

29 August 2022

The Manager
ASX Market Announcements
Australian Securities Exchange
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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 2022 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
2022



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

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Year in Summary

2022

Profit for the Year

\$360.6m

\$235.1m in 2021.
Up 53.4%

Fully Franked Dividend

14¢
Final

24¢
Total

24 cents total
in 2021

Total Shareholder Return

0.1%

Share price plus
dividend, including
franking*

Total Portfolio Return

-6.8%
Including franking*

S&P/ASX 200
Accumulation Index
including franking*
-5.1%

Management Expense Ratio

0.16%

0.14%
in 2021

Total Portfolio

\$8.2b

Including cash
at 30 June.
\$9.1 billion in 2021

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

DIRECTORS' REPORT

5 Year Summary

Net Profit After Tax (\$ Million)

2022	360.6
2021	235.1
2020	240.4
2019	272.2 134.2 ^(a)
2018	279.0

Net Profit Per Share (Cents)

2022	29.4
2021	19.3
2020	19.9
2019	34.0
2018	23.6

Dividends Per Share (Cents)^(b)

2022	24
2021	24
2020	24
2019	24 8 ^(c)
2018	24

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 2022: 14.29 cents, 2021: 4.29 cents, 2020: 7.14 cents, 2019: 7.14 cents, 2018: 2.86 cents.

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

(d) Excludes cash.

(e) 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.

**Investments at Market Value
(\$ Million)^(d)**

2022 **8,087**

2021 **8,978**

2020 **7,122**

2019 **7,566**

2018 **7,274**

**Net Asset Backing Per Share
(\$)^(e)**

2022 **6.63**

2021 **7.45**

2020 **5.96**

2019 **6.49**

2018 **6.27**

**Number of Shareholders
(30 June)**

2022 **164,979**

2021 **159,500**

2020 **153,588**

2019 **138,671**

2018 **129,948**

About the Company

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

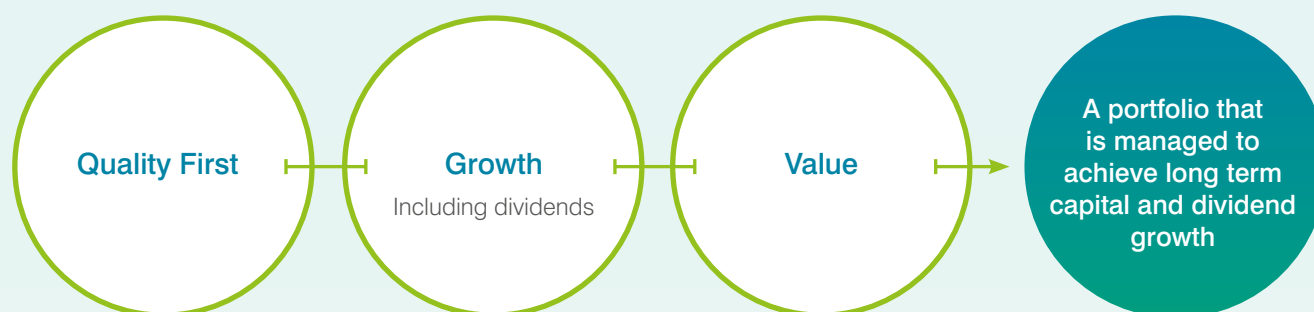
Investment Objectives

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 12 months to 30 June 2022 this was 0.16 per cent, or 16 cents for each \$100 invested.

Approach to Environmental, Social and Governance (ESG) Issues

Environmental, Social and Governance (ESG) issues are taken into account as part of our investment process when assessing companies. 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 given the potential for these factors to impact investment performance. We are also closely monitoring the development of international standards for ESG reporting, as these may further inform our approach going forward.



We regularly review and meet with companies to ensure ongoing alignment of ESG issues 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.

As reporting becomes more standardised, assessment of commitments and plans by companies to reach net zero by 2050 will also be considered having regard to the industry in which it operates, their progress against these plans and their broader contribution to social good in addressing the challenge of reducing global carbon emissions. In applying external data for benchmarking*, the current carbon intensity of AFIC's portfolio is considerably less than the S&P/ASX 200 Index.

- 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. Where appropriate, we consider a range of matters including safety, diversity and modern slavery as part of the investment process.
- 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. Our voting record is on the Company's website.
- 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. 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.

* Data provided by ISS ESG. Portfolio at 30 June 2022.

Review of Operations and Activities

Profit and Dividend

The full year profit was \$360.6 million, up from \$235.1 million in the previous corresponding period. The profit to 30 June 2022 includes a dividend of \$74.9 million (which was non-cash but carries franking credits with it) resulting from the BHP Petroleum/Woodside merger. Last year's figure included a demerger dividend of \$36.5 million resulting from the Endeavour Group demerger from Woolworths. Excluding both one-offs, the full year profit for the financial year to 30 June 2022 was \$285.7 million, up from \$198.6 million in the previous corresponding period. The increase in profit for the 2021–2022 financial year was driven by higher dividends received from investee companies.

Earnings per share for the financial year, excluding the BHP Petroleum/Woodside merger non-cash dividend, were 23.3 cents per share. The final dividend was maintained at 14 cents per share fully franked bringing total fully franked dividends applicable for the year to 24 cents per share, the same as last year.

Ten cents of the final dividend were 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 equal to 14.29 cents per share. This enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

Following on from the recent strong share market returns since monetary policy was eased and significant fiscal stimulus was introduced in response to the COVID-19 pandemic, the Australian share market continued to enjoy strong positive returns in the first six months of the financial year as interest rates remained low and valuations for many companies were very high. These conditions were eventually overwhelmed in the second half of the financial year as inflation emerged, driving interest rates higher. Geopolitical events further exacerbated market volatility producing a significant divergence of returns across the market.

Figure 1 provides some context to the market decline over the financial year to 30 June 2022 given market movements since the onset of the initial COVID-19 pandemic in 2019.

Overall, the S&P/ASX 200 Accumulation Index (including franking) fell 5.1 per cent over the 12 months to 30 June 2022 as there was a rotation away from quality growth stocks to a focus on short term value. The previously underperforming Utilities sector was up 36.0 per cent over the period and Energy, which responded to rising oil prices resulting from Russia's invasion of the Ukraine, was up 30.1 per cent. In contrast, previous strong-performing sectors such as Information Technology and Consumer Discretionary were down 38.2 per cent and 20.9 per cent respectively (Figure 2).

The portfolio had a negative return of 6.8 per cent including franking, with the largest drag on performance being the decline in the valuation of many high-quality companies from their previous very high levels. We remain convinced about the prospects for these companies despite the recent decline in share prices. In addition, relative performance to the Index was impacted by the underweight position in resources, which includes energy stocks, and the sale of Sydney Airport and Milton Corporation because of takeovers which generated a significant amount of capital gains tax.



Companies in the portfolio that performed relatively well against the Index through the 12-month period were Amcor, Sydney Airport (now taken over), Transurban Group, Ramsay Health Care, which is currently subject to an expression of interest offer, Macquarie Group and Computershare.

The long term performance of the portfolio, which is better aligned with the Company's investment time frames, was 10.5 per cent per annum for the 10 years to 30 June 2022 (Figure 3). The Index return over the same period was 10.9 per cent per annum. These figures include the benefit of franking. AFIC's performance numbers are after costs. Performance has been achieved with low portfolio turnover, providing very tax effective returns for shareholders and with more consistent dividends. These returns have also been delivered with very low volatility, achieving an attractive profile of return relative to risk for investors.



Figure 1: Performance of the S&P/ASX 200 Price Index – 3 Years to 30 June 2022

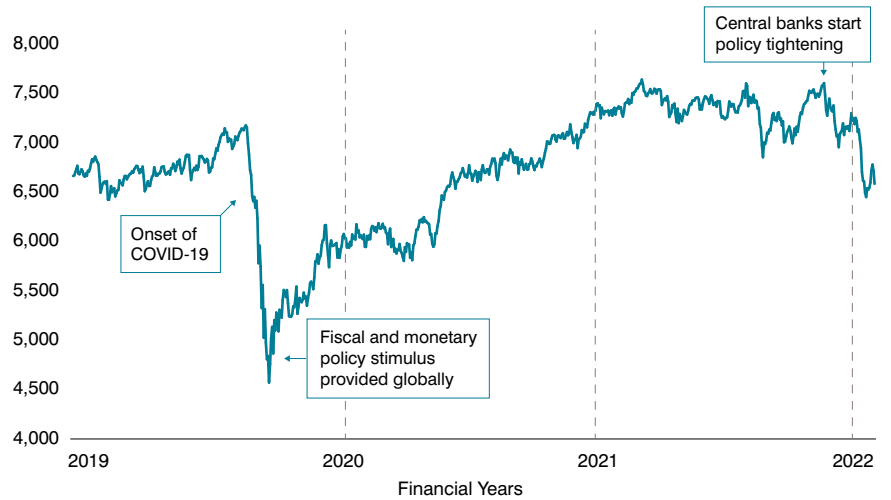
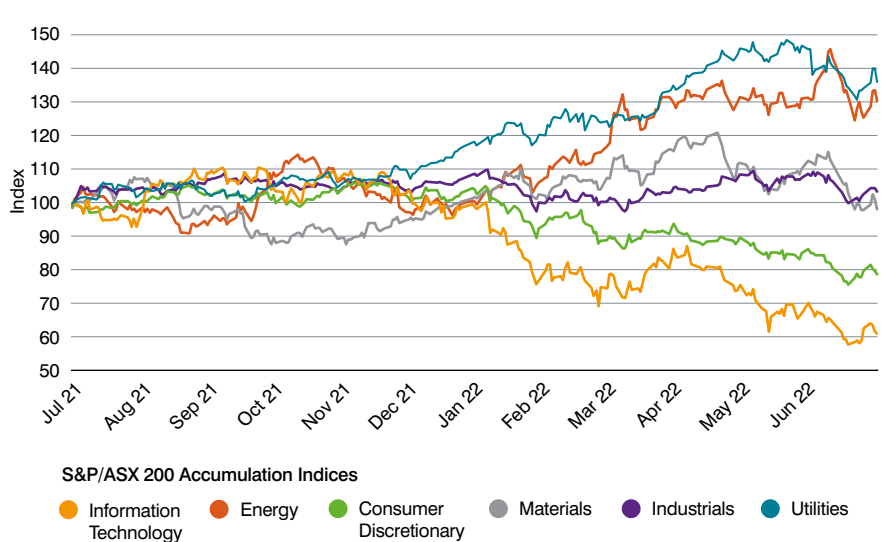
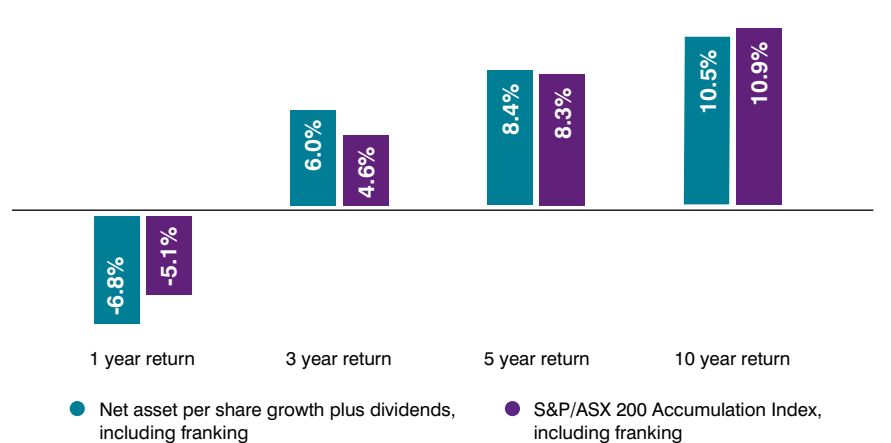


Figure 2: Key Sector Performance for the 12 Months to 30 June 2022



Source: FactSet

Figure 3: Portfolio Performance – Per Annum Returns to 30 June 2022



Review of Operations and Activities

continued

Positioning the Portfolio

The majority of purchases during the year focused on increasing weightings to existing holdings including Transurban Group, CSL, Domino's Pizza Enterprises, Coles Group, Goodman Group, Carsales.com and Auckland International Airport.

We also initiated positions in JB Hi-Fi, Mirvac Group and a small holding in WiseTech Global. JB Hi-Fi is the largest consumer electronics retailer in Australia and New Zealand. While primarily providing attractive income to the portfolio we expect the consumer electronics category to continue delivering meaningful growth.

Mirvac Group is a diversified property company with operations across residential, commercial and industrial markets. Mirvac Group's in-house property development capability is relatively unique to the sector and provides a competitive advantage. The company's growth is largely sourced from product generation and less reliant on acquiring established assets.

During the 12-month period we exited Qube Holdings, APA Group, Lifestyle Communities, Origin Energy, Endeavour Group and Altium. We are observing structural industry challenges for many of these companies or an environment where competitive intensity has materially increased. We consider the growth prospects for all these companies to be increasingly challenged as a result. Additionally, we exited our holding in Milton Corporation and Sydney Airport as a result of takeovers.

The ability to reinvest the cash from these takeovers was important during the year as these funds were deployed elsewhere in the portfolio in companies with good long term growth opportunities.

We seek to have a diversified portfolio that covers a range of sectors and industries. This also allows us to better spread risk through different market cycles. 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.

Figure 4: AFIC Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2022 – Excludes International Holdings

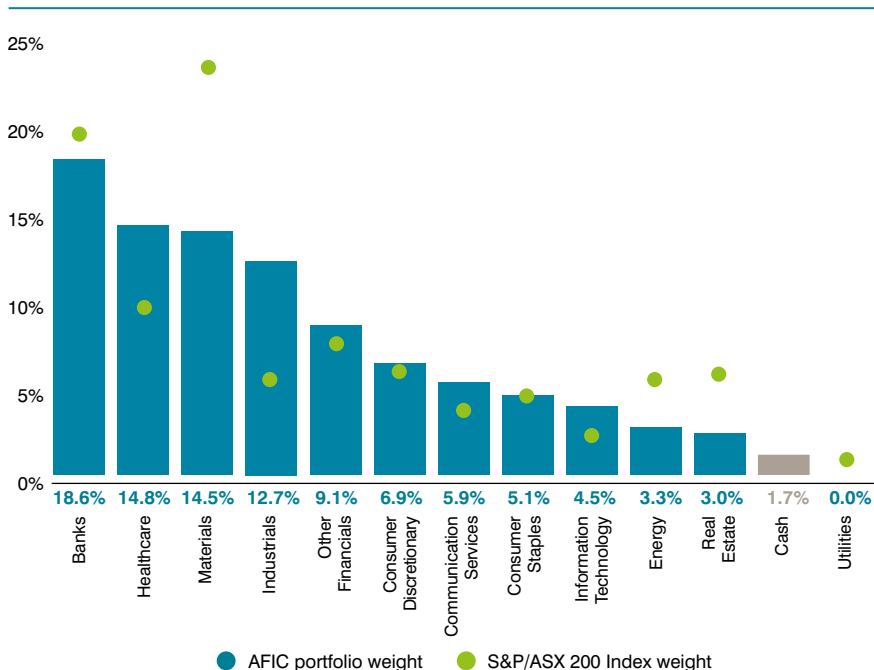
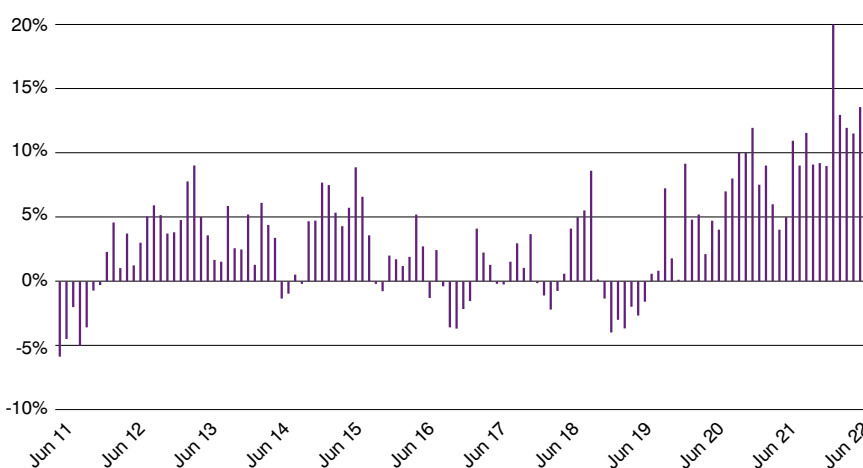


Figure 5: Share Price Premium/Discount to Net Asset Backing



International Portfolio

We have continued to manage and carefully add to positions in the diversified global equities portfolio which was first initiated in May 2021. Through a combination of these additional investments and portfolio returns, we now have approximately \$89.2 million invested (which represents approximately 1.1 per cent of the portfolio).

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.

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

Review of Operations and Activities

continued

Share Price Return

The share price return, including reinvestment of dividends and franking credits, over the 12 months to 30 June 2022 was flat at 0.1 per cent, which is ahead of the portfolio return for the year. The share price was trading at a premium of 13 per cent to the net asset backing (before tax on unrealised gains) at the end of June 2022, whereas at 30 June 2021 the premium was 5 per cent (Figure 5 previous page).

Importantly, the long term, 10-year return is 12.2 per cent for the share price in comparison to 10.9 per cent for the Index (Figure 6). The figures for the Index and share price assumes a shareholder can take full advantage of the franking credits attached to the dividends paid.

Outlook

During the year strengthening demand produced supply chain challenges in many industries, which contributed to a meaningful increase in reported inflation. In endeavouring to achieve price stability, central banks signalled the end of stimulatory policy settings. Equity markets are now facing challenges on multiple fronts, slowing economic growth, inflation and interest rate hikes. As a result, the uncertain environment that produced a fall in equity markets during the financial year is unlikely to be materially different in the short term.

While the market has moved closer to long term value as measured by price to sales ratio (Figure 7) and price to book ratio (Figure 8) we are comfortable with the current portfolio settings and can afford to be patient with our capital until attractive opportunities present themselves.

In this context it is also worth noting even though the valuation of the market, as measured by price earnings ratio (Figure 9), has moved well below the long term average it is against the background of very high profit margins which may come under pressure in the near term given expected difficult economic conditions.

