and Executives: Equity Holdings and Other Transactions

Table 14 sets out reconciliations of shares issued by the Group and held directly, indirectly or beneficially by Non-Executive Directors and Executives of the Group, or by entities to which they were related.

Table 14: Shareholdings of Directors and Executives at 30 June 2021

	Opening Balance	Changes During Year	Closing Balance
J Paterson	612,127	3,205	615,332
M Freeman	154,075	6,107	160,182
RE Barker	908,773	5,100	913,873
RP Dee-Bradbury	14,213	200	14,413
JA Fahey	n/a	-	-
GR Liebelt	527,708	-	527,708
DA Peever	31,439	1,152	32,591
CM Walter	353,848	12,958	366,806
PJ Williams	86,422	(36,666)	49,756
GN Driver	139,117	3,972	143,089
MJ Rowe	3,824	1,881	5,705
AJB Porter	170,756	5,560	176,316

Other Arrangements with Non-Executive Directors

Non-Executive Directors Ross Barker (who retired on 30 June 2021), John Paterson and Catherine Walter have rented office space and, for Ross Barker and John Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable, including GST, by the Group during the year was:

	Rental Income Received/Receivable $
RE Barker	23,126
J Paterson	29,802
CM Walter	15,941

E. Detailed Performance Measures by Investment Company

Table 15 shows the performance of AFIC and the other investment companies over the past five years, including details of total shareholder return (TSR), total portfolio return (TPR) and gross return (GR). These measures, which represent growth in shareholder wealth, determine the vesting of AFIC's incentive plans to executives and the investment team.

Table 15: Detailed Performance Measures for AFIC and the Other Investment Companies

Year Ending 30 June	10 Year Return	5 Year Return	4 Year Return	3 Year Return	2021	2020	2019	2018	2017
Comparative returns									
S&P/ASX 200 Accumulation Return	9.26%	11.16%	10.43%	9.59%	27.80%	-7.7%	11.6%	13.0%	14.1%
Modified S&P/ASX 200 Accumulation*	8.73%	10.06%	n/a	8.96%	21.71%	-	-	-	-
Gross S&P/ASX 200 Accumulation Return	10.85%	12.64%	11.89%	10.99%	29.12%	-6.6%	13.4%	14.6%	15.7%
Modified Gross S&P/ASX 200 Accumulation Return*	9.84%	11.10%	n/a	9.94%	22.64%	-	-	-	-
Combined Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	8.92%	12.61%	12.59%	10.42%	34.42%	-2.6%	2.8%	19.3%	12.7%
Gross Combined Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	9.90%	13.56%	13.49%	11.26%	35.22%	-1.9%	3.8%	20.4%	13.8%
Yield on ASX 200 grossed up for franking credits	n/a	n/a	n/a	n/a	2.9%	5.8%	5.2%	5.2%	5.4%
Australian Foundation Investment Company Limited									
Total gross shareholder return	12.34%	13.36%	14.25%	14.93%	35.17%	1.2%	6.9%	10.3%	8.0%
Growth in net operating result per share	n/a	n/a	n/a	n/a	-3.0%	-41.5%	44.1%	9.6%	-9.6%
Management expense ratio	n/a	n/a	n/a	n/a	0.14%	0.13%	0.13%	0.14%	0.14%
Gross return	10.96%	12.76%	12.54%	12.49%	31.92%	-3.1%	11.4%	12.7%	13.7%
Investment return	9.42%	11.37%	11.15%	11.13%	30.28%	-4.1%	9.8%	11.3%	12.3%
Djerriwarrh Investments Limited									
Growth in net operating profit per share	n/a	n/a	n/a	n/a	-4.5%	-26.0%	3.7%	5.7%	-19.9%
Management expense ratio	n/a	n/a	n/a	n/a	0.45%	0.45%	0.43%	0.44%	0.46%
Gross return	9.17%	10.27%	8.75%	7.78%	29.58%	-11.5%	9.1%	11.7%	16.6%
Investment return	7.46%	8.28%	7.14%	6.54%	25.83%	-10.0%	6.8%	9.7%	13.0%
Gross yield on NTA at end of June	n/a	n/a	n/a	n/a	4.7%	5.6%	8.6%	8.6%	8.8%
Mirrabooka Investments Limited									
Management expense ratio	n/a	n/a	n/a	n/a	0.50%	0.63%	0.61%	0.60%	0.62%
Gross return	16.04%	17.19%	19.09%	19.59%	50.92%	7.1%	5.9%	17.3%	9.9%
Investment return	15.42%	16.12%	17.90%	18.61%	49.80%	6.3%	4.8%	16.0%	9.3%
AMCIL Limited									
Management expense ratio	n/a	n/a	n/a	n/a	0.56%	0.66%	0.72%	0.69%	0.68%
Gross return	12.69%	13.13%	14.73%	14.92%	31.76%	7.6%	7.0%	13.9%	7.0%
Investment return	12.57%	13.22%	14.79%	15.09%	34.36%	7.2%	5.8%	14.0%	7.1%

* Note that the Modified S&P/ASX 200 Index is used for the Djerriwarrh figures to take into account the effect that option writing has on the investment return. It is a new measure and has not been calculated individually for prior years.

Non-audit Services

Details of non-audit services performed by the auditors may be found in Note F2 of the Financial Report.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the *Corporations Act 2001* including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company, or jointly sharing economic risk and rewards.

A copy of the Auditor's Independence Declaration is set out on page 33.

This report is made in accordance with a resolution of the Directors.

John Paterson
Chairman

26 July 2021

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Foundation Investment Company Limited and the entity it controlled during the period.

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
26 July 2021

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Consolidated Income Statement

For the Year Ended 30 June 2021

	Note	2021 $'000	2020 $'000
Dividends and distributions	A3	257,874	257,858
Interest income from deposits	A3	116	1,554
Other revenue	A3	4,831	4,895
Total revenue		**262,821**	**264,307**
Net gains/(losses) on trading portfolio	A3	2,472	9,740
Income from operating activities		**265,293**	**274,047**
Finance costs		(1,831)	(1,047)
Administration expenses	B1	(15,509)	(14,759)
Profit before income tax expense		**247,953**	**258,241**
Income tax expense	B2, E2	(12,858)	(17,846)
Profit for the year		**235,095**	**240,395**
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		234,651	239,931
Minority interest		444	464
		235,095	**240,395**
		Cents	**Cents**
Basic earnings per share	A5	19.28	19.88

This Income Statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2021

	Year to 30 June 2021			Year to 30 June 2020		
	Revenue[1] $'000	Capital[1] $'000	Total $'000	Revenue[1] $'000	Capital[1] $'000	Total $'000
Profit for the year	235,095	-	235,095	240,395	-	240,395
Other comprehensive income						
Items that will not be recycled through the Income Statement						
Gains/(losses) for the period	-	1,881,261	**1,881,261**	-	(568,806)	**(568,806)**
Tax on above	-	(575,865)	**(575,865)**	-	167,602	**167,602**
Total other comprehensive income	-	1,305,396	1,305,396	-	(401,204)	(401,204)
Total comprehensive income	235,095	1,305,396	1,540,491	240,395	(401,204)	(160,809)

1. 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities in the investment portfolio, including non-equity investments held in the investment portfolio. Income in the form of distributions and dividends is recorded as 'revenue'. All other items, including expenses, are included in Profit for the year, which is categorised under 'revenue'.

Total comprehensive income is attributable to:

	Year to 30 June 2021			Year to 30 June 2020		
	Revenue $'000	Capital $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Equity holders of Australian Foundation Investment Company Ltd	234,651	1,305,396	**1,540,047**	239,931	(401,204)	**(161,273)**
Minority interests	444	-	**444**	464	-	**464**
	235,095	**1,305,396**	**1,540,491**	**240,395**	**(401,204)**	**(160,809)**

This Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2021

	Note	2021 $'000	2020 $'000
Current assets			
Cash	D1	97,122	111,318
Receivables		40,011	17,347
Trading portfolio		4,745	4,304
Total current assets		**141,878**	**132,969**
Non-current assets			
Investment portfolio	A2	8,973,080	7,117,970
Deferred tax assets		59	872
Total non-current assets		**8,973,139**	**7,118,842**
Total assets		**9,115,017**	**7,251,811**
Current liabilities			
Payables		1,020	884
Tax payable		12,621	30,771
Provisions		5,235	4,765
Total current liabilities		**18,876**	**36,420**
Non-current liabilities			
Provisions		888	1,375
Deferred tax liabilities – investment portfolio	B2	1,536,231	973,499
Total non-current liabilities		**1,537,119**	**974,874**
Total liabilities		**1,555,995**	**1,011,294**
Net assets		**7,559,022**	**6,240,517**
Shareholders' equity			
Share capital	A1, D6	3,007,730	2,947,243
Revaluation reserve	A1, D3	3,394,297	2,166,030
Realised capital gains reserve	A1, D4	416,071	397,712
General reserve	A1	23,637	23,637
Retained profits	A1, D5	716,221	705,273
Parent entity interest		**7,557,956**	**6,239,895**
Minority interest		1,066	622
Total equity		**7,559,022**	**6,240,517**

This Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2021

Year Ended 30 June 2021	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**2,947,243**	**2,166,030**
Dividends paid to shareholders	A4	-	-
– Dividend Reinvestment Plan	D6	60,632	-
Other share capital adjustments		(145)	-
Total transactions with shareholders		**60,487**	**-**
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net gains for the period		-	1,305,396
Other comprehensive income for the year		**-**	1,305,396
Transfer to realised capital gains of cumulative gains on investments sold		-	(77,129)
Total equity at the end of the year		**3,007,730**	**3,394,297**

Year Ended 30 June 2020	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**2,888,136**	**2,561,314**
Dividends paid to shareholders	A4	-	-
– Dividend Reinvestment Plan	D6	59,249	-
Other share capital adjustments		(142)	-
Total transactions with shareholders		**59,107**	**-**
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net losses for the period		-	(401,204)
Other comprehensive income for the year		-	(401,204)
Transfer to realised capital gains of cumulative losses on investments sold		-	5,920
Dividend paid to minority interests by AICS		-	-
Total equity at the end of the year		**2,947,243**	**2,166,030**

This Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
397,712	23,637	705,273	6,239,895	622	6,240,517
(58,770)	-	(223,703)	(282,473)	-	(282,473)
-	-	-	60,632	-	60,632
-	-	-	(145)	-	(145)
(58,770)	-	(223,703)	(221,986)	-	(221,986)
-	-	234,651	234,651	444	235,095
-	-	-	1,305,396	-	1,305,396
-	-	-	1,305,396	-	1,305,396
77,129	-	-	-	-	-
416,071	23,637	716,221	7,557,956	1,066	7,559,022

Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
462,257	23,637	688,244	6,623,588	1,158	6,624,746
(58,625)	-	(222,902)	(281,527)	-	(281,527)
-	-	-	59,249	-	59,249
-	-	-	(142)	-	(142)
(58,625)	-	(222,902)	(222,420)	-	(222,420)
-	-	239,931	239,931	464	240,395
-	-	-	(401,204)	-	(401,204)
-	-	-	(401,204)	-	(401,204)
(5,920)	-	-	-	-	-
-	-	-	-	(1,000)	(1,000)
397,712	23,637	705,273	6,239,895	622	6,240,517

Consolidated Cash Flow Statement

For the Year Ended 30 June 2021

	Note	2021 $'000 Inflows/ (Outflows)	2020 $'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		14,776	39,663
Purchases for trading portfolio		(1,297)	(25,160)
Interest received		116	1,573
Dividends and distributions received		196,351	255,492
		209,946	271,568
Other receipts		4,878	5,095
Administration expenses		(15,445)	(14,403)
Finance costs paid		(1,831)	(1,047)
Taxes paid		(18,781)	(6,578)
Net cash inflow/(outflow) from operating activities	E1	**178,767**	**254,635**
Cash flows from investing activities			
Sales from investment portfolio		469,102	589,059
Purchases for investment portfolio		(416,321)	(694,841)
Taxes paid on capital gains		(23,798)	(20,394)
Net cash inflow/(outflow) from investing activities		**28,983**	**(126,176)**
Cash flows from financing activities			
Net bank borrowings		-	-
Share issue transaction costs		(145)	(142)
Dividends paid		(221,801)	(223,428)
Net cash inflow/(outflow) from financing activities		**(221,946)**	**(223,570)**
Net increase/(decrease) in cash held		(14,196)	(95,111)
Cash at the beginning of the year		111,318	206,429
Cash at the end of the year	D1	**97,122**	**111,318**

For the purpose of the Cash Flow Statement, 'cash' includes cash and deposits held at call.

This Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

A. Understanding AFIC's Financial Performance

A1. How AFIC Manages its Capital

AFIC's objective is to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and enhancement of capital invested.

AFIC recognises that its capital will fluctuate with market conditions. In order to manage those fluctuations, the Board may adjust the amount of dividends paid, issue new shares, buy back the Company's shares or sell assets.

AFIC's capital consists of its shareholders' equity plus any net borrowings. A summary of the balances in equity is provided below:

	2021 $'000	2020 $'000
Share capital	3,007,730	2,947,243
Revaluation reserve	3,394,297	2,166,030
Realised capital gains reserve	416,071	397,712
General reserve	23,637	23,637
Retained profits	716,221	705,273
	7,557,956	**6,239,895**

Refer to Notes D3 – D6 for a reconciliation of movement from period to period for each equity account (except the general reserve, which is historical, relates to past profits which can be distributed and has had no movement).

A2. Investments Held and How They Are Measured

AFIC has two portfolios of securities: the investment portfolio and the trading portfolio.

The investment portfolio holds securities which the Company intends to retain on a long term basis, and includes a small sub-component over which options may be written and an additional small sub-component of international (i.e. non-Australian/New Zealand listed) stocks. The trading portfolio consist of securities that are held for short term trading only, including call option contracts written over securities that are held in the specific sub-component of the investment portfolio and on occasion put options and is relatively small in size. The Board has therefore focused the information in this section on the investment portfolio. Details of all holdings (except for the specific option holdings) as at the end of the reporting period can be found at the end of the Annual Report.

The balance and composition of the investment portfolio (all at market value) was:

	2021 $'000	2020 $'000
Equity instruments (excluding below)	8,502,224	6,661,720
Equity instruments (over which options may be written)	423,249	456,250
Equity instruments (listed on non-Australian/NZ Exchanges)	47,607	-
	8,973,080	**7,117,970**

How Investments Are Shown in the Financial Statements

The accounting standards set out the following hierarchy for fair value measurement:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices, which can be observed either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liabilities that are not based on observable market data.

All financial instruments held by AFIC are classified as Level 1 (other than the options sold by the Company which are Level 2 and the investment in PEXA Group, which is also Level 2 as it did not start trading until 1 July 2021). Their fair values are initially measured at the costs of acquisition and then remeasured based on quoted market prices at the end of the reporting period.

Notes to the Financial Statements

continued

Net Tangible Asset Backing Per Share

The Board regularly reviews the net asset backing per share both before and after provision for deferred tax on the unrealised gains in AFIC's long term investment portfolio. Deferred tax is calculated as set out in Note B2. The relevant amounts as at 30 June 2021 and 30 June 2020 were as follows:

	30 June 2021 $	30 June 2020 $
Net tangible asset backing per share		
Before tax	**7.45**	**5.96**
After tax	6.19	5.16

Equity Investments

The shares in the investment portfolio are designated under the accounting standards as financial assets measured at fair value through 'other comprehensive income' (OCI), because they are equity instruments held for long term capital growth and dividend income, rather than to make a profit from their sale. This means that changes in the value of these shares during the reporting period are included in OCI in the Consolidated Statement of Comprehensive Income. The cumulative change in value of the shares over time is then recorded in the revaluation reserve. On disposal, the amounts recorded in the revaluation reserve are transferred to the realisation reserve.

Securities Sold and How They Are Measured

Where securities are sold, any difference between the sale price and the cost is transferred from the revaluation reserve to the realisation reserve and the amounts noted in the Consolidated Statement of Changes in Equity. This means the Company is able to identify the realised gains out of which it can pay a 'Listed Investment Company' (LIC) gain as part of the dividend, which conveys certain taxation benefits to many of AFIC's shareholders.

During the period $511.1 million (2020: $584.6 million) of equity securities were sold. The cumulative gain on the sale of securities was $77.1 million for the period after tax (2020: $5.9 million loss). This has been transferred from the revaluation reserve to the realisation reserve (see Consolidated Statement of Changes in Equity). These sales were accounted for at the date of trade.

A3. Operating Income

The total income received from AFIC's investments in 2021 is set out below.

Dividends and Distributions	2021 $'000	2020 $'000
Income from securities held in investment portfolio at 30 June	251,687	242,790
Income from investment securities sold during the year	5,976	15,068
Income from securities held in trading portfolio at 30 June	211	-
Income from trading securities sold during the year	-	-
	257,874	**257,858**
Interest income		
Revenue from deposits and cash management trusts	116	1,554
Other revenue		
Administration fees	4,831	4,853
Other income	-	42
	4,831	4,895

Dividend Income

Distributions from listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis. Capital returns on ordinary shares are treated as an adjustment to the carrying value of the shares.

