

18 March 2019

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

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

Electronic Lodgement

**Australian Foundation Investment Company Limited
Information Meetings - Presentation**

Dear Sir or Madam,

Please find attached the presentation to be given at the Information Meetings being held in March 2019.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'M Rowe', is positioned above the printed name of the signatory.

Matthew Rowe
Company Secretary



Shareholder Meeting March 2019

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

90 YEARS OF INVESTMENT
EXPERIENCE

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.

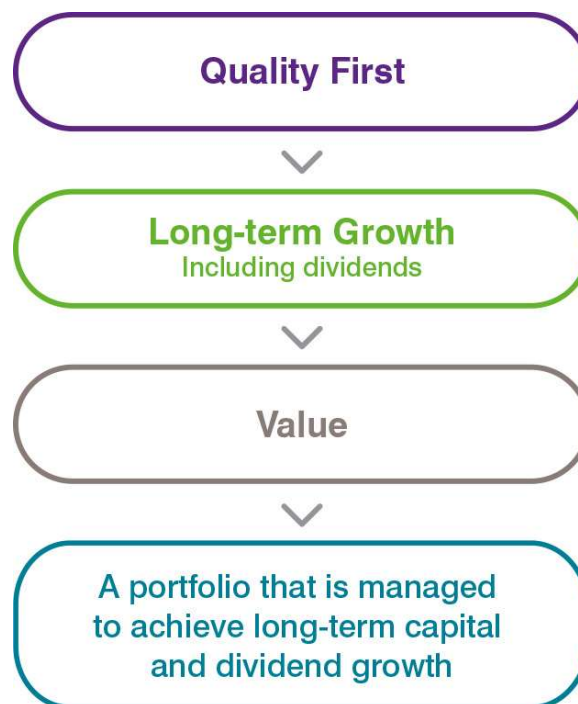


Our Investment Approach

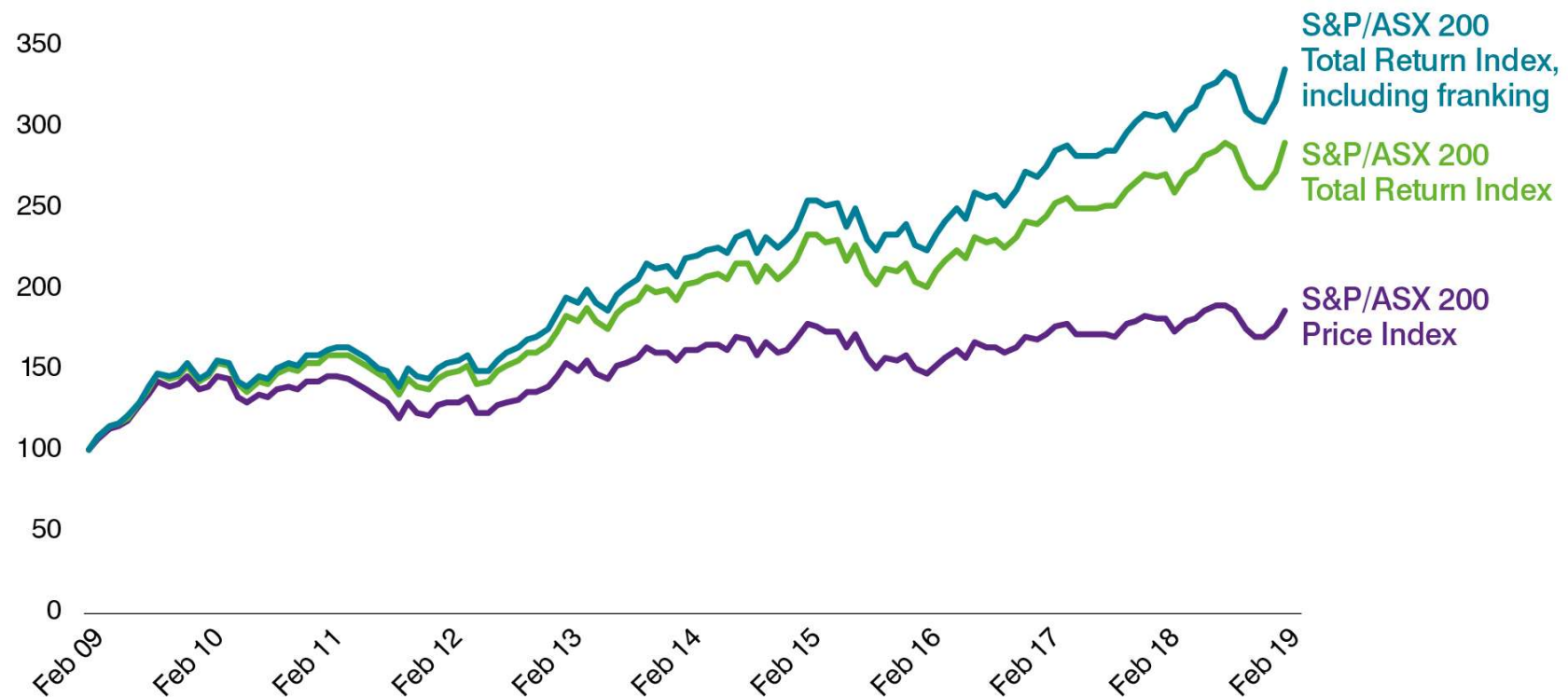
Shareholder Meetings March 2019

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

AFIC is a long-term investor in a diversified portfolio of quality companies



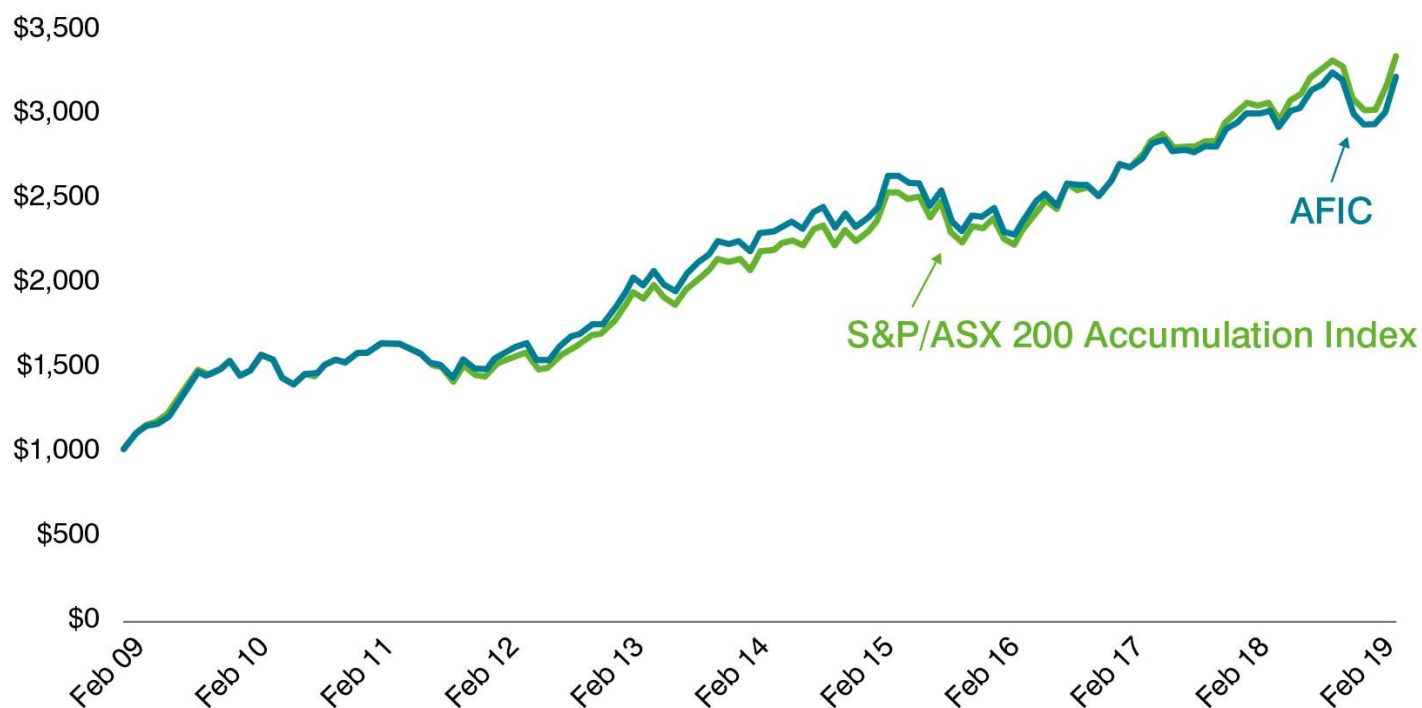
Dividends are an important part of investor returns in Australia – 10 years to 28 February 2019