Figure 6: Share Price Return – to 30 June 2022

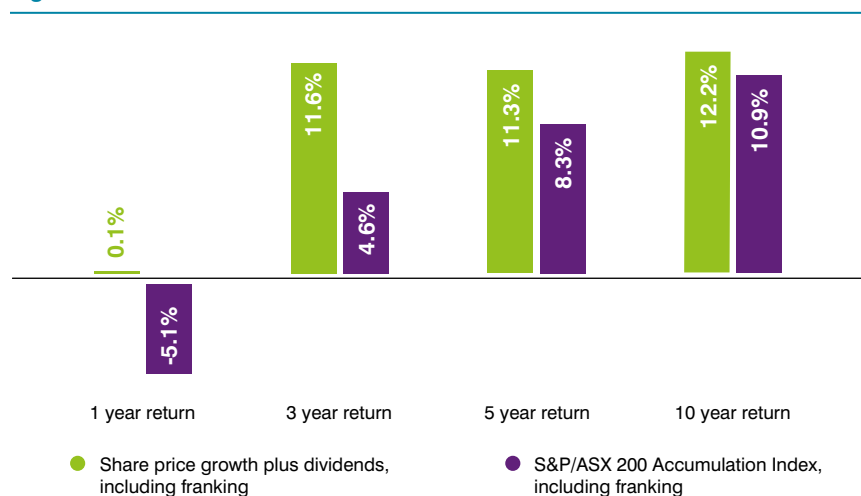
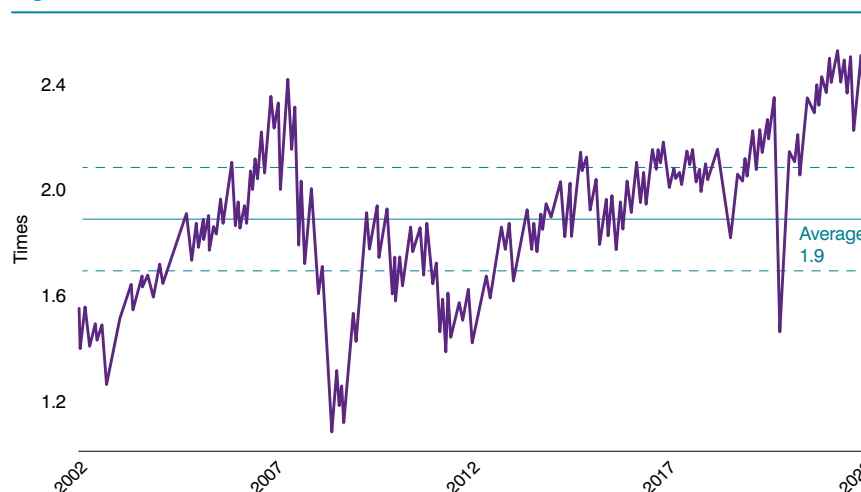


Figure 7: Valuation of the Market – Price to Sales of the S&P/ASX 200 Index



Source: FactSet

Directorship Matters

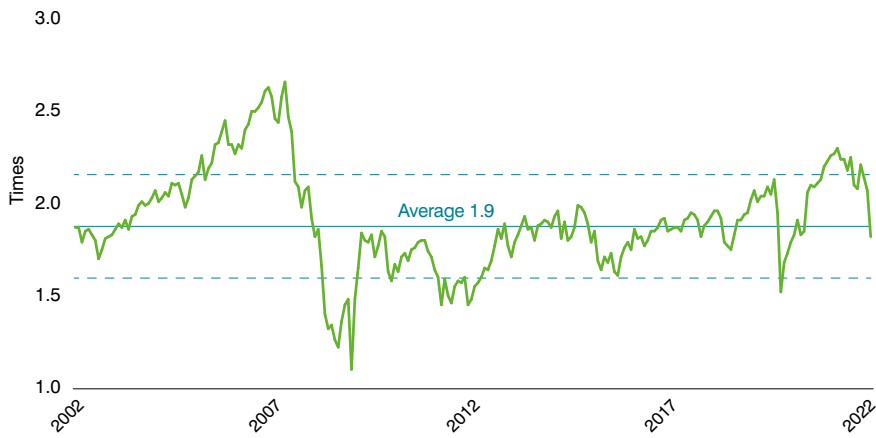
Mr Peter Williams, a Non-Executive Director of the Company has advised that he will not seek re-election at the 2022 Annual General Meeting and will retire at the conclusion of the meeting to be held on 4 October 2022.

Mr Williams has been a Director since 2010 and is currently the Chairman of the Audit Committee and a member of the Investment and Nomination Committees.

Mr Williams is also the Non-Executive Chairman of the Company's subsidiary, Australian Investment Company Services Limited.

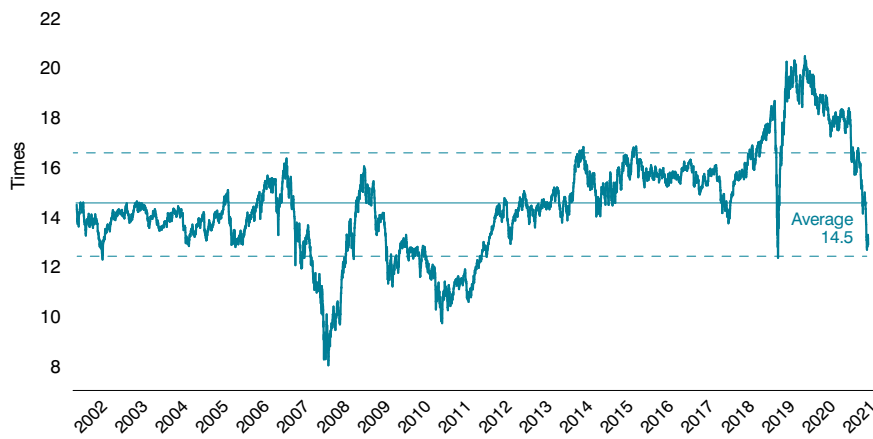
The Board has greatly benefited from Mr Williams' extensive experience. The Board wishes to record its thanks to Peter for his significant contribution and service to the Board during his tenure and wish him well for the future.

Figure 8: Valuation of the Market – Price to Book of the S&P/ASX 200 Index

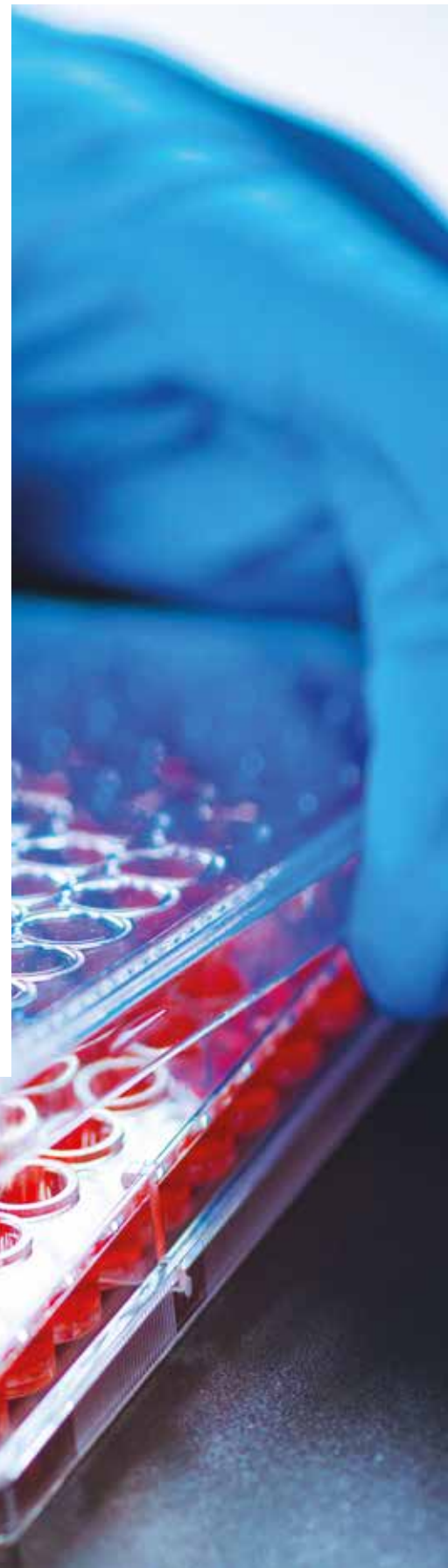


Source: FactSet

Figure 9: Valuation of the Market – Price to Earnings Ratio of the S&P/ASX 200 Index



Source: FactSet



Top 25 Investments

As at 30 June 2022

Includes investments held in both the Investment and trading portfolios.

Value at Closing Prices at 30 June 2022

		Total Value \$ Million	% of the Portfolio
1	Commonwealth Bank of Australia	714.0	8.8
2	CSL	638.1	7.9
3	BHP Group	574.4	7.1
4	Transurban Group	414.0	5.1
5	Macquarie Group	363.0	4.5
6	Wesfarmers	309.0	3.8
7	National Australia Bank	305.5	3.8
8	Westpac Banking Corporation	303.1	3.7
9	Woolworths Group	255.4	3.2
10	Amcor	209.3	2.6
11	Mainfreight	206.5	2.6
12	Rio Tinto	191.2	2.4
13	Telstra Corporation	187.4	2.3
14	Australia and New Zealand Banking Group	187.0	2.3
15	Woodside Energy Group*	184.9	2.3
16	James Hardie Industries	166.6	2.1
17	Coles Group	160.7	2.0
18	Goodman Group	157.6	1.9
19	Carsales.com	147.6	1.8
20	ResMed	145.8	1.8
21	ASX	117.0	1.4
22	Ramsay Health Care	115.9	1.4
23	Sonic Healthcare	109.6	1.4
24	Computershare	99.6	1.2
25	Brambles	99.4	1.2
Total		6,362.7	

As percentage of total portfolio value (excludes cash)

78.7%

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

Company Position

Capital Changes

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

- Under the Company's Dividend Substitution Share Plan, 687,032 new shares were issued at nil cost in August 2021 and 557,809 new shares were issued at nil cost in February 2022.
- Under the Company's Dividend Reinvestment Plan, 4,507,509 new shares were issued at a price of \$8.10 in August 2021 and 3,317,169 new shares were issued at a price of \$7.86 in February 2022.

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 \$62.4 million to \$3.1 billion. At the close of the year the Company had 1,230 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 2022 were as follows:

	\$'000
Final dividend for the year ended 30 June 2021 of 14 cents fully franked at 30 per cent paid 31 August 2021	165,339
Interim dividend for the year ended 30 June 2022 of 10 cents per share fully franked at 30 per cent, paid 25 February 2022	118,215
	283,554

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 and National Australia Bank for loan facilities totalling \$130 million (see Note D2). As at 30 June 2022, the facilities were drawn down by \$10 million. 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.

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 2022, it carries with it a 14.29 cents per share LIC capital gain attributable part (2021: 4.29 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

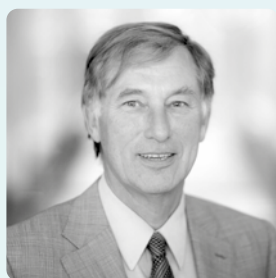
The Company is of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the financial report have been rounded off in accordance with that Instrument, to the nearest thousand 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 2022 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. Non-Executive 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)

Member of the Investment Committee. Managing Director of AICS.

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, Mirrabooka Investments Limited and AMCIL Limited.



Rebecca Dee-Bradbury

Independent Non-Executive Director

BBus, GAICD

Member of the Investment and Nomination Committees.

Ms Dee-Bradbury was appointed to the Board in May 2019. 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 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

Non-Executive Director of the Company's subsidiary, AICS. Member of the Nomination Committee.

Mr Drummond was appointed to the Board in July 2021. He was appointed as a member of the Financial Regulator Assessment Authority on 10 September 2021, and will serve a five-year term, concluding in 2026. He is the President of the Geelong Football Club Limited, a board Director of Transurban Co Ltd and a Governor of The Ian Potter Foundation.

Mr Drummond served as Chief Executive Officer of Medibank from July 2016 to May 2021. Prior to joining Medibank, he was Group Executive Finance and Strategy of National Australia Bank (NAB), and Chief Executive Officer and Country Head of Bank of America Merrill Lynch (Australia). Earlier in his career, Mr Drummond held roles at Goldman Sachs JBWere including Chief Operating Officer, Chief Executive Officer and Executive Chairman.



Julie Fahey

**Independent
Non-Executive
Director**

BAS

Member of the Audit Committee.

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, 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, Datacom Group Limited, CenITex, Partners Life and a member of the Australian Red Cross Blood Service Board and the La Trobe University Council. She was formerly a Non-Executive Director of Vocus Group Limited and Yooralla.



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 was a Non-Executive Chairman of Naval Group Australia, a former member of the Foreign Investment Review Board, a former Chair of Cricket Australia and 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

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

Mrs Walter is an Australian lawyer and company Director. She was appointed to the Board in August 2002. She is Chair of Melbourne Genomics Health Alliance and Helen Macpherson Smith Trust. Mrs Walter is also a Director of Export Finance Australia and the RBA's Payments System Board. She was formerly Chair of Federation Square Pty Ltd, Australian Synchrotron Company Ltd and the Financial Adviser Standards and Ethics Authority (FASEA). She was also 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. Non-Executive Chairman of the Company's subsidiary, 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 an Advisory Board Member of TLC Aged Care Limited. Mr Williams was formerly Managing Director of Equity Trustees Limited, Director and Treasurer of Foundation for Young Australians, a Director of the Trustee Corporations Association of Australia, a Director of the Australian Baseball Federation Inc, a Director of ARUMA (formerly House with No Steps), and a General Manager with AXA/National Mutual in Australia and Hong Kong. He was also a former Chairman of Olympic Park Sports Medical Centre Pty Ltd and MIPS Advisory Committee for Fiig Securities Limited.

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 2022 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	4	4	2	2
M Freeman	12	12	20	20	-	4 [#]	-	4 [#]	-	-
RP Dee Bradbury	12	12	20	19	-	4 [#]	-	-	2	2
CM Drummond**	12	12	-	20 [#]	-	4 [#]	-	1 [#]	-	1 [#]
JA Fahey	12	12	-	16 [#]	2*	3	-	-	-	-
GR Liebelt	12	12	-	15 [#]	-	3 [#]	4	4	-	-
DA Peever	12	12	20	19	4	3	-	-	-	-
CM Walter	12	12	20	20	4	4	4	4	2	2
PJ Williams	12	12	20	20	4	4	-	4 [#]	2	2

Attended meetings as non-members.

* JA Fahey was appointed to the Audit Committee on 8 December 2021.

** CM Drummond appointed to the Nomination Committee on 23 June 2022.

Retirement, Election and Continuation in Office of Directors

Ms RP Dee-Bradbury, being eligible, will offer herself for re-election at the forthcoming 2022 Annual General Meeting.

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/
Company Secretary**

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

Mr Porter joined the Company in January 2005. He is a Chartered Accountant and has had over 25 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 a Director of the Auditing and Assurance Standards Board (AUASB) and a Director of the Anglican Foundation. Mr Porter is a former Chair of The Group of 100 (G100), the peak body for CFOs.



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 16 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 he was the Company Secretarial Manager for a funds management company based in the United Kingdom.

Contents

The Directors present AFIC's 2022 Remuneration Report which outlines key aspects of our remuneration policy and remuneration awarded this year.

Note on AFIC's Proportion of the Costs Detailed in the Remuneration Report

The Remuneration Report is required to show the salary and incentives that the Group Executives receive. It does not accurately reflect the actual cost to AFIC shareholders of this remuneration.

This is because other companies that the Executives provide services to (Djerriwarrh Investments Ltd, Mirrabooka Investments Ltd and AMCIL Ltd, collectively 'the LICs') pay for a proportion of these costs.

The total remuneration shown in Table 4 is \$3.7 million.

Of this, 46 per cent (or \$1.7 million) is or will be actually paid for by the other LICs, through the service agreements with AFIC's subsidiary, Australian Investment Company Services Ltd (AICS).

Therefore, only 54 per cent, or \$2.0 million, will be borne by AFIC and its shareholders.

This mirrors arrangements for all other AICS staff.

Note that with the proposed amalgamation of the Long Term Incentive Plan (LTIP) into the single Executive Incentive Plan (see Section E of this report) from next year onwards, it is likely that the proportion of executive incentive that AFIC bears will decrease. This is because currently the costs of the LTIP are charged 100 per cent to AFIC as it remunerates based on AFIC's performance only, one of the reasons that the Directors have decided to alter the remuneration structure.

The report is structured as follows:

1. Remuneration Policy, Link to Performance and Outcomes
2. Structure of Remuneration
3. Executive Remuneration Expense
4. Contract Terms
5. Non-Executive Director Remuneration

Appendix

- A. Remuneration Governance
- B. Annual Incentives: Details of Outcomes and Conditions
- C. Long Term Incentives: Details of Outcomes and Conditions
- D. Directors and Executives: Equity Holdings and Other Transactions
- E. Proposed Changes to the Remuneration Structure
- F. Detailed Performance Measures by Investment Company

1. Remuneration Policy, Link to Performance and Outcomes

1.1 What is Our Remuneration Policy?

AFIC is an investor in securities which are listed mainly in Australia and New Zealand. Our 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. 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.

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:

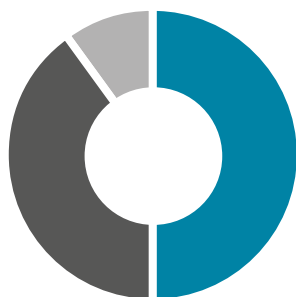
- The key performance indicators chosen to determine performance-related pay are those that the Company considers most relevant to its objectives of improving shareholder wealth over the medium to long term, whilst also considering the relative levels of risk.
- The focus is on performance over the medium 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?

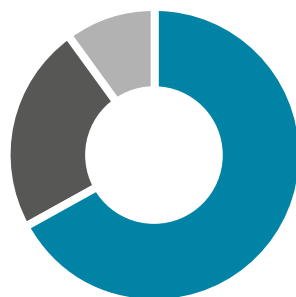
The target remuneration mix for executives is as follows:

Managing Director's Target Remuneration Mix



- Fixed annual remuneration **50%**
- Annual incentive **40%**
- Long term incentive **10%**

Other Executives' Target Remuneration Mix



- Fixed annual remuneration **67%**
- Annual incentive **23%**
- Long term incentive **10%**

1.3 How is the Remuneration Paid in 2022 Linked to Performance?

1.3.1 Fixed Remuneration

Most Executives received increases in their fixed annual remuneration this year. A review of the external evidence led Directors to the conclusion that recent increases for Executives had not kept pace with the market. 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.

The evidence also indicated that the total remuneration for the Managing Director was below the benchmark level that the Board considered appropriate. Consequently, Directors decided to increase the amount of 'at risk' remuneration (which is predominantly dependent on the performance of AFIC and the other LICs) whilst keeping the FAR unchanged.

Remuneration Report

continued

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 outcome for the long term incentive award (LTI) that was 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.

2022, as is noted elsewhere in the Annual Report, was a year of two distinct investment environments. AFIC outperformed strongly in the first half, but the second saw AFIC underperform its benchmark as the market corrected. Resources, a sector in which AFIC is underweight, strongly outperformed the S&P/ASX 200 Index (3.3 per cent accumulation return for the year compared to -6.5 per cent for the broader S&P/ASX 200 Index). However, AFIC's medium term performance continues to outperform the S&P/ASX 200 Index whilst its longer term (10-year) performance is only marginally under the Index for the same period as seen in Table 2 – AFIC's performance includes fees whilst the Index returns take no account of fees.

