

12 October 2017

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

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

Electronic Lodgement

**Australian Foundation Investment Company Limited
2017 Annual General Meeting Presentation**


Dear Sir / Madam

Please find attached a presentation that will be delivered to shareholders at the Company's Annual General Meeting to be held today.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'M Rowe', with a stylized, flowing script.

Matthew Rowe
Company Secretary

An aerial photograph of a port area. In the foreground, several large red gantry cranes are positioned over a dense stack of multi-colored shipping containers (yellow, red, blue, and white). The containers are stacked in neat rows, extending towards the water on the left. To the right of the cranes, there's a paved area with more containers and some vehicles. The background shows a clear blue sky and the edge of the port's infrastructure. A semi-transparent white banner is overlaid on the left side of the image, containing the text 'Annual General Meeting 2017'. In the top right corner, the 'AUSTRALIAN FOUNDATION INVESTMENT COMPANY' logo is visible, consisting of the company name in a bold, sans-serif font next to a vertical line.

Annual General Meeting 2017

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Disclaimer

Australian Foundation Investment Company Limited and its subsidiary AICS (AFSL 303209), their related entities and each of their respective directors, officers and agents (together the Disclosers) have prepared the information contained in these materials in good faith. However, no warranty (express or implied) is made as to the accuracy, completeness or reliability of any statements, estimates or opinions or other information contained in these materials (any of which may change without notice) and to the maximum extent permitted by law, the Disclosers disclaim all liability and responsibility (including, without limitation, any liability arising from fault or negligence on the part of any or all of the Disclosers) for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from these materials.

This information has been prepared and provided by AICS. To the extent that it includes any financial product advice, the advice is of a general nature only and does not take into account any individual's objectives, financial situation or particular needs. Before making an investment decision an individual should assess whether it meets their own needs and consult a financial advisor.



Introduction

Annual General Meeting 2017

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

How AFIC Invests – What we look for in Companies

Quality First



Growth
Including dividends



Value



A portfolio that is actively managed to achieve long-term capital and dividend growth

Quality in this context is an outcome of our assessment of the board and management, outlook for the industry as well as some key financial metrics.

Ability of companies to grow earnings over time, which ultimately should produce good dividend growth.

Value tries to capture the opportunity a business has to prosper and thrive over the medium to long term. Look further than short term measures of P/E's and other valuation metrics.

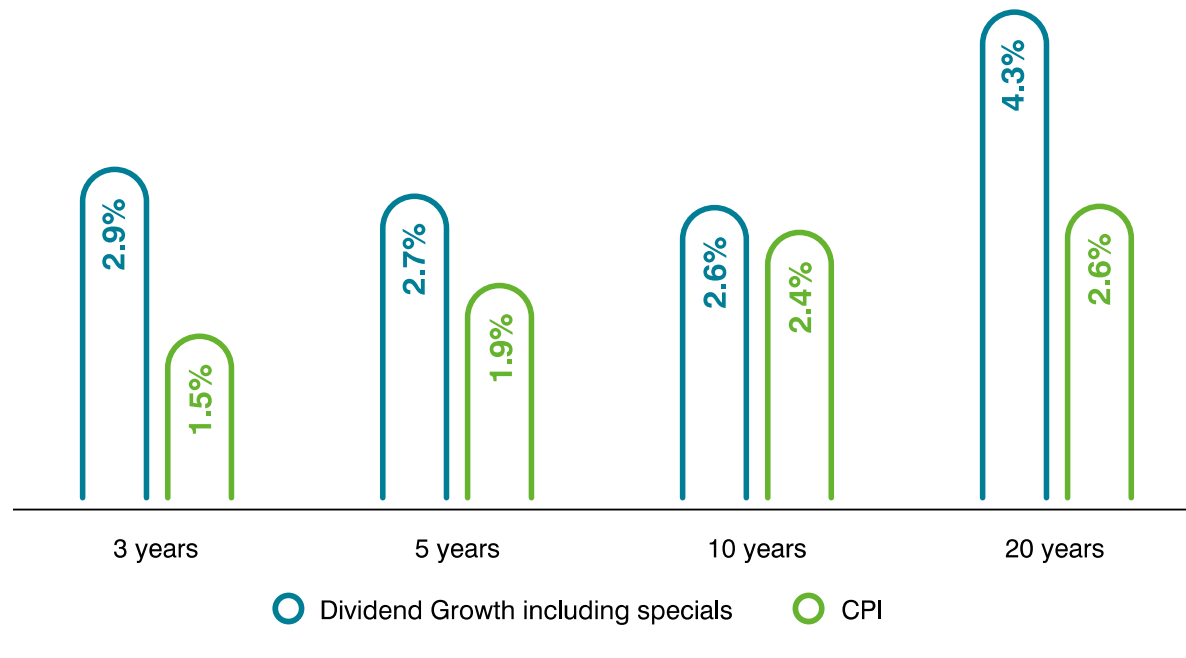
Investment Objectives

A long term investor seeking:

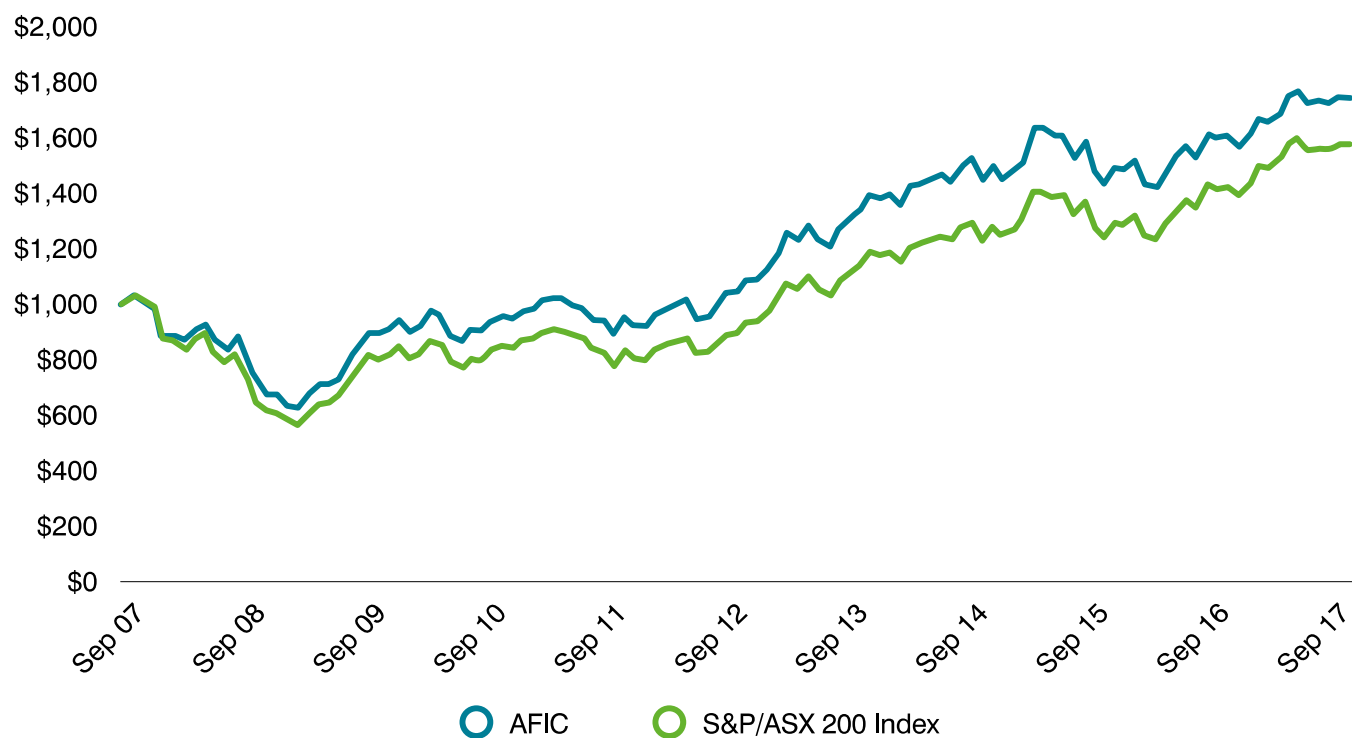
▶ To grow dividends over the medium to long term.

▶ To give investors attractive total returns over the medium to long term.

Dividends – Compound Growth Per Annum to 30 June 2017



Long Term Portfolio (NTA) Growth Against the Index – 10 Years to 30 September 2017





Results and Shareholder Returns

Annual General Meeting 2017

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Full Year Financial Summary – 30 June 2017