Trading Income

Net gains on the trading and options portfolio are set out below.

Net gains		2021 $'000	2020 $'000
Net realised gains/(losses) from trading portfolio	– shares	149	1,038
	– options	1,724	8,428
Unrealised gains/(losses) from trading portfolio	– shares	897	243
	– options	(298)	31
		2,472	**9,740**

$152.3 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2020: $108.4 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd which require participants in the exchange traded option market to lodge collateral, and are recorded as part of the Group's investment portfolio. If all call options were exercised, this would lead to the sale of $44.5 million worth of securities at an agreed price – the 'exposure' (2020: $32.0 million). There were no put options in the portfolio at 30 June 2021 (2020: $nil).

A4. Dividends Paid

The dividends paid and payable for the year ended 30 June 2021 are shown below:

	2021 $'000	2020 $'000
(a) Dividends Paid During the Year		
Final dividend for the year ended 30 June 2020 of 14 cents fully franked at 30 per cent paid on 1 September 2020 (2020: 14 cents fully franked at 30 per cent paid on 29 August 2019)	164,556	164,150
Interim dividend for the year ended 30 June 2021 of 10 cents per share fully franked at 30 per cent paid on 23 February 2021 (2020: 10 cents fully franked at 30 per cent paid on 24 February 2020)	117,917	117,377
	282,473	**281,527**
Dividends paid in cash	221,841	222,278
Dividends reinvested in shares	60,632	59,249
	282,473	**281,527**
Dividends forgone via DSSP	8,635	7,111
(b) Franking Credits		
Opening balance of franking account at 1 July	174,053	182,607
Franking credits on dividends received	67,295	88,920
Tax paid during the year	41,428	26,234
Franking credits paid on ordinary dividends paid	(121,060)	(120,654)
Franking credits deducted on DSSP shares issued	(3,707)	(3,054)
Closing balance of franking account	**158,009**	**174,053**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	19,610	33,803
Adjusted closing balance	**177,619**	**207,856**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(73,250)	(72,622)
Net available	**104,369**	**135,234**
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	243,528	315,546

AFIC's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and on AFIC paying tax.

Notes to the Financial Statements

continued

	2021 $'000	2020 $'000
(c) New Zealand Imputation Account		
(Figures in A$ at year-end exchange rate: 2021: $NZ1.074:$A1; 2020: $NZ1.071:$A1)		
Opening balance	8,470	14,381
Imputation credits on dividends received	4,779	7,187
Imputation credits on dividends paid	-	(13,074)
Closing balance	**13,249**	**8,494**

There will be no NZ imputation credit attached to the proposed dividend payable on 31 August 2021.

	2021 $'000	2020 $'000
(d) Dividends Declared After Balance Date		
Since the end of the year Directors have declared a final dividend of 14 cents per share fully franked at 30 per cent. The aggregate amount of the final dividend for the year to 30 June 2021 to be paid on 31 August 2021, but not recognised as a liability at the end of the financial year is:	170,917	
(e) Listed Investment Company Capital Gain Account		
Balance of the Listed Investment Company (LIC) capital gain account at 1 July:	62,912	63,335
Capital gains (including LIC gains received from dividends)	39,651	58,202
LIC gains paid as part of dividend	(58,770)	(58,625)
Balance at 30 June	43,793	62,912
This equates to an attributable gain of:	62,562	89,874

Distributed LIC capital gains may entitle certain shareholders to a deduction in their tax return, as set out in the dividend statement. LIC capital gains available for distribution are dependent on the disposal of investment portfolio holdings that qualify for LIC capital gains, or the receipt of LIC distributions from LIC securities held in the portfolios. $52.3 million attributable gain is attached to the final dividend to be paid on 31 August 2021.

A5. Earnings Per Share

The table below shows the earnings per share based on the profit for the year:

Basic Earnings Per Share	2021 Number	2020 Number
Weighted average number of ordinary shares used as the denominator	1,217,056,577	1,206,707,394
	$'000	**$'000**
Profit for the year	234,651	239,931
	Cents	**Cents**
Basic earnings per share	19.28	19.88

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2021 $'000	2020 $'000
Rental expense relating to non-cancellable leases	(747)	(699)
Employee benefit expenses	(9,304)	(8,587)
Depreciation charge	-	-
Other administration expenses	(5,458)	(5,473)
	(15,509)	**(14,759)**

Employee Benefit Expenses

A major component of employee benefit expenses is Directors' and Executives' remuneration. This has been summarised below:

	Short Term Benefits $	Other Long Term Benefits $	Post-employment Benefits $	Share-based Payments $	Total $
2021					
Non-Executive Directors	749,363	-	54,867	-	804,230
Executives	3,191,746	(120,224)	99,524	526,834	3,697,880
Total	**3,941,109**	**(120,224)**	**154,391**	**526,834**	**4,502,110**
2020					
Non-Executive Directors	716,550	-	63,450	-	780,000
Executives	2,755,048	(100,800)	98,858	166,650	2,919,756
Total	**3,471,598**	**(100,800)**	**162,308**	**166,650**	**3,699,756**

Detailed remuneration disclosures are provided in the Remuneration Report.

The above figures include share-based expenses incurred in respect of Ross Barker, former Managing Director, who was eligible for vesting under these plans during the year. This is the final year for which Mr Barker is eligible for awards under these plans.

The Group (i.e. AFIC and its subsidiary, Australian Investment Company Services (AICS) – see Note F8) does not make loans to Directors or Executives.

B2. Tax

AFIC's tax position, and how it accounts for tax, is explained here. Detailed reconciliations of tax accounting to the financial statements can be found in Note E2.

The income tax expense for the period is the tax payable on this financial year's taxable income, adjusted for any changes in deferred tax assets and liabilities attributable to temporary differences and for any unused tax losses. Deferred tax assets and liabilities (except for those related to the unrealised gains or losses in the investment portfolio) are offset, as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

A provision has been made for taxes on any unrealised gains or losses on securities valued at fair value through the Income Statement – i.e. the trading portfolio, puttable instruments and convertible notes that are classified as debt.

A provision also has to be made for any taxes that could arise on sale of securities in the investment portfolio, even though there is no intention to dispose of them. Where AFIC disposes of such securities, tax is calculated according to the particular parcels allocated to the sale for tax purposes, offset against any capital losses carried forward.

Notes to the Financial Statements

continued

Tax Expense

The income tax expense for the period is shown below:

(a) Reconciliation of Income Tax Expense to Prima Facie Tax Payable

	2021 $'000	2020 $'000
Profit before income tax expense	**247,953**	**258,241**
Tax at the Australian tax rate of 30 per cent (2020: 30 per cent)	74,386	77,472
Tax offset for franked dividends received	(47,106)	(61,344)
Demerger dividend non-taxable	(10,952)	-
Sundry items whose tax treatment differs from accounting treatment	(1,234)	4,171
	15,094	20,299
Over provision in prior years	(2,236)	(2,453)
Total tax expense	**12,858**	**17,846**

Deferred Tax Liabilities – Investment Portfolio

The accounting standards require us to recognise a deferred tax liability for the potential capital gains tax on the unrealised gain in the investment portfolio. This amount is shown in the Balance Sheet. However, the Board does not intend to sell the investment portfolio, so this tax liability is unlikely to arise at this amount. Any sale of securities would also be affected by any changes in capital gains tax legislation or tax rate applicable to such gains when they are sold.

	2021 $'000	2020 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	1,536,231	973,499
Opening balance at 1 July	973,499	1,163,749
Tax on realised gains	(13,133)	(22,648)
Charged to OCI for ordinary securities on gains or losses for the period	575,865	(167,602)
	1,536,231	**973,499**

B3. Risk

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. As a Listed Investment Company that invests in tradeable securities, AFIC can never be free of market risk as it invests its capital in securities which are not risk free – the market price of these securities will fluctuate.

A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all assets in the investment portfolio, would have led to a reduction in AFIC's comprehensive income of $314.1 million and $628.1 million respectively, at a tax rate of 30 per cent (2020: $249.1 million and $498.3 million).

AFIC seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Investment Committee and risk can be managed by reducing exposure where necessary. AFIC does not have a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

AFIC's total investment exposure by sector is as below:

	2021 %	2020 %
Energy	1.96	3.01
Materials	14.32	15.76
Industrials	14.40	15.88
Consumer Discretionary	7.83	5.98
Consumer Staples	4.42	4.60
Banks	18.97	17.16
Other Financials	8.88	8.26
Real Estate	2.47	1.74
Telecommunications	5.99	4.42
Healthcare	14.40	16.62
Information Technology	4.63	4.00
Utilities	0.66	1.03
Cash	1.07	1.54
Securities representing over 5 per cent of the investment portfolio at 30 June were		
Commonwealth Bank	8.8	7.7
BHP	7.3	7.0
CSL	6.9	8.5

AFIC is also not directly exposed to material currency risk as most of its investments are quoted in Australian dollars. The international portfolio is a minor (0.5 per cent) part of the total portfolio.

The writing of call options provides some protection against a fall in market prices as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in the trading or the specific sub-section of the investment portfolio.

Interest Rate Risk

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings are short term for a fixed interest rate.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. AFIC is exposed to credit risk from cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are overdue. The risk in relation to each of these items is set out below.

Cash

All cash investments not held in a transactional account (including with a custodian) are invested in short term deposits with Australia's 'big four' commercial banks or in cash management trusts which invest predominantly in short term securities with an A1+ rating. In the unlikely event of a bank default or default on the underlying securities in the cash trust, there is a risk of losing the cash deposits and any accrued unpaid interest.

Receivables

Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within two days of the date of a transaction. Receivables are non-interest-bearing and unsecured. In the event of a payment default, there is a risk of losing any difference between the price of the securities sold and the price of the recovered securities from the discontinued sale. Receivables also include dividends from securities that have passed the record date for the distribution but have not paid as at balance date.

Trading and Investment Portfolios

Converting and convertible notes or other interest-bearing securities that are not equity securities carry credit risk to the extent of their carrying value. This risk will be realised in the event of a shortfall on winding-up of the issuing companies. AFIC engages a custodian, Northern Trust, to hold the shares that are in the sub-component of the investment portfolio that contains international shares. AFIC receives a GS007 report on Internal Controls for Custody, Investment Administration, Registry Monitoring and Related Information Technology Services from Northern Trust every six months.

Notes to the Financial Statements

continued

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial liabilities.

AFIC monitors its cash flow requirements daily. The Investment Committee also monitors the level of contingent payments on a regular basis by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require AFIC to purchase securities, and facilities that need to be repaid. AFIC ensures that it has either cash or access to short term borrowing facilities sufficient to meet these contingent payments.

AFIC's inward cash flows depend upon the dividends received. Should these drop by a material amount, AFIC would amend its outward cash flows accordingly. AFIC's major cash outflows are the purchase of securities and dividends paid to shareholders, and both of these can be adjusted by the Board and management. Furthermore, the assets of AFIC are largely in the form of readily tradeable securities which can be sold on-market if necessary.

The table below analyses AFIC's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

30 June 2021	Less Than 6 Months $'000	6–12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
Non-derivatives					
Payables	1,020	-	-	1,020	1,020
	1,020	**-**	**-**	**1,020**	**1,020**
Derivatives					
Options in trading portfolio*	-	-	-	-	-
	-	**-**	**-**	**-**	**-**

30 June 2020	Less Than 6 Months $'000	6–12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
Non-derivatives					
Payables	884	-	-	884	884
	884	**-**	**-**	**884**	**884**
Derivatives					
Options in trading portfolio*	-	-	-	-	-
	-	**-**	**-**	**-**	**-**

* In the case of call options, there are no contractual cash flows as if the option is exercised the contract will be settled in the securities over which the option is written. The contractual cash flows for put options written are the cash sums the Company will pay to acquire securities over which the options have been written, and it is assumed for the purpose of the above disclosure that all options will be exercised (i.e. maximum cash outflow). There were no put options outstanding at 30th June 2021.

C. Unrecognised Items

C1. Contingencies

Directors are not aware of any material contingent liabilities or contingent assets other than those already disclosed elsewhere in the Financial Report.

Further information that shareholder may find useful is included here. It is grouped into three sections:

D. Balance Sheet Reconciliations

E. Income Statement Reconciliations

F. Further Information

D. Balance Sheet Reconciliations

These notes provide further information about the basis of calculation of line items in the financial statements.

D1. Current Assets – Cash

	2021 $'000	2020 $'000
Cash at bank and in hand (including on-call)	97,122	111,318
	97,122	**111,318**

Cash holdings yielded an average floating interest rate of 0.14 per cent (2020: 1.02 per cent). All cash investments are held in a transactional account, with a custodian or in an overnight 'at call' account invested in cash management trusts which invest predominantly in short term securities with an A1+ rating.

D2. Credit Facilities

	2021 $'000	2020 $'000
Commonwealth Bank of Australia – cash advance facilities	50,000	250,000
Amount drawn down	-	-
Undrawn facilities	**50,000**	**250,000**

The above borrowings are unsecured. Repayment of facilities is done either through the use of cash received from distributions or the sale of securities, or by rolling existing facilities into new ones. Facilities are usually drawn down for no more than three months.

After 30 June 2021, additional facilities have been written with Commonwealth Bank of Australia for an additional $60 million.

During the previous year, the Group had an additional facility available of $120 million in order to take advantage of any potential opportunities that may have arisen due to the circumstances surrounding COVID-19 and the responses to it. This facility was not renewed during the current year.

D3. Revaluation Reserve

	2021 $'000	2020 $'000
Opening balance at 1 July	2,166,030	2,561,314
Gains/(losses) on investment portfolio		
Equity instruments	1,881,261	(568,806)
Provision for tax on above	(575,865)	167,602
Cumulative taxable realised (gains)/losses (net of tax)	(77,129)	5,920
	3,394,297	**2,166,030**

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy Note A2.

D4. Realised Capital Gains Reserve

	2021 $'000	2020 $'000
Opening balance at 1 July	397,712	462,257
Dividends paid	(58,770)	(58,625)
Cumulative taxable realised gains/(losses) for period through OCI (net of tax)	77,129	(5,920)
	416,071	**397,712**

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in A2.

D5. Retained Profits

	2021 $'000	2020 $'000
Opening balance at 1 July	705,273	688,244
Dividends paid	(223,703)	(222,902)
Profit for the year	234,651	239,931
	716,221	**705,273**

This reserve relates to past profits.

D6. Share Capital

Movements in Share Capital

Date	Details	Notes	Number of Shares '000	Issue Price $	Paid-up Capital $'000
1/07/2019	Balance		1,200,148		2,888,136
29/08/2019	Dividend Reinvestment Plan	i	5,541	6.21	34,407
29/08/2019	Dividend Substitution Share Plan	ii	622	6.21	n/a
24/02/2020	Dividend Reinvestment Plan	i	3,585	6.93	24,842
24/02/2020	Dividend Substitution Share Plan	ii	468	6.93	n/a
Various	Costs of issue		-	-	(142)
30/06/2020	Balance		1,210,364		2,947,243
01/09/2020	Dividend Reinvestment Plan	i	5,583	6.30	35,165
01/09/2020	Dividend Substitution Share Plan	ii	776	6.30	n/a
23/02/2021	Dividend Reinvestment Plan	i	3,587	7.10	25,467
23/02/2021	Dividend Substitution Share Plan	ii	527	7.10	n/a
Various	Costs of issue		-	-	(145)
30/06/2021	Balance		**1,220,837**		**3,007,730**

i. Shareholders elect to have all or part of their dividend payment reinvested in new ordinary shares under the Dividend Reinvestment Plan (DRP). The price of the new DRP shares is based on the average selling price of shares traded on the Australian Securities Exchange and Chi-X in the five days after the shares begin trading on an ex-dividend basis.

ii. The Group has a Dividend Substitution Share Plan (DSSP) whereby shareholders may elect to forgo a dividend and receive shares instead. Pricing for the DSSP shares is done as per the DRP shares.

iii. The Group has an on-market share buy-back program. During the financial year, no shares were bought back (2020: nil).

All shares have been fully paid, rank pari passu and have no par value.