Shareholder Meetings March 2019

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

How the AFIC portfolio (including benefit of franking) is tracking against the Index – 10 years to 28 February 2019



Assumes the reinvestment of AFIC dividends and an investor can take full advantage of the franking credits.



Financial Results

Shareholder Meetings March 2019

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Half-year financial summary – 31 December 2018

Profit for the Half-Year

\$239.8m

Up 75.4% from 2017

Fully Franked Dividend

10¢	Interim	18¢	Total
8¢	Special		

10 cents per share in 2017

Management Expense Ratio

0.11% Annualised

0.11% last year

Total Portfolio at 31 December 2018

\$6.8b

Including cash \$7.2 billion in 2017

Major components of income – half-year to 31 December 2018

	Half-Year 2018 \$'000	Half-Year 2017 \$'000
Dividends and distributions	246,708	150,792
Net gains/losses on trading portfolio	4,187	-6,553

Includes recognition of a dividend because of Coles demerger from Wesfarmers and Rio Tinto and BHP buybacks.

Income from trading portfolio (which includes the marking to market of open option positions).

Ending refundability of franking credits – we continue to act on shareholders behalf

- AFIC has provided a template letter on its website for shareholders to write to their parliamentary representatives.
- We have engaged through various industry groups to lobby on your behalf.
- Publicised where appropriate through the media.
- Submission by AFIC to the House Economics Committee.
- Extensive survey of shareholders so we can better understand the issue and the potential impact on shareholders.
- Looking at further strategies to try and influence policy makers.

Shareholder survey refundability of franking credits – your response

- A strong response with 14,362 replies received.
- 85% of respondents negatively impacted and dependent on franking credit refunds.
- 79% of respondents retired or approaching retirement.