Profit for the Year

\$245.3m

Down 7.7% from 2016

Fully Franked Dividend

14¢ 24¢

Final

Total

Same as 2016

Management Expense Ratio

0.14%

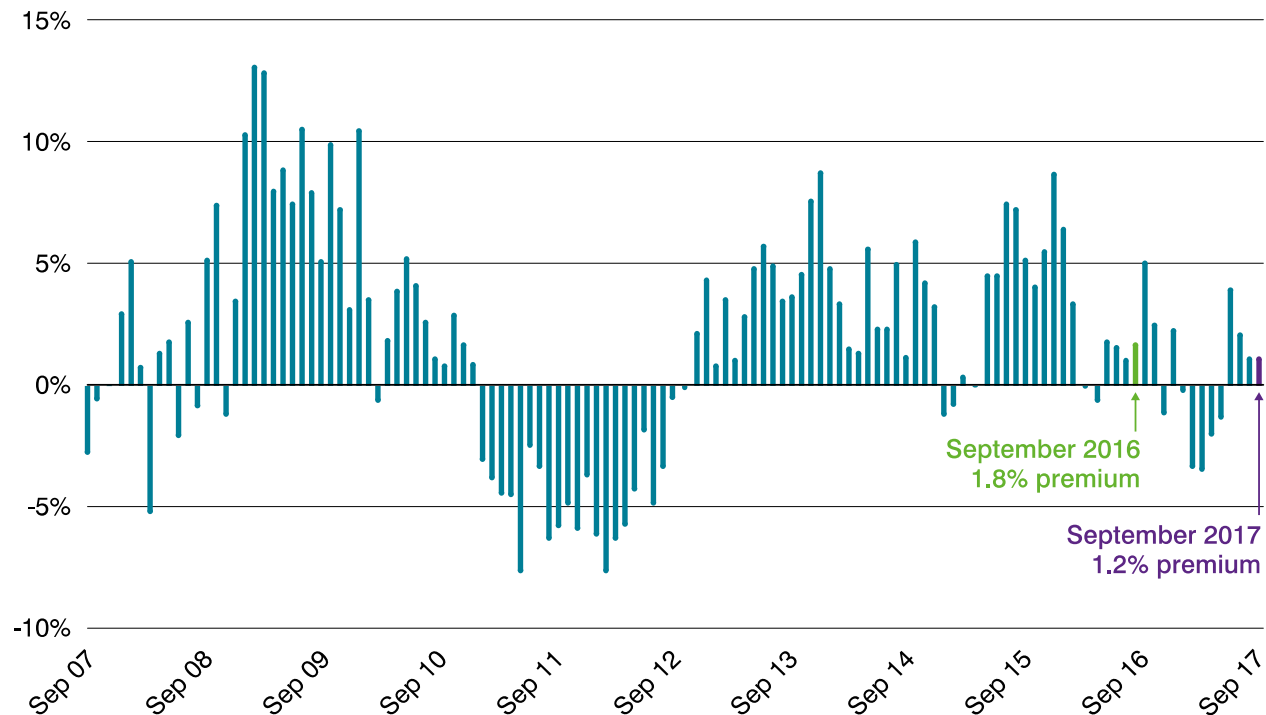
0.16% in 2016

Total Portfolio

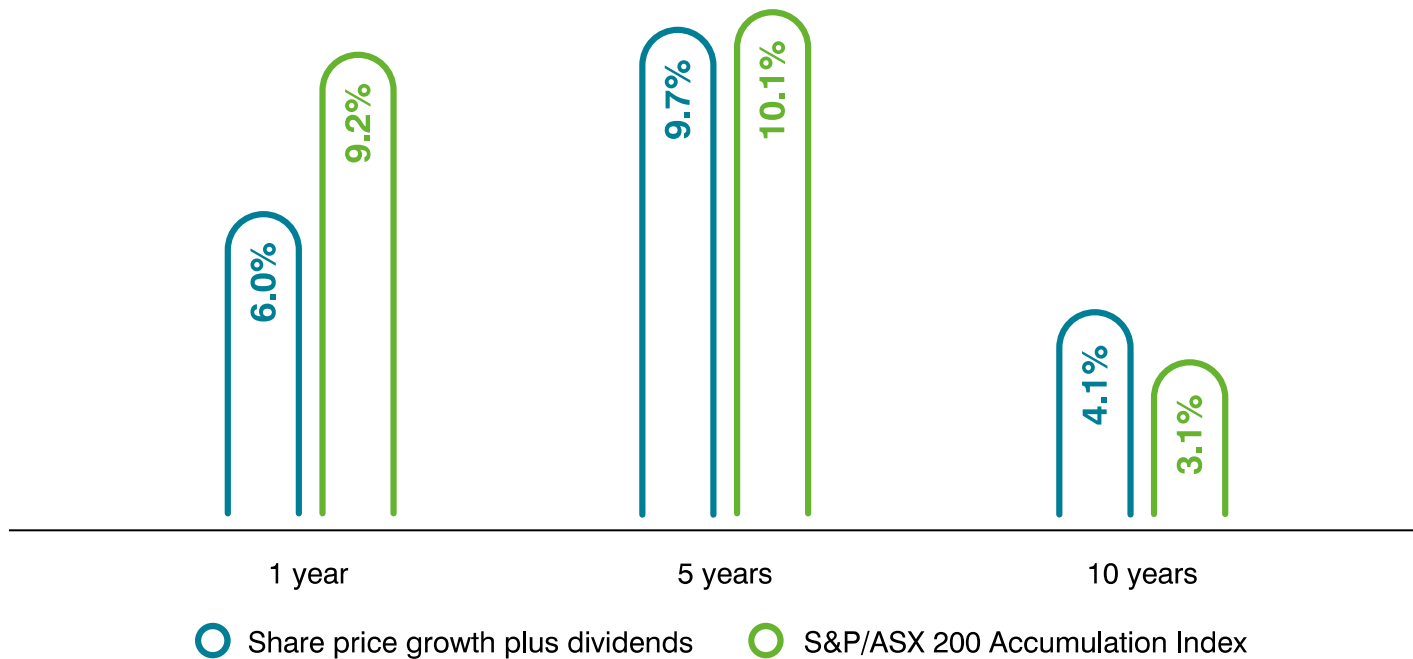
\$6.9b

Including cash at 30 June
\$6.4 billion in 2016

Share Price is at Slight Premium to Net Asset Backing but down from Last Year – 10 Year Picture



Recent Share Price Return has Reflected Lower Premium – Per Annum Return to 30 September 2017