E. Income Statement Reconciliations

E1. Reconciliation of Net Cash Flows From Operating Activities to Profit

	2021 $'000	2020 $'000
Profit for the year	**235,095**	**240,395**
Net decrease/(increase) in trading portfolio	(441)	(11,337)
Dividends received as securities under DRP investments	-	(8,355)
Demerger dividend – non-cash item	(36,505)	-
Decrease/(increase) in current receivables	(22,664)	22,781
– Less increase/(decrease) in receivables for investment portfolio	9,875	-
Increase/(decrease) in deferred tax liabilities	563,545	(191,222)
– Less (increase)/decrease in deferred tax liability on investment portfolio	(562,732)	190,250
Increase/(decrease) in current payables	136	(48)
– Less increase/(decrease) in dividends payable	(40)	151
Increase/(decrease) in provision for tax payable	(18,150)	13,719
Capital gains tax charge taken through equity	(13,133)	(22,648)
Prior year taxes paid relating to capital gains	23,798	20,394
Increase/(decrease) in other provisions/non-cash items	(17)	555
Net cash flows from operating activities	**178,767**	**254,635**

E2. Tax Reconciliations

Tax Expense Composition

	2021 $'000	2020 $'000
Charge for tax payable relating to the current year	14,281	21,271
Over provision in prior years	(2,236)	(2,453)
(Increase)/Decrease in deferred tax assets	813	(972)
	12,858	**17,846**

Amounts Recognised Directly Through Other Comprehensive Income

	2021 $'000	2020 $'000
Net movement in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	575,865	(167,602)
	575,865	**(167,602)**

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

	2021 $'000	2020 $'000
(a) Tax on unrealised gains or losses in the trading portfolio	(253)	(82)
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,851	1,849
(c) Interest and dividend income receivable which is not assessable for tax until receipt	**(1,539)**	**(895)**
	59	**872**
Movements:		
Opening balance at 1 July	872	(100)
Credited/(charged) to Income Statement	(813)	972
	59	872

Deferred tax assets arise when provisions and expenses have been charged but are not yet tax deductible. These assets are realised when the relevant items become tax deductible, as long as enough taxable income has been generated to claim the assets against, and as long as there are no changes to the tax legislation that affect AFIC's ability to claim the deduction.

F. Further Information

This section covers information that is not directly related to specific line items in the financial statements, including information about related party transactions, share-based payments, assets pledged as security and other statutory information.

F1. Related Parties

All transactions with deemed related parties were made on normal commercial terms and conditions and approved by Independent Directors.

(a) Arrangements with Non-Executive Directors

Non-Executive Directors R Barker (who retired on 30 June 2021), J Paterson and C Walter have rented office space and, for R Barker and J Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable by the Group, excluding GST, during the year was $62,608 (2020: $62,565).

(b) AICS Transactions With Minority Interests

The below transactions were with Djerriwarrh Investments Ltd as a minority interest holder in the Company's subsidiary.

	2021 $'000	2020 $'000
Administration expenses charged for the year	2,528	2,634

(c) AICS Transactions With Other Listed Investment Companies

AICS had the following transactions with other Listed Investment Companies to which it provides services:

	2021 $'000	2020 $'000
Administration expenses charged for the year to Mirrabooka Investments Ltd	1,467	1,454
Administration expenses charged for the year to AMCIL Ltd	916	839

F2. Remuneration of Auditors

For the year the auditor earned or will earn the following remuneration:

	2021 $	2020 $
PricewaterhouseCoopers		
Audit services		
Audit or review of Financial Reports	210,050	202,815
Audit-related services		
AFSL compliance audit and review	8,331	8,168
Permitted non-audit services		
Preparation and lodgement of tax returns	32,940	32,293
Total remuneration	**251,321**	**243,276**

F3. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board, through its Committees, has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

Description of Segments

The Board makes the strategic resource allocations for AFIC. AFIC has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for AFIC's entire portfolio of investments and considers the business to have a single operating segment (noting that the investment portfolio contains sub-components for ease of administration). The Board's asset allocation decisions are based on a single, integrated investment strategy, and AFIC's performance is evaluated on an overall basis.

Segment Information Provided to the Board

The internal reporting provided to the Board for AFIC's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of Australian Accounting Standards, except that net assets are reviewed both before and after the effects of capital gains tax on investments (as reported in AFIC's Net Tangible Asset announcements to the ASX).

Other Segment Information

Revenues from external parties are derived from the receipt of dividend, distribution and interest income, and income arising on the trading portfolio and realised income from the options portfolio.

AFIC is domiciled in Australia and most of AFIC's income is derived from Australian entities or entities that maintain a listing in Australia. AFIC has a diversified portfolio of investments, with only two investments comprising more than 10 per cent of AFIC's income, including realised income from the trading and options written portfolios – Woolworths Group (16.1 per cent as a result of the demerger dividend received in conjunction with the Endeavour Group demerger) and BHP (11.0 per cent) (2020: two investments: Commonwealth Bank (12.4 per cent) and BHP (10.5 per cent)).

F4. Summary of Other Accounting Policies

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. This Financial Report has been authorised for issue on 26 July 2021 in accordance with a resolution of the Board and is presented in the Australian currency. The Directors of the Company have the power to amend and reissue the Financial Report.

AFIC has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market value	Fair value for actively traded securities
Cash	Cash and cash equivalents
Share capital	Contributed equity
Options	Derivatives written over equity instruments that are valued at fair value through profit or loss
Hybrids	Equity instruments that have some of the characteristics of debt

AFIC complies with International Financial Reporting Standards (IFRS). AFIC is a 'for profit' entity.

AFIC has not applied any Australian Accounting Standards or AASB Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2021 ('the inoperative standards'). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. AFIC only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

Basis of Accounting

The financial statements are prepared using the valuation methods described in A2. All other items have been treated in accordance with the historical cost convention.

Fair Value of Financial Assets and Liabilities

The fair value of cash and non-interest bearing monetary financial assets and liabilities of AFIC approximates their carrying value.

Convertible Notes

On the issue of convertible notes, the Group estimates the fair value of the liability component of the convertible notes, being the obligation to make future payments of principal and interest to holders, using a market interest rate for a non-convertible note of similar terms and conditions. The residual amount is included in equity as other equity securities with no recognition of any change in the value of the option in subsequent periods. The liability component is then included in borrowings. Expenses incurred in connection with the issue of the notes are deducted from the total face value and the expense is then incurred over the life of the notes.

The total liability is subsequently carried on an amortised cost basis with interest on the notes recognised as finance costs on an effective yield basis until the liability is extinguished on conversion or maturity of the notes.

Notes to the Financial Statements

continued

Employee Benefits

(i) Wages, Salaries and Annual Leave

Liabilities for wages and salaries, including annual leave, expected to be settled within 12 months of balance date are recognised as current provisions in respect of employees' services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave

In calculating the value of long service leave, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Cash Incentives

Cash incentives are provided under the Executive Annual Incentive Plan and are dependent upon the performance of the Group. A provision is made for the cost of unsettled cash incentives at balance date. The Investment Team Annual Incentive Plans are also settled on a cash basis.

(iv) Share Incentives

Share incentives are provided under the Executive Annual Incentive Plan, Executive Long Term Incentive Plan and the Employee Share Acquisition Scheme.

For the Employee Share Acquisition Scheme and the Executive Annual Incentive Plan, the incentives are based on the performance of the individual, the Group and investment companies to which the Group provides administration services, for the financial year. For the Employee Share Acquisition Scheme and a portion of the Executive Annual Incentive, the recipient agrees to purchase (or have purchased for them) shares on-market, but receives a cash amount. A provision for the amount payable under the Annual Incentive Plans is recognised on the Balance Sheet.

For the Investment Team Long Term Incentive Plan, the incentives are based on the performance of the Group and investment companies to which the group provides administration services over a four-year period. The incentives may be settled in shares (but based on a cash amount) or cash. Historically, all awards have been cash. Expenses are recognised over the four-year assessment period based on the amount expected to be payable under this plan, resulting in a provision for incentive payable being built up on the Balance Sheet over the assessment period.

Under the Executive Long Term Incentive Plan which was introduced for the year ended 30 June 2013, the amount awarded is represented by performance shares. The 30-day volume weighted average price (VWAP) of AFIC shares up to but not including 1 July is calculated. The amount of ELTIP available is then divided by this 30-day VWAP price to determine the number of performance shares that may vest at the vesting point in four years' time. The value of each performance shares will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June. 17,763 shares vested during the year ended 30 June 2021.

The expense will be charged directly through the Income Statement in the following manner – 25 per cent of the total estimated cost in Year 1, 50 per cent of the total estimated cost in Year 2 less the expense charged in Year 1, 75 per cent of the total estimated cost in Year 3 less the expense charged in Years 1 and 2 and 100 per cent of the total estimated cost in Year 4 less the expense charged in Years 1, 2 and 3.

Directors' Retirement Allowances

The Group recognises as 'amounts payable' Directors' retirement allowances that have been crystallised. No further amounts will be expensed as retirement allowances.

Administration Fees

The Group currently provides administrative services to other Listed Investment Companies. The associated fees are recognised on an accruals basis as income throughout the year. Any amounts outstanding at balance date are recognised as receivable, subject to the assessment of recoverability by the Directors.

Operating Leases

The Group currently has an operating lease in respect of its premises. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

Rounding of Amounts

AFIC is a company of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Instrument, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

F5. Performance Bond

The Group's subsidiary, AICS, has under the terms of its Australian Financial Services License in place a performance bond to the sum of $20,000 underwritten by the Commonwealth Bank of Australia in favour of the Australian Securities and Investments Commission (ASIC), payable on demand to ASIC.

F6. Share-based Payments

Share-based Payments

The Group has a number of share incentive arrangements. These are accounted for in accordance with Note F4. Where shares are issued to employees of AICS, AICS compensates AFIC for the fair value of the shares.

(a) Executive Incentive Plans

The Executives' remuneration arrangements incorporate an 'at risk' component as set out in the Remuneration Report. Part of this 'at risk' component is paid in shares in the Group.

(i) Executive Annual Incentive Plan

Each financial year, the Remuneration Committee sets the target (cash) amount of remuneration that could be paid should all performance targets and measures be achieved. If all are achieved, 100 per cent of the remuneration will be awarded. If stretch levels of performance are achieved above target, then higher amounts may be paid. On the other hand there is no set minimum that will be paid regardless of performance.

The performance measures are a combination of the performance of the Group, the investment companies to which the Group provides administration services, and personal objectives.

All of the incentive remuneration awarded is paid in cash, with 50 per cent of the after-tax amount being used by the Executive to purchase shares. All remuneration under the plan, is paid in the financial year following the year of assessment.

The Executive agrees to the shares being subject to being held for four years (holding term), during which they cannot be sold. Dividends are paid to Executives on these shares prior to the expiry of the holding term. Should an Executive leave the Group before the holding term expires, the restriction will be lifted.

21,736 shares for both LTIP and Annual Incentive (2020: 12,565 shares) were purchased by Executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $149,306 (2020: $81,835).

(ii) Executive Long Term Incentive Plan

Under the Executive Long Term Incentive Plan, the amount awarded will be represented by performance rights. The 30-day Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July will be calculated. The amount of ELTIP available will then be divided by this 30-day VWAP price to determine the number of performance rights that may vest at the vesting point in four years' time. The value of each performance right will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June.

The estimated fair value of the award will be calculated in accordance with AASB 2 – *Share Based Payments* at the end of each year until the final year of vesting. The liability shown after the final year of vesting will represent the actual amount being paid to eligible employees as a cash-settled share-based payment.

67,777 rights were awarded under the plan during the year ended 30 June 2021 (2020: 65,198). An expense of $826,722 (2020: $462,267) was incurred for the 2017/18, 2018/19, 2019/20 and 2020/21 plans. 51,941 rights under the 2016/17 plan were forfeited during the year (74.5 per cent).

(b) Employee Share Acquisition Scheme

Under the current Employee Share Acquisition Scheme, each employee who is not a participant in the Executive or Investment Team Incentive Plans is awarded $5,000 per annum. After PAYG is deducted, $2,500 is used to buy shares in the Company, which needs to be held for three years. After three years, or the departure of the employee from employment with the Group, the shares come out of the holding lock.

In addition, each employee is eligible for an additional award of up to $5,000. 50 per cent of the amount awarded is used to buy shares in one of the other LICs that AICS provides services to. The amount that is awarded is dependent on the metrics used for the vesting of the Investment Team's Short Term Incentive (excluding personal measures). During the year, 28 per cent of the possible maximum was awarded, and 50 per cent of this was used to buy shares in AMCIL Limited, as part of the Group's policy of rotating these purchases amongst the LICs other than AFIC to which AICS provides services.

(c) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognised during the period as part of the employee benefit expense (excluding any reversals and the Investment Team Long Term Incentive Plan) were as follows:

	2021 $'000	2020 $'000
Share-based payment expense	879	507

(d) Liability

The total liability arising from share-based payment transactions is included in the current and non-current liabilities for 'provisions'.

F7. Principles of Consolidation

AFIC's consolidated financial statements consist of the financial statements of AFIC, the parent, and its subsidiary, Australian Investment Company Services Ltd (AICS). 25 per cent of AICS is owned by Djerriwarrh Investments Ltd, another investment company for which AICS performs operational and investment administration services, and for which it is paid monthly.

No subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation.

The financial information for the parent entity, disclosed in F9 below, has been prepared on the same basis as the consolidated financial statements. All notes are for the consolidated Group unless specifically noted otherwise.

F8. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2021	Equity Holding 2020
Australian Investment Company Services Ltd	Australia	Ordinary	75%	75%

The investment in AICS is accounted for at cost in the individual financial statements of AFIC.

F9. Parent Entity Financial Information

Summary Financial Information

The individual financial statements for the parent entity show the following aggregate amounts:

	2021 $'000	2020 $'000
Balance Sheet		
Current assets	133,183	125,705
Total assets	**9,106,106**	**7,243,674**
Current liabilities	13,271	30,965
Total liabilities	**1,551,348**	**1,005,486**
Shareholders' equity		
Issued capital	3,007,730	2,947,243
Reserves		
Revaluation reserve	3,394,297	2,166,030
Realised capital gains reserve	416,071	397,712
General reserve	23,637	23,637
Retained earnings	713,023	703,566
	4,547,028	**3,290,945**
Total shareholders' equity	**7,554,758**	**6,238,188**
Profit or loss for the year	**233,319**	**238,539**
Total comprehensive income	**1,538,715**	**(162,665)**

DIRECTORS' DECLARATION

In the Directors' opinion:

1) the financial statements and notes set out on pages 35 to 57 are in accordance with the *Corporations Act 2001* including:
   a) complying with the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   b) giving a true and fair view of the entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note F4 to the financial statements confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.

This declaration has been made after receiving the declarations required to be made to the Directors by the Managing Director and the Chief Financial Officer regarding the financial statements in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2021. The declarations received were that, in the opinion of the Managing Director and the Chief Financial Officer to the best of their knowledge, the financial records of the Company have been properly maintained, that the financial statements comply with Accounting Standards and that they give a true and fair view.

John Paterson
Chairman

Melbourne
26 July 2021

INDEPENDENT AUDIT REPORT

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Independent auditor's report

To the members of Australian Foundation Investment Company Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Foundation Investment Company Limited (the Company) and its controlled entity (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2021
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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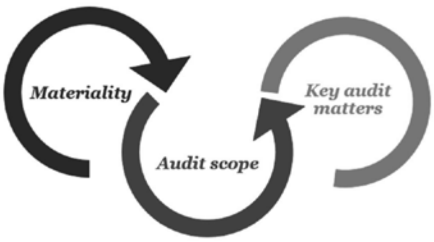
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of $75.5 million, which represents approximately 1% of the Group's net assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose net assets as the benchmark because, in our view, net assets is:
  - the metric against which the performance of the Group is most commonly measured
  - the key driver of the business and the determinant of the Group's value
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable net asset thresholds.

Audit Scope

- Our audit focused on assessing the financial statements for risks of material misstatement in account balances or disclosures and designing and performing audit procedures to obtain reasonable assurance that the financial statements as a whole were free of material misstatement due to fraud or error. This included identifying areas of higher risk, based on quantitative and qualitative assessments of the Group's operations and activities.
- The administration and investment operations for the Group are conducted by the Company's subsidiary, Australian Investment Company Services Limited. In addition to our audit procedures, we obtained a report from other auditors that the controls over administration and investment operations operating at Australian Investment Company Services Limited were suitably designed and operated effectively for the year. We assessed the report by considering the other auditor's independence, competency, and results of procedures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	*How our audit addressed the key audit matter*
Existence and valuation of Investment Portfolio *Refer to note A2* *$8,973.1m* The Investment Portfolio consists mainly of listed Australian equities, as well as a smaller portfolio of listed international equities. Whilst there is no significant judgement in determining the valuation of the Group's investments, investments represent a key measure of the Group's performance and comprise a significant proportion of total assets in the balance sheet. The fluctuations in investment valuation will also impact the realised and unrealised gains/(losses) recognised in the statement of comprehensive income, which also affects the deferred tax provisions. Given the pervasive nature investments have on the Group's key financial metrics, we determined the existence and valuation of investments to be a key audit matter.	1) Performed an investment reconciliation of the investments balance from the opening investment balance, addition/subtraction of purchases, sales and other relevant transactions and agreeing back to the 30 June 2021 balance. 2) Obtained the purchases and sales listing for the year ended 30 June 2021, and • Agreed a sample of purchases and sales to original contracts; and • Agreed a sample of original contracts to the purchases and sales listing. 3) Agreed all the investment quantity holdings at 30 June 2021 to third party registry or custody sources. 4) Agreed all listed equities investment prices to third party market pricing sources.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 18 to 31 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Australian Foundation Investment Company Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
26 July 2021

OTHER INFORMATION

Information About Shareholders

At 20 July 2021 there were 159,883 holdings of ordinary shares. These holdings were distributed in the following categories:

Size of Holding	Shareholdings	Percentage
1 to 1,000	60,718	2.02%
1,001 to 5,000	51,787	10.81%
5,001 to 10,000	20,663	12.27%
10,001 to 100,000	25,670	51.67%
100,000 and over	1,045	23.23%
Total	**159,883**	**100%**

Percentage held by the 20 largest holders	6.50%
Average shareholding	7,635

There were 2,923 shareholdings of less than a marketable parcel of $500 (63 shares).