Furthermore, many returns quoted by managed funds exclude either tax or expenses, or both. The use of 'grossed-up returns' (see Table 2 and Table 11) 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 single-year underperformance caused by the sector rotations was mirrored by Mirrabooka and AMCIL, who also saw continued outperformance against their relevant indices in the medium term and, in Mirrabooka's case, the longer term. AMCIL's medium term five-year performance was in line and the 10-year gross NTA performance was slightly under the Index. AMCIL's portfolio performance (which excludes fees and taxes) over these periods was well ahead of the Index.

Djerriwarrh's investment performance was below its benchmark for all periods tested (with the exception of its portfolio performance over one year). However, its other key performance indicator (KPI) – to pay a higher yield than the S&P/ASX 200 Index offers – significantly outperformed.

Earnings per share increased with the resumption of dividend and distribution payments by many companies. The figures used in Table 1 exclude the demerger dividend last year as a consequence of the Endeavour demerger from Woolworths, and the merger dividend received this year as a consequence of the Woodside/BHP Petroleum merger.

The management expense ratio (MER – see Table 11) continues to be of importance to the Board. As noted last year, it was expected that expenses would increase due to a full year's worth of costs for the international team and a higher proportion of incentives vesting due to last year's strong out-performance. The fall in the markets also increases the MER as it reduces the portfolio value which is the denominator in the calculation. Notwithstanding these, the expenses (and the MER) were well within the range set by the Board.

The 2018–2022 award under the Executive Long Term Incentive Plan was available for vesting as of 30 June 2022. 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 2018–2022 award will take place in the year ended 30 June 2023. The actual amount settled will be reported in the relevant year. The 2017–2021 award vested in part for the year ended 30 June 2021. The total shareholder return of AFIC was 13.8 per cent per annum over the four-year vesting period, which was above the target benchmark, as independently verified by external consultants. The full 50 per cent available under this metric was therefore deemed to have vested. The Total Portfolio Return over the same period was also ahead of its benchmark (10.6 per cent vs 9.8 per cent) but just below the top quartile performance. Therefore 38 per cent of the 50 per cent available vested under this metric, and 12 per cent was forfeited.

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	4.3%	44.0%	Favourable ●
Management expense ratio	n/a	0.16%	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	-6.5%	-7.1%	Unfavourable ●
Investment return – 3 years	3.3%	5.1%	Favourable ●
Investment return – 5 years	6.8%	7.2%	Favourable ●
Investment return – 10 years	9.3%	9.2%	Unfavourable ●
Grossed-up return – 1 year	-5.1%	-6.8%	Unfavourable ●
Grossed-up return – 3 years	4.6%	6.0%	Favourable ●
Grossed-up return – 5 years	8.3%	8.4%	Favourable ●
Grossed-up return – 10 years	10.9%	10.5%	Unfavourable ●

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 2017	30 June 2021	Total gross shareholder return	11.5%	13.8%	50%	0%
		Total portfolio return (TPR)	9.8%	10.6%	38%	12%

* Of the rights awarded on 1 July 2017, 12 per cent were forfeited as the relevant targets were not achieved (although AFIC exceeded the target for TPR it was below the 75th percentile which would have led to full vesting) and 88 per cent vested.

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.

Remuneration Report

continued

Table 4: Actual Executive Remuneration Outcomes

	Total FAR \$	Annual Incentive \$	Prior Years' LTI Received* \$	Total Remune- ration \$	Total Borne by AFIC \$	Total Borne by Other LICs \$	Annual Incentive Forfeited \$	LTI Forfeited \$	Possible Future LTI (to Vest Over Next 4 Years)# \$
Mark Freeman – Managing Director									
2022	884,340	468,346	117,034	1,469,720	793,649	676,071	(239,126)	(18,193)	904,609
2021	884,340	409,538	57,333	1,351,211	686,416	664,795	(32,632)	(25,867)	851,543
Andrew Porter – Chief Financial Officer									
2022	707,472	161,940	134,956	1,004,368	542,359	462,009	(85,675)	(20,978)	533,821
2021	693,600	190,976	31,362	915,938	465,297	450,641	(17,104)	(91,707)	577,261
Geoff Driver – General Manager – Business Development and Investor Relations									
2022	582,624	134,178	111,203	828,005	447,123	380,882	(69,740)	(17,286)	439,685
2021	571,200	158,474	25,842	755,516	383,802	371,714	(12,886)	(75,767)	475,533
Matthew Rowe – Company Secretary									
2022	309,000	70,622	48,535	428,157	231,205	196,952	(37,528)	(7,544)	219,551
2021	300,000	83,142	9,838	392,980	199,634	193,346	(6,858)	(28,772)	226,533

The amount shown as forfeited for the LTI is the amount that would have been paid to Executives with respect to the 2017–2021 LTIP in the event that all targets had been achieved (2021: 2016–2020 LTIP). See Table 3. For 2021 for Mark Freeman, the amount also includes an element of the investment team LTI that he was still eligible for, and the amount forfeited is the difference between the target amount that would have been paid if all targets were met and the amount actually paid.

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 closing price on the day that they were received. In respect of Mark Freeman for 2021, 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 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. Note that a proportion of these amounts will be forfeited if the proposed new incentive plan is adopted.

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

During the year, the former Managing Director Ross Barker had 14,205 performance shares vest at a value of \$128,302 and forfeited 1,948 at a value of \$19,902. Mr Barker no longer has any outstanding performance shares available for vesting.

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 below outlines the key terms and conditions of the Annual Incentive plan.

Table 5: Annual Incentives – Key Terms and Conditions

	Managing Director	Other Executives
Targeted % of FAR	80 per cent	35 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	<ul style="list-style-type: none"> 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 2022	One and 10-year measures either not achieved or partially achieved. All other measures achieved.	
Outcomes for 2022 (see Table 10 for details)	66 per cent	Average 66 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 at the discretion of the Board. 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 2022 please refer to Section B Annual Incentives: Details of Outcomes and Conditions in the Appendix.

2.3 Long Term Incentive Plans (LTIP)

Table 6 outlines the purpose and the key terms and conditions of the plan.

Table 6: Long Term Incentives – Key Terms and Conditions

	Executive LTIP (Performance Rights)
Target	20 per cent of FAR for the Managing Director, 15 per cent for other Executives
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.
Performance for awards tested in 2022 (Table 3)	2017–2021: 88 per cent vested (see Table 3).

For more detailed information about the LTI plan and its performance conditions, including vesting schedules, please refer to Section C Long Term Incentives: Details of Outcomes and Conditions in the Appendix. Note that the Directors are currently proposing that the LTIP be amalgamated with the Annual Incentive into a single Executive Incentive Plan from 1 July 2022 onwards – see Section E. For details of the previous Investment Team Long Term Incentive Plan that Mark Freeman was a participant in for the previous corresponding period, please see the 2021 Annual Report, available on the Company's website (afi.com.au).

Remuneration Report

continued

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								
2022	856,840	27,500	884,340	468,346	271,066	-	1,623,752	54%/46%
2021	859,340	25,000	884,340	409,538	282,468	(120,224)	1,456,122	61%/39%
Andrew Porter – Chief Financial Officer								
2022	679,972	27,500	707,472	161,940	115,976	-	985,388	72%/28%
2021	668,600	25,000	693,600	190,976	107,598	-	992,174	70%/30%
Geoff Driver – General Manager – Business Development and Investor Relations								
2022	555,124	27,500	582,624	134,178	95,517	-	812,319	72%/28%
2021	546,200	25,000	571,200	158,474	88,423	-	818,097	70%/30%
Matthew Rowe – Company Secretary								
2022	281,500	27,500	309,000	70,622	48,716	-	428,338	72%/28%
2021	275,476	24,524	300,000	83,142	48,345	-	431,487	70%/30%

* 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			
2022	195,455	4,545	200,000
2021	179,222	17,028	196,250
RE Barker – Non-Executive Director (retired 30 June 2021)			
2021	89,611	8,514	98,125
RP Dee-Bradbury – Non-Executive Director			
2022	95,455	4,545	100,000
2021	96,010	2,115	98,125
CM Drummond – Non-Executive Director (appointed 1 July 2021)			
2022	90,909	9,091	100,000
JA Fahey – Non-Executive Director (appointed 22 April 2021)			
2022	90,909	9,091	100,000
2021	17,562	1,668	19,230
GR Liebelt – Non-Executive Director			
2022	97,727	2,273	100,000
2021	98,125	-	98,125
DA Peever – Non-Executive Director			
2022	90,909	9,091	100,000
2021	89,611	8,514	98,125
CM Walter AM – Non-Executive Director			
2022	90,909	9,091	100,000
2021	89,611	8,514	98,125
PJ Williams – Non-Executive Director			
2022	90,909	9,091	100,000
2021	89,611	8,514	98,125
Total remuneration of Non-Executive Directors			
2022	843,182	56,818	900,000
2021	749,363	54,867	804,230

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

Remuneration Report

continued

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

The Managing Director makes recommendations to the Remuneration Committee with regards to the remuneration levels and structure of the KMP.

Ernst & Young review 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 \$7,365 (inclusive of GST) during the year ended 30 June 2022 for other general remuneration advice which consisted of verifying the calculations used for the vesting of the ELTIP (2021: \$17,510) and during the year the Group also paid \$162,063 for other professional advice received which included acting as the internal auditor for AICS and general taxation and accountancy advice, including advice on the format and layout of the Remuneration Report (2021: \$166,683) (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	66.2%	468,346	33.8%	239,126
Geoff Driver	65.8%	134,178	34.2%	69,740
Matthew Rowe	65.3%	70,622	34.7%	37,528
Andrew Porter	65.4%	161,940	34.6%	85,675

Table 11: Executive Annual Incentive Performance Conditions

Performance Areas and Relative Weighting	Performance Measures	Purpose of Measure
<p>Company performance (20 per cent) The relevant weightings of the investment companies are:</p> <ul style="list-style-type: none"> • AFIC: 50 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 15 per cent • Mirrabooka Investments Limited: 15 per cent 	<ul style="list-style-type: none"> • Operating result and dividend growth – measured against prior years. • Management expense ratio (MER): at Board discretion, generally measured against prior years' results. • Dividend yield (DJW only). 	<ul style="list-style-type: none"> • 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.
<p>Investment performance (60 per cent) The relevant weightings of the investment companies are:</p> <ul style="list-style-type: none"> • AFIC: 50 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 15 per cent • Mirrabooka Investments Limited: 15 per cent 	<ul style="list-style-type: none"> • 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 S&P/ASX Mid Cap 50 and Small Ordinaries for Mirrabooka and modified S&P/ASX 200 Accumulation Index for Djerriwarrh). • Grossed-up 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 S&P/ASX Mid Cap 50 and Small Ordinaries for Mirrabooka and modified S&P/ASX 200 Accumulation Index for Djerriwarrh). 	<p>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'.</p> <ul style="list-style-type: none"> • 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. • Grossed-up 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. <p>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.</p>
<p>Personal objectives (20 per cent) These costs are allocated to AFIC and to the LICs on the same proportion as the FAR</p>	<p>Includes:</p> <ul style="list-style-type: none"> • advice to the Board; • succession planning; • management of staff; • risk management; and • shareholder stewardship. <p>These measures all contribute to the efficient running of the Group, and the other investment companies, enhancing investment outcomes.</p>	<p>Personal objectives are included in incentive calculations to encourage out-performance 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.</p> <p>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.</p>

Remuneration Report

continued

C. Long Term Incentives: Details of Outcomes and Conditions

This section shows the outstanding cash bonuses under the ELTIP (Table 12). It also explains the detailed terms and conditions of the Plan 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 2022 \$
Mark Freeman – Managing Director (from 1 January 2018)						
1 Jan 2018	30 June 2021	\$85,000	14,765	\$5.757	12,984/87.9%	-
1 July 2018	30 June 2022	\$170,000	27,974	\$6.077	-	\$245,976
1 July 2019	30 June 2023	\$173,400	28,217	\$6.145	-	\$238,997
1 July 2020	30 June 2024	\$176,868	29,125	\$6.073	-	\$237,480
1 July 2021	30 June 2025	\$176,868	23,160	\$7.637	-	\$182,156
						\$904,609
Andrew Porter – Chief Financial Officer						
1 July 2017	30 June 2021	\$98,016	17,026	\$5.757	14,973/87.9%	-
1 July 2018	30 June 2022	\$99,976	16,451	\$6.077	-	\$144,245
1 July 2019	30 June 2023	\$102,000	16,598	\$6.145	-	\$140,587
1 July 2020	30 June 2024	\$104,040	17,132	\$6.073	-	\$139,695
1 July 2021	30 June 2025	\$106,121	13,896	\$7.637	-	\$109,294
						\$533,821
Geoff Driver – General Manager – Business Development and Investor Relations						
1 July 2017	30 June 2021	\$80,765	14,030	\$5.757	12,338/87.9%	-
1 July 2018	30 June 2022	\$82,380	13,556	\$6.077	-	\$118,858
1 July 2019	30 June 2023	\$84,000	13,669	\$6.145	-	\$115,777
J July 2020	30 June 2024	\$85,680	14,109	\$6.073	-	\$115,043
1 July 2021	30 June 2025	\$87,394	11,444	\$7.637	-	\$90,007
						\$439,685
Matthew Rowe – Company Secretary						
1 July 2017	30 June 2021	\$35,250	6,123	\$5.757	5,385/87.9%	-
1 July 2018	30 June 2022	\$37,800	6,220	\$6.077	-	\$54,538
1 July 2019	30 June 2023	\$41,250	6,713	\$6.145	-	\$56,855
1 July 2020	30 June 2024	\$45,000	7,410	\$6.073	-	\$60,422
1 July 2021	30 June 2025	\$46,350	6,069	\$7.637	-	\$47,736
						\$219,551

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 2022 using the Total Shareholder Return (TSR – which includes dividends reinvested) based on a closing price on 30 June 2022 of AFI shares of \$7.51 (the TSR for AFI at 30 June 2022 was 44.3 per cent p.a. for four years, 37.8 per cent p.a. for three years, 34.3 per cent for two years and 3.0 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, 68.9 per cent of the 2017–2021 Investment Team Long Term Incentive that vested in the prior year was paid to Mr Freeman.

Table 13: Long Term Incentive Plans

ELTIP (Performance Rights)

Nature of grant	Rights to receive cash that must then be used (after tax) by the executives to acquire AFIC shares on market.	
Performance conditions	<p>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.</p> <p>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.</p> <p>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.</p>	
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	<p>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.</p> <p>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.</p>	
Accounting treatment	<p>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.</p>	

For details of Incentive Plans that vested or were awarded in the comparative year, please see the 2021 Annual Report, available on the Company's website.

Remuneration Report

continued

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

	Opening Balance	Changes During Year	Closing Balance
J Paterson	615,332	-	615,332
RM Freeman	160,182	7,842	168,024
RP Dee-Bradbury	14,413	249	14,662
CM Drummond	n/a	389	13,271
JA Fahey	-	1,242	1,242
GR Liebelt	527,708	-	527,708
DA Peever	32,591	985	33,576
CM Walter	366,806	11,086	377,892
PJ Williams	49,756	-	49,756
GN Driver	143,089	7,438	150,527
MJ Rowe	5,705	3,277	8,982
AJB Porter	176,316	9,050	185,366

CM Drummond became a Director on 1 July and therefore is not included in the opening balance which are at 30 June 2021.

Other Arrangements With Non-Executive Directors

Non-Executive Directors Craig Drummond, John Paterson and Catherine Walter have rented office space and, for 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
	\$
CM Drummond	11,263
J Paterson	29,802
CM Walter	15,941

E. Proposed Changes to the Incentive Scheme

The Directors propose a simplification of the Executive Incentive Schemes that would involve merging the Executive Long Term Incentive Plan and the Annual Incentive Plan into a single Executive Incentive Plan.

The new plan will retain the performance measurements currently utilised in the Annual Incentive Plan with the addition of a reward/risk component which will be measured over five years and compared to the Mercer Reward/Risk Survey of Australian fund managers.

It is important to note that therefore **50 per cent of the available incentive under the new scheme will be long term in nature** (and will be described as such in the Annual Report), as it measures investment performance over more than one year.

The remaining 50 per cent will be 20 per cent based on personal metrics for each Executive (as is currently the case) and 30 per cent based on an annual scheme looking at investment performance and other financial metrics over a single year (but for the operating earnings per share and MER measures to be reviewed in the context of longer term trends).

The Executive Incentive Scheme will be paid in cash, as is currently the case with the Annual Incentive Plan. It also remains the case that Executives will be required to use 25 per cent of the pre-tax amount of any incentive that vests to purchase shares in AFIC and/or the other LICs. Executives will be expected over time to build and to maintain an appropriate holding in not only AFIC shares but also in shares in the other LICs to which AICS provides services.

The Directors consider that the scheme allows for sufficient 'clawback' in the case of a material misstatement of the Group's financial statements or in any other case where the Board considers that such remuneration would be an 'inappropriate benefit'. In such instances, the Board reserves the right to clawback some or all of the Executive's proposed performance-based remuneration.

The Directors, in their absolute discretion, may then take such clawback actions as they deem necessary or appropriate to address the events that give rise to an 'inappropriate benefit'. Such actions may include:

1. cancelling or requiring the forfeiture of some or all of the Executive's incentive payments;
2. adjusting the Executive's future performance-based remuneration;
3. dismissing the Executive and/or initiating legal action; and/or
4. any other action the Directors consider appropriate.

The Directors are not required to show loss to the Company in order to determine that an 'inappropriate benefit' should be subject to clawback.