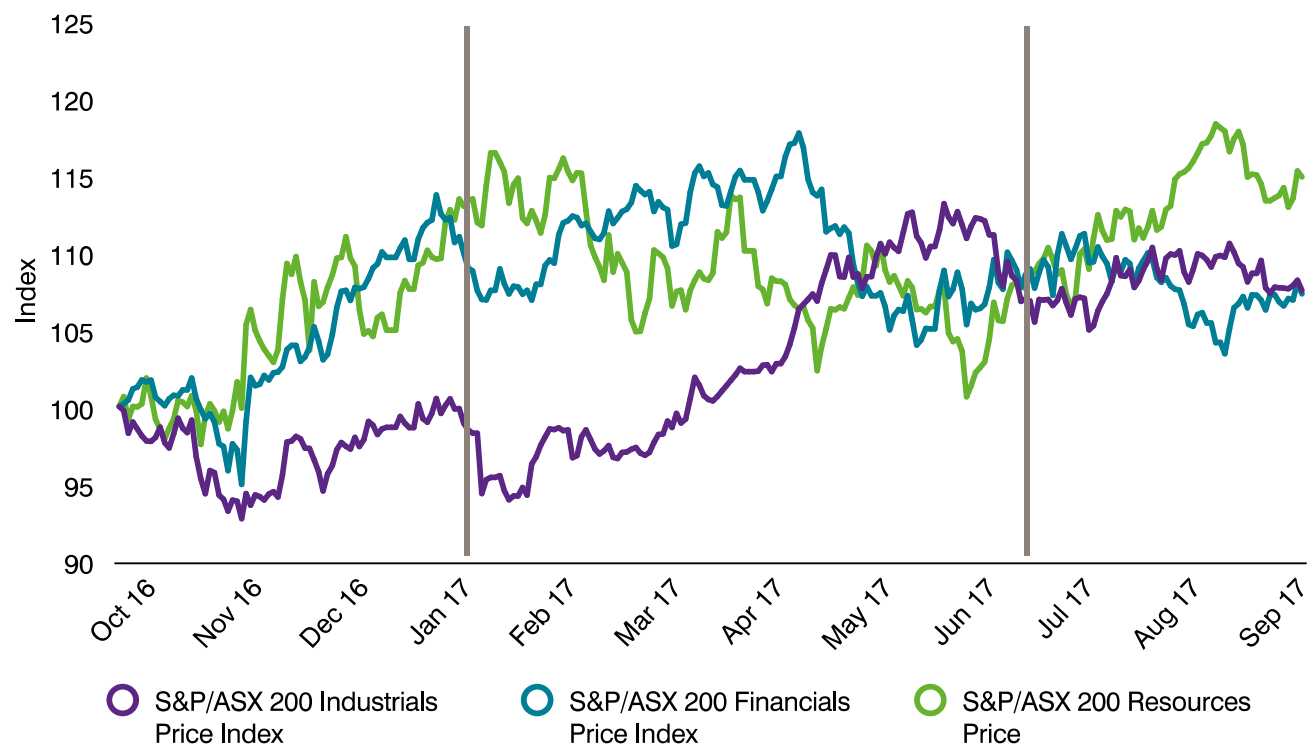


The Market and the Portfolio

Annual General Meeting 2017

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Resources have Outperformed Banks and Industrials

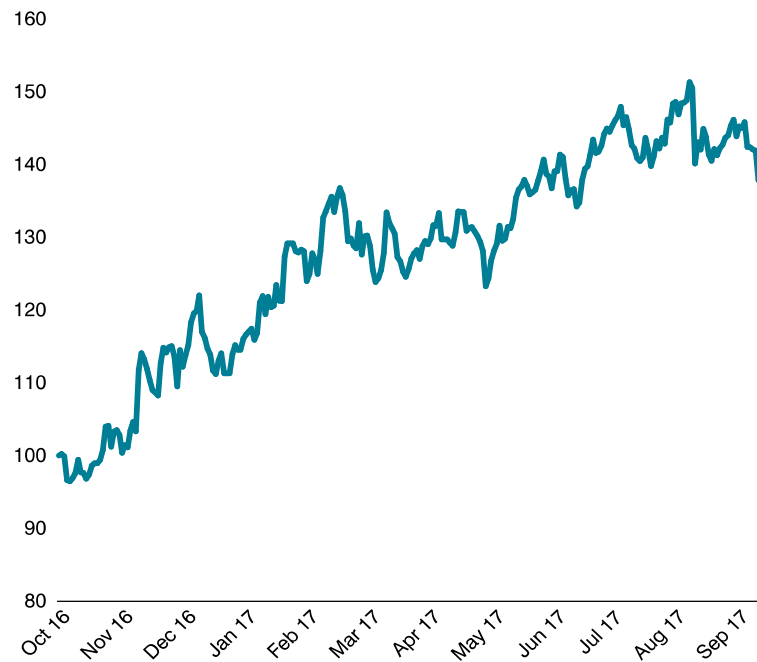


Source: FactSet

Annual General Meeting 2017

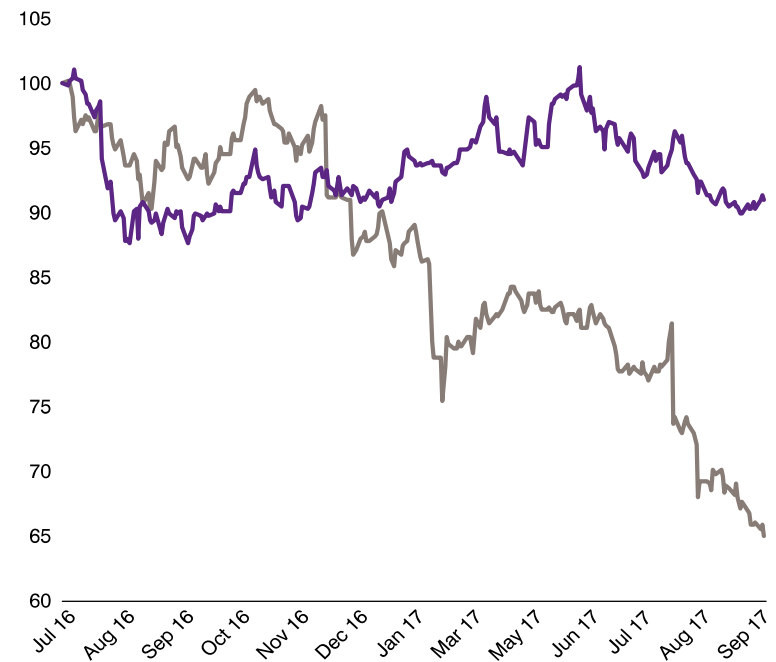
AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