Voting Rights of Ordinary Shares

The Constitution provides for votes to be cast:

(i) on a show of hands, one vote for each shareholder; and

(ii) on a poll, one vote for each fully paid ordinary share.

Major Shareholders

The 20 largest registered holdings of ordinary shares as at 20 July 2021 are listed below:

Ordinary Shares

Rank	Name	Units	% Units
1	HSBC Custody Nominees (Australia) Limited	22,109,680	1.81
2	Citicorp Nominees Pty Limited	9,019,999	0.74
3	Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	5,540,578	0.45
4	Netwealth Investments Limited <Wrap Services A/C>	5,334,656	0.44
5	Australian Executor Trustees Limited <IPS Super A/C>	4,623,179	0.38
6	Bougainville Copper Limited	4,461,000	0.37
7	Navigator Australia Ltd <MLC Investment Sett A/C>	3,946,902	0.32
8	Bushways Pty Ltd	2,570,592	0.21
9	Custodial Services Limited <Beneficiaries Holding A/C>	2,568,015	0.21
10	Investment Custodial Services Limited <C A/C>	2,393,421	0.20
11	Investment Custodial Services Limited <C A/C>	2,375,424	0.19
12	BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <Drp A/C>	2,231,254	0.18
13	Netwealth Investments Limited <Super Services A/C>	2,042,207	0.17
14	Australian Executor Trustees Limited <IPS IDPS A/C>	1,737,791	0.14
15	Kalymna Pty Ltd	1,510,886	0.12
16	HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	1,500,259	0.12
17	Twibill Pty Ltd	1,443,216	0.12
18	Australian Executor Trustees Limited <No 1 Account>	1,368,376	0.11
19	BNP Paribas Nominees Pty Ltd <Pitcher Partners Drp>	1,303,265	0.11
20	Mr Bruce Teele <The Teele Family A/C>	1,248,290	0.10

Sub-underwriting

During the year the Company did not participate as a sub-underwriter in any issues of securities.

Substantial Shareholders

The Company has not been notified of any substantial shareholders.

Transactions in Securities

During the year ended 30 June 2021, the Company recorded 643 transactions in securities (including derivatives). $2,279,146 in brokerage (including GST) was paid or accrued for the year.

Major Transactions in the Investment Portfolio

Acquisitions	Cost ($'000)
PEXA Group	50,000
Endeavour Group (demerger from Woolworths Group)	39,713
FINEOS Corporation (includes participation in placement at $4.26 per share)	30,981
ASX	28,444
Woolworths Group	28,184
Domino's Pizza Enterprises	24,743
Temple & Webster	24,547
Nanosonics	21,520

Disposals	Proceeds ($'000)
Qube Holdings	41,399
South32#	35,848
National Australia Bank (because of the exercise of call options)	35,413
Alumina#	34,778
Brickworks#	32,698
Brambles	28,973
Oil Search	26,537

Complete disposal from the portfolio.

New Companies Added to the Portfolio

PEXA Group

Endeavour Group

FINEOS Corporation

Domino's Pizza Enterprises

Temple & Webster

Nanosonics

IDP Education

Holdings of Securities

At 30 June 2021

Individual investments for the combined investment and trading portfolios as at 30 June 2021 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 2020 '000	Number Held 2021 '000	Market Value 2021 $'000
AIA	Auckland International Airport	6,073	6,073	41,056
ALQ	ALS	7,542	7,012	91,439
ALU	Altium	308	466	17,079
AMC	Amcor	12,060	11,600	175,509
ANN	Ansell	1,079	1,079	46,941
ANZ	Australia and New Zealand Banking Group	9,188	8,488	238,929
APA	APA Group	6,665	6,665	59,319
ARB	ARB Corporation	3,503	3,503	151,283
ASX	ASX Limited	1,054	1,432	111,281
AUB	AUB Group	2,526	2,526	56,553
BHP	BHP Group	13,935	13,413	651,477
BXB	Brambles	12,139	9,279	106,148
CAR	Carsales.com	5,033	6,053	119,609
CBA	Commonwealth Bank of Australia	7,900	7,900	788,973
COH	Cochlear	334	334	84,102
COL	Coles Group	7,068	7,068	120,784
CPU	Computershare	4,380	4,043	68,318
CSL	CSL	2,120	2,185	623,229
CWY	Cleanaway Waste Management	25,516	17,014	44,917
DJW	Djerriwarrh Investments	7,505	7,505	23,041
DMP	Domino's Pizza Enterprises	0	254	30,610
DUI	Diversified United Investments	12,030	12,030	62,437
EDV	Endeavour Group	0	4,766	29,976
EQT	EQT Holdings	1,322	1,322	36,212
FCL	FINEOS Corporation	0	7,338	28,619
FPH	Fisher & Paykel Healthcare	3,485	3,913	113,150
GMG	Goodman Group	6,685	6,685	141,521
IAG*	Insurance Australia Group	6,955	9,527	48,797
IEL	IDP Education	0	566	13,894
IRE	IRESS	5,929	7,091	91,547
IVC	InvoCare	2,984	3,512	40,639
JHX*	James Hardie Industries	5,188	4,590	207,635
LIC	Lifestyle Communities	2,776	2,000	31,220
MFT	Mainfreight (NZX listed)	3,268	3,268	234,039
MIR	Mirrabooka Investments	8,728	8,728	31,158
MLT	Milton Corporation	9,776	8,092	50,982
MQG	Macquarie Group	2,170	2,207	345,168
NAB	National Australia Bank	12,917	11,155	292,479
NAN	Nanosonics	0	3,545	20,809
NWL	Netwealth Group	1,100	2,090	35,844
NXT	NEXTDC	7,864	7,864	93,273
ORG	Origin Energy	6,500	6,500	29,315

Holdings of Securities

At 30 June 2021 continued

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2020 '000	Number Held 2021 '000	Market Value 2021 $'000
ORI	Orica	2,226	2,226	29,558
OSH	Oil Search	26,244	17,985	68,523
PXA	PEXA Group	0	2,919	50,000
QUB	Qube Holdings	35,302	21,635	68,582
REA	REA Group	553	553	93,441
REH	Reece	7,951	7,201	170,023
RHC	Ramsay Health Care	2,020	1,915	120,549
RIO	Rio Tinto	2,001	1,862	235,806
RMD	ResMed	3,935	4,250	139,230
RWC	Reliance Worldwide Corporation	13,134	10,963	57,667
RYM	Ryman Health (NZX listed)	880	880	10,754
SEK	Seek	4,160	3,641	120,651
SHL	Sonic Healthcare	4,054	3,704	142,242
SYD	Sydney Airport	21,443	25,606	148,260
TCL	Transurban Group	23,137	23,867	339,624
TLS*	Telstra Corporation	54,510	54,510	204,331
TPW	Temple & Webster	0	2,367	25,537
WBC	Westpac Banking Corporation	15,985	15,545	401,216
WES	Wesfarmers	7,372	7,372	435,685
WOW	Woolworths Group	5,667	6,416	244,631
WPL	Woodside Petroleum	4,460	3,620	80,392
XRO	Xero	871	833	114,204
Total				**8,930,218**

* Part of the holding was subject to call options written by the Company.

Holdings of International Securities

At 30 June 2021

Ordinary Shares, Trust Units or Stapled Securities		Number Held 2021	Market Value 2021 A$
ACN-US	Accenture	2,760	1,083,742
AENA-ES	Aena	4,993	1,090,771
9988-HK	Alibaba	45,556	1,718,828
GOOGL-US	Alphabet	642	2,088,086
AMZN-US	Amazon	349	1,599,223
AAPL-US	Apple	4,788	873,475
CMG-US	Chipotle	714	1,474,453
CTAS-US	Cintas	1,994	1,014,587
COST-US	Costco	1,589	837,705
CCI-US	Crown Castle	4,226	1,098,211
EL-US	Estée Lauder	2,046	866,849
FB-US	Facebook	3,553	1,645,572
FERG-GB	Ferguson	6,357	1,175,600
FTNT-US	Fortinet	4,102	1,301,442
HCA-US	HCA Healthcare	5,511	1,517,619
HD-US	Home Depot	2,757	1,171,063
ICE-US	Intercontinental	7,772	1,228,831
OR-FR	L'Oréal	790	468,960
MC-FR	LVMH Moët	1,240	1,295,304
MAR-US	Marriott	6,266	1,139,409
MA-US	Mastercard	1,421	691,032
MCD-US	McDonald's	4,188	1,288,564
MSFT-US	Microsoft	7,066	2,549,695
NESN-CH	Nestlé	9,176	1,523,491
NFLX-US	Netflix	2,257	1,587,980
NEE-US	Nextera	5,861	572,092
NKE-US	Nike	7,784	1,601,792
NOVOB-DK	Novo Nordisk	8,634	963,641
PYPL-US	Paypal	3,116	1,209,787
PEP-US	PepsiCo	5,323	1,050,547
ROG-CH	Roche	2,790	1,401,333
SPGI-US	S&P Global	2,558	1,398,510
SU-FR	Schneider	5,527	1,158,349
SOON-CH	Sonova	1,814	909,667
SBUX-US	Starbucks	8,598	1,280,500
669-HK	Techtronic	31,777	739,133
TMO-US	Thermo Fisher	1,684	1,131,564
ULVR-GB	Unilever	10,047	782,159
V-US	Visa	3,461	1,077,928
Total			**47,607,493**

Issues of Securities

Date of Issue	Type	Price	Remarks
23 February 2021	DRP/DSSP	$7.10	5 per cent discount
1 September 2020	DRP/DSSP	$6.30	
24 February 2020	DRP/DSSP	$6.93	2.5 per cent discount
29 August 2020	DRP/DSSP	$6.21	
25 February 2019	DRP/DSSP	$5.93	2.5 per cent discount
31 August 2018	DRP/DSSP	$6.18	
23 February 2018	DRP/DSSP	$6.11	
30 August 2017	DRP/DSSP*	$5.92	
24 February 2017	DRP/DSSP*	$5.84	
30 August 2016	DRP/DSSP*	$5.58	2.5 per cent discount
19 February 2016	DRP/DSSP*	$5.43	2.5 per cent discount
25 November 2015	SPP	$5.51	5.0 per cent discount
28 August 2015	DRP/DSSP*	$6.03	2.5 per cent discount
20 February 2015	DRP/DSSP*	$5.97	2.5 per cent discount
6 October 2014	SPP	$5.88	2.5 per cent discount
29 August 2014	DRP/DSSP*	$5.93	2.5 per cent discount
21 February 2014	DRP/DSSP*	$5.86	2.5 per cent discount
30 August 2013	DRP/DSSP*	$5.64	2.5 per cent discount DSSP: Dividend Substitution Share Plan
22 February 2013	DRP	$5.37	
31 August 2012	DRP	$4.36	
24 February 2012	DRP	$4.26	
19 December 2011	Convertible Notes	$100 face value	Mature 28 February 2017. Interest rate 6.25 per cent per annum. Conversion price: $5.0864
31 August 2011	DRP	$4.18	
25 February 2011	DRP	$4.72	2.5 per cent discount
1 September 2010	DRP	$4.65	2.5 per cent discount
2 June 2010	SPP	$4.62	2.5 per cent discount SPP = Share Purchase Plan
26 February 2010	DRP	$4.82	5 per cent discount
1 September 2009	DRP	$4.69	5 per cent discount
2 March 2009	DRP	$3.72	5 per cent discount
25 August 2008	DRP	$4.98	

Date of Issue	Type	Price	Remarks
11 April 2008	SAP	$5.26	
27 February 2008	DRP	$5.26	5 per cent discount
22 August 2007	DRP	$5.78	
8 March 2007	DRP	$5.60	
22 December 2006	SAP	$4.90	
23 August 2006	DRP	$4.70	
7 March 2006	DRP	$4.55	
4 November 2005	SAP	$3.96	
23 August 2005	DRP	$3.90	
18 March 2005	DRP	$3.68	
19 August 2004	DRP	$3.29	
12 March 2004	DRP	$3.29	
22 October 2003	1 for 8 rights issue	$3.00	
15 August 2003	DRP	$3.47	
16 April 2003	SAP	$3.04	
7 March 2003	DRP	$3.11	
14 August 2002	DRP	$3.11	
5 April 2002	SAP	$3.16	
7 March 2002	DRP	$3.24	
15 August 2001	DRP	$3.08	
29 June 2001	DRP	$2.87	
7 March 2001	DRP	$2.56	
16 August 2000	DRP	$2.47	
7 March 2000	DRP	$2.64	
11 August 1999	DRP	$2.95	
12 April 1999	SAP	$2.54	SAP = Share Acquisition Plan
15 March 1998	DRP	$2.79	
4 September 1998	DRP	$2.43	DRP = Dividend Reinvestment Plan

Note for issues of securities in earlier years please consult the Company's website, afi.com.au or via telephone (03) 9650 9911.

* Note that for the shares issued under the DSSP, the price shown is the indicative price used to determine the number of shares issued to participants. Shares issued under the DSSP are issued at nil cost. Shareholders who sell shares issued under the DSSP should consult their tax adviser as to the correct treatment of such sales for taxation purposes.

Company Particulars

Australian Foundation Investment Company Limited (AFIC)

ABN 56 004 147 120

Directors

John Paterson, Chairman
Mark Freeman, Managing Director
Rebecca P Dee-Bradbury
Craig M Drummond
Julie A Fahey
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

Share Registrar

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

New Zealand
Computershare Investor Services Limited
159 Hurstmere Road
Takapuna
Auckland 0622

Shareholder Enquiry Line	1300 662 270 (Australia) 0800 333 501 (New Zealand) +61 3 9415 4373 (from overseas)
Facsimile	(03) 9473 2500
Website	investorcentre.com/contact

For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar as above.

Securities Exchange Codes

AFI	Ordinary shares (ASX and NZX)

Annual General Meeting

Time	10.00am
Date	Tuesday 5 October 2021
Venue	Clarendon Auditorium Melbourne Convention and Exhibition Centre (MCEC)
Location	2 Clarendon Street Southbank Victoria Australia 3006

Subject to any change in the government restrictions for public gatherings, the AGM will be a hybrid meeting with a physical meeting and access via an online platform. Further details are provided in the Notice of Annual General Meeting.

Our intention is to hold shareholder meetings in each of the state capital cities (other than Hobart) during October 2021 after the AGM. Given the uncertainty because of COVID-19, shareholders will be notified separately of date and venue if these meetings can safely proceed.

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

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AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Annual Review
2021

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

Contents

Year in Summary

	2021		
Profit for the Year	$235.1m		$240.4m in 2020. Down 2.2%
Fully Franked Dividend	14¢ Final	24¢ Total	24 cents total in 2020
Total Shareholder Return	35.2%		Share price plus dividend, including franking*
Total Portfolio Return	31.9% Including franking*		S&P/ASX 200 Accumulation Index including franking* 29.1%
Management Expense Ratio	0.14%		0.13% in 2020
Total Portfolio	$9.1b		Including cash at 30 June. $7.2 billion in 2020

* Assumes a shareholder can take full advantage of the franking credits.

5 Year Summary

Net Profit After Tax ($ Million)

2021	235.1
2020	240.4
2019	272.2 / 134.2[a]
2018	279.0
2017	245.3

Net Profit Per Share (Cents)

2021	19.3
2020	19.9
2019	34.0
2018	23.6
2017	21.3

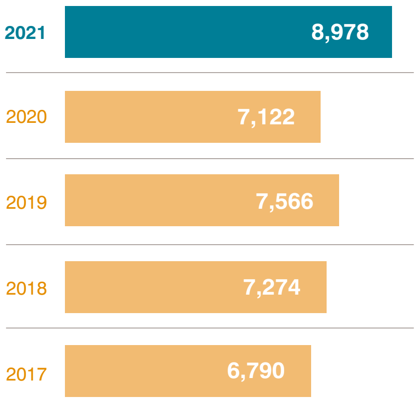
Dividends Per Share (Cents)[b]

2021	24
2020	24
2019	24 / 8[c]
2018	24
2017	24

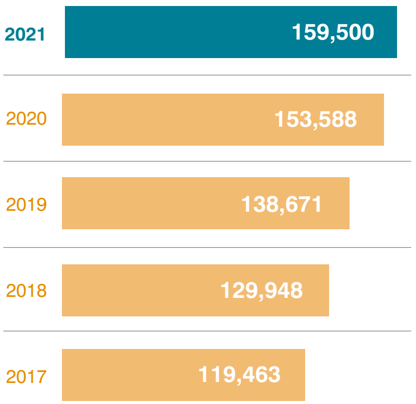
Net Asset Backing Per Share ($)[d]

2021	7.45
2020	5.96
2019	6.49
2018	6.27
2017	5.89

Investments at Market Value ($ Million)[e]



Number of Shareholders (30 June)



Notes

(a) Participation in the Rio Tinto and BHP off-market share buy-backs, special dividends and the receipt of a dividend because of the Coles demerger from Wesfarmers.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was 2021: 4.29 cents, 2020: 7.14 cents, 2019: 7.14 cents, 2018: 2.86 cents, 2017: nil.