F. Detailed Performance Measures by Investment Company

Table 15 on the following page 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, are used in part to 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	2022	2021	2020	2019	2018
Comparative returns									
S&P/ASX 200 Accumulation Return	9.29%	6.83%	5.33%	3.34%	-6.47%	27.80%	-7.7%	11.6%	13.0%
Modified S&P/ASX 200 Accumulation*	8.75%	6.83%	5.33%	3.34%	-6.47%	21.71%	-	-	-
Gross S&P/ASX 200 Accumulation Return	10.86%	8.26%	6.72%	4.58%	-5.12%	29.12%	-6.6%	13.4%	14.6%
Modified Gross S&P/ASX 200 Accumulation Return*	9.85%	8.03%	6.72%	4.58%	-5.12%	22.64%	-	-	-
Combined S&P/ASX Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	8.86%	6.67%	3.72%	4.02%	-14.06%	34.42%	-2.6%	2.8%	19.3%
Gross Combined S&P/ASX Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	9.80%	7.49%	4.47%	4.70%	-13.52%	35.22%	-1.9%	3.8%	20.4%
Yield on S&P/ASX 200 grossed up for franking credits	n/a	n/a	n/a	n/a	5.1%	2.9%	5.8%	5.2%	5.2%
Australian Foundation Investment Company Limited									
Total gross shareholder return	12.24%	11.26%	11.03%	11.64%	0.09%	35.17%	1.2%	6.9%	10.3%
Growth in net operating result per share	n/a	n/a	n/a	n/a	44.0%	-3.0%	-41.5%	44.1%	9.6%
Management expense ratio	n/a	n/a	n/a	n/a	0.16%	0.14%	0.13%	0.13%	0.14%
Gross return	10.51%	8.38%	7.33%	6.01%	-6.78%	31.92%	-3.1%	11.4%	12.7%
Investment return	9.15%	7.24%	6.27%	5.12%	-7.08%	30.28%	-4.1%	9.8%	11.3%
Djerriwarh Investments Limited									
Growth in net operating profit per share	n/a	n/a	n/a	n/a	30.9%	-4.5%	-26.0%	3.7%	5.7%
Management expense ratio	n/a	n/a	n/a	n/a	0.45%	0.45%	0.45%	0.43%	0.44%
Gross return	8.56%	5.51%	4.02%	2.36%	-6.51%	29.58%	-11.5%	9.1%	11.7%
Investment return	7.01%	4.33%	3.20%	2.03%	-6.21%	25.83%	-10.0%	6.8%	9.7%
Gross yield on NTA at end of June	n/a	n/a	n/a	n/a	6.5%	4.7%	5.6%	8.6%	8.6%
Mirrabooka Investments Limited									
Management expense ratio	n/a	n/a	n/a	n/a	0.46%	0.50%	0.63%	0.61%	0.60%
Gross return	12.72%	9.74%	7.86%	8.54%	-20.87%	50.92%	7.1%	5.9%	17.3%
Investment return	12.52%	9.36%	7.81%	8.84%	-19.04%	49.80%	6.3%	4.8%	16.0%
AMCIL Limited									
Management expense ratio	n/a	n/a	n/a	n/a	0.52%	0.56%	0.66%	0.72%	0.69%
Gross return	10.31%	8.22%	6.79%	6.72%	-14.31%	31.76%	7.6%	7.0%	13.9%
Investment return	10.57%	8.75%	7.49%	8.07%	-12.40%	34.36%	7.2%	5.8%	14.0%

* Note that the modified S&P/ASX 200 Index is used for the Djerriwarh 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

25 July 2022



Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2022, 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.

A handwritten signature in black ink that reads 'Nadia Carlin'.

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
25 July 2022

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FINANCIAL STATEMENTS

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Consolidated Income Statement

For the Year Ended 30 June 2022

	Note	2022 \$'000	2021 \$'000
Dividends and distributions	A3	388,492	257,874
Interest income from deposits	A3	61	116
Other revenue	A3	4,871	4,831
Total revenue		393,424	262,821
Net gains/(losses) on trading portfolio	A3	629	2,472
Income from operating activities		394,053	265,293
Finance costs		(845)	(1,831)
Administration expenses	B1	(19,165)	(15,509)
Profit before income tax expense		374,043	247,953
Income tax expense	B2, E2	(13,486)	(12,858)
Profit for the year		360,557	235,095
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		360,537	234,651
Minority interest		20	444
		360,557	235,095
		Cents	Cents
Basic earnings per share	A5	29.40	19.28

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

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2022

	Year to 30 June 2022			Year to 30 June 2021		
	Revenue ¹ \$'000	Capital ¹ \$'000	Total \$'000	Revenue ¹ \$'000	Capital ¹ \$'000	Total \$'000
Profit for the year	360,557	-	360,557	235,095	-	235,095
Other comprehensive income						
<i>Items that will not be recycled through the Income Statement</i>						
Gains/(losses) for the period	-	(1,008,188)	(1,008,188)	-	1,881,261	1,881,261
Tax on above	-	300,219	300,219	-	(575,865)	(575,865)
Total other comprehensive income	-	(707,969)	(707,969)	-	1,305,396	1,305,396
Total comprehensive income	360,557	(707,969)	(347,412)	235,095	1,305,396	1,540,491

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 2022			Year to 30 June 2021		
	Revenue \$'000	Capital \$'000	Total \$'000	Revenue \$'000	Capital \$'000	Total \$'000
Equity holders of Australian Foundation Investment Company Ltd	360,537	(707,969)	(347,432)	234,651	1,305,396	1,540,047
Minority interests	20	-	20	444	-	444
	360,557	(707,969)	(347,412)	235,095	1,305,396	1,540,491

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

Consolidated Balance Sheet

As at 30 June 2022

	Note	2022 \$'000	2021 \$'000
Current assets			
Cash	D1	144,619	97,122
Receivables		36,598	40,011
Trading portfolio		4,979	4,745
Total current assets		186,196	141,878
Non-current assets			
Investment portfolio	A2	8,082,513	8,973,080
Deferred tax assets		-	59
Total non-current assets		8,082,513	8,973,139
Total assets		8,268,709	9,115,017
Current liabilities			
Payables		28,688	1,020
Borrowings – bank debt		10,000	-
Tax payable		62,567	12,621
Provisions		6,114	5,235
Total current liabilities		107,369	18,876
Non-current liabilities			
Provisions		896	888
Deferred tax liabilities – other		503	-
Deferred tax liabilities – investment portfolio	B2	1,169,452	1,536,231
Total non-current liabilities		1,170,851	1,537,119
Total liabilities		1,278,220	1,555,995
Net assets		6,990,489	7,559,022
Shareholders' equity			
Share capital	A1, D6	3,070,163	3,007,730
Revaluation reserve	A1, D3	2,556,466	3,394,297
Realised capital gains reserve	A1, D4	510,503	416,071
General reserve	A1	23,637	23,637
Retained profits	A1, D5	828,634	716,221
Parent entity interest		6,989,403	7,557,956
Minority interest		1,086	1,066
Total equity		6,990,489	7,559,022

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

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2022

Year Ended 30 June 2022	Note	Share Capital \$'000	Revaluation Reserve \$'000
Total equity at the beginning of the year		3,007,730	3,394,297
Dividends paid to shareholders	A4	-	-
Dividend Reinvestment Plan	D6	62,584	-
Other share capital adjustments		(151)	-
Total transactions with shareholders		62,433	-
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net losses for the period		-	(707,969)
Other comprehensive income for the year		-	(707,969)
Transfer to realised capital gains of cumulative gains on investments sold		-	(129,862)
Total equity at the end of the year		3,070,163	2,556,466
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

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
416,071	23,637	716,221	7,557,956	1,066	7,559,022
(35,430)	-	(248,124)	(283,554)	-	(283,554)
-	-	-	62,584	-	62,584
-	-	-	(151)	-	(151)
(35,430)	-	(248,124)	(221,121)	-	(221,121)
-	-	360,537	360,537	20	360,557
-	-	-	(707,969)	-	(707,969)
-	-	-	(707,969)	-	(707,969)
129,862	-	-	-	-	-
510,503	23,637	828,634	6,989,403	1,086	6,990,489

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

Consolidated Cash Flow Statement

For the Year Ended 30 June 2022

	Note	2022 \$'000 Inflows/ (Outflows)	2021 \$'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		20,888	14,776
Purchases for trading portfolio		(1,860)	(1,297)
Interest received		61	116
Dividends and distributions received		287,431	196,351
		306,520	209,946
Other receipts		4,962	4,878
Administration expenses		(18,383)	(15,445)
Finance costs paid		(845)	(1,831)
Taxes paid		(14,489)	(18,781)
Net cash inflow/(outflow) from operating activities	E1	277,765	178,767
Cash flows from investing activities			
Sales from investment portfolio		657,117	469,102
Purchases for investment portfolio		(662,366)	(416,321)
Taxes paid on sales from investment portfolio		(13,945)	(23,798)
Net cash inflow/(outflow) from investing activities		(19,194)	28,983
Cash flows from financing activities			
Net bank borrowings		10,000	-
Share issue transaction costs		(151)	(145)
Dividends paid		(220,923)	(221,801)
Net cash inflow/(outflow) from financing activities		(211,074)	(221,946)
Net increase/(decrease) in cash held		47,497	(14,196)
Cash at the beginning of the year		97,122	111,318
Cash at the end of the year	D1	144,619	97,122

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:

	2022 \$'000	2021 \$'000
Share capital	3,070,163	3,007,730
Revaluation reserve	2,556,466	3,394,297
Realised capital gains reserve	510,503	416,071
General reserve	23,637	23,637
Retained profits	828,634	716,221
	6,989,403	7,557,956

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:

	2022 \$'000	2021 \$'000
Equity instruments (excluding below)	7,492,259	8,502,224
Equity instruments (over which options may be written)	501,059	423,249
Equity instruments (listed on non-Australian/NZ Exchanges)	89,195	47,607
	8,082,513	8,973,080

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). 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 2022 and 30 June 2021 were as follows:

	30 June 2022 \$	30 June 2021 \$
Net tangible asset backing per share		
Before tax	6.63	7.45
After tax	5.68	6.19

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 from the investment portfolio, 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 \$729.0 million (2021: \$511.1 million) of equity securities were sold. The cumulative gain on the sale of securities was \$129.9 million for the period after tax (2021: \$77.1 million). 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 2022 is set out below.

	2022 \$'000	2021 \$'000
Dividends and Distributions		
Income from securities held in investment portfolio at 30 June	383,115	251,687
Income from investment securities sold during the year	5,166	5,976
Income from securities held in trading portfolio at 30 June	211	211
Income from trading securities sold during the year	-	-
	388,492	257,874
Interest income		
Revenue from deposits and cash management trusts	61	116
Other revenue		
Administration fees	4,871	4,831
Other income	-	-
	4,871	4,831

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.

	2022 \$'000	2021 \$'000
Net Gains		
Net realised gains/(losses) from trading portfolio – shares	224	149
– options	1,008	1,724
Unrealised gains/(losses) from trading portfolio – shares	(641)	897
– options	38	(298)
	629	2,472

\$131.6 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2021: \$152.3 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 \$21.4 million worth of securities at an agreed price – the 'exposure' (2021: \$44.5 million). There were no put options in the portfolio at 30 June 2022 (2021: \$nil).

A4. Dividends Paid

The dividends paid and payable for the year ended 30 June 2022 are shown below:

	2022 \$'000	2021 \$'000
(a) Dividends Paid During the Year		
Final dividend for the year ended 30 June 2021 of 14 cents fully franked at 30 per cent paid 31 August 2021 (2021: 14 cents fully franked at 30 per cent paid on 1 September 2020)	165,339	164,556
Interim dividend for the year ended 30 June 2022 of 10 cents per share fully franked at 30 per cent paid 25 February 2022 (2021: 10 cents fully franked at 30 per cent paid 23 February 2021)	118,215	117,917
	283,554	282,473
Dividends paid in cash	220,970	221,841
Dividends reinvested in shares	62,584	60,632
	283,554	282,473
Dividends forgone via DSSP	9,767	8,635
(b) Franking Credits		
Opening balance of franking account at 1 July	158,009	174,053
Franking credits on dividends received	138,158	67,295
Tax paid during the year	27,561	41,428
Franking credits paid on ordinary dividends paid	(121,523)	(121,060)
Franking credits deducted on DSSP shares issued	(4,272)	(3,707)
Closing balance of franking account	197,933	158,009
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	69,967	19,610
Adjusted closing balance	267,900	177,619
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(73,794)	(73,250)
Net available	194,106	104,369
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	452,914	243,528

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

	2022 \$'000	2021 \$'000
(c) New Zealand Imputation Account		
(Figures in A\$ at year-end exchange rate: 2022: \$NZ1.073:\$A1; 2021: \$NZ1.074:\$A1)		
Opening balance	13,261	8,470
Imputation credits on dividends received	5,848	4,779
Imputation credits on dividends paid	-	-
Closing balance	19,109	13,249

There will be NZ imputation credit on NZ 3.5 cents of the final dividend attached to the proposed dividend payable on 30 August 2022. This will utilise, on the above exchange rates, \$15.6 million of the above balance.

(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 2022 to be paid on 30 August 2022, but not recognised as a liability at the end of the financial year is:

172,187

(e) Listed Investment Company Capital Gain Account

Balance of the Listed Investment Company (LIC) capital gain account at 1 July:

43,793

62,912

Capital gains (including LIC gains received from dividends)

150,256

39,651

LIC gains paid as part of dividend

(35,430)

(58,770)

Balance at 30 June

158,619

43,793

This equates to an attributable gain of:

226,599

62,562

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. \$175.7 million attributable gain is attached to the final dividend to be paid on 30 August 2022.

A5. Earnings Per Share

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

	2022 Number	2021 Number
Basic Earnings Per Share		
Weighted average number of ordinary shares used as the denominator	1,226,476,015	1,217,056,577
	\$'000	\$'000
Profit for the year	360,537	234,651
	Cents	Cents
Basic earnings per share	29.40	19.28

Excluding the Woodside/BHP Petroleum merger dividend for the year ended 30 June 2022, and the Endeavour demerger dividend for the previous corresponding period, the basic earnings per share figure would be 23.3 cents (2021: 16.3 cents).

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2022 \$'000	2021 \$'000
Rental expense relating to non-cancellable leases	(760)	(747)
Employee benefit expenses	(12,819)	(9,304)
Depreciation charge	-	-
Other administration expenses	(5,586)	(5,458)
	(19,165)	(15,509)

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 \$
2022					
Non-Executive Directors	843,182	-	56,818	-	900,000
Executives	3,208,522	-	110,000	531,275	3,849,797
Total	4,051,704	-	166,818	531,275	4,749,797
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

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group (i.e. AFIC and its subsidiary, Australian Investment Company Services Ltd (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

	2022 \$'000	2021 \$'000
Profit before income tax expense	374,073	247,953
Tax at the Australian tax rate of 30 per cent (2021: 30 per cent)	112,222	74,386
Tax offset for franked dividends received	(96,709)	(47,106)
Demerger dividend non-taxable	-	(10,952)
Sundry items whose tax treatment differs from accounting treatment	(403)	(1,234)
	15,110	15,094
Over provision in prior years	(1,624)	(2,236)
Total tax expense	13,486	12,858

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.

	2022 \$'000	2021 \$'000
Deferred tax liabilities on unrealised gains in the investment portfolio	1,169,452	1,536,231
Opening balance at 1 July	1,536,231	973,499
Tax on realised gains	(66,560)	(13,133)
Charged to OCI for ordinary securities on gains or losses for the period	(300,219)	575,865
	1,169,452	1,536,231

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 \$282.9 million and \$565.8 million respectively, at a tax rate of 30 per cent (2021: \$314.1 million and \$628.1 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:

	2022 %	2021 %
Energy	3.26	1.96
Materials	14.29	14.32
Industrials	12.68	14.40
Consumer Discretionary	7.07	7.83
Consumer Staples	5.19	4.42
Banks	18.36	18.97
Other Financials	9.14	8.88
Real Estate	2.97	2.47
Telecommunications	5.87	5.99
Healthcare	14.77	14.40
Information Technology	4.61	4.63
Utilities	0.03	0.66
Cash	1.76	1.07
<i>Securities representing over 5 per cent of the investment portfolio at 30 June were</i>		
Commonwealth Bank	8.8	8.8
CSL	7.9	6.9
BHP	7.1	7.3
Transurban	5.1	3.8

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 (1.1 per cent) part of the total portfolio (2021: 0.5 per cent).

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. As at 30 June 2022, no such investments are held (2021: nil). 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.

	Less Than 6 Months \$'000	6–12 Months \$'000	Greater Than 1 Year \$'000	Total Contractual Cash Flows \$'000	Carrying Amount \$'000
30 June 2022					
Non-derivatives					
Payables	28,688	-	-	28,688	28,688
Borrowings	10,000	-	-	10,000	10,000
	38,688	-	-	38,688	38,688
Derivatives					
Options in trading portfolio*	-	-	-	-	-
	-	-	-	-	-

	Less Than 6 Months \$'000	6–12 Months \$'000	Greater Than 1 Year \$'000	Total Contractual Cash Flows \$'000	Carrying Amount \$'000
30 June 2021					
Non-derivatives					
Payables	1,020	-	-	1,020	1,020
	1,020	-	-	1,020	1,020
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 2022.

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

	2022 \$'000	2021 \$'000
Cash at bank and in hand (including on-call)	144,619	97,122
	144,619	97,122

Cash holdings yielded an average floating interest rate of 0.08 per cent (2021: 0.14 per cent). All cash investments are held in a transactional account, with a custodian or in an over-night 'at call' account invested in cash management trusts which invest predominantly in short term securities with an A1+ rating.

D2. Credit Facilities

	2022 \$'000	2021 \$'000
Commonwealth Bank of Australia – cash advance facility	110,000	50,000
Amount drawn down at 30 June	0	0
Undrawn facilities at 30 June	110,000	50,000
National Australia Bank – cash advance facility	20,000	0
Amount drawn down at 30 June	10,000	0
Undrawn facilities at 30 June	10,000	0
Total short term loan facilities	130,000	50,000
Total drawn down at 30 June	10,000	0
Total undrawn facilities at 30 June	120,000	50,000

The above borrowings, with the exception of the NAB facility, 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 and hence are classified as current liabilities when drawn.

The debt facility with National Australia Bank is structured in the form of a securities lending arrangement. The terms of the agreement require that securities be pledged as collateral for the drawn secured borrowings under that facility and that such securities currently satisfy a minimum value of \$11 million (110 per cent of the total drawn facility). These securities are held by the National Australia Bank but included as part of the Company's investment portfolio. As at 30 June 2022 the market value of the securities pledged as collateral was \$12.2 million (2021: n/a).

D3. Revaluation Reserve

	2022 \$'000	2021 \$'000
Opening balance at 1 July	3,394,297	2,166,030
Gains/(losses) on investment portfolio		
– Equity instruments	(1,008,188)	1,881,261
Provision for tax on above	300,219	(575,865)
Cumulative taxable realised (gains)/losses (net of tax)	(129,862)	(77,129)
	2,556,466	3,394,297

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

Notes to the Financial Statements

continued

D4. Realised Capital Gains Reserve

	2022 \$'000	2021 \$'000
Opening balance at 1 July	416,071	397,712
Dividends paid	(35,430)	(58,770)
Cumulative taxable realised gains/(losses) (net of tax)	129,862	77,129
	510,503	416,071

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

D5. Retained Profits

	2022 \$'000	2021 \$'000
Opening balance at 1 July	716,221	705,273
Dividends paid	(248,124)	(223,703)
Profit for the year	360,537	234,651
	828,634	716,221

This reserve relates to past profits.