Mid Cap Resources Have Been Very Strong – Other Sectors Have Been Weak



Source: FactSet

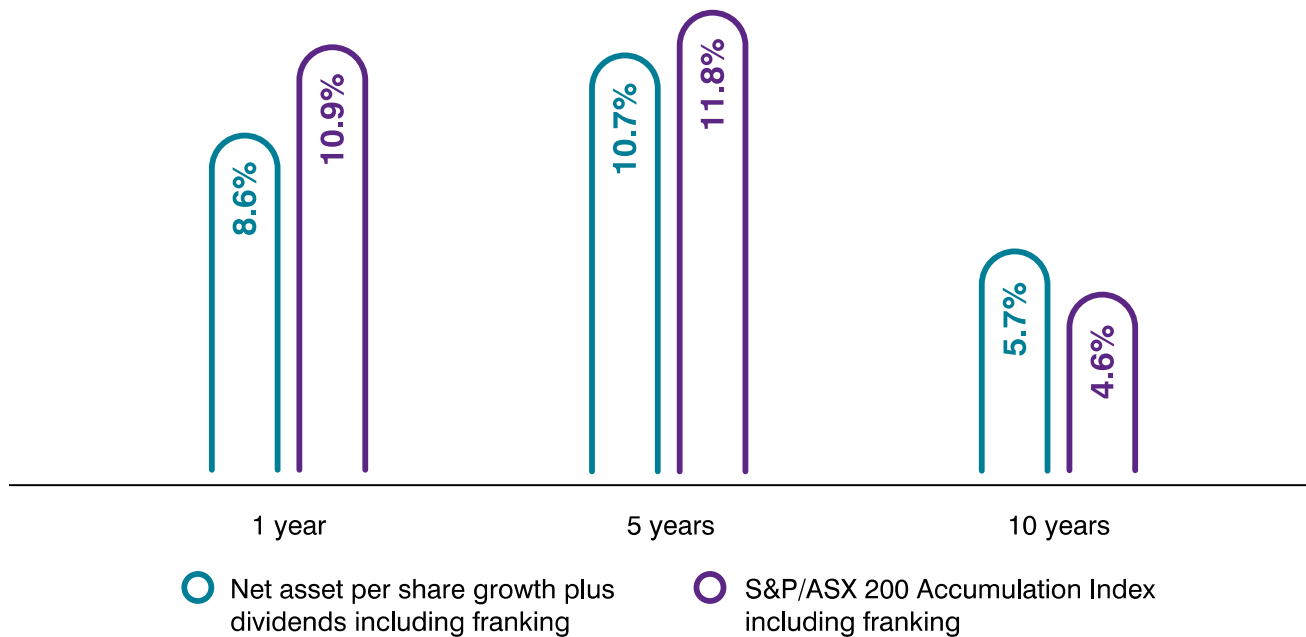
● Mid Cap Resources Index



● S&P/ASX 200 Health Care Equipment and Services Index

● S&P/ASX 200 Telecommunication Services Index

Portfolio Performance Including Benefit of Franking Credits* – Per Annum Return to 30 September 2017

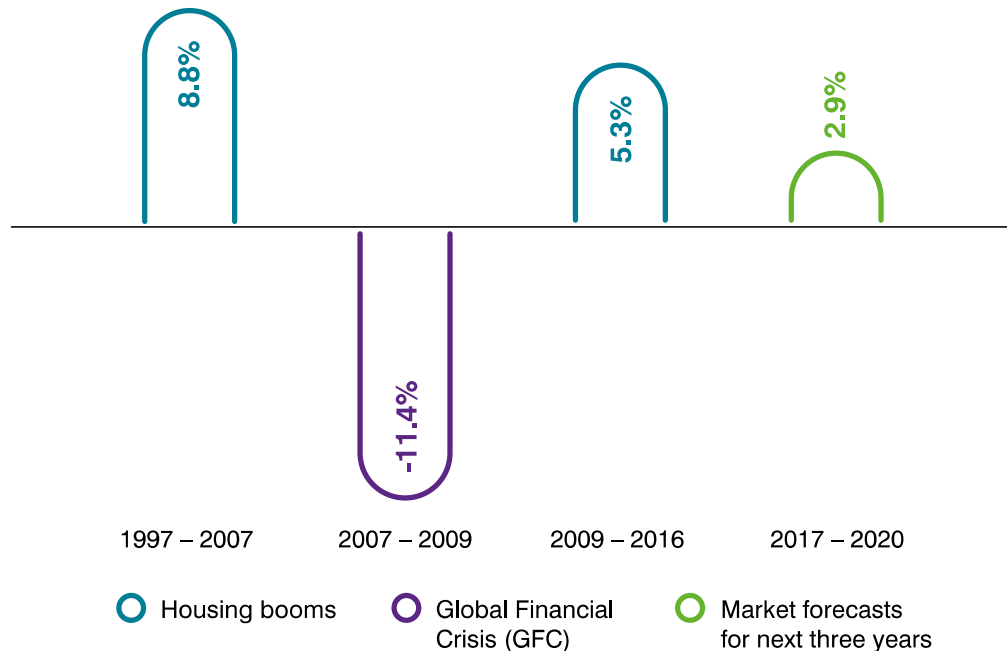


After tax and expenses. Ignores benefits of LIC tax credits.

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

Banks Face a More Challenging Earnings Environment

Big 4 Banks – Compound Annual Earnings Per Share Growth



- Revenue growth more challenging given household gearing and political pressures.
- Cost reduction efforts based on technology increasingly in focus.
- Normalisation of bad debt charges will be a headwind.
- Forecast yield for the sector remains attractive at 6% before franking (8.6% after franking).
- Option activities can boost income returns.

As do the Telecommunications Sector and Supermarkets



Telecommunications Sector

- Margin pressure from NBN implementation
- Increasing competition with 4th mobile operator
- Introduction of 5G mobile technology



Supermarkets

- Improving performance from Woolworths
- Aldi continues to grow
- Potential new entrants

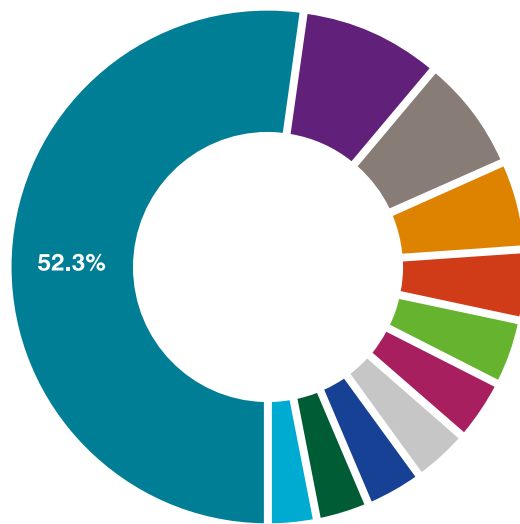
Although the Outlook for Resources Sector is Improving



Resources Sector

- Global growth is improving
- Earnings and dividends are recovering
- Balance sheets are now strong
- Management now focused on delivering value to shareholders