(c) 8 cents fully franked special dividend paid with the interim dividend.

(d) Net asset backing per share based on year-end data before the provision for the final dividend. The figures do not include a provision for capital gains tax that would apply if all securities held as non-current investments had been sold at balance date as Directors do not intend to dispose of the portfolio.

(e) Excludes cash.

About the Company

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

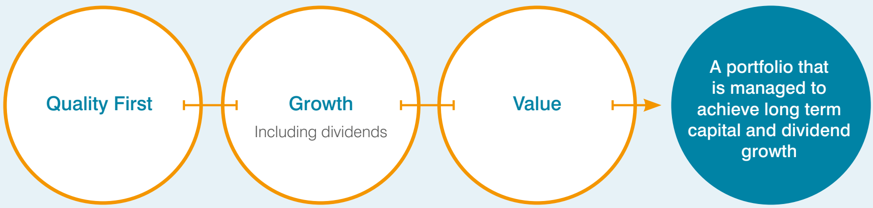
Investment Objectives

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

Investment Philosophy

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 time frame.

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.

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 twelve months to 30 June 2021 this was 0.14 per cent, or 14 cents for each $100 invested.

About the Company
continued

Approach to Investing continued

Approach to Environmental, Social and Governance (ESG) Issues When Investing

Assessment of Environmental, Social and Governance (ESG) issues is an important part of our investment process. As a long term investor, we seek to invest in companies that have strong governance and risk management processes, which includes consideration of environmental and social risks. We regularly review companies to ensure ongoing alignment with our investment framework:

- We believe environmental factors, including the impact of climate change, can have a material impact on society. These factors are considered when assessing a company's assets, long term sustainability of earnings and cash flow, cost of capital and future growth opportunities.
- We believe that aligning ourselves with high-quality management and boards building sustainable long term businesses is the best approach to avoiding socially harmful businesses. We are attracted to companies that act in the best interest of all their stakeholders, including their employees, customers, suppliers, and wider communities.
- We invest in high-quality companies with strong governance processes, and management and boards whose interests are closely aligned with shareholders. The investment process includes an assessment of their past performance, history of capital allocation, level of accountability, mix of skills, relevant experience and succession planning. We also closely scrutinise a company's degree of transparency and disclosure.

Engagement with Companies

Voting on resolutions is one of the key functions that a shareholder has in ensuring better long term returns and management of investment risk:

- We take input from proxy advisers but conduct our own evaluation of the merits of any resolution.
- We vote on all company resolutions as part of our regular engagement with the companies in the portfolio.
- We actively engage with companies when we have concerns those resolutions are not aligned with shareholders' interests.

We acknowledge that high-quality companies may face ESG challenges from time to time. We seek to stay engaged with the companies and satisfy ourselves that the issues are taken seriously and worked through constructively. Ideally, in this instance, we seek to remain invested to influence a satisfactory outcome for stakeholders.

Review of Operations and Activities

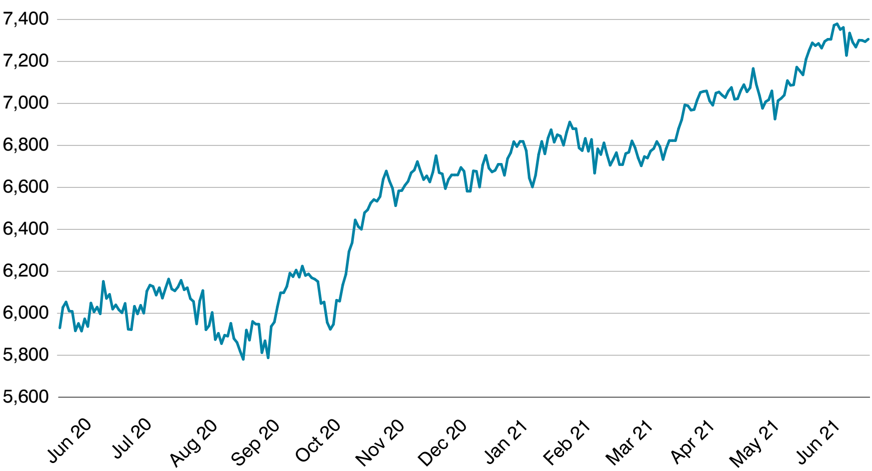
Profit and Dividend

The full year profit was $235.1 million, down from $240.4 million in the previous corresponding period. The profit to 30 June 2021 includes a demerger dividend of $36.5 million (which was non-cash and carries no franking) resulting from the Endeavour Group demerger from Woolworths Group. Excluding this one-off item, the profit figure to 30 June 2021 was $198.6 million. This fall in profit versus the corresponding period last year was a result of the decline in underlying income as the economic impact of the COVID-19 pandemic continued to limit dividends for many holdings in the portfolio.

Earnings per share were 19.3 cents (16.3 cents excluding the Endeavour demerger dividend), down from 19.9 cents. AFIC, as a long-standing listed investment company, has reserves that can be used in difficult times. Drawing upon these reserves and some realised capital gains after tax generated by some sales in the portfolio, the final dividend was maintained at 14 cents per share fully franked despite the fall in income over the year. Total fully franked dividends applicable for the year are 24 cents per share, the same as last year. Despite the significant disruption to income arising from COVID-19 over the last two years, AFIC has maintained its dividends to shareholders through this period.

Three cents of the final dividend are sourced from taxable capital gains, on which the Company has paid or

Figure 1: Performance of the S&P/ASX 200 Price Index for the Financial Year



Source: FactSet

will pay tax. The amount of the pre-tax attributable gain on this portion of the dividend, known as an ‘LIC capital gain’, is therefore 4.29 cents. The enables some shareholders to claim a tax deduction in their tax return.

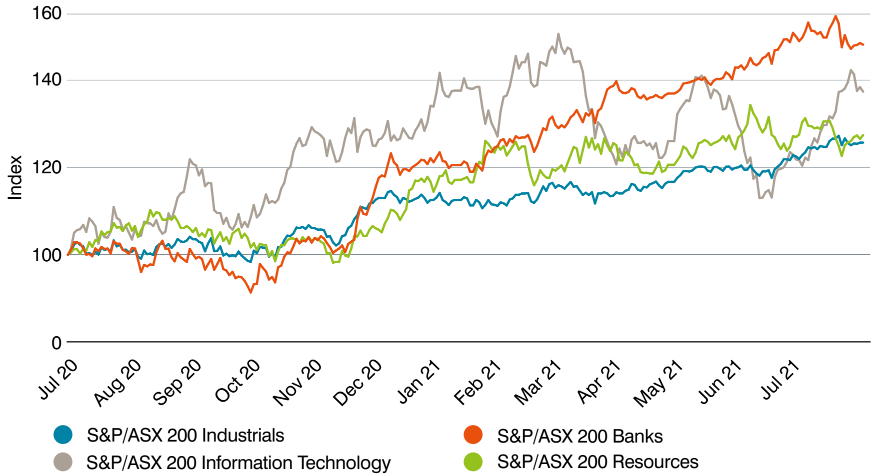
Market and Portfolio Performance

The Australian share market delivered a very strong performance for the financial year (Figure 1) as concerns about the lingering effects of COVID-19 were put aside by the positive stimulus provided by Government and central banks, and better than expected company earnings. The positive mood of investors was also reinforced by the efficacy of vaccines and their deployment in a number of major markets.

The increase in the Australian market was widespread across sectors, with information technology and the banking sectors very strong (Figure 2). The banking sector has risen from previous lows during the year supported by a recovering economy, lower bad debt charges and more sustainable dividend payout ratios.

The S&P/ASX 200 Accumulation Index delivered a positive performance in 11 of the 12 months for the financial year, culminating in a 12-month return of 29.1 per cent, including franking – one of the strongest returns on record. AFIC’s portfolio outperformed over this period, with a return of 31.9 per cent, which also includes the benefit of franking.

Figure 2: Performance of Selected Sectors of the Market



Source: FactSet

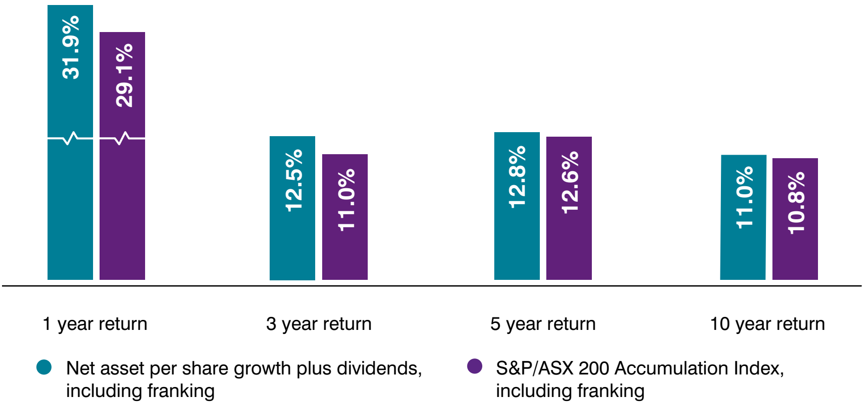
Review of Operations and Activities
continued

Companies in the portfolio that contributed strongly to the positive relative return to the Index through the 12-month period were Reece, Mainfreight, ARB Corporation, James Hardie Industries and ALS.

The long term performance of the portfolio, which is better aligned with the Company's investment timeframes, was 11.0 per cent per annum for the 10 years to 30 June 2021. This is slightly ahead of the Index return over the same period of 10.8 per cent. Both of these figures include the benefit of franking. AFIC's performance numbers are after costs.

The short and long term performance have been achieved with low portfolio turnover, providing very tax-effective returns for shareholders. These returns have also been delivered with very low volatility, achieving an attractive profile of return relative to risk for investors.

Figure 3: Portfolio Performance – Per Annum Returns to 30 June 2021



Assumes an investor can take full advantage of franking credits. Past performance is not indicative of future performance.

Review of Operations and Activities
continued

Positioning the Portfolio

A number of purchases were undertaken during the financial year. The largest was participation in the IPO of PEXA Group. While the pricing reflected the strong market conditions towards the end of the period, the company appears well positioned as a good long term investment. Other new holdings added to the portfolio were Endeavour Group, due to its demerger from Woolworths Group, FINEOS Corporation (including participation in its placement), Domino's Pizza Enterprises, Temple & Webster, Nanosonics and IDP Education. Periods of volatility throughout the year also provided opportunities to add to holdings with strong market positions such as Woolworths Group and ASX.

Details of companies added to the portfolio during the financial year:

- PEXA Group engages in the development and provision of electronic conveyancing system in Australia and the United Kingdom.
- FINEOS Corporation is a global software company that provides software solutions to the life, accident and health insurance industry.
- Domino's Pizza Enterprises engages in the management of retail food outlets and franchise services. It operates through the following geographical segments: Australia/New Zealand, Europe and Japan.
- Temple & Webster is a leading online retailer of furnishings and homewares in Australia.
- Nanosonics is a developer of infection control and decontamination products with a market-leading position in ultrasound disinfection.
- IDP Education is an international education organisation offering student placement in Australia, New Zealand, the United States, United Kingdom, Republic of Ireland and Canada.

Major sales included the complete disposal of holdings in South32, Alumina and Brickworks, and these funds were deployed elsewhere in the portfolio. There was also some trimming of the positions in Qube Holdings, Brambles and Oil Search.

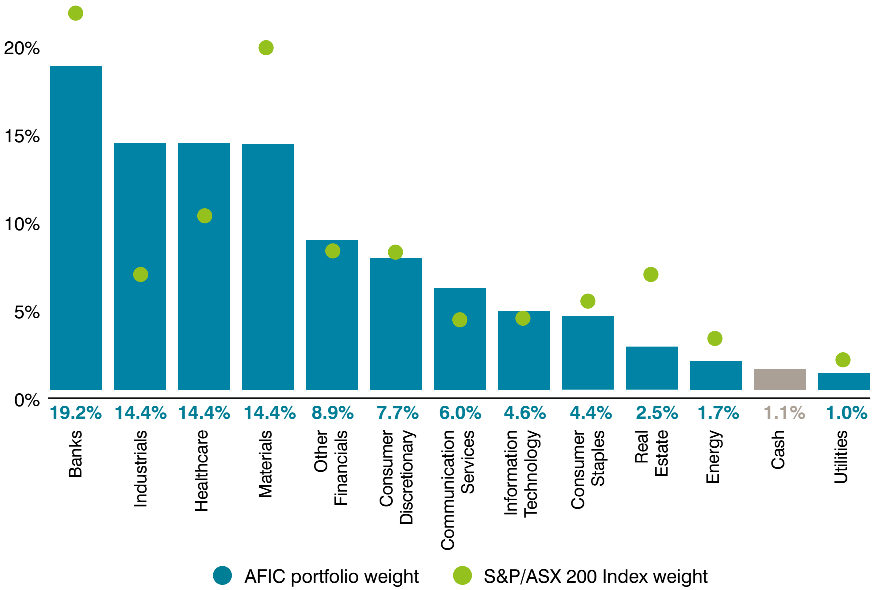
Figure 4 highlights the profile of AFIC's portfolio by the various sectors of the market at the end of the financial year and how it differs from the Index.

International Portfolio

As first signalled at the AGM in October 2020, a small part of our funds, $48 million (which represents approximately 0.5 per cent of the portfolio) was invested into a diversified global equities portfolio during the latter half of the financial year.

Leveraging our investment philosophy in the domestic market, the approach to international equities is similar. The international strategy invests in publicly listed companies outside the Australian and New Zealand markets with a medium to long term investment time horizon.

Figure 4: AFIC Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2021 – Excludes International Holdings



It focuses on high-quality companies with strong management teams and competitive advantages that we view as sustainable, often underpinned by long term secular growth trends. With inherent business characteristics that allow these companies to generate an attractive return on capital, the selected companies are expected to generate a reasonable level of return for our shareholders through a combination of earnings growth and dividends. We look to invest at a starting valuation that is sensible in the context of the expected return and the risk associated with each investment.

Holdings at 30 June 2021 are listed on pages 25 and 26.

This activity is potentially a precursor to establishing a separate low-cost international Listed Investment Company in the future.

Share Price Return

The share price return, including reinvestment of dividends and franking credits, over the 12 months to 30 June 2021 was 35.2 per cent, which is ahead of the portfolio return for the year. The share price was trading at a premium of 5.0 per cent to the net asset backing (before tax on unrealised gains) at the end of June 2021, whereas at 30 June 2020 the premium was 2.2 per cent (Figure 5 on page 14).