D6. Share Capital

Movements in Share Capital

Date	Details	Note	Number of Shares '000	Issue Price \$	Paid-up Capital \$'000
1/07/2020	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
31/08/2021	Dividend Reinvestment Plan	i	4,507	8.10	36,511
31/08/2021	Dividend Substitution Share Plan	ii	687	8.10	n/a
25/02/2022	Dividend Reinvestment Plan	i	3,317	7.86	26,073
25/02/2022	Dividend Substitution Share Plan	ii	558	7.86	n/a
Various	Costs of issue		-	-	(151)
30/06/2022	Balance		1,229,906		3,070,163

- 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 Cboe 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 (2021: 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

	2022 \$'000	2021 \$'000
Profit for the year	360,557	235,095
Net decrease/(increase) in trading portfolio	(234)	(441)
Dividends received as securities under DRP investments	(74,888)	-
Demerger dividend – non-cash item	-	(36,505)
Decrease/(increase) in current receivables	3,413	(22,664)
– Less increase/(decrease) in receivables for investment portfolio	(9,875)	9,875
Increase/(decrease) in deferred tax liabilities	(366,217)	563,545
– Less (increase)/decrease in deferred tax liability on investment portfolio	366,779	(562,732)
Increase/(decrease) in current payables	27,668	136
– Less increase/(decrease) in dividends payable	(46)	(40)
– Less (increase) in payables for investment portfolio	(27,610)	-
Increase/(decrease) in provision for tax payable	49,946	(18,150)
Capital gains tax charge taken through equity	(66,560)	(13,133)
Prior year taxes paid relating to capital gains	13,945	23,798
Increase/(decrease) in other provisions/non-cash items	887	(17)
Net cash flows from operating activities	277,765	178,767

E2. Tax Reconciliations

Tax Expense Composition

	2022 \$'000	2021 \$'000
Charge for tax payable relating to the current year	14,548	14,281
Over provision in prior years	(1,624)	(2,236)
(Increase)/Decrease in deferred tax assets	562	813
	13,486	12,858

Amounts Recognised Directly Through Other Comprehensive Income

Net movement in deferred tax liabilities relating to capital gains tax on the movement in gains/losses in the investment portfolio	(300,219)	575,865
	(300,219)	575,865

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

	2022 \$'000	2021 \$'000
(a) Tax on unrealised gains or losses in the trading portfolio	(161)	(253)
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	2,111	1,851
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(2,453)	(1,539)
	(503)	59
Movements:		
Opening balance at 1 July	59	872
Credited/(charged) to Income Statement	(562)	(813)
	(503)	59

Deferred tax assets and liabilities 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.

Notes to the Financial Statements

continued

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 J Paterson, C Drummond and C Walter have rented office space and, for 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 \$51,824 (2021: \$62,608).

(b) AICS Transactions With Minority Interests

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

	2022 \$'000	2021 \$'000
Administration expenses charged for the year	2,262	2,528

(c) AICS Transactions With Other Listed Investment Companies

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

	2022 \$'000	2021 \$'000
Administration expenses charged for the year to Mirrabooka Investments Ltd	1,702	1,467
Administration expenses charged for the year to AMCIL Ltd	1,021	916

F2. Remuneration of Auditors

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

	2022 \$	2021 \$
PricewaterhouseCoopers		
Audit services		
Audit or review of financial reports	214,834	210,050
Audit-related services		
AFSL compliance audit and review	8,707	8,331
Non-audit services		
Preparation and lodgement of tax returns	34,370	32,940
Assistance with ATO Combined Assurance Review	41,800	-
Total remuneration	299,711	251,321

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 one investment comprising more than 10 per cent of AFIC's income – BHP (35.6 per cent including the Woodside/BHP Petroleum merger dividend)(2021 two investments: Woolworths (16.1 per cent as a consequence of the Endeavour Group demerger) and BHP (11.0 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 25 July 2022 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 2022 ('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 Note 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.

Notes to the Financial Statements

continued

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.

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. 45,680 shares vested during the year ended 30 June 2022.

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 25 per cent of the pre-tax amount being used by the Executive to purchase shares in AFIC and/or the other LICs. 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.

27,429 shares for both LTIP and Annual Incentive (2021: 21,736 shares) were purchased by Executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of \$220,476 (2021: \$149,306).

(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.

Notes to the Financial Statements

continued

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.

54,569 rights were awarded under the plan during the year ended 30 June 2022 (2021: 67,777). An expense of \$537,943 (2021: \$826,722) was incurred for the 2018/19, 2019/20, 2020/21 and 2021/22 plans. 8,212 rights under the 2017/18 plan were forfeited during the year (12.1 per cent).

Note that it is currently proposed that the Executive Long Term Incentive Plan be incorporated within the existing Annual Incentive Plan.

(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, 92 per cent of the possible maximum was awarded, and 50 per cent of this was used to buy shares in Djerriwarrh Investments 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:

	2022 \$'000	2021 \$'000
Share-based payment expense	599	879

(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 Note F10 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	
			2022	2021
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. Lease Commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for six years with effect from 1 July 2022 (prior year comparatives represent the former lease). Current commitments relating to leases at balance date, for the current lease (including GST), is:

	2022 \$'000	2021 \$'000
Due within one year	508	667
Later than one year but less than five	2,302	-
Greater than five years	648	-
	3,458	667

The lease will be accounted for under the provisions of AASB 16 *Leases* when it commences.

F10. Parent Entity Financial Information

Summary Financial Information

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

	2022 \$'000	2021 \$'000
Balance Sheet		
Current assets	177,347	133,183
Total assets	8,257,705	9,106,106
Current liabilities	101,688	13,271
Total liabilities	1,271,402	1,551,348
Shareholders' equity		
Issued capital	3,070,313	3,007,730
Reserves		
Revaluation reserve	2,556,466	3,394,297
Realised capital gains reserve	510,503	416,071
General reserve	23,637	23,637
Retained earnings	825,384	713,023
	3,915,990	4,547,028
Total shareholders' equity	6,986,303	7,554,758
Profit or loss for the year	360,477	233,319
Total comprehensive income	(347,472)	1,538,715

DIRECTORS' DECLARATION

In the Directors' opinion:

- (1) the financial statements and notes set out on pages 34 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 2022 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 2022. 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
25 July 2022

INDEPENDENT AUDIT REPORT



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 2022 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 2022
- 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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INDEPENDENT AUDIT REPORT

continued



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 \$69.9m 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; and
 - 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.



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
<p>Existence and valuation of Investment Portfolio <i>Refer to note A2</i></p> <p>\$8,082.5m</p> <p>The Investment Portfolio consists mainly of listed Australian equities, as well as a smaller portfolio of listed international equities.</p> <p>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.</p>	<ol style="list-style-type: none"> 1) Agreed all the investment quantity holdings at 30 June 2022 to third party registry or custody sources. 2) Obtained the purchases and sales listing for the year ended 30 June 2022, and <ul style="list-style-type: none"> • Agreed a sample of purchases and sales to original contracts, and • Agreed a sample of original contracts to the purchases and sales listing 3) Performed a reconciliation of the opening investment balances and the number of units, plus addition/subtraction of purchases, sales and other relevant transactions, and agreeing back to the 30 June 2022 closing investment balances and units 4) Agreed all listed equities investment prices to third party market pricing sources

INDEPENDENT AUDIT REPORT

continued



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 2022, 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 2022.

In our opinion, the remuneration report of Australian Foundation Investment Company Limited for the year ended 30 June 2022 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.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Nadia Carlin'.

Nadia Carlin
Partner

Melbourne
25 July 2022

OTHER INFORMATION

Information about Shareholders

At 19 July 2022 there were 165,141 holdings of ordinary shares. These holdings were distributed in the following categories:

Size of Holding	Shareholdings	Percentage
1 to 1,000	64,372	2.07
1,001 to 5,000	53,229	10.95
5,001 to 10,000	20,773	12.23
10,001 to 100,000	25,732	51.30
100,000 and over	1,035	23.45
Total	165,141	100.00

Percentage held by the 20 largest holders	6.91%
Average shareholding	7,447

There were 4,314 shareholdings of less than a marketable parcel of \$500 (65 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 19 July 2022 are listed below:

Ordinary Shares

Rank	Name	Shares	% Shares
1	HSBC Custody Nominees (Australia) Limited	21,464,362	1.75
2	Citicorp Nominees Pty Limited	11,779,375	0.96
3	Netwealth Investments Limited <Wrap Services A/C>	7,181,831	0.58
4	Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	5,233,654	0.43
5	Australian Executor Trustees Limited <IPS IOOF Employer Super A/C>	4,727,820	0.38
6	Bougainville Copper Limited	4,301,935	0.35
7	Navigator Australia Ltd <MLC Investment SETT A/C>	3,960,914	0.32
8	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	3,166,893	0.26
9	Custodial Services Limited <Beneficiaries Holding A/C>	2,902,607	0.24
10	Netwealth Investments Limited <Super Services A/C>	2,601,471	0.21
11	Bushways Pty Ltd	2,570,592	0.21
12	Investment Custodial Services Limited <C A/C>	2,284,147	0.19
13	Australian Executor Trustees Limited <IDPS A/C>	1,959,668	0.16
14	Australian Executor Trustees Limited	1,751,395	0.14
15	Custodial Services Limited <A/C 4>	1,636,287	0.13
16	BNP Paribas Noms (Nz) Ltd <DRP>	1,536,898	0.12
17	Kalymna Pty Ltd	1,510,886	0.12
18	HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	1,497,459	0.12
19	Twibill Pty Ltd	1,443,216	0.12
20	J P Morgan Nominees Australia Pty Limited	1,435,662	0.12

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 2022, the Company recorded 793 transactions in securities (including options). \$3,130,512 in brokerage (including GST) was paid or accrued for the year.

Major Transactions in the Investment Portfolio

Acquisitions	Cost (\$'000)
Woodside Energy (merger with BHP Oil and Gas)	74,888
Santos (merger with Oil Search)	72,660
Transurban Group (includes \$35.5 million in entitlement offer at \$13 per share)	65,548
Mirvac Group	54,111
JB Hi-Fi	52,191
CSL (includes \$30.2 million in placement offer at \$273 per share)	50,109
Domino's Pizza Enterprises	46,376
Goodman Group	45,103

Disposals	Proceeds (\$'000)
Sydney Airport*	221,802
Oil Search* (merger with Santos)	72,660
Qube Holdings*	68,985
APA Group*	57,159
Milton Corporation*	50,443
Lifestyle Communities*	36,760

* Complete disposal from the portfolio.

New Companies Added to the Portfolio

Santos (merger with Oil Search)
 Mirvac Group
 JB Hi-Fi
 WiseTech Global

Holdings of Securities

At 30 June 2022

Individual investments for the combined investment and trading portfolios as at 30 June 2022 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 2021 '000	Number Held 2022 '000	Market Value 2022 \$'000
AIA	Auckland International Airport	6,073	10,300	66,743
ALQ	ALS	7,012	7,622	81,405
AMC	Amcor	11,600	11,600	209,265
ANN	Ansell	1,079	1,369	30,444
ANZ	Australia and New Zealand Banking Group	8,488	8,488	186,984
ARB	ARB Corporation	3,503	3,473	98,065
ASX	ASX	1,432	1,432	117,009
AUB	AUB Group	2,526	2,378	42,049
BHP	BHP Group	13,413	13,926	574,433
BXB	Brambles	9,279	9,279	99,374
CAR	Carsales.com	6,053	8,026	147,602
CBA	Commonwealth Bank of Australia	7,900	7,900	714,002
COH	Cochlear	334	334	66,400
COL	Coles Group	7,068	9,023	160,691
CPU	Computershare	4,043	4,043	99,607
CSL	CSL	2,185	2,372	638,076
CWY	Cleanaway Waste Management	17,014	17,014	42,876
DJW	Djerriwarrh Investments	7,505	7,505	21,465
DMP	Domino's Pizza Enterprises	254	653	44,416
DUI	Diversified United Investment	12,030	12,030	55,339
EQT	EQT Holdings	1,322	1,322	34,626
FCL	FINEOS Corporation	7,338	9,253	13,694
FPH	Fisher & Paykel Healthcare Corporation	3,913	3,913	69,799
GMG	Goodman Group	6,685	8,835	157,616
IAG	Insurance Australia Group	9,527	9,527	41,540
IEL	IDP Education	566	790	18,809
IRE	IRESS	7,091	8,211	94,511
IVC	InvoCare	3,512	3,512	36,740
JBH	JB Hi-Fi	0	1,131	43,508
JHX	James Hardie Industries	4,590	5,245	166,646
MFT	Mainfreight (NZX listed)	3,268	3,268	206,524
MGR	Mirvac Group	0	22,000	43,450
MIR	Mirrabooka Investments	8,728	8,728	25,573
MQG	Macquarie Group	2,207	2,207	362,997
NAB	National Australia Bank	11,155	11,155	305,530
NAN	Nanosonics	3,545	5,970	20,059
NWL	Netwealth Group	2,090	3,489	42,427
NXT	NEXTDC	7,864	7,864	83,678
ORI	Orica	2,226	2,226	35,100
PXA	PEXA Group	2,919	2,919	40,543
REA	REA Group	553	644	72,053
REH	Reece	7,201	7,201	99,234

Holdings of Securities

At 30 June 2022 continued

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2021 '000	Number Held 2022 '000	Market Value 2022 \$'000
RHC	Ramsay Health Care	1,915	1,583	115,923
RIO	Rio Tinto	1,862	1,862	191,229
RMD	ResMed	4,250	4,750	145,778
RWC	Reliance Worldwide Corporation	10,963	5,918	23,910
RYM	Ryman Healthcare (NZX listed)	880	880	7,084
SEK	Seek	3,641	3,333	69,985
SHL	Sonic Healthcare	3,704	3,320	109,582
STO	Santos	0	11,286	83,740
TCL	Transurban Group	23,867	28,791	414,012
TLS	Telstra Corporation	54,510	48,680	187,419
TPW	Temple & Webster	2,367	3,844	12,761
WBC	Westpac Banking Corporation	15,545	15,545	303,128
WDS*	Woodside Energy Group	3,620	5,816	184,894
WES	Wesfarmers	7,372	7,372	308,961
WOW	Woolworths Group	6,416	7,175	255,420
WTC	WiseTech Global	0	250	9,463
XRO	Xero	833	833	64,108
Total				7,998,297

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

Holdings of International Securities

At 30 June 2022

		Number Held 2021	Number Held* 2022	Market Value 2022 A\$
Ordinary Shares, Trust Units or Stapled Securities				
ACN-US	Accenture	2,760	5,506	2,223,158
AENA-ES	Aena	4,993	10,728	1,977,600
GOOGL-US	Alphabet	642	1,534	4,861,461
AMZN-US	Amazon	6,980	23,360	3,607,952
AAPL-US	Apple	4,788	21,658	4,306,044
SCHW-US	Charles Schwab	0	27,651	2,540,574
CMG-US	Chipotle	714	1,325	2,518,891
CTAS-US	Cintas	1,994	3,414	1,854,485
COST-US	Costco	1,589	2,976	2,074,212
CCI-US	Crown Castle	4,226	10,886	2,665,546
EL-US	Estée Lauder	2,046	5,037	1,865,453
FERG-GB	Ferguson	6,357	12,851	2,085,332
FTNT-US	Fortinet	20,510	24,220	1,992,822
HCA-US	HCA Healthcare	5,511	10,619	2,595,284
HD-US	Home Depot	2,757	6,284	2,506,373
ICE-US	Intercontinental	7,772	15,643	2,139,337
JPM-US	JP Morgan	0	12,029	1,969,869
OR-FR	L'Oréal	790	3,018	1,510,932
MC-FR	LVMH Moët	1,240	2,155	1,905,817
MAR-US	Marriott	6,266	9,615	1,901,751
MA-US	Mastercard	1,421	3,461	1,587,838
MCD-US	McDonald's	4,188	8,702	3,124,192
META-US	Meta Platforms (formerly Facebook)	3,553	2,889	677,442
MSFT-US	Microsoft	7,066	16,083	6,006,840
NESN-CH	Nestlé	9,176	18,826	3,186,865
NFLX-US	Netflix	2,257	3,792	964,306
NEE-US	Nextera	5,861	20,749	2,337,167
NKE-US	Nike	7,784	13,173	1,957,771
NOVOB-DK	Novo Nordisk	8,634	12,978	2,088,550
PEP-US	PepsiCo	5,323	10,474	2,538,479
ROG-CH	Roche	2,790	5,035	2,436,336
SPGI-US	S&P Global	2,558	3,927	1,924,858
SU-FR	Schneider	5,527	10,228	1,755,534
SOON-CH	Sonova	1,814	4,544	2,098,328
SBUX-US	Starbucks	8,598	11,612	1,289,977
669-HK	Techtronic	31,777	125,890	1,909,751
TMO-US	Thermo Fisher	1,684	3,523	2,783,346
V-US	Visa	3,461	4,977	1,425,015
Total				89,195,485

* Note some increase in the number held are because of share splits through 2022.

Issues of Securities

Date of Issue	Type	Price	Remarks
25 February 2022	DRP/DSSP	\$7.86	5 per cent discount
31 August 2021	DRP/DSSP	\$8.10	3.5 per cent discount
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 2019	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
26 February 2010	DRP	\$4.82	5 per cent discount SPP = Share Purchase Plan
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	
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	

Date of Issue	Type	Price	Remarks
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
Robert M 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
Email invest@afi.com.au
Website 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 Address

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna Auckland 0622

Shareholder

Enquiry Line 1300 662 270
+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 4 October 2022
Venue The Clarendon Auditorium
Melbourne Convention and
Exhibition Centre (MCEC)
Location 2 Clarendon Street
Southbank Victoria Australia

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.