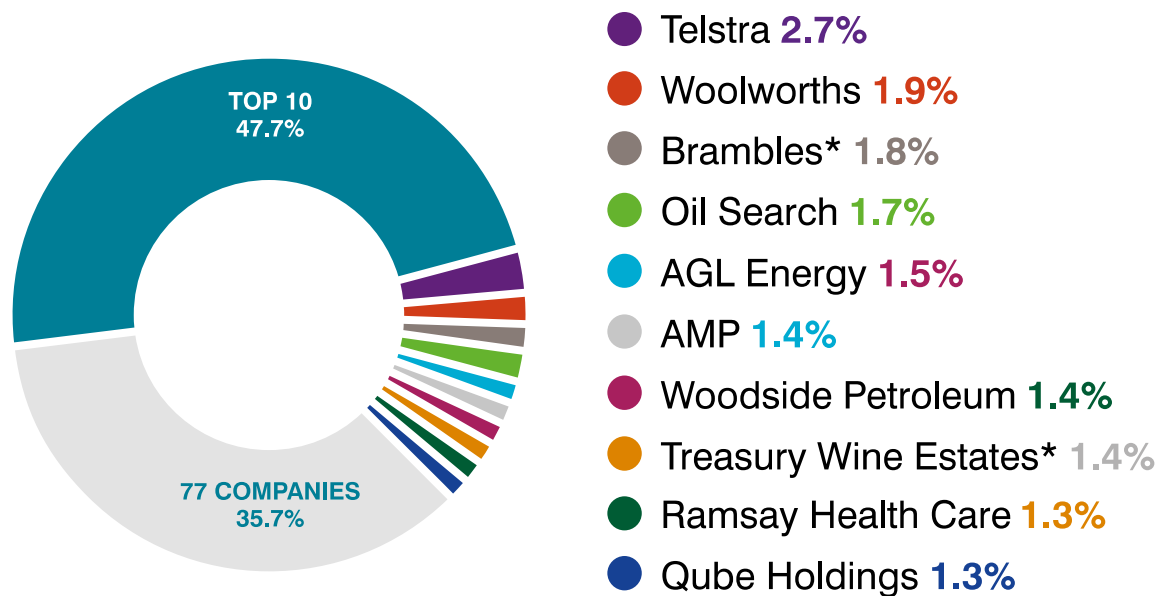
Portfolio at 30 September 2017 – Top 10 Holdings Represent 47.7% of the Portfolio



- Commonwealth Bank of Australia **8.9%**
- Westpac Banking Corporation **7.4%**
- BHP* **5.4%**
- National Australia Bank* **4.7%**
- Westfarmers **4.1%**
- Australia and New Zealand Banking Group **3.8%**
- CSL* **3.7%**
- Rio Tinto **3.6%**
- Transurban Group **3.3%**
- Amcor **2.8%**

* Indicates that options were outstanding against part the holdings.

Portfolio at 30 September 2017 – Next 10 Represent 16.6% of the Portfolio



* Indicates that options were outstanding against part the holdings.