Figure 5: Share Price Premium/Discount to Net Asset Backing

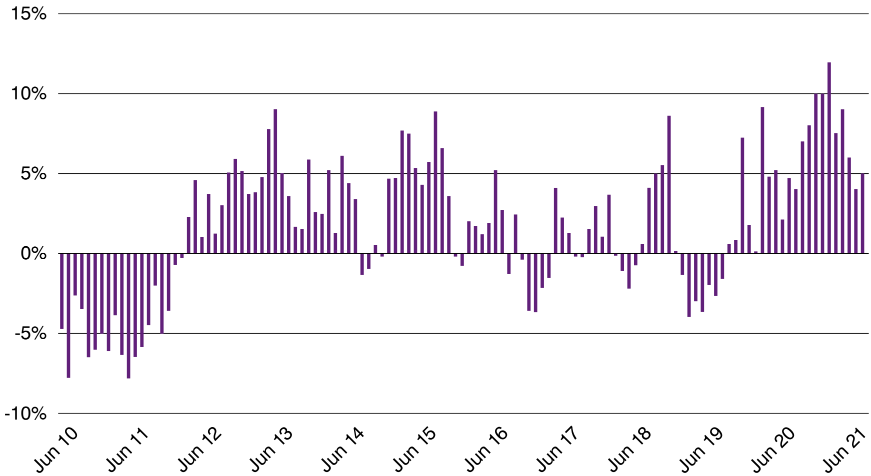
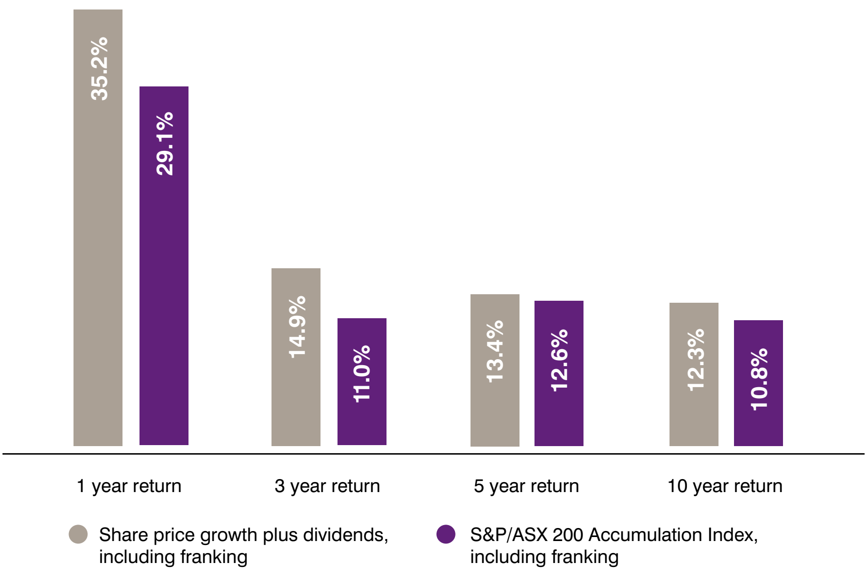


Figure 6: Share Price Return – to 30 June 2021



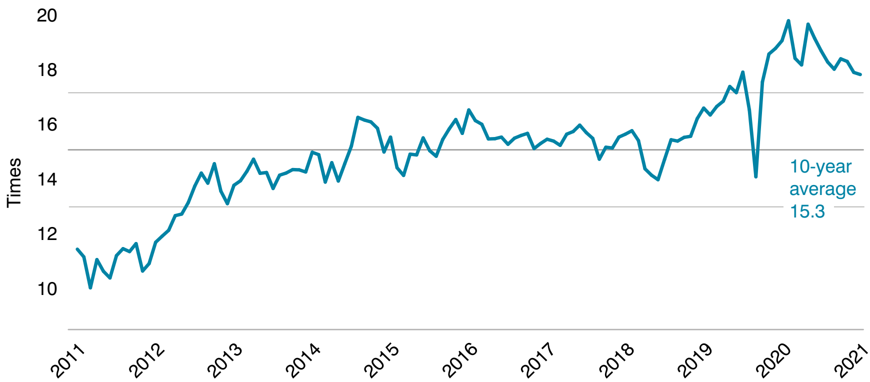
Importantly, the long term, 10-year return is 12.3 per cent for the share price in comparison to 10.8 per cent for the Index. The figures for the Index and share price assumes a shareholder can take full advantage of the franking credits attached to the dividends paid (Figure 6).

Outlook

Equity markets delivered near-record growth over the year with valuations recovering from the effects of COVID-19 as interest rates remain very low (Figure 7). However, the outlook for corporate earnings remains uncertain, as supportive government stimulus measures are unlikely to be repeated and underlying economic conditions remain variable. Cost inflation is also starting to percolate, and companies are facing disruption to their supply chains which may lead to rising costs for many companies. In this environment, it is our expectation that market volatility will increase over the coming 12 months.

In recent years we have increased the weighting of holdings in the portfolio that meet our definition of quality companies. In an economy where input costs may be rising, we believe the companies in the portfolio are generally well positioned given their market strength and ability to further leverage their efficiencies. Any pressure on valuations because of these conditions may result in purchases in more of our preferred companies at attractive prices. At present, we are looking to remain patient with our capital until these opportunities present themselves.

Figure 7: Valuation of the Market – Price Earnings Ratio of the S&P/ASX 200 Index



Source: FactSet

Directorship Matters

Ms Julie Fahey was appointed as an Independent Non-Executive Director of the Company on 22 April 2021.

Ms Fahey has over 30 years of experience in technology, including in major organisations such as Western Mining, Exxon, Roy Morgan, General Motors and SAP, covering consulting, software vendor and Chief Information Officer roles.

In addition to her industry experience, she spent 10 years at KPMG as a Partner with the firm, during which time she held roles as National Lead Partner Telecommunications, Media and Technology, and National Managing Partner – Markets. Ms Fahey was also a member of the KPMG National Executive Committee.

Ms Fahey is a Non-Executive Director of Seek Limited, IRESS Limited, Vocus Group Limited, Datacom Group Limited, CenITex and a member of the Australian Red Cross Blood Service Board and the La Trobe University Council.

Mr Craig Drummond was appointed as an Independent Non-Executive Director of the Company on 1 July 2021.

Mr Drummond was Chief Executive Officer of Medibank Private Limited from 2016 to 2021. He has had over 30 years' experience in the financial sector – Group Executive Finance and Strategy at National Australia Bank from 2013 to 2016, Bank of America Merrill Lynch as Chief Executive Officer and Country Head from 2009 to 2013, and Goldman Sachs JBWere (1986 to 2009) in various roles (including being a leading investment analyst and subsequently Director of Research and Investment Strategy) culminating in being appointed Chief Executive Officer.

Mr Drummond is a Senior Fellow of the Financial Services Institute of Australasia and is a Chartered Accountant. He is a Non-Executive Director of Transurban and is President of the Geelong Football Club. He is also a Governor of the Ian Potter Foundation.

We are delighted to welcome both Ms Fahey and Mr Drummond to the Board. Their depth of knowledge and experience will be of great assistance to the Company.

Mr Ross Barker retired as a Director on 30 June 2021. Mr Barker transitioned to Non-Executive Director in January 2018 having been appointed Chief Executive Officer of the Company in February 2001 and Managing Director in October 2001. Prior to October 2001 he was an Alternate Director of the Company, a position he had held since April 1987. Mr Barker was integrally involved, through the late 1990s and early 2000s, in building AFIC's capabilities to be a fully and strongly independent entity in its own right.

His contribution to Board deliberations will be missed. The Board wishes to record its thanks to Mr Barker for his valued and outstanding service to the Company and to shareholders for almost 35 years and wishes him well for the future.

Top 25 Investments

As at 30 June 2021

Includes investments held in both the investment and trading portfolios.

Value at Closing Prices at 30 June 2021

		Total Value $ Million	% of the Portfolio
1	Commonwealth Bank of Australia	789.0	8.8
2	BHP Group	651.5	7.3
3	CSL	623.2	6.9
4	Wesfarmers	435.7	4.9
5	Westpac Banking Corporation	401.2	4.5
6	Macquarie Group	345.2	3.8
7	Transurban Group	339.6	3.8
8	National Australia Bank	292.5	3.3
9	Woolworths Group	244.6	2.7
10	Australia and New Zealand Banking Group	238.9	2.7
11	Rio Tinto	235.8	2.6
12	Mainfreight	234.0	2.6
13	James Hardie Industries*	207.6	2.3
14	Telstra Corporation*	204.3	2.3
15	Amcor	175.5	2.0
16	Reece	170.0	1.9
17	ARB Corporation	151.3	1.7
18	Sydney Airport	148.3	1.7
19	Sonic Healthcare	142.2	1.6
20	Goodman Group	141.5	1.6
21	ResMed	139.2	1.6
22	Coles Group	120.8	1.3
23	Seek	120.7	1.3
24	Ramsay Health Care	120.5	1.3
25	Carsales.com	119.6	1.3
Total		**6,792.9**	

As percentage of total portfolio value (excludes cash)	75.7%

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

Income Statement

For The Year Ended 30 June 2021

	2021 $'000	2020 $'000
Dividends and distributions	257,874	257,858
Revenue from deposits and bank bills	116	1,554
Other revenue	-	42
Net gains on trading portfolio (including unrealised gains or losses)	2,472	9,740
Total income	**260,462**	**269,194**
Finance costs	(1,831)	(1,047)
Administration expenses (net of recoveries)	(10,678)	(9,906)
Profit before income tax	**247,953**	**258,241**
Income tax	(12,858)	(17,846)
Net profit	**235,095**	**240,395**

	Cents	Cents
Net profit per share	19.28	19.88

Balance Sheet

As at 30 June 2021

	2021 $'000	2020 $'000
Current assets		
Cash	97,122	111,318
Receivables	40,011	17,347
Trading portfolio	4,745	4,304
Total current assets	**141,878**	**132,969**
Non-current assets		
Investment portfolio	8,973,080	7,117,970
Deferred tax assets	59	872
Total non-current assets	**8,973,139**	**7,118,842**
Total assets	**9,115,017**	**7,251,811**
Current liabilities		
Payables	1,020	884
Tax payable	12,621	30,771
Provisions	5,235	4,765
Total current liabilities	**18,876**	**36,420**
Non-current liabilities		
Provisions	888	1,375
Deferred tax liabilities – investment portfolio	1,536,231	973,499
Total non-current liabilities	**1,537,119**	**974,874**
Total liabilities	**1,555,995**	**1,011,294**
Net assets	**7,559,022**	**6,240,517**
Shareholders' equity		
Share capital	3,007,780	2,947,293
Revaluation reserve	3,394,297	2,166,030
Realised capital gains reserve	416,071	397,712
General reserve	23,637	23,637
Retained profits	717,237	705,845
Total shareholders' equity (including minority interests)	**7,559,022**	**6,240,517**

Summarised Statement of Changes in Equity

For the Year Ended 30 June 2021

	2021 $'000	2020 $'000
Total equity at the beginning of the year	**6,240,517**	**6,624,746**
Dividends paid	(282,473)	(281,527)
Shares issued – Dividend Reinvestment Plan	60,632	59,249
Other share capital adjustments	(145)	(142)
Total transactions with shareholders	**(221,986)**	**(222,420)**
Profit for the year	235,095	240,395
Revaluation of investment portfolio	1,881,261	(568,806)
Provision for tax on revaluation	(575,865)	167,602
Revaluation of investment portfolio (after tax)	1,305,396	(401,204)
Total comprehensive income for the year	**1,540,491**	**(160,809)**
Realised gains on securities sold	90,262	16,728
Tax expense on realised gains on securities sold	(13,133)	(22,648)
Net realised gains/(losses) on securities sold	77,129	(5,920)
Transfer from revaluation reserve to realised gains reserve	(77,129)	5,920
Dividend paid to minority interests	-	(1,000)
Total equity at the end of the year	**7,559,022**	**6,240,517**

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

Holdings of Securities

At 30 June 2021

Individual investments for the combined investment and trading portfolios as at 30 June 2021 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 2020 '000	Number Held 2021 '000	Market Value 2021 $'000
AIA	Auckland International Airport	6,073	6,073	41,056
ALQ	ALS	7,542	7,012	91,439
ALU	Altium	308	466	17,079
AMC	Amcor	12,060	11,600	175,509
ANN	Ansell	1,079	1,079	46,941
ANZ	Australia and New Zealand Banking Group	9,188	8,488	238,929
APA	APA Group	6,665	6,665	59,319
ARB	ARB Corporation	3,503	3,503	151,283
ASX	ASX Limited	1,054	1,432	111,281
AUB	AUB Group	2,526	2,526	56,553
BHP	BHP Group	13,935	13,413	651,477
BXB	Brambles	12,139	9,279	106,148
CAR	Carsales.com	5,033	6,053	119,609
CBA	Commonwealth Bank of Australia	7,900	7,900	788,973
COH	Cochlear	334	334	84,102
COL	Coles Group	7,068	7,068	120,784
CPU	Computershare	4,380	4,043	68,318
CSL	CSL	2,120	2,185	623,229
CWY	Cleanaway Waste Management	25,516	17,014	44,917
DJW	Djerriwarrh Investments	7,505	7,505	23,041

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2020 '000	Number Held 2021 '000	Market Value 2021 $'000
DMP	Domino's Pizza Enterprises	0	254	30,610
DUI	Diversified United Investments	12,030	12,030	62,437
EDV	Endeavour Group	0	4,766	29,976
EQT	EQT Holdings	1,322	1,322	36,212
FCL	FINEOS Corporation	0	7,338	28,619
FPH	Fisher & Paykel Healthcare	3,485	3,913	113,150
GMG	Goodman Group	6,685	6,685	141,521
IAG*	Insurance Australia Group	6,955	9,527	48,797
IEL	IDP Education	0	566	13,894
IRE	IRESS	5,929	7,091	91,547
IVC	InvoCare	2,984	3,512	40,639
JHX*	James Hardie Industries	5,188	4,590	207,635
LIC	Lifestyle Communities	2,776	2,000	31,220
MFT	Mainfreight (NZX listed)	3,268	3,268	234,039
MIR	Mirrabooka Investments	8,728	8,728	31,158
MLT	Milton Corporation	9,776	8,092	50,982
MQG	Macquarie Group	2,170	2,207	345,168
NAB	National Australia Bank	12,917	11,155	292,479
NAN	Nanosonics	0	3,545	20,809
NWL	Netwealth Group	1,100	2,090	35,844
NXT	NEXTDC	7,864	7,864	93,273
ORG	Origin Energy	6,500	6,500	29,315
ORI	Orica	2,226	2,226	29,558
OSH	Oil Search	26,244	17,985	68,523
PXA	PEXA Group	0	2,919	50,000
QUB	Qube Holdings	35,302	21,635	68,582
REA	REA Group	553	553	93,441
REH	Reece	7,951	7,201	170,023
RHC	Ramsay Health Care	2,020	1,915	120,549
RIO	Rio Tinto	2,001	1,862	235,806
RMD	ResMed	3,935	4,250	139,230

Holdings of Securities

At 30 June 2021 continued

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2020 '000	Number Held 2021 '000	Market Value 2021 $'000
RWC	Reliance Worldwide Corporation	13,134	10,963	57,667
RYM	Ryman Health (NZX listed)	880	880	10,754
SEK	Seek	4,160	3,641	120,651
SHL	Sonic Healthcare	4,054	3,704	142,242
SYD	Sydney Airport	21,443	25,606	148,260
TCL	Transurban Group	23,137	23,867	339,624
TLS*	Telstra Corporation	54,510	54,510	204,331
TPW	Temple & Webster	0	2,367	25,537
WBC	Westpac Banking Corporation	15,985	15,545	401,216
WES	Wesfarmers	7,372	7,372	435,685
WOW	Woolworths Group	5,667	6,416	244,631
WPL	Woodside Petroleum	4,460	3,620	80,392
XRO	Xero	871	833	114,204
Total				**8,930,218**

* Part of the holding was subject to call options written by the Company.

Holdings of International Securities

At 30 June 2021

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2021	Market Value 2021 A$
ACN-US	Accenture	2,760	1,083,742
AENA-ES	Aena	4,993	1,090,771
9988-HK	Alibaba	45,556	1,718,828
GOOGL-US	Alphabet	642	2,088,086
AMZN-US	Amazon	349	1,599,223
AAPL-US	Apple	4,788	873,475
CMG-US	Chipotle	714	1,474,453
CTAS-US	Cintas	1,994	1,014,587
COST-US	Costco	1,589	837,705
CCI-US	Crown Castle	4,226	1,098,211
EL-US	Estée Lauder	2,046	866,849
FB-US	Facebook	3,553	1,645,572
FERG-GB	Ferguson	6,357	1,175,600
FTNT-US	Fortinet	4,102	1,301,442
HCA-US	HCA Healthcare	5,511	1,517,619
HD-US	Home Depot	2,757	1,171,063
ICE-US	Intercontinental	7,772	1,228,831
OR-FR	L'Oréal	790	468,960
MC-FR	LVMH Moët	1,240	1,295,304
MAR-US	Marriott	6,266	1,139,409
MA-US	Mastercard	1,421	691,032
MCD-US	McDonald's	4,188	1,288,564
MSFT-US	Microsoft	7,066	2,549,695
NESN-CH	Nestlé	9,176	1,523,491
NFLX-US	Netflix	2,257	1,587,980
NEE-US	Nextera	5,861	572,092
NKE-US	Nike	7,784	1,601,792
NOVOB-DK	Novo Nordisk	8,634	963,641
PYPL-US	Paypal	3,116	1,209,787

Holdings of International Securities

At 30 June 2021 continued

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2021	Market Value 2021 A$
PEP-US	PepsiCo	5,323	1,050,547
ROG-CH	Roche	2,790	1,401,333
SPGI-US	S&P Global	2,558	1,398,510
SU-FR	Schneider	5,527	1,158,349
SOON-CH	Sonova	1,814	909,667
SBUX-US	Starbucks	8,598	1,280,500
669-HK	Techtronic	31,777	739,133
TMO-US	Thermo Fisher	1,684	1,131,564
ULVR-GB	Unilever	10,047	782,159
V-US	Visa	3,461	1,077,928
Total			**47,607,493**

Major Transactions in the Investment Portfolio

Acquisitions	Cost ($'000)
PEXA Group	50,000
Endeavour Group (demerger from Woolworths Group)	39,713
FINEOS Corporation (includes participation in placement at $4.26 per share)	30,981
ASX	28,444
Woolworths Group	28,184
Domino's Pizza Enterprises	24,743
Temple & Webster	24,547
Nanosonics	21,520

Disposals	Proceeds ($'000)
Qube Holdings	41,399
South32#	35,848
National Australia Bank (because of the exercise of call options)	35,413
Alumina#	34,778
Brickworks#	32,698
Brambles	28,973
Oil Search	26,537

Complete disposal from the portfolio.