Adelaide Shareholder Meeting

Time 10.00am
Date Monday 17 October 2022
Venue Adelaide Convention Centre
North Terrace Adelaide
Location Hall E1 and E2

Perth Shareholder Meeting

Time 10.00am
Date Tuesday 18 October 2022
Venue Perth Convention Centre
21 Mounts Bay Road Perth
Location Meeting Rooms 1 and 2

Canberra Shareholder Meeting

Time 10.00am
Date Friday 21 October 2022
Venue Park Hyatt Hotel
120 Commonwealth Avenue Canberra
Location Federation Ballroom

Brisbane Shareholder Meeting

Time 10.00am
Date Monday 24 October 2022
Venue Brisbane Convention Centre
Cnr Merivale and Glenelg Streets
South Bank Brisbane
Location Sky Room

Sydney Shareholder Meeting

Time 10.00am
Date Tuesday 25 October 2022
Venue Wesley Conference Centre
220 Pitt Street Sydney
Location Auditorium

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Annual Review
2022



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

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Year in Summary

2022		
Profit for the Year	\$360.6m	\$235.1m in 2021. Up 53.4%
Fully Franked Dividend	14¢ Final 24¢ Total	24 cents total in 2021
Total Shareholder Return	0.1%	Share price plus dividend, including franking*
Total Portfolio Return	-6.8% Including franking*	S&P/ASX 200 Accumulation Index including franking* -5.1%
Management Expense Ratio	0.16%	0.14% in 2021
Total Portfolio	\$8.2b	Including cash at 30 June. \$9.1 billion in 2021

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

5 Year Summary

Net Profit After Tax (\$ Million)

2022	360.6	
2021	235.1	
2020	240.4	
2019	272.2	134.2 ^(a)
2018	279.0	

Net Profit Per Share (Cents)

2022	29.4
2021	19.3
2020	19.9
2019	34.0
2018	23.6

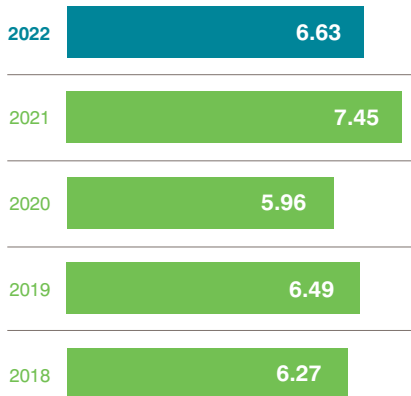
Dividends Per Share (Cents)^(b)

2022	24	
2021	24	
2020	24	
2019	24	8 ^(c)
2018	24	

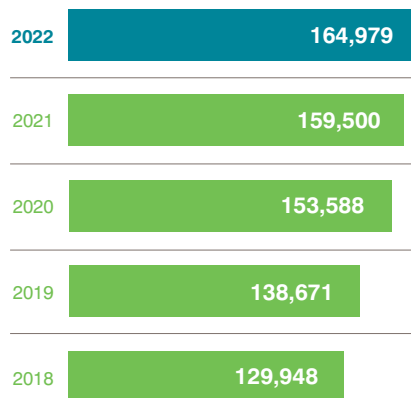
Investments at Market Value (\$ Million)^(d)

2022	8,087
2021	8,978
2020	7,122
2019	7,566
2018	7,274

Net Asset Backing Per Share (\$)^(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) Excludes cash.
- (e) 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.

About the Company

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

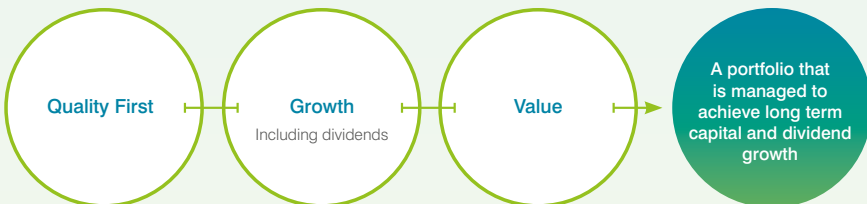
Investment Objectives

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 12 months to 30 June 2022 this was 0.16 per cent, or 16 cents for each \$100 invested.

Approach to Environmental, Social and Governance (ESG) Issues

Environmental, Social and Governance (ESG) issues are taken into account as part of our investment process when assessing companies. 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 given the potential for these factors to impact investment performance. We are also closely monitoring the development of international standards for ESG reporting as these may further inform our approach going forward.

About the Company

continued

Approach to Investing continued

We regularly review and meet with companies to ensure ongoing alignment of ESG issues 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.

As reporting becomes more standardised, assessment of commitments and plans by companies to reach net zero by 2050 will also be considered having regard to the industry in which it operates, their progress against these plans and their broader contribution to social good in addressing the challenge of reducing global carbon emissions. In applying external data for benchmarking*, the current carbon intensity of AFIC's portfolio is considerably less than the S&P/ASX 200 Index.

- 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. Where appropriate, we consider a range of matters including safety, diversity and modern slavery as part of the investment process.

- 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. Our voting record is on the Company's website.
- 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. 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.

* Data provided by ISS ESG. Portfolio at 30 June 2022.



— Review of Operations and Activities —

Profit and Dividend

The full year profit was \$360.6 million, up from \$235.1 million in the previous corresponding period. The profit to 30 June 2022 includes a dividend of \$74.9 million (which was non-cash but carries franking credits with it) resulting from the BHP Petroleum/Woodside merger. Last year's figure included a demerger dividend of \$36.5 million resulting from the Endeavour Group demerger from Woolworths. Excluding both one-offs, the full year profit for the financial year to 30 June 2022 was \$285.7 million, up from \$198.6 million in the previous corresponding period. The increase in profit for the 2021–2022 financial year was driven by higher dividends received from investee companies.

Earnings per share for the financial year, excluding the BHP Petroleum/Woodside merger non-cash dividend, were 23.3 cents per share. The final dividend was maintained at 14 cents per share fully franked bringing total fully franked dividends applicable for the year to 24 cents per share, the same as last year.

Ten cents of the final dividend were 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 equal to 14.29 cents per share. This enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

Following on from the recent strong share market returns since monetary policy was eased and significant fiscal stimulus was introduced in response to the COVID-19 pandemic, the Australian share market continued to enjoy strong positive returns in the first six months of the financial year as interest rates remained low and valuations for many companies were very high. These conditions were eventually overwhelmed in the second half of the financial year as inflation emerged, driving interest rates higher. Geopolitical events further exacerbated market volatility producing a significant divergence of returns across the market.

Figure 1 provides some context to the market decline over the financial year to 30 June 2022 given market movements since the onset of the initial COVID-19 pandemic in 2019.

Overall, the S&P/ASX 200 Accumulation Index (including franking) fell 5.1 per cent over the 12 months to 30 June 2022 as there was a rotation away from quality growth stocks to a focus on short term value. The previously underperforming Utilities sector was up 36.0 per cent over the period and Energy, which responded to rising oil prices resulting from Russia's invasion of the Ukraine, was up 30.1 per cent. In contrast, previous strong-performing sectors such as Information Technology and Consumer Discretionary were down 38.2 per cent and 20.9 per cent respectively (Figure 2).

Figure 1: Performance of the S&P/ASX 200 Price Index – 3 Years to 30 June 2022

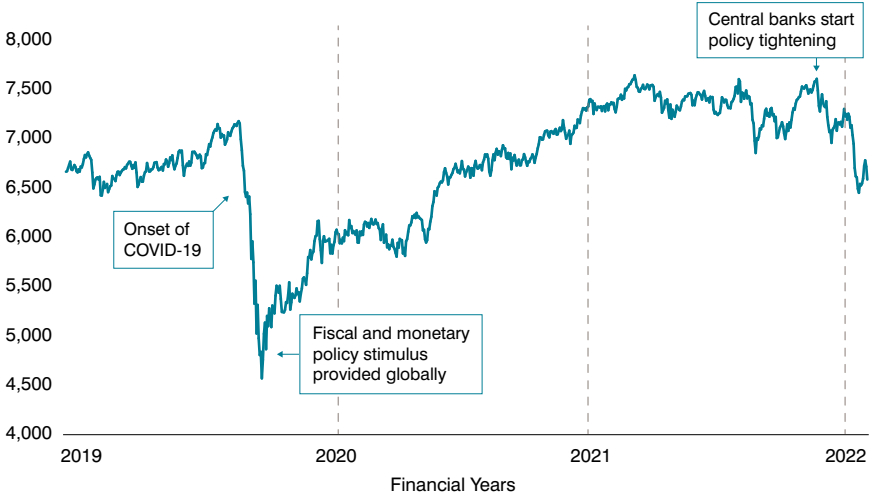
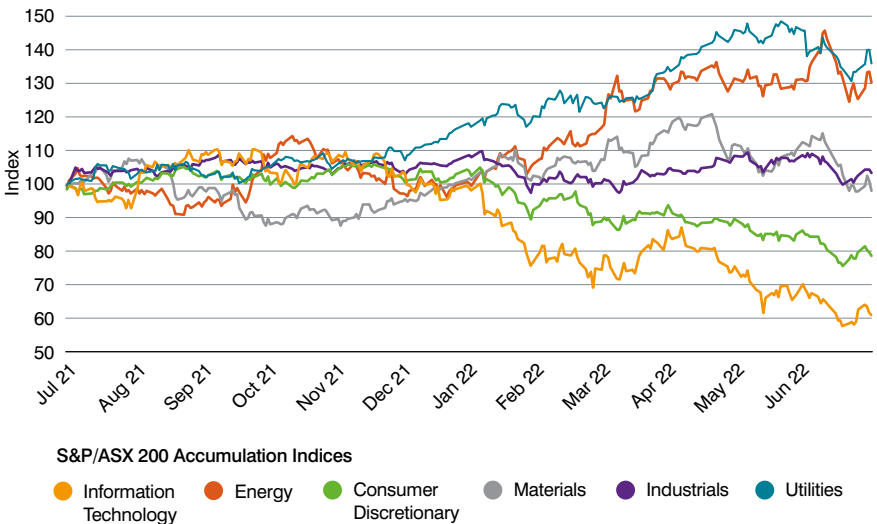


Figure 2: Key Sector Performance for the 12 Months to 30 June 2022



Source: FactSet

Review of Operations and Activities

continued

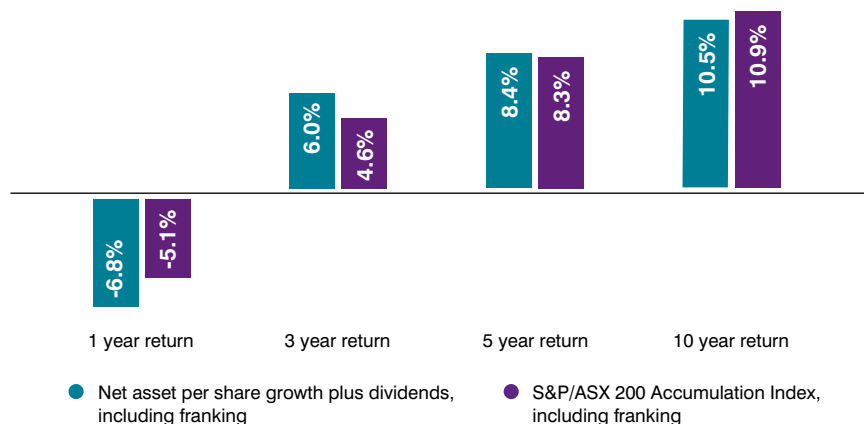
The portfolio had a negative return of 6.8 per cent including franking, with the largest drag on performance being the decline in the valuation of many high-quality companies from their previous very high levels. We remain convinced about the prospects for these companies despite the recent decline in share prices. In addition, relative performance to the Index was impacted by the underweight position in resources, which includes energy stocks, and the sale of Sydney Airport and Milton Corporation because of takeovers which generated a significant amount of capital gains tax.

Companies in the portfolio that performed relatively well against the Index through the 12-month period were Amcor, Sydney Airport (now taken over), Transurban Group, Ramsay Health Care, which is

currently subject to an expression of interest offer, Macquarie Group and Computershare.

The long term performance of the portfolio, which is better aligned with the Company's investment time frames, was 10.5 per cent per annum for the 10 years to 30 June 2022 (Figure 3). The Index return over the same period was 10.9 per cent per annum. These figures include the benefit of franking. AFIC's performance numbers are after costs. Performance has been achieved with low portfolio turnover, providing very tax effective returns for shareholders and with more consistent dividends. 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 2022





— Review of Operations and Activities —

continued

Positioning the Portfolio

The majority of purchases during the year focused on increasing weightings to existing holdings including Transurban Group, CSL, Domino's Pizza Enterprises, Coles Group, Goodman Group, Carsales.com and Auckland International Airport.

We also initiated positions in JB Hi-Fi, Mirvac Group and a small holding in WiseTech Global. JB Hi-Fi is the largest consumer electronics retailer in Australia and New Zealand. While primarily providing attractive income to the portfolio we expect the consumer electronics category to continue delivering meaningful growth.

Mirvac Group is a diversified property company with operations across residential, commercial and industrial markets. Mirvac Group's in-house property development capability is relatively unique to the sector and provides a competitive advantage. The company's growth is largely sourced from product generation and less reliant on acquiring established assets.

During the 12-month period we exited Qube Holdings, APA Group, Lifestyle Communities, Origin Energy, Endeavour Group and Altium. We are observing structural industry challenges for many of these companies or an environment where competitive intensity has materially increased. We consider the growth prospects for all these companies to be increasingly challenged as a result.

Additionally, we exited our holding in Milton Corporation and Sydney Airport as a result of takeovers.

The ability to reinvest the cash from these takeovers was important during the year as these funds were deployed elsewhere in the portfolio in companies with good long term growth opportunities.

We seek to have a diversified portfolio that covers a range of sectors and industries. This also allows us to better spread risk through different market cycles. 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

We have continued to manage and carefully add to positions in the diversified global equities portfolio which was first initiated in May 2021. Through a combination of these additional investments and portfolio returns, we now have approximately \$89.2 million invested (which represents approximately 1.1 per cent of the portfolio).

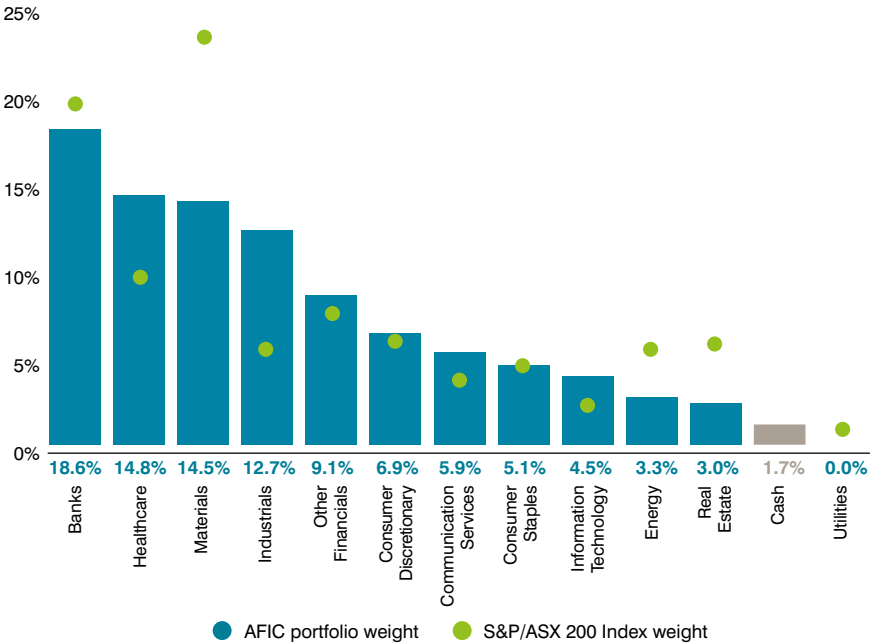
Leveraging our investment philosophy in the domestic market, the approach to international equities is similar. The international strategy invests in publicly listed companies outside the Australian and New Zealand markets with a medium to long term investment time horizon.

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.

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

Figure 4: AFIC Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2022 – Excludes International Holdings



— Review of Operations and Activities —

continued

Share Price Return

The share price return, including reinvestment of dividends and franking credits, over the 12 months to 30 June 2022 was flat at 0.1 per cent, which is ahead of the portfolio return for the year. The share price was trading at a premium of 13 per cent to the net asset backing (before tax on unrealised gains) at the end of June 2022, whereas at 30 June 2021 the premium was 5 per cent (Figure 5).

Importantly, the long term, 10-year return is 12.2 per cent for the share price in comparison to 10.9 per cent for the Index (Figure 6). The figures for the Index and share price assumes a shareholder can take full advantage of the franking credits attached to the dividends paid.

Outlook

During the year strengthening demand produced supply chain challenges in many industries, which contributed to a meaningful increase in reported inflation. In endeavouring to achieve price stability, central banks signalled the end of stimulatory policy settings. Equity markets are now facing challenges on multiple fronts, slowing economic growth, inflation and interest rate hikes. As a result, the uncertain environment that produced a fall in equity markets during the financial year is unlikely to be materially different in the short term.

While the market has moved closer to long term value as measured by price to sales ratio (Figure 7 on page 16) and price to book ratio (Figure 8 on page 17) we are comfortable with the current portfolio settings and can afford to be patient with our capital until attractive opportunities present themselves.



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

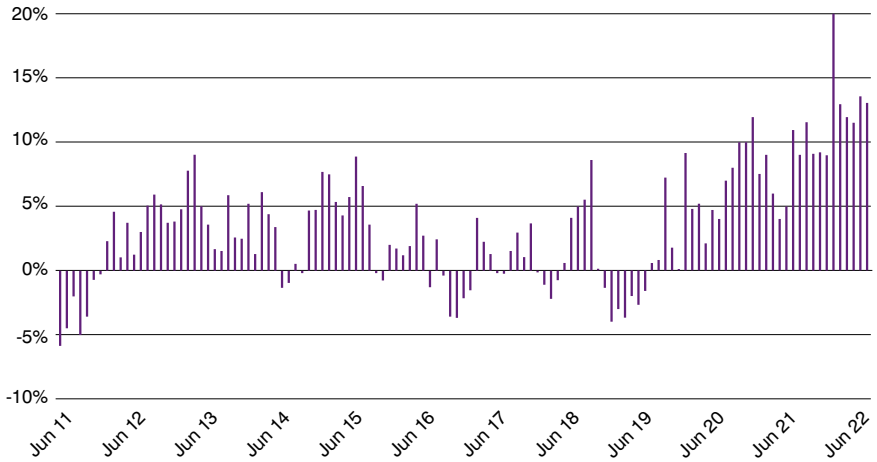
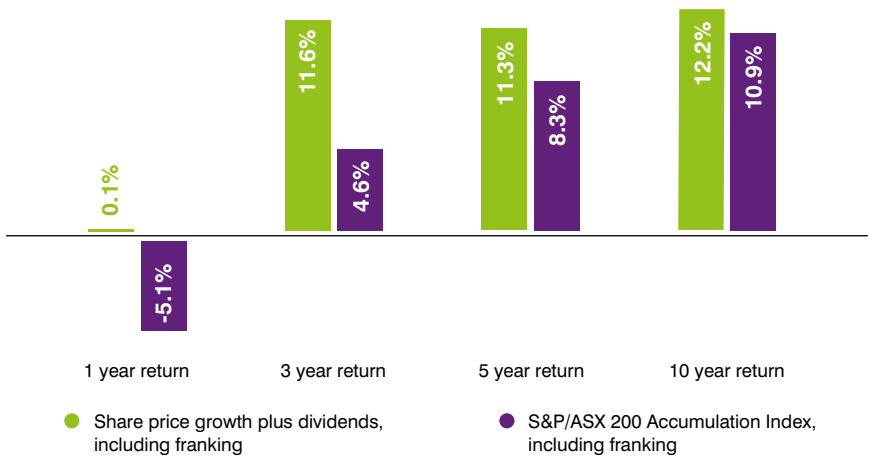


Figure 6: Share Price Return – to 30 June 2022



Review of Operations and Activities

continued

In this context it is also worth noting even though the valuation of the market, as measured by price earnings ratio (Figure 9), has moved well below the long term average it is against the background of very high profit margins which may come under pressure in the near term given expected difficult economic conditions.