Some Recent Adjustments to the Portfolio

Added

Westfield



CSL



James Hardie

Reduced

CCA
COCA-COLA AMATIL

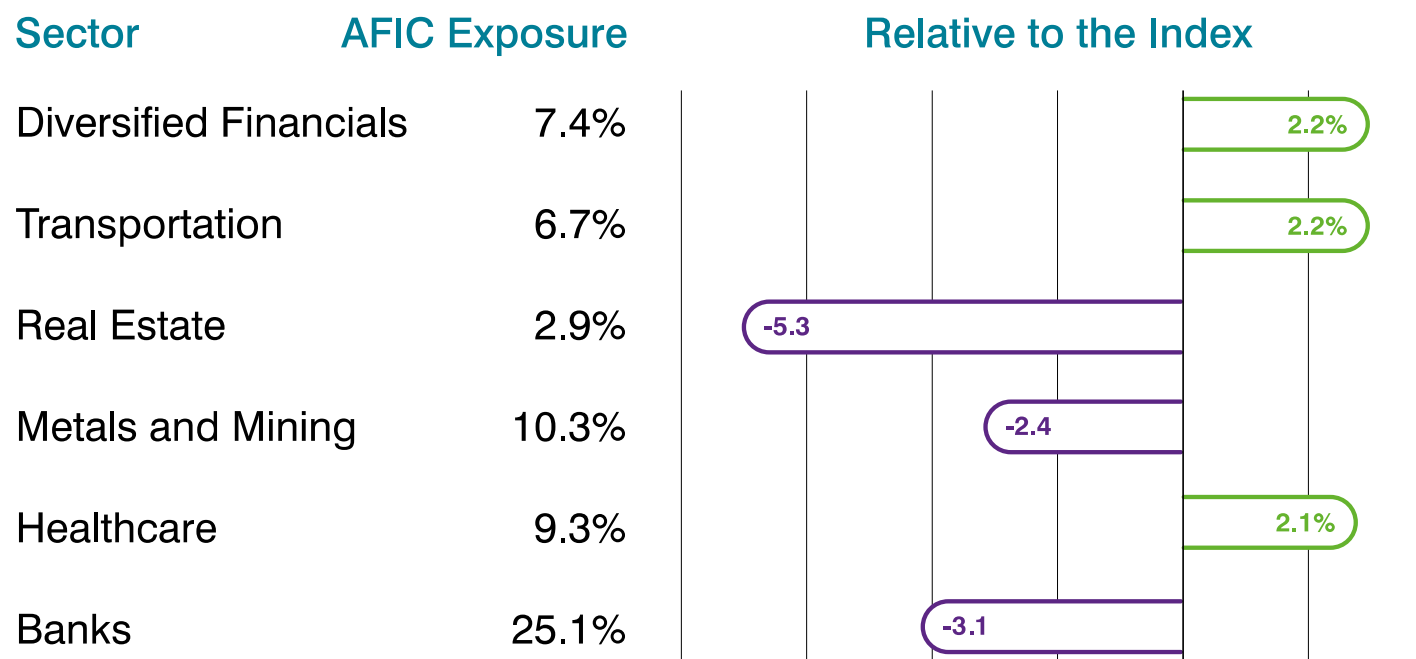


Incitec Pivot Limited



complete sale

AFIC's Portfolio vs the ASX 200 Index – Major Variations

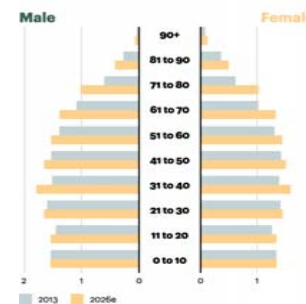


Long Term Themes Being Considered

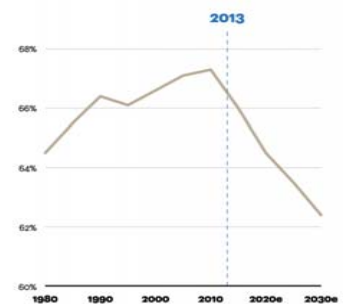


Figure 20
Demographics of Australia

Number of people by age bracket
(in millions)



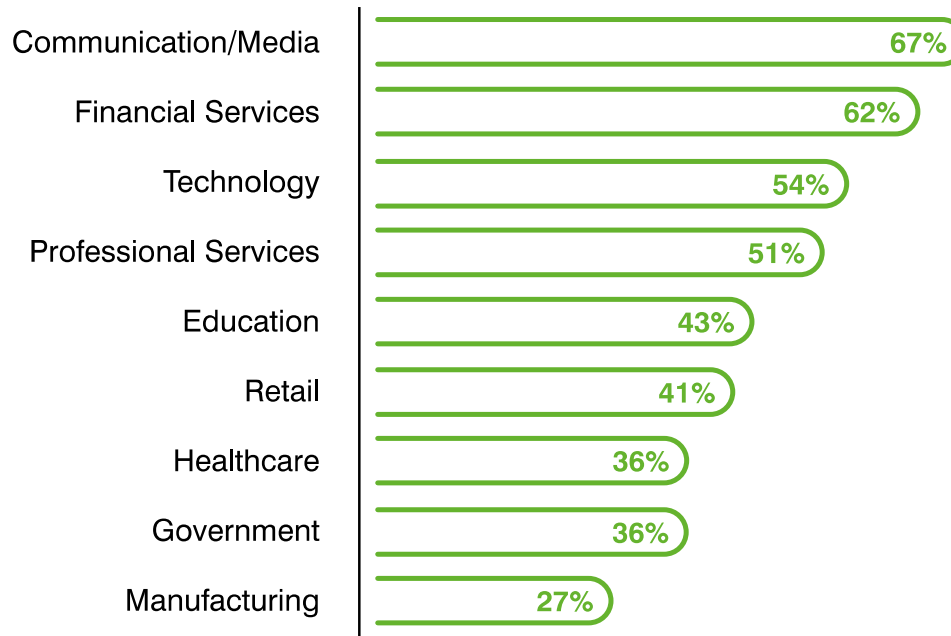
Working-age population
(% of total population)



Sources: Australian Bureau of Statistics; Reserve Bank of Australia

Disruption Very Likely for Some Industries

Percentage (%) indicating how likely it is that their industry will be disrupted by digital



Source: Harvard Business Review 2016.

Implications for Portfolio Management

- Change in business is occurring more rapidly.
- We need to research our companies to consider whether they have a sustainable competitive advantage, how will they be disrupted and to what extent.
- We are looking to keep abreast of these short and long term changes.
- Positioning of the portfolio likely to change more often than in the past.



Looking Ahead

Annual General Meeting 2017

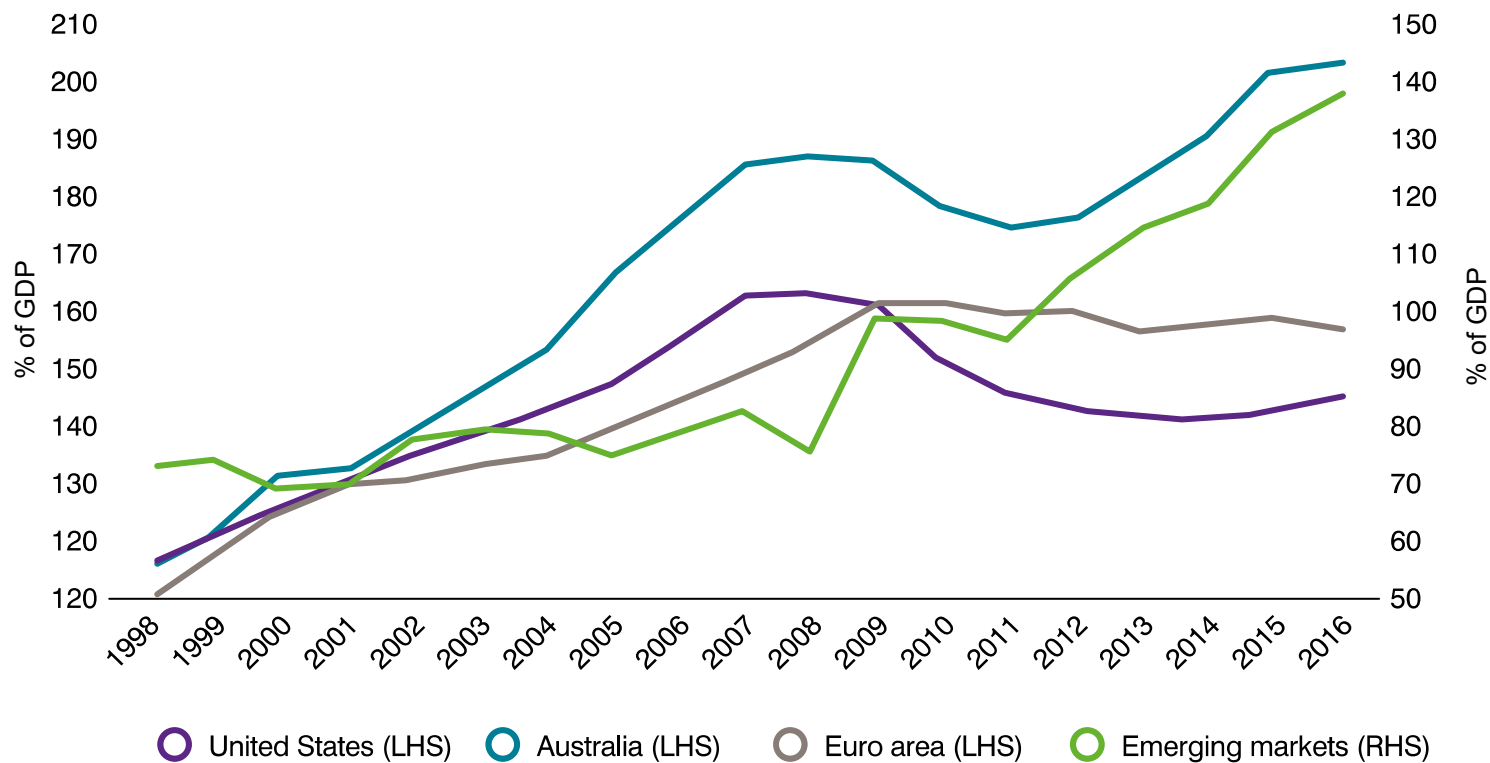
**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Global Growth has become less volatile and improving – G20 Real GDP over 20 Years