New Companies Added to the Portfolio

PEXA Group
Endeavour Group
FINEOS Corporation
Domino's Pizza Enterprises
Temple & Webster
Nanosonics
IDP Education

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
Mark Freeman, Managing Director
Rebecca Dee-Bradbury
Craig M Drummond
Julie A Fahey
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

Share Registrar

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

New Zealand
Computershare Investor Services Limited
159 Hurstmere Road
Takapuna Auckland 0622

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

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)

Annual General Meeting

Time	10.00am
Date	Tuesday 5 October 2021
Venue	Clarendon Auditorium Melbourne Convention and Exhibition Centre (MCEC)
Location	2 Clarendon Street Southbank Victoria Australia 3006

Subject to any change in the Government restrictions for public gatherings, the AGM will be a hybrid meeting with a physical meeting and access via an online platform. Further details are provided in the Notice of Annual General Meeting.

Our intention is to hold shareholder meetings in each of the state capital cities (other than Hobart) during October 2021 after the AGM. Given the uncertainty because of COVID-19, shareholders will be notified separately of date and venue if these meetings can safely proceed.

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

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AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Notice of Annual General Meeting
2021

The Annual General Meeting of Australian Foundation Investment Company Limited, ABN: 56 004 147 120 (‘the Company’) will be held at 10.00am (AEDT) on Tuesday 5 October 2021

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

30 August 2021

Dear Shareholder,

On behalf of the Board of Australian Foundation Investment Company Limited (AFIC) I confirm that AFIC's 93rd Annual General Meeting (AGM) will be held on **Tuesday 5 October 2021 commencing at 10.00am** (AEDT). Attached is our Notice of Meeting that sets out the business of the AGM.

Given the continued uncertainty surrounding the COVID-19 pandemic, this year our AGM will be a hybrid one and will take place at the **Clarendon Auditorium, Melbourne Convention and Exhibition Centre (MCEC), 2 Clarendon Street, Southbank, Victoria, Australia** and **via an online platform**.

We are closely monitoring developments in relation to the COVID-19 virus in Australia and we are following guidance from the Federal and State Governments. While shareholders maybe able to attend in person, circumstances relating to COVID-19 can change rapidly and shareholders are encouraged to participate online. Further information regarding the conditions of entry and the COVID-19 safety measures that apply to the meeting are set out on page 11. Should either Federal or State Government guidance provide that a physical meeting is inadvisable or not able to be held, we will revert to a virtual only AGM format and advise shareholders prior to 5 October 2021 via the Company's website at **afi.com.au** and the ASX announcement platform.

We received positive feedback on the accessibility provided by last year's fully online AGM and this also provides flexibility in the event of further restrictions. You will find details of the hybrid meeting format in the attached Notice of Meeting, together with various methods for you to vote, ask questions and otherwise participate in the meeting.

We look forward to your attendance either in person or virtually.

Yours sincerely

John Paterson
Chairman

BUSINESS OF THE MEETING

The Annual General Meeting of **Australian Foundation Investment Company Limited**, ABN: 56 004 147 120 ('the Company') will be held at **10.00am (AEDT) on Tuesday 5 October 2021** and will take place physically at the **Clarendon Auditorium, Melbourne Convention and Exhibition Centre (MCEC), 2 Clarendon Street, Southbank, Victoria, Australia** and via an online platform at **web.lumiagm.com** using code: **336-635-717**.

Shareholders are requested to participate in the AGM in person, via our online AGM platform or via the appointment of a proxy. Further information on how to participate virtually is set out in this Notice and the Online Meeting Guide. Shareholders should refer to page 11 for the possible impact of COVID-19 restrictions on the ability to attend the AGM in person.

The Company has determined that, for the purpose of voting at the meeting, shares will be taken to be held by those persons recorded on the Company's register at **7.00pm (AEDT)** on **Sunday 3 October 2021**.

1. Financial Statements and Reports

To consider the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2021.

(Please note that no resolution will be required to be passed on this matter).

2. Adoption of Remuneration Report

To consider and, if thought fit, to pass the following resolution (as an ordinary resolution):

"That the Remuneration Report for the financial year ended 30 June 2021 be adopted."

(Please note that the vote on this item is advisory only)

3. to 5. Election and Re-election of Directors

To consider and, if thought fit, to pass the following resolutions (as ordinary resolutions):

3. "That Craig Drummond, a Director appointed to the Board since the last Annual General Meeting and retiring from office in accordance with Rule 45 of the Constitution, being eligible is elected as a Director of the Company."
4. "That Julie Fahey, a Director appointed to the Board since the last Annual General Meeting and retiring from office in accordance with Rule 45 of the Constitution, being eligible is elected as a Director of the Company."
5. "That Graeme Liebelt, a Director retiring from office in accordance with Rule 46 of the Constitution, being eligible is re-elected as a Director of the Company."

6. Renewal of Proportional Takeover Provisions in the Constitution

To consider and, if thought fit, pass the following resolution (as a special resolution):

"That, pursuant to Sections 136(2) and 648G of the *Corporations Act 2001* (Cth), the proportional takeover provisions in Rules 79 and 80 of the Company's constitution are renewed for a period of three years from the date of this meeting".

By Order of the Board

Matthew Rowe
Company Secretary

30 August 2021

EXPLANATORY NOTES

The Explanatory Notes below provide additional information regarding the items of business proposed for the Annual General Meeting.

IMPORTANT: Shareholders are urged to direct their proxy how to vote by clearly marking the relevant box for each item on the proxy form.

Please ensure that your properly completed proxy form reaches the share registry by the deadline of 10.00am (AEDT) on Sunday 3 October 2021.

Where permitted, the Chairman of the meeting intends to vote undirected proxies in favour of all items of business.

1. Financial Statements and Reports

During this item there will be a reasonable opportunity for shareholders to ask questions and comment on the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2021. No resolution will be required to be passed on this matter.

Shareholders who have not elected to receive a hard copy of the Company's 2021 Annual Report can view or download it from the Company's website at:

afi.com.au/our-company#Companyreports

2. Adoption of Remuneration Report

During this item there will be a reasonable opportunity for shareholders at the meeting to comment on and ask questions about the Remuneration Report which can be found in the Company's 2021 Annual Report.

As prescribed by the *Corporations Act 2001*, the vote on the proposed resolution is an advisory one.

Voting Exclusions on Item 2

Pursuant to Sections 250BD and 250R of the *Corporations Act 2001* (Cth), votes may not be cast, and the Company will disregard any votes cast, on the resolution proposed in Item 2 ('Resolution 2'):

- by or on behalf of any member of the key management personnel of the Company's consolidated group (a 'KMP member') whose remuneration details are included in the Remuneration Report and includes Directors, or any of their closely related parties, regardless of the capacity in which the votes are cast; or
- by any person who is a KMP member as at the time Resolution 2 is voted on at the Annual General Meeting, or any of their closely related parties, as a proxy,

unless the votes are cast as a proxy for a person who is entitled to vote on Resolution 2:

- in accordance with a direction in the proxy appointment; or
- by the Chairman of the Annual General Meeting in accordance with an express authorisation in the proxy appointment to cast the votes even if Resolution 2 is connected directly or indirectly with the remuneration of a KMP member.

If the Chairman of the Annual General Meeting is appointed, or taken to be appointed, as a proxy, the shareholder can direct the Chairman to vote for or against, or to abstain from voting on, Resolution 2 by marking the appropriate box opposite Item 2 on the proxy form.

Pursuant to Sections 250BD(2) and 250R(5) of the *Corporations Act 2001*, if the Chairman of the meeting is a proxy and the relevant shareholder does not mark any of the boxes opposite Item 2, the relevant shareholder will be expressly authorising the Chairman to exercise the proxy in relation to Item 2.

For the purposes of these voting exclusions:

- A ‘closely related party’ of a KMP member means (1) a spouse or child of the KMP member, (2) a child of the KMP member’s spouse, (3) a dependant of the KMP member or of the KMP member’s spouse, (4) anyone else who is one of the KMP member’s family and may be expected to influence the KMP member, or be influenced by the KMP member, in the KMP member’s dealings with the Company, or (5) a company the KMP member controls.
- The Company will also apply these voting exclusions to persons appointed as attorney by a shareholder to attend and vote at the Annual General Meeting under a power of attorney, as if they were appointed as a proxy.

The Chairman intends to exercise such proxies by voting them in favour of the adoption of the Remuneration Report.

The Board recommends that shareholders vote in favour of adopting the Remuneration Report.

3. to 5. Election and Re-election of Directors

Board recommendation and undirected proxies: The Board recommends (with the exception of each Director in relation to their own election or re-election) that shareholders vote in FAVOUR of Items 3 to 5. The Chairman of the meeting intends to vote undirected proxies in FAVOUR of Items 3 to 5.

Mr Craig Drummond and Ms Julie Fahey were appointed to the Board on 1 July 2021 and 22 April 2021 respectively and so are required to seek election by shareholders at this AGM. Mr Graeme Liebelt was re-elected as a Director by shareholders at the 2018 AGM. As such he is required to seek re-election by shareholders at this AGM. Their biographical details are set out below:

Craig Drummond
BCom (Melb), SF FIN, CFA.
Independent Non-Executive Director

Mr Drummond was appointed to the Board in July 2021. He was Chief Executive Officer of Medibank Private Limited from 2016 to 2021. He has had over 30 years’ experience in the financial sector – Group Executive Finance and Strategy at NAB from 2013 to 2016; Bank of America Merrill Lynch as Chief Executive Officer and Country Head from 2009 to 2013, Goldman Sachs JBWere (1986 to 2009), in various roles (including being a leading investment analyst and subsequently Director of Research and Investment Strategy) culminating in being appointed Chief Executive Officer.

Craig is a Senior Fellow of the Financial Services Institute of Australasia and is a Chartered Accountant. Craig is also a Non-Executive Director of Transurban and is President of the Geelong Football Club. He is also a Governor of the Ian Potter Foundation.

Julie Fahey
BAS. Independent Non-Executive Director

Ms Fahey was appointed to the Board in April 2021. She has over 30 years of experience in technology, including in major organisations such as Western Mining, Exxon, Roy Morgan, General Motors and SAP, covering consulting, software vendor and Chief Information Officer roles. In addition to her industry experience, Julie spent 10 years at KPMG as a partner with the firm, during which time she held roles as National Lead Partner Telecommunications, Media and Technology, and National Managing Partner – Markets. Julie was also a member of the KPMG National Executive Committee.

Julie is a Non-Executive Director of Seek Limited, IRESS Limited, Vocus Group Limited, Datacom Group Limited, CenITex and a member of the Australian Red Cross Blood Service Board and the La Trobe University Council.

Graeme R Liebelt
B Ec (Hons), FAICD FTSE.
Independent Non-Executive Director.
Chairman of the Remuneration Committee.

Mr Liebelt was appointed to the Board in June 2012. He is Chairman of Amcor Limited, a Director of Australia and New Zealand Banking Group Limited, and a Director of Carey Baptist Grammar School. He is a Fellow of the Australian Academy of Technological Sciences and Engineering and a Fellow of the Australian Institute of Company Directors. He was formerly Chairman and Director of DuluxGroup Limited, Chairman and Director of the Global Foundation, Deputy Chairman of Melbourne Business School and Managing Director and CEO of Orica Limited.

Further information regarding the Company’s Corporate Governance arrangements and the Board’s role can be found on the Company’s website at:

afi.com.au/corporate-governance

6. Renewal of Proportional Takeover Provisions in the Constitution

Board recommendation and undirected proxies: The Board recommends that shareholders vote in FAVOUR of Item 6. The Chairman of the meeting intends to vote undirected proxies in FAVOUR of Item 6.

Background

The *Corporations Act 2001* (Cth) permits a company to include rules in its Constitution which enable the company to refuse to register a transfer of shares resulting from a proportional takeover bid unless shareholders in the bid class in a meeting approve the takeover bid.

It is a requirement of the Corporations Act that such proportional takeover approval provisions in a company's constitution apply for a maximum period of three years, unless earlier renewed. In the case of the Company, such proportional takeover approval provisions (existing Rules 79 and 80 of the Company's constitution) were approved by shareholders at the 2018 AGM and will expire on 9 October 2021.

The Directors consider that it is in the best interests of shareholders to renew these provisions in their existing form. Accordingly, a special resolution is being put to shareholders under Section 648G of the Corporations Act to renew Rules 79 and 80 of the Company's constitution.

If approved by shareholders at the meeting, Rules 79 and 80 will operate for three years from the date of the meeting (that is, until 5 October 2024) unless renewed earlier.

Proportional Takeover Bids

A proportional takeover bid involves the bidder offering to buy a proportion only of each shareholder's shares in the target company.

This means that control of the target company may pass without members having the chance to sell all their shares to the bidder. It also means the bidder may acquire control of the target company without paying an adequate premium for gaining control.

To address this possibility, a company may provide in its Constitution that, in the event of a proportional takeover bid being made for shares in the company, the directors must convene a meeting of shareholders to vote on a resolution to approve that bid.

A meeting convened under the proportional takeover approval provisions is treated as a general meeting of the company and the majority decision of the company's members will be binding on all individual members.

Effect of Proposed Proportional Takeover Approval Provisions

Where a proportional takeover bid is made, the Directors must convene a meeting of shareholders to vote on a resolution to approve the proportional bid before the 14th day prior to the closing of the bid period.

The vote is decided on a simple majority. Each person who, as at the end of the day on which the first offer under the takeover bid was made, held bid class shares is entitled to vote. Neither the bidder nor its associates are entitled to vote on the resolution.

If a meeting is not held, Section 648E of the Corporations Act deems a resolution approving the proportional bid to have been passed thereby allowing the proportional bid to proceed. Further, the Directors will contravene the Act if they fail to ensure a resolution to approve the bid is voted on.

If the resolution is rejected, the registration of any transfer of shares resulting from that proportional takeover bid will be prohibited and the bid will be deemed to be withdrawn. If the resolution is passed or deemed to have been passed, the transfer of shares resulting from acceptance of an offer under that bid will be permitted and the transfer of shares will be registered provided they comply with the other provisions of the Constitution.

Rules 79 and 80 will not apply to full takeover bids.

Reason For Proposing the Resolution

The Directors consider that the renewal of Rules 79 and 80 is in the best interests of all shareholders of the Company. In the Directors' view, shareholders should have the opportunity to vote on a proposed proportional takeover bid.

In the absence of Rules 79 and 80 (as renewed), a proportional takeover bid for the Company may enable effective control of the Company to be acquired by a party who has not offered to acquire 100 per cent of the Company's shares (and, therefore, has not offered to pay a 'control premium' that reflects 100 per cent ownership).

As a result, if a proportional takeover bid for the Company is made:

- shareholders may not have the opportunity to dispose of all their shares; and
- shareholders risk being locked into a minority position in the Company or suffering loss following such a change of control if the bid causes a decrease in the market value of shares.

If Rules 79 and 80 are renewed, the Board considers that this risk will be minimised by enabling shareholders to decide whether or not a proportional takeover bid should be allowed to proceed.

Present Acquisition Proposals

As at the date of this notice, the Directors are not aware of any proposal by any person to acquire, or increase the extent of, a substantial interest in the Company.

Review of Proportional Takeover Approval Provisions

The Corporations Act requires these explanatory notes to discuss retrospectively the potential advantages and disadvantages of the proportional takeover approval provisions for both Directors and shareholders.

While the proportional takeover approval provisions have been in effect, there have been no takeover bids for the Company – either proportional or otherwise. So there are no actual examples against which to review the advantages and disadvantages of the existing proportional takeover approval provisions for the Directors and shareholders of the Company. The Directors are not aware of any potential takeover bid which was discouraged by Rules 79 and 80.

In addition to looking at the provisions retrospectively, the Corporations Act also requires these explanatory notes to discuss the potential future advantages and disadvantages of the proposed proportional takeover approval provisions for both Directors and shareholders.

The Directors consider that there are no advantages or disadvantages for the Directors in renewing the proposed proportional takeover approval provisions. In particular, there is no restriction on their ability to make a recommendation on whether a proportional takeover bid should be accepted.

For shareholders, the potential advantage of renewing the proportional takeover approval provisions is that they provide shareholders with the opportunity to consider, discuss in a meeting called specifically for the purpose, and vote on whether a proportional takeover bid should be approved. This ensures that shareholders have an opportunity to have a say in the future ownership and control of the Company. The Directors believe that this would encourage any future proportional bids to be structured so as to be attractive to a majority of shareholders. It may also discourage the making of a proportional takeover bid that might be considered opportunistic. Finally, knowing the view of a majority of the shareholders may help each individual shareholder to assess the likely outcome of the proportional takeover bid and decide whether or not to accept an offer under the bid.