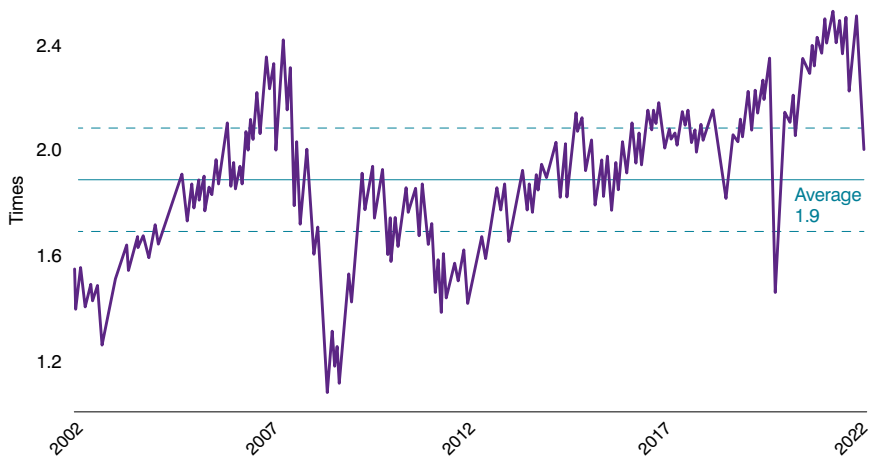
Directorship Matters

Mr Peter Williams, a Non-Executive Director of the Company has advised that he will not seek re-election at the 2022 Annual General Meeting and will retire at the conclusion of the meeting to be held on 4 October 2022.

Mr Williams has been a Director since 2010 and is currently the Chairman of the Audit Committee and a member of the Investment and Nomination Committees. Mr Williams is also the Non-Executive Chairman of the Company's subsidiary, Australian Investment Company Services Limited.

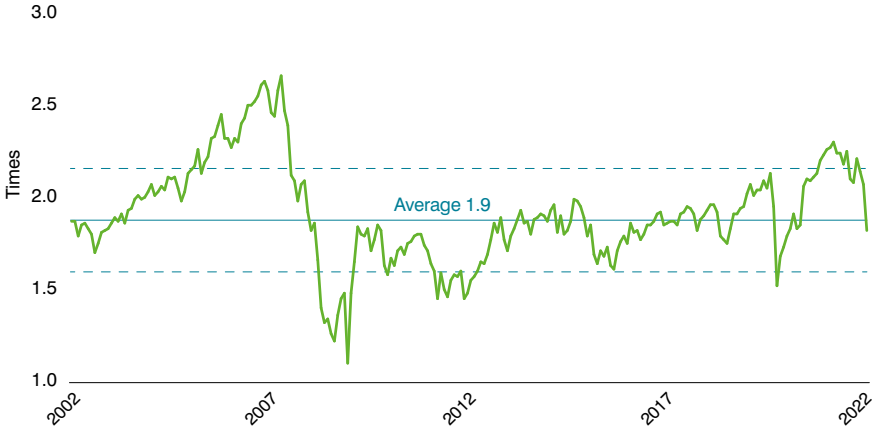
The Board has greatly benefited from Mr Williams' extensive experience. The Board wishes to record its thanks to Peter for his significant contribution and service to the Board during his tenure and wish him well for the future.

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



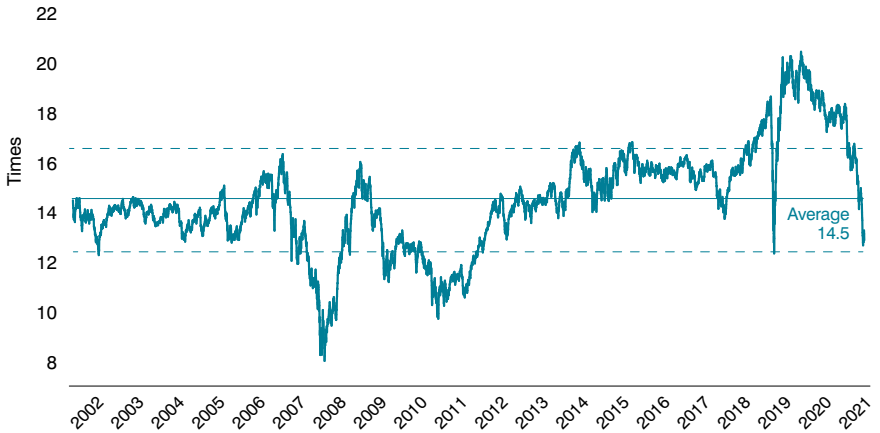
Source: FactSet

Figure 8: Valuation of the Market – Price to Book of the S&P/ASX 200 Index



Source: FactSet

Figure 9: Valuation of the Market – Price to Earnings Ratio of the S&P/ASX 200 Index



Source: FactSet

Top 25 Investments

As at 30 June 2022

Includes investments held in both the investment and trading portfolios.

Value at Closing Prices at 30 June 2022

		Total Value \$ Million	% of the Portfolio
1	Commonwealth Bank of Australia	714.0	8.8
2	CSL	638.1	7.9
3	BHP Group	574.4	7.1
4	Transurban Group	414.0	5.1
5	Macquarie Group	363.0	4.5
6	Wesfarmers	309.0	3.8
7	National Australia Bank	305.5	3.8
8	Westpac Banking Corporation	303.1	3.7
9	Woolworths Group	255.4	3.2
10	Amcor	209.3	2.6
11	Mainfreight	206.5	2.6
12	Rio Tinto	191.2	2.4
13	Telstra Corporation	187.4	2.3
14	Australia and New Zealand Banking Group	187.0	2.3
15	Woodside Energy Group*	184.9	2.3
16	James Hardie Industries	166.6	2.1
17	Coles Group	160.7	2.0
18	Goodman Group	157.6	1.9
19	Carsales.com	147.6	1.8
20	ResMed	145.8	1.8
21	ASX	117.0	1.4
22	Ramsay Health Care	115.9	1.4
23	Sonic Healthcare	109.6	1.4
24	Computershare	99.6	1.2
25	Brambles	99.4	1.2
Total		6,362.7	

As percentage of total portfolio value (excludes cash)

78.7%

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

Income Statement

For The Year Ended 30 June 2022

	2022 \$'000	2021 \$'000
Dividends and distributions	388,492	257,874
Revenue from deposits and bank bills	61	116
Net gains on trading portfolio (including unrealised gains or losses)	629	2,472
Total income	389,182	260,462
Finance costs	(845)	(1,831)
Administration expenses (net of recoveries)	(14,294)	(10,678)
Profit before income tax	374,043	247,953
Income tax	(13,486)	(12,858)
Net profit	360,557	235,095
	Cents	Cents
Net profit per share	29.40	19.28

Balance Sheet

As at 30 June 2022

	2022 \$'000	2021 \$'000
Current assets		
Cash	144,619	97,122
Receivables	36,598	40,011
Trading portfolio	4,979	4,745
Total current assets	186,196	141,878
Non-current assets		
Investment portfolio	8,082,513	8,973,080
Deferred tax assets	-	59
Total non-current assets	8,082,513	8,973,139
Total assets	8,268,709	9,115,017
Current liabilities		
Payables	28,688	1,020
Borrowings – bank debt	10,000	-
Tax payable	62,567	12,621
Provisions	6,114	5,235
Total current liabilities	107,369	18,876
Non-current liabilities		
Provisions	896	888
Deferred tax liabilities – other	503	-
Deferred tax liabilities – investment portfolio	1,169,452	1,536,231
Total non-current liabilities	1,170,851	1,537,119
Total liabilities	1,278,220	1,555,995
Net assets	6,990,489	7,559,022
Shareholders' equity		
Share capital	3,070,213	3,007,780
Revaluation reserve	2,556,466	3,394,297
Realised capital gains reserve	510,503	416,071
General reserve	23,637	23,637
Retained profits	829,670	717,237
Total shareholders' equity (including minority interests)	6,990,489	7,559,022

Summarised Statement of Changes in Equity

For the Year Ended 30 June 2022

	2022 \$'000	2021 \$'000
Total equity at the beginning of the year	7,559,022	6,240,517
Dividends paid	(283,554)	(282,473)
Shares issued – Dividend Reinvestment Plan	62,584	60,632
Other share capital adjustments	(151)	(145)
Total transactions with shareholders	(221,121)	(221,986)
Profit for the year	360,557	235,095
Revaluation of investment portfolio	(1,008,188)	1,881,261
Provision for tax on revaluation	300,219	(575,865)
Revaluation of investment portfolio (after tax)	(707,969)	1,305,396
Total comprehensive income for the year	(347,412)	1,540,491
Realised gains on securities sold	196,422	90,262
Tax expense on realised gains on securities sold	(66,560)	(13,133)
Net realised gains/(losses) on securities sold	129,862	77,129
Transfer from revaluation reserve to realised gains reserve	(129,862)	(77,129)
Total equity at the end of the year	6,990,489	7,559,022

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

Holdings of Securities

At 30 June 2022

Individual investments for the combined investment and trading portfolios as at 30 June 2022 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	Number	Market
		Held 2021 '000	Held 2022 '000	Value 2022 \$'000
AIA	Auckland International Airport	6,073	10,300	66,743
ALQ	ALS	7,012	7,622	81,405
AMC	Amcor	11,600	11,600	209,265
ANN	Ansell	1,079	1,369	30,444
ANZ	Australia and New Zealand Banking Group	8,488	8,488	186,984
ARB	ARB Corporation	3,503	3,473	98,065
ASX	ASX	1,432	1,432	117,009
AUB	AUB Group	2,526	2,378	42,049
BHP	BHP Group	13,413	13,926	574,433
BXB	Brambles	9,279	9,279	99,374
CAR	Carsales.com	6,053	8,026	147,602
CBA	Commonwealth Bank of Australia	7,900	7,900	714,002
COH	Cochlear	334	334	66,400
COL	Coles Group	7,068	9,023	160,691
CPU	Computershare	4,043	4,043	99,607
CSL	CSL	2,185	2,372	638,076
CWY	Cleanaway Waste Management	17,014	17,014	42,876
DJW	Djerriwarrh Investments	7,505	7,505	21,465
DMP	Domino's Pizza Enterprises	254	653	44,416

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2021 '000	Number Held 2022 '000	Market Value 2022 \$'000
DUI	Diversified United Investment	12,030	12,030	55,339
EQT	EQT Holdings	1,322	1,322	34,626
FCL	FINEOS Corporation	7,338	9,253	13,694
FPH	Fisher & Paykel Healthcare Corporation	3,913	3,913	69,799
GMG	Goodman Group	6,685	8,835	157,616
IAG	Insurance Australia Group	9,527	9,527	41,540
IEL	IDP Education	566	790	18,809
IRE	IRESS	7,091	8,211	94,511
IVC	InvoCare	3,512	3,512	36,740
JBH	JB Hi-Fi	0	1,131	43,508
JHX	James Hardie Industries	4,590	5,245	166,646
MFT	Mainfreight (NZX listed)	3,268	3,268	206,524
MGR	Mirvac Group	0	22,000	43,450
MIR	Mirrabooka Investments	8,728	8,728	25,573
MQG	Macquarie Group	2,207	2,207	362,997
NAB	National Australia Bank	11,155	11,155	305,530
NAN	Nanosonics	3,545	5,970	20,059
NWL	Netwealth Group	2,090	3,489	42,427
NXT	NEXTDC	7,864	7,864	83,678
ORI	Orica	2,226	2,226	35,100
PXA	PEXA Group	2,919	2,919	40,543
REA	REA Group	553	644	72,053
REH	Reece	7,201	7,201	99,234
RHC	Ramsay Health Care	1,915	1,583	115,923
RIO	Rio Tinto	1,862	1,862	191,229
RMD	ResMed	4,250	4,750	145,778
RWC	Reliance Worldwide Corporation	10,963	5,918	23,910
RYM	Ryman Healthcare (NZX listed)	880	880	7,084
SEK	Seek	3,641	3,333	69,985

Holdings of Securities

At 30 June 2022 continued

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2021 '000	Number Held 2022 '000	Market Value 2022 \$'000
SHL	Sonic Healthcare	3,704	3,320	109,582
STO	Santos	0	11,286	83,740
TCL	Transurban Group	23,867	28,791	414,012
TLS	Telstra Corporation	54,510	48,680	187,419
TPW	Temple & Webster	2,367	3,844	12,761
WBC	Westpac Banking Corporation	15,545	15,545	303,128
WDS*	Woodside Energy Group	3,620	5,816	184,894
WES	Wesfarmers	7,372	7,372	308,961
WOW	Woolworths Group	6,416	7,175	255,420
WTC	WiseTech Global	0	250	9,463
XRO	Xero	833	833	64,108
Total				7,998,297

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

Holdings of International Securities

At 30 June 2022

Code	Ordinary shares, trust units or stapled securities	Number Held 2021	Number Held* 2022	Market Value 2022 A\$
ACN-US	Accenture	2,760	5,506	2,223,158
AENA-ES	Aena	4,993	10,728	1,977,600
GOOGL-US	Alphabet	642	1,534	4,861,461
AMZN-US	Amazon	6,980	23,360	3,607,952
AAPL-US	Apple	4,788	21,658	4,306,044
SCHW-US	Charles Schwab	0	27,651	2,540,574
CMG-US	Chipotle	714	1,325	2,518,891
CTAS-US	Cintas	1,994	3,414	1,854,485
COST-US	Costco	1,589	2,976	2,074,212
CCI-US	Crown Castle	4,226	10,886	2,665,546
EL-US	Estée Lauder	2,046	5,037	1,865,453
FERG-GB	Ferguson	6,357	12,851	2,085,332
FTNT-US	Fortinet	20,510	24,220	1,992,822
HCA-US	HCA Healthcare	5,511	10,619	2,595,284
HD-US	Home Depot	2,757	6,284	2,506,373
ICE-US	Intercontinental	7,772	15,643	2,139,337
JPM-US	JP Morgan	0	12,029	1,969,869
OR-FR	L'Oréal	790	3,018	1,510,932
MC-FR	LVMH Moët	1,240	2,155	1,905,817
MAR-US	Marriott	6,266	9,615	1,901,751
MA-US	Mastercard	1,421	3,461	1,587,838
MCD-US	McDonald's	4,188	8,702	3,124,192
META-US	Meta Platforms (formerly Facebook)	3,553	2,889	677,442
MSFT-US	Microsoft	7,066	16,083	6,006,840
NESN-CH	Nestlé	9,176	18,826	3,186,865
NFLX-US	Netflix	2,257	3,792	964,306
NEE-US	Nextera	5,861	20,749	2,337,167
NKE-US	Nike	7,784	13,173	1,957,771

Holdings of International Securities

At 30 June 2022 continued

Code	Ordinary shares, trust units or stapled securities	Number Held 2021	Number Held* 2022	Market Value 2022 A\$
NOVOB-DK	Novo Nordisk	8,634	12,978	2,088,550
PEP-US	PepsiCo	5,323	10,474	2,538,479
ROG-CH	Roche	2,790	5,035	2,436,336
SPGI-US	S&P Global	2,558	3,927	1,924,858
SU-FR	Schneider	5,527	10,228	1,755,534
SOON-CH	Sonova	1,814	4,544	2,098,328
SBUX-US	Starbucks	8,598	11,612	1,289,977
669-HK	Techtronic	31,777	125,890	1,909,751
TMO-US	Thermo Fisher	1,684	3,523	2,783,346
V-US	Visa	3,461	4,977	1,425,015
Total				89,195,485

* Note some increase in the number held are because of share splits through 2022.

Major Transactions in the Investment Portfolio

Acquisitions	Cost (\$'000)
Woodside Energy (merger with BHP Oil and Gas)	74,888
Santos (merger with Oil Search)	72,660
Transurban Group (includes \$35.5 million in entitlement offer at \$13 per share)	65,548
Mirvac Group	54,111
JB Hi-Fi	52,191
CSL (includes \$30.2 million in placement offer at \$273 per share)	50,109
Domino's Pizza Enterprises	46,376
Goodman Group	45,103

Disposals	Proceeds (\$'000)
Sydney Airport*	221,802
Oil Search* (merger with Santos)	72,660
Qube Holdings*	68,985
APA Group*	57,159
Milton Corporation*	50,443
Lifestyle Communities*	36,760

* Complete disposal from the portfolio.

New Companies Added to the Portfolio

Santos (merger with Oil Search)

Mirvac Group

JB Hi-Fi

WiseTech Global

Company Particulars

Australian Foundation Investment Company Limited (AFIC)

ABN 56 004 147 120

Directors

John Paterson, Chairman
Robert M 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
Email invest@afi.com.au
Website 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 Address

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna Auckland 0622

Shareholder

Enquiry Line 1300 662 270
+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 4 October 2022
Venue The Clarendon Auditorium
Melbourne Convention
and Exhibition Centre
(MCEC)
Location 2 Clarendon Street
Southbank Victoria
Australia

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.

Adelaide Shareholder Meeting

Time 10.00am
Date Monday 17 October 2022
Venue Adelaide Convention Centre
North Terrace Adelaide
Location Hall E1 and E2

Perth Shareholder Meeting

Time 10.00am
Date Tuesday 18 October 2022
Venue Perth Convention Centre
21 Mounts Bay Road Perth
Location Meeting Rooms 1 and 2

Canberra Shareholder Meeting

Time 10.00am
Date Friday 21 October 2022
Venue Park Hyatt Hotel
120 Commonwealth Avenue
Canberra
Location Federation Ballroom

Brisbane Shareholder Meeting

Time 10.00am
Date Monday 24 October 2022
Venue Brisbane Convention Centre
Cnr Merivale and Glenelg Streets
South Bank Brisbane
Location Sky Room

Sydney Shareholder Meeting

Time 10.00am
Date Tuesday 25 October 2022
Venue Wesley Conference Centre
220 Pitt Street Sydney
Location Auditorium

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

29 August 2022



000001
000
SAM
MR JOHN SAMPLE
FLAT 123
SAMPLE STREET
SAMPLE STREET
SAMPLE STREET
SAMPLETOWN VIC 3030

A standard 1D barcode is located to the right of the recipient's name and address.

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

Dear Shareholder,

I am pleased to invite you to the 2022 Annual General Meeting (AGM) of Australian Foundation Investment Company Limited (AFIC or the Company) which has been scheduled as follows:

Date: Tuesday 4 October 2022

Time: 10.00am Australian Eastern Daylight Time (AEDT)

The AGM will be held as a hybrid meeting providing shareholders with an opportunity to either attend in person or to participate online.