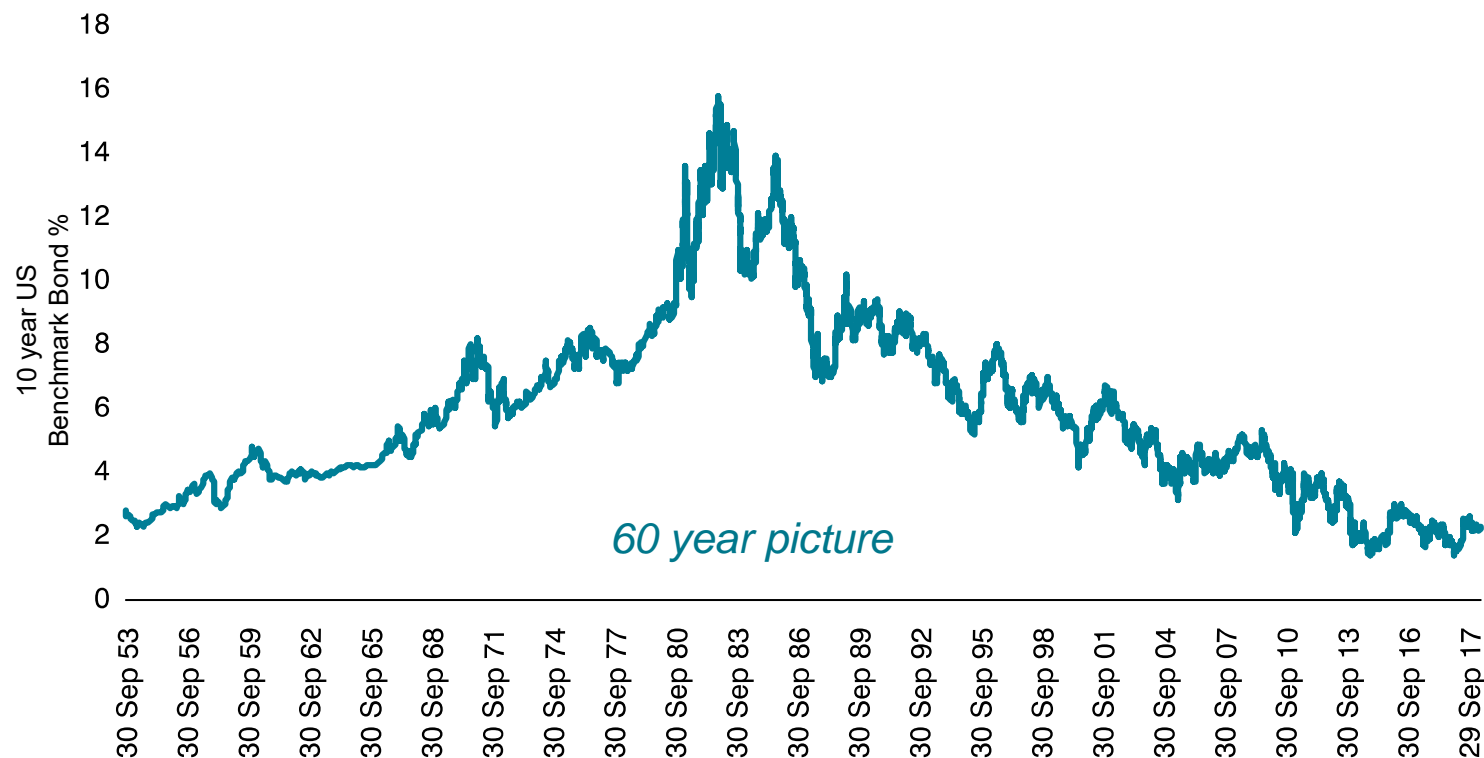
Source: FactSet

Although with High Debt Levels (Private Non-Financial Debt) – 20 Year Picture



Source: BIS

In an Environment of Low Global Interest Rates – is this likely to continue?



In Summary

- The Australian equity market is likely to face more difficult conditions as many large companies continue to face growth headwinds.
- However, we believe the portfolio is well placed following recent adjustments.
- We will continue to use buy and write strategies to supplement income.
- Look to add to targeted positions in market weakness which will occur from time to time.
- Cash position and facilities are adequate to take advantage of opportunities.

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**