A potential disadvantage for shareholders arising from renewing the proportional takeover approval provisions is that they may discourage proportional takeover bids being made and may reduce any speculative element in the market price of the Company's shares arising from the possibility of a proportional bid being made. As a result, shareholders may not have the opportunity to dispose of a portion of their shares at an attractive price where the majority rejects an offer from a party seeking control of the Company.

The Directors consider that the potential advantages for shareholders of the proposed proportional takeover approval provisions outweigh the potential disadvantages.

Shareholder Approval

To pass as a special resolution, this item of business requires the support of 75 per cent or more of the votes cast on the resolution.

SHAREHOLDER INFORMATION

Shareholders and Proxyholders have three options for participating at the AGM:

In person
Online via the 'Lumi Online Platform' (access via **web.lumiagm.com** and meeting ID: **336-635-717**)
Via telephone (listen only)

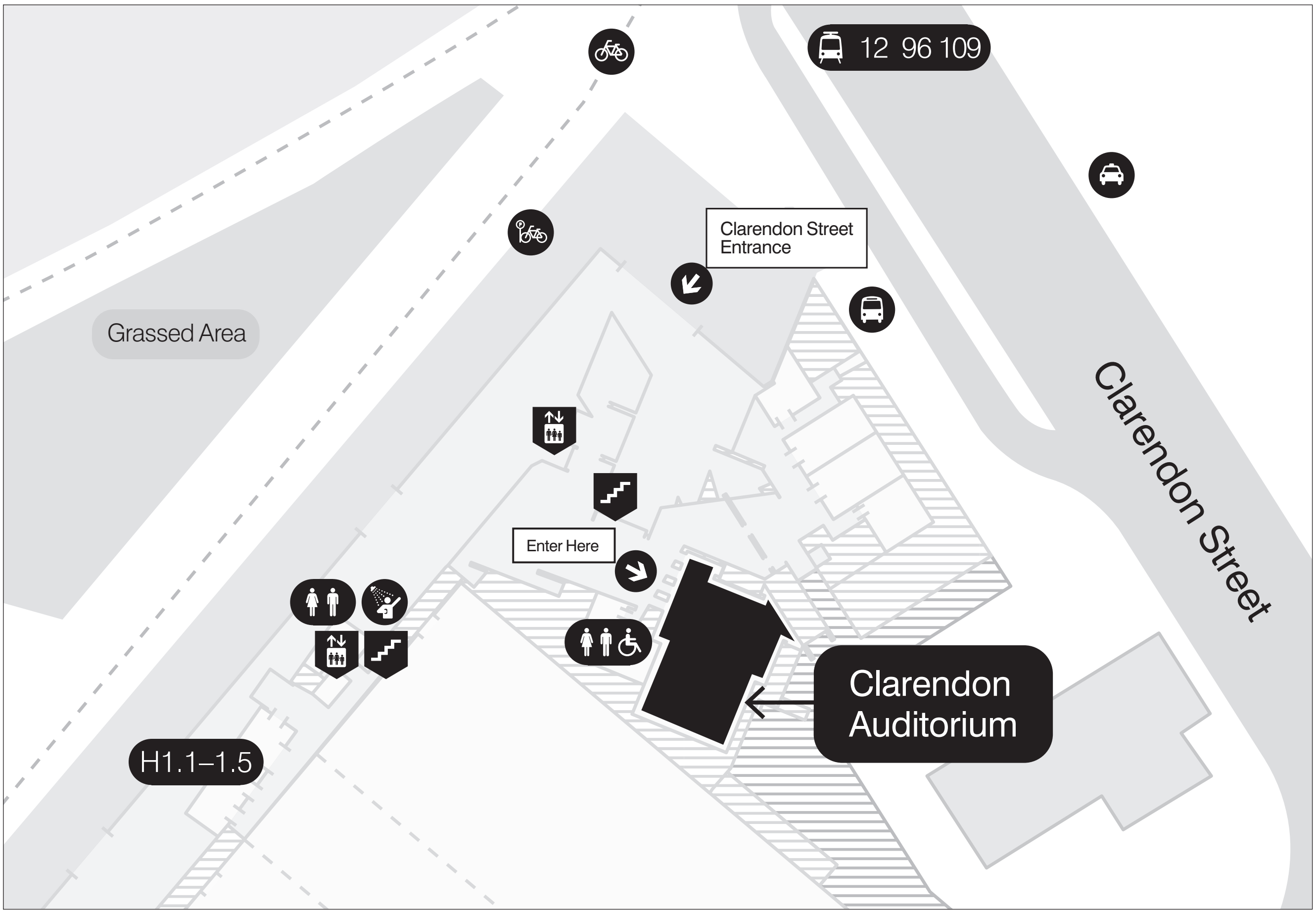
In Person

The AGM will be held at the Auditorium, Melbourne Convention and Exhibition Centre (MCEC), 2 Clarendon Street, Southbank, Victoria, Australia.

Shareholders are currently expected to be able to physically attend the meeting whilst following COVID safe practices at the meeting. Shareholders are encouraged to allow additional time for these COVID safe practices. While shareholder can attend in person, circumstances relating to COVID-19 can change rapidly and shareholders are encouraged to participate online. The Company will continue to monitor Federal and State Government restrictions on public gatherings and should either Federal or State Government guidance provide that a physical meeting is inadvisable or not able to be held, we will revert to a virtual only AGM format and advise shareholders prior to 5 October 2021 via the Company's website at **afi.com.au** and the ASX announcement platform. Further information regarding COVID-19 safety measures are set out on page 11.

Clarendon Auditorium

Directional Map



Via the Online Platform

Please use the following link **web.lumiagm.com** using code: **336-635-717.**

Using an online platform via a computer, mobile phone or iPad/tablet device with internet access you will be able to join and participate in the meeting.

Shareholders and proxyholders will have the ability to vote and ask questions in real time during the AGM and to hear all of the discussion via the online platform, subject to connectivity of your device. You will need to provide your shareholder details (including your SRN or HIN and registered postcode) to be verified as a shareholder. **Proxy holders will need to phone the Computershare call centre one hour before the meeting to obtain their login details.**

A detailed guide on how to participate virtually is set out in the Online Meeting Guide on our website **afi.com.au**. This Guide explains how you can ensure your browser is compatible with the online platform, as well as a step-by-step guide to successfully log in and navigate the site.

Via Telephone

To join via the teleconference, please use the details below:

Telephone: 1800 175 864
(free call within Australia)

1300 212 365 (mobile, free call within Australia)

+61 2 8373 3550
(outside Australia)

Conference ID: 9288523

Joining the Conference Call

1. In the 10 minutes prior to the call start time, call the appropriate dial-in number.
2. Enter the Event Plus passcode **9288523**, followed by the pound or # key and leave any information requested after the tone. You will be joined automatically to the conference.

International dial-in numbers will be available via the Company's website.

Shareholders and proxyholders will be able to listen into the presentation and discussion via telephone. There will not be a facility to ask questions via the telephone.

Voting Options For the AGM

- Voting in person at the meeting
- Direct voting via the online AGM platform during the AGM
- Appointing a proxy

All Resolutions Will Be Conducted By Poll

As some shareholders may participate virtually in the Meeting each resolution considered at the Meeting will be conducted by a poll. The Board considers voting by poll to be in the interests of the shareholders as a whole and ensures the views of as many shareholders as possible are represented at the Meeting.

Direct Voting Via Online AGM Platform – During the AGM

In accordance the Company's Constitution ('Constitution'), the Directors have determined that at the AGM, a shareholder who is entitled to vote on a resolution at the AGM is entitled to a direct vote in respect of that resolution and have approved the use the online AGM platform as the means by which shareholders can deliver their direct vote in real time during the AGM.

Shareholders can participate in the AGM via the online AGM platform and will be able to vote directly through the online platform in real time. Shareholders and proxyholders can vote directly online at any time between the start of the AGM at 10.00am (AEDT) and the closure of voting as announced by the Chairman during the Meeting.

More information regarding direct voting during the AGM is detailed in the Online Meeting Guide available on our website **afi.com.au**.

SHAREHOLDER INFORMATION

continued

Proxies

If you cannot attend the meeting online at the scheduled time, you can participate in the AGM by appointing a proxy to attend and vote at the AGM. Shareholders can appoint a proxy on the enclosed Proxy Form, instructions on how to lodge the Proxy Form are contained in the attached Notice of Meeting.

1. A shareholder entitled to attend and vote at this meeting is entitled to appoint not more than two proxies (who need not be members of the Company) to attend, vote and speak in the shareholder's place and to join in any demand for a poll.
2. A shareholder who appoints two proxies may specify a proportion or number of the shareholder's votes each proxy is appointed to exercise. Where no such specification is made, each proxy may exercise half of the votes (any fractions of votes resulting from this are disregarded).
3. **Proxy forms may be lodged online by visiting investorvote.com.au or by scanning the QR Code on the proxy form with a mobile device.**
4. **Relevant custodians may lodge their proxy forms online by visiting intermediaryonline.com**
5. Proxy forms and any authorities (or certified copies of those authorities) under which they are signed may be also delivered, by mail or by fax to the Company's Share Registry (see details below) no later than 48 hours before the meeting, being 10.00am (AEDT) on Sunday 3 October 2021. Further details are on the proxy form.
6. A proxy need not vote in that capacity on a poll (unless the proxy is the Chairman of the meeting). However, if the proxy's appointment specifies the way to vote on a resolution, and the proxy decides to vote in that capacity on that resolution, the proxy must vote the way specified (subject to the other provisions of this Notice, including the voting exclusions noted above).
7. In certain circumstances the Chairman of the meeting will be taken to have been appointed as the proxy of the relevant shareholder in respect of the meeting or the poll on that resolution even if the shareholder has not expressly appointed the Chairman of the meeting as their proxy. This will occur where:
   - an appointment of a proxy specifies the way the proxy is to vote on a particular resolution;
   - the appointed proxy is not the Chairman of the meeting;
   - at the meeting, a poll is called on the resolution; and
   - either of the following apply:
     - if a record of attendance is made for the AGM and the proxy is not recorded as attending
     - the proxy does not vote on the resolution.

Corporate Representatives

A body corporate which is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. Evidence of the appointment of a corporate representative must comply with Section 250D of the *Corporations Act 2001* and be lodged with the Company before the AGM.

Attorneys

A shareholder may appoint an attorney to vote on their behalf. To be effective for the meeting, the instrument effecting the appointment (or a certified copy of it) must be received by the deadline for the receipt of proxy forms (see above), being no later than 48 hours before the meeting.

Questions from Shareholders

Shareholders who are unable to attend the meeting or who prefer to register questions in advance are invited to use the question form included with their proxy form or via email **agm@afi.com.au**. The deadline for receipt of questions by email to be considered at the AGM is **21 September 2021**. During the course of the meeting, the Chairman will endeavour to address the themes most frequently raised in the submitted question forms. Please note that individual responses will not be sent to shareholders.

You may also submit questions and comments during the AGM in real time via the online platform. Please note, only shareholders may ask questions online. More information regarding asking questions during the AGM is detailed in the Online Meeting Guide available on our website **afi.com.au**.

Share Registry

The Company's Share Registry details are as follows:

Computershare Investor Services Pty Limited

Street Address

Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

Postal Address

GPO Box 242
Melbourne VIC 3001

Telephone

1300 662 270 (within Australia)
0800 333 501 (within New Zealand)
+61 3 9415 4373 (outside Australia)

Facsimile

1800 783 447 (within Australia)
+61 3 9473 2555 (outside Australia)

Internet

investorcentre.com/contact

COVID-19 Safety

In attending the meeting, please:

1. Play Your Part to Keep Our Community Safe:

- Stay at home if you are feeling unwell
- Adhere to physical distancing measures
- Practice good personal hygiene, wash your hands often
- Follow appropriate cough and sneeze etiquette
- Download the COVIDSafe app

2. Register Your Attendance

Visitor contact details (inclusive of contact name and phone number) must be collected as part of the AGM registration process and for contact tracing purposes. This is in accordance with Victorian Government guidelines to assist with rapid contact tracing in the event of a confirmed COVID-19 case. This can be done via the Services Victoria app by scanning the QR code on your smart device on arrival, or by providing you details to the Share Registry staff when registering your attendance at the AGM.

3. Temperature Checks

To ensure the safety of anyone who enters the venue, MCEC has placed temperature checks at each building entry point. Anyone attending the AGM will be screened on arrival prior to being able to obtain access to the venue. Temperature checks are conducted by non-invasive thermal imaging technology allowing multiple people to be scanned at once or by a handheld device.

4. Restricted Building Access

MCEC has identified a specific entry and exit point to help manage physical distancing and maintain sanitisation stations and temperature checks. The following entry and exit point are identified for building access, however are subject to change based on event demand.

- Clarendon Street entrance which will have a dedicated entrance door.

Please note: Contract tracing information and temperature checks will take place at the entry point, upon entering the building. We thank you for your understanding.

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

ABN 56 004 147 120

Need assistance?

Phone:
1300 662 270 (within Australia)
+61 3 9415 4373 (outside Australia)

Online:
www.investorcentre.com/contact

AFI

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10:00am (AEDT) Sunday 3 October 2021.**

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions. Each resolution considered at the meeting will be conducted by a poll.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative
If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Lodge your Proxy Form: XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is

Control Number: 999999

SRN/HIN: I9999999999

PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

275814_01_V3

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Shareholders sponsored by a broker (reference number commences with '**X**') should advise their broker of any changes.

I 9999999999 IND

Proxy Form

Please mark X to indicate your directions

STEP 1 Appoint a proxy to vote on your behalf

XX

I/We being a shareholder/s of AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED hereby appoint

☐ **the Chairman of the meeting** **OR** ____________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the meeting. Do not insert your own name(s).

or failing the individual or body corporate named in relation to the meeting generally or in relation to a poll on a given resolution, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy to act generally at the meeting or in relation to a poll on the given resolution (as applicable) on my/our behalf, including to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit), at the Annual General Meeting of **Australian Foundation Investment Company Limited** will be held **at Clarendon Auditorium, Melbourne Convention and Exhibition Centre (MCEC), 2 Clarendon Street, Southbank Victoria and via an online platform at 10.00am (AEDT) on Tuesday 5 October 2021** and at any adjournment or postponement of that meeting.

Chairman to vote undirected proxies as follows: I/We acknowledge that the Chairman of the meeting intends to vote undirected proxies in favour of each item of business, to the extent permitted by law.

Chairman authorised to exercise proxies on remuneration related matters: If I/we have appointed the Chairman of the meeting as my/our proxy (or the Chairman of the meeting becomes my/our proxy by default), I/we expressly authorise the Chairman of the meeting, to the extent permitted by law, to exercise my/our proxy in respect of item 2 even though item 2 is connected directly or indirectly with the remuneration of a member of key management personnel of Australian Foundation Investment Company Limited and its consolidated group, which includes the Chairman of the meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a poll and your votes will not be counted in computing the required majority

		For	Against	Abstain
Item 2	Adoption of Remuneration Report	☐	☐	☐
Item 3	Election of Director - Mr Craig Drummond	☐	☐	☐
Item 4	Election of Director - Ms Julie Fahey	☐	☐	☐
Item 5	Re-election of Director - Mr Graeme R Liebelt	☐	☐	☐
Item 6	Renewal of Proportional Takeover Provisions in the Constitution	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business, to the extent permitted by law. In exceptional circumstances, the Chairman of the Meeting my change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Shareholder(s) *This section must be completed.*

Individual or Shareholder 1	Shareholder 2	Shareholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________ **Contact Daytime Telephone** ____________ **Date** ___ / ___ / ___

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AUSTRALIAN FOUNDATION INVESTMENT COMPANY

ABN 56 004 147 120

All correspondence to:
AFI Share Registrar
Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria 3001
Australia

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Questions from Shareholders

The Annual General Meeting (AGM) of Australian Foundation Investment Company Limited will be held at Clarendon Auditorium, Melbourne Convention and Exhibition Centre (MCEC), 2 Clarendon Street, Southbank Victoria and via an online platform at 10.00am (AEDT) on Tuesday 5 October 2021. Shareholders who are unable to attend the meeting, or who prefer to register questions in advance, are invited to submit any questions they have by completing and returning this form.

Please return your completed question form to our Share Registrar, Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001, or by facsimile to 1800 783 447 (outside Australia +61 3 9473 2555) by Tuesday 21 September 2021. The envelope provided for the return of your proxy form may also be used for this purpose.

You may also submit written questions to the auditor if the questions are relevant to the content of the auditor's report or the conduct of the audit of the financial statements to be considered at the AGM.

We will endeavour, during the course of the AGM, to address the themes most frequently raised in the submitted question forms. Please note that individual responses will not be sent to shareholders.

Question(s): **Please mark X if it is a question directed to the auditor**

1 ☐

2 ☐

3 ☐

4 ☐