To attend in person and engage with Directors, shareholders are invited to attend the Clarendon Auditorium at the Melbourne Convention and Exhibition Centre (MCEC) 2 Clarendon Street, Southbank, Victoria, Australia.

If shareholders are attending online they must use the Computershare Meeting Platform to participate in the meeting. To participate in the meeting, you can log in by entering the following URL <https://meetnow.global/M566RZV> on your computer, tablet or smartphone.

Shareholders who participate in the AGM online using the online platform are able to ask questions via this platform and vote in real time.

Full details on how to lodge a proxy or direct vote, attend and participate in the AGM are set out in our Notice of Meeting.

Notice of Meeting

In accordance with the recent amendments to the Corporations Act 2001 (Cth), we will not be posting to you a hard copy of the Notice of Meeting ahead of our AGM unless you have specifically requested one. Please visit www.afi.com.au to view and download our Notice of Meeting, our Annual Report and other meeting documents are also available on this webpage.

Voting Form

If you are unable to join us for the AGM, we encourage you to lodge a vote prior to the meeting or, alternatively, to appoint a proxy to attend either in person or virtually, and vote on your behalf. Enclosed with this letter is a hard copy of your Voting Form which is personalised to you. Please complete the Voting Form if you would like to appoint a proxy to attend the meeting and vote on your behalf. Page 6 of the Notice of Meeting sets out the various ways in which you can submit the Voting Form. Please note that for a proxy appointment to be effective, it must be received by 10.00am (AEDT) on Sunday 2 October 2022.

Questions from shareholders

Shareholders will have a reasonable opportunity to ask questions at the AGM (including an opportunity to ask questions of the Auditor) verbally or via the meeting platform.

As was the case last year, we also welcome shareholder questions in advance of the meeting. These can be emailed to the Company at agm@afi.com.au or enclosed with your returned Voting Form if you elect to return a hard copy.

Shareholders and guests who are unable to join us in person or virtually are able to listen to the AGM. Please dial 1800 809 971 and state that you would like to join the Australian Foundation Investment Company call. Please allow 10 minutes to join the call.

If it becomes necessary to adjust the arrangements for holding AFIC's AGM, we will provide shareholders with as much notice as possible. We encourage shareholders to monitor the ASX website and the AFIC website at www.afi.com.au for any updates. For the health and safety of all attendees, if you feel unwell or have any symptoms of COVID-19, we ask that you do not attend the AGM in person, and instead join the AGM online. By attending the AGM in person you are agreeing to abide by any health and safety rules issued by the venue or the Company.

On behalf of the Board, I thank you for your continuing support as a shareholder. We look forward to welcoming you to our hybrid AGM either virtually or in person on 4 October 2022.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Paterson', written in a cursive style.

John Paterson
Chairman

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Notice of Annual
General Meeting
2022



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 4 October 2022

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 4 October 2022** 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 **meetnow.global/M566RZV**.

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.

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 2 October 2022**.

1. Financial Statements and Reports

To consider the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2022.

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

2. Adoption of Remuneration Report

To adopt the Remuneration Report for the financial year ending 30 June 2022.

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 2022 be adopted."

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

3. Re-election of Director

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

"That Rebecca Dee-Bradbury, a Director retiring from office in accordance with Rule 46 of the Constitution, being eligible is re-elected as a Director of the Company."

4. Amendments to the Constitution

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

"That for the purposes of Section 136(2) of the *Corporations Act 2001* (Cth) and for all other purposes, the Constitution of the Company be amended as set out in the document made available at **afi.com.au/shareholders** and signed by the Chair for the purposes of identification, with effect from the close of this meeting."

By Order of the Board



Matthew Rowe
Company Secretary

29 August 2022

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 2 October 2022.

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 2022. 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 2022 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 2022 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 or any of their closely related parties; or
- as a proxy by a person who is a KMP member at the date of the meeting or any of their closely related parties,

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 as a proxy for a person who is entitled to vote on Resolution 2 in accordance with an express authorisation in the proxy appointment to cast the votes even though 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.

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.

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.

Board recommendation: Noting that each director has a personal interest in their own remuneration from the Company, as described in the Remuneration Report, the Board unanimously recommends that shareholders vote IN FAVOUR of this resolution.

3. Re-election of Director

Ms Rebecca Dee-Bradbury was elected as a Director by shareholders at the 2019 AGM. As such she is required to seek re-election by shareholders at this AGM. Her biographical details are set out below:

Rebecca Dee-Bradbury BBus, GAICD

Independent Non-Executive Director 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 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.

Board recommendation and undirected proxies: The Board (with Ms Dee-Bradbury abstaining) recommends that shareholders vote IN FAVOUR of this resolution, and the Chairman of the meeting intends to vote any undirected proxies IN FAVOUR of this resolution.

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

4. Amendments to the Constitution

Overview

It is proposed that the Company's Constitution be amended to reflect changes in law, regulation and market practice since the Constitution was last updated in 2012.

A marked up copy of the Company's Constitution showing the proposed changes is available afi.com.au/shareholders and copies are also available for inspection until the close of the AGM at the Company's registered office at Level 21, 101 Collins Street, Melbourne VIC 3000.

A summary of the proposed changes is set out below.

New Rule 2(f) – giving the ASX Listing Rules priority in the event of any conflict with the provisions of the Company's Constitution

Listed entities have the option of including certain pro forma provisions (in the form of the provisions set out in ASX Appendix 15B) in their constitution which are intended to ensure that in the event of any inconsistency between the entity's constitution and the ASX Listing Rules, the ASX Listing Rules will prevail. A key benefit of including these provisions in the new Rule 2(f) is that the Company's Constitution will not require modification to the extent a change to the ASX Listing Rules in the future requires the Constitution to contain or omit certain provisions.

Rule 9 – updating the number of joint holders that may be registered from three to four

Currently, Rule 9(a) states that the Company is not bound to register more than three persons as the holders of shares. In April 2021, ASX announced the replacement of the existing CHES Replacement which, broadly speaking, seeks to provide issuers and investors with greater control over, and enhanced confidence in, market activities through timely, secure and simplified access

to the register of holders (for issuers), financial assets (for investors) and associated information. The change to Rule 9(a) from three to four joint holders has been proposed to address that CHES Replacement will allow up to four joint holders of a security.

CHES Replacement was scheduled for implementation in April 2023 but the ASX has announced that this date is no longer feasible. The revised implementation date is expected to be determined by ASX after further consultation with relevant stakeholders.

New Rule 20A – payments that are required by the Company

The proposed new Rule 20A seeks to clarify that where a taxation authority or government requires the Company to make a payment on behalf of any holder of the Company's shares (for example, this would cover payments such as withholding taxes) this money is recoverable by the Company from the particular shareholder (or their legal representatives). The Company is also, at its discretion, able to charge interest on these amounts in order to ensure that the shareholders as a whole are not left worse off as a result of these payments.

Provisions such as Rule 20A are commonly included in modern constitutions and bolster any statutory or other legal rights that the Company has to recover such monies in these circumstances.

EXPLANATORY NOTES

continued

Rule 37 – updating the provisions relating to voting at General Meetings

Following amendments to the Corporations Act made by the *Corporations Amendment (Meetings and Documents) Act 2022* (Cth), resolutions in the notice of meeting of listed entities must be considered by a poll rather than a show of hands. The ASX also requires that all Listing Rule resolutions be conducted by way of poll rather than by a show of hands. The amendments to Rule 37 reflect these changes.

Rule 37(b) has been retained because despite the default position being that every substantive resolution will need to be put to a poll there may be situations where calling a poll will involve unnecessary additional administration and a show of hands should be used if a poll is not required.

Rules 45 and 48 – Director eligibility requirements

The Company is required to comply with various laws, regulations and standards. Some of these laws can require the Company's directors to satisfy certain requirements (for example, Australia's financial services licensing laws require a financial services licensee's responsible officers to satisfy a good fame and character requirement).

The proposed amendments to Rule 45 and Rule 48 (and in the inclusion of the definition of 'relevant Director Requirements' in Rule 1) will:

- require any nominated director to satisfy, and the existing directors to continue to satisfy, any eligibility requirements prescribed by law, regulations or standards; and
- require any nominated director or existing director to provide all information and consents that the Board reasonably requests to enable the Board to determine if the person is eligible to become or remain a director under the requirements prescribed by Australian law, regulations or standards.

The effect of these proposed changes is that a person will not be able to be nominated for consideration as a Director if they are not eligible under the relevant regulatory requirements or the person does not provide the necessary information to the Company to enable the Board to determine if the person is eligible under the relevant regulatory requirements.

The Board consider that these proposed amendments are necessary to strengthen the process for ensuring that any proposed or existing directors of the Company are eligible to hold office under the relevant laws, regulations and standards at any point in time. Importantly, the proposed amendments would only impose eligibility requirements on directors if the relevant laws, regulations and standards required them.

Rule 72 – updating the notice provisions, including the use of electronic notices

The suggested changes to Rule 72 facilitate the use of electronic notices and offers to shareholders. They enable:

- notices and offers of securities to be sent via electronic means;
- notices and offers of securities to refer to an electronic address that contains the primary notice, documents or attachments;
- notices and offers of securities to shareholders outside of Australia to be sent or made available electronically; and
- notices and offers to be deemed to be delivered in the event that the shareholder does not have a registered address.

These suggested changes are facilitative and will provide the Company with greater flexibility in communicating with shareholders. Importantly, they do not mandate electronic communication with shareholders – but, rather, allow for greater flexibility in the manner in which notices and documents may be provided electronically where a shareholder agrees to the use of electronic communications.

Miscellaneous changes

In the course of undertaking its review of the Constitution, the Board has also identified a number of minor and technical matters that would benefit from amendment. These proposed amendments are summarised below.

- **Rule 1 (Definitions)** – a number of amendments to definitions in Rule 1 have been proposed as follows:
 - The definition of ‘Shareholder Present’ to clarify that shareholders attending a meeting via virtual meeting technology are considered to be present at the meeting.
 - Updating the definitions of ‘ASTC’ and ‘ASTC Settlement Rules’ to reflect their current names.
 - Including a definition for ‘Direct Vote’.
- **Rule 9(f) (Direct Votes)** – amendments to clarify the administration of Direct Votes in the context of joint holders in a manner consistent with voting in person or by proxy, authorised representative or attorney.
- **Rules 33, 34, 35, 36, 37, 39, 40, 57 and 58 (references to chair of the meeting)** – a number of technical drafting edits to these Rules to correct references from the ‘Chair’ to the ‘chair of the meeting’.
- **Rule 43 (Proxies)** – amendments to provide greater flexibility for the Company to deal with incomplete proxy forms, and to deal with the electronic lodgement of proxy appointments.
- **Rule 55 (Convening Board meetings)** – amendments to clarify that any director may convene a meeting of the Board (and that the Secretary must convene a meeting of the Board when requested to do so by any Director).
- **Rule 69 (Distributions in kind)** – amendments to clarify the types of distributions that can be made in order to allow greater flexibility in the event that particular assets need to be sold or securities in another corporation need to be transferred to the Company’s shareholders as part of any dividend or other distribution.
- **Rule 78 (Restricted Securities)** – amendments to Rule 78 reflect the provisions required to be included in an entity’s constitution by amendments to ASX Listing Rule 15.12 that came into effect on 1 December 2019. Restricted securities include categories of securities that ordinarily are subject to ASX’s mandatory escrow requirements by reference to the circumstances in which they were issued (e.g. securities may be restricted securities if they were issued to a related party, promoter, seed capitalist, vendor or professional adviser or consultant for cash, or as consideration for the sale of classified assets or for services rendered). ASX also has discretion to designate other securities as restricted securities.
- **Other** – a number of consequential drafting amendments flowing from the above changes and other minor clarifications and corrections.

Board recommendation and undirected proxies: The Board recommends that shareholders vote IN FAVOUR of this resolution, and the Chairman of the meeting intends to vote any undirected proxies IN FAVOUR of this resolution.

SHAREHOLDER INFORMATION

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

In person

Online via the Computershare Meeting Platform (access via meetnow.global/M566RZV)

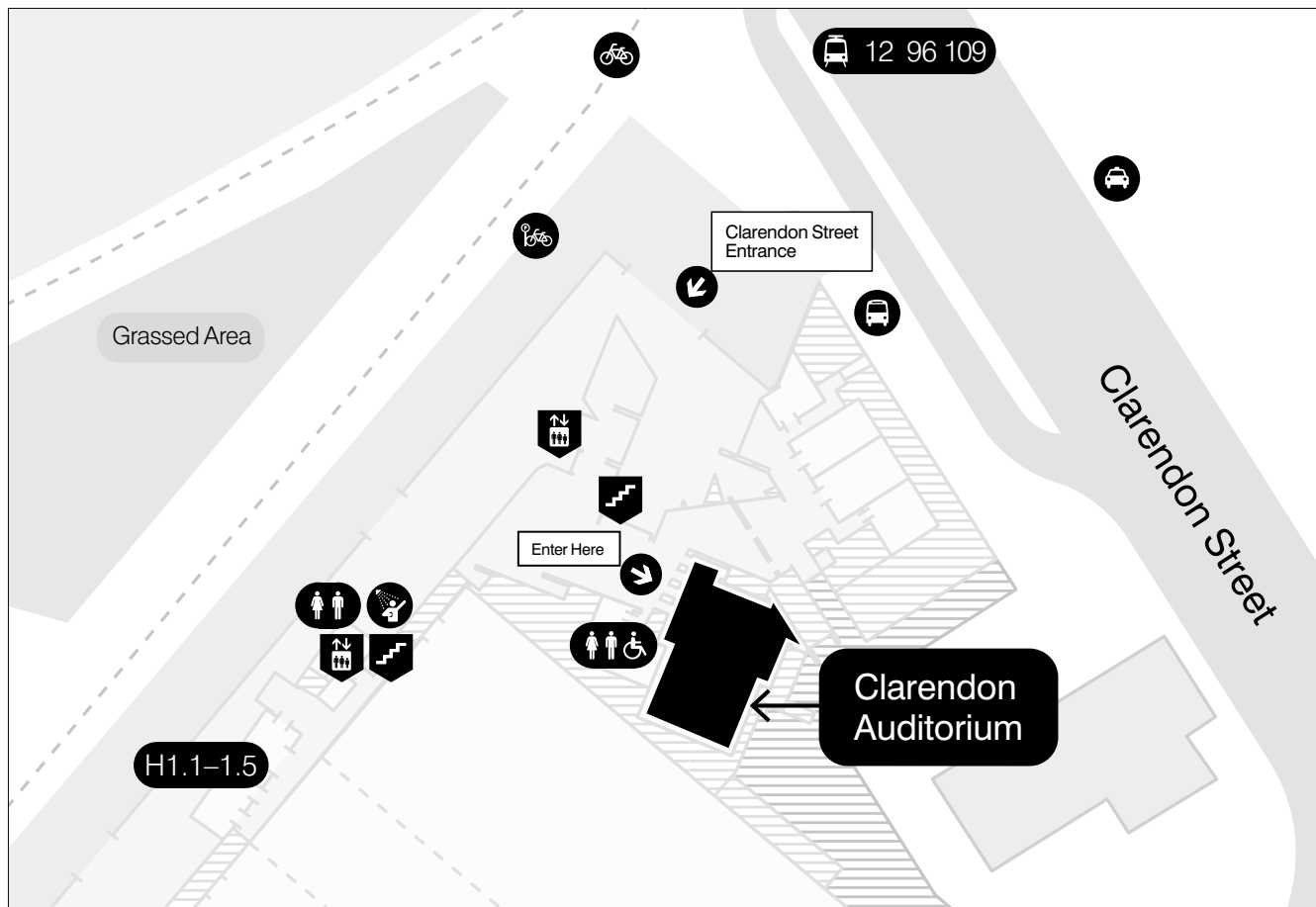
In Person

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

If it becomes necessary to make further arrangements for holding AFIC's AGM, we will provide shareholders with as much notice as possible in the circumstances. However, we encourage shareholders to monitor the ASX website and the AFIC website at afi.com.au for any updates. For the health and safety of all attendees, if you feel unwell or have any symptoms of COVID-19, we ask that you do not attend the AGM in person, and instead join the AGM online.

Clarendon Auditorium

Directional Map



Via the Online Platform

If shareholders are attending on line they must use the Computershare Meeting Platform to participate in the meeting.

To participate in the meeting, you can log in by entering the following URL **meetnow.global/M566RZV** on your computer, tablet or smartphone.

Online registration will open 1 hour before the meeting.

To make the registration process quicker, please have your SRN/HIN and registered postcode or country code ready. **Proxyholders will need to contact Computershare prior to the meeting to obtain their login details.**

To participate in the meeting online follow the instructions below.

1. Click on 'Join Meeting Now'.
2. Enter your SRN/HIN. Proxyholders will need to contact Computershare on +61 3 9415 4024 one hour prior to the meeting to obtain their login details.
3. Enter your postcode registered to your holding if you are an Australian securityholder. If you are an overseas securityholder select the country of your registered holding from the drop-down list.
4. Accept the Terms and Conditions and 'Click Continue'.

Online Meeting Guide:

www.computershare.com.au/virtualmeetingguide

A detailed guide on how to participate virtually is set out in the Online Meeting Guide (**computershare.com.au/virtualmeetingguide**) or on our website at **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.

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 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 Computershare Meeting 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**.

Listening to the AGM Via Telephone

Shareholders and guests who are unable to join us in person or virtually are able to listen to the AGM. Please dial 1800 809 971 and state that you would like to join the Australian Foundation Investment Company call. Please allow 10 minutes to join the call.

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 2 October 2022**. 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; and
 - the appointed proxy is not the Chairman of the meeting; and
 - 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 **20 September 2022**. 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

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

AFI

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

Need assistance?



Phone:

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



Online:

www.investorcentre.com/contact



YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10.00am (AEDT)**
Sunday 2 October 2022

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: I999999999

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.

You may elect to receive meeting-related documents, or request a particular one, in electronic or physical form and may elect not to receive annual reports. To do so, contact Computershare.

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

I N D

Proxy Form

Please mark 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** that will be held **at the Clarendon Auditorium, Melbourne Convention and Exhibition Centre (MCEC), 2 Clarendon Street, Southbank Victoria and via an online platform at 10.00am (AEDT) on Tuesday 4 October 2022** 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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3	Re-election of Director - Ms Rebecca Dee-Bradbury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 4	Amendments to the Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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 may 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

Sole Director and Sole Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____ Date ____/____/____

A F I

2 8 8 5 0 0 A



Computershare



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 the Clarendon Auditorium, Melbourne Convention and Exhibition Centre (MCEC), 2 Clarendon Street, Southbank Victoria and via an online platform at 10.00am (AEDT) on Tuesday 4 October 2022. 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 20 September 2022. 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 if it is a question directed to the auditor

1

2

3

4