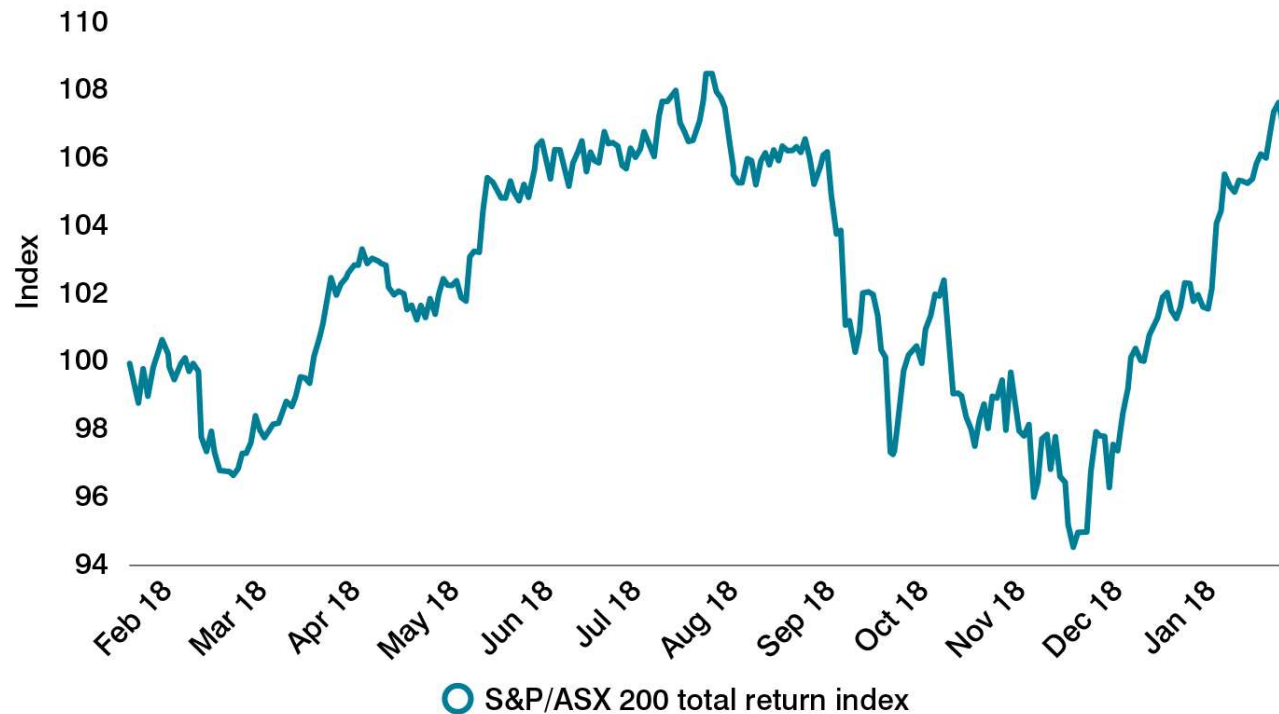


Market Settings

Shareholder Meetings March 2019

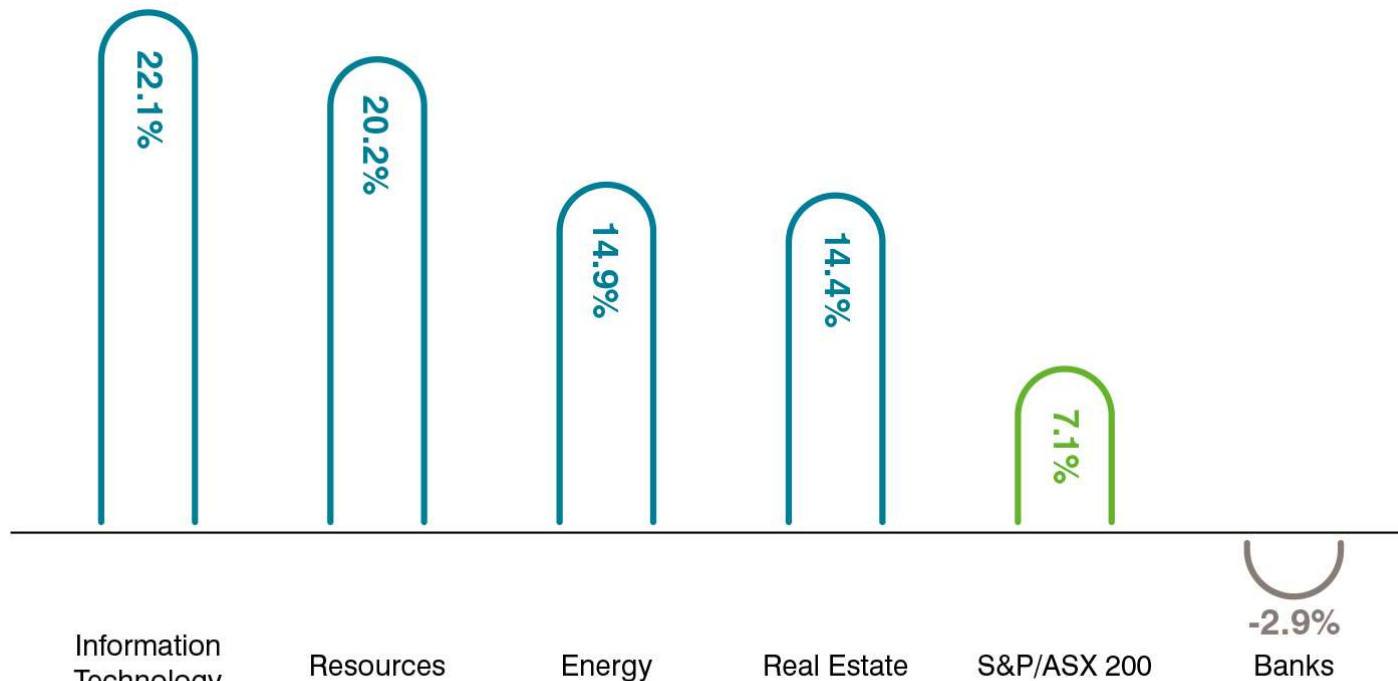
**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

The total return of the ASX 200 has been volatile – 12 months to 28 February 2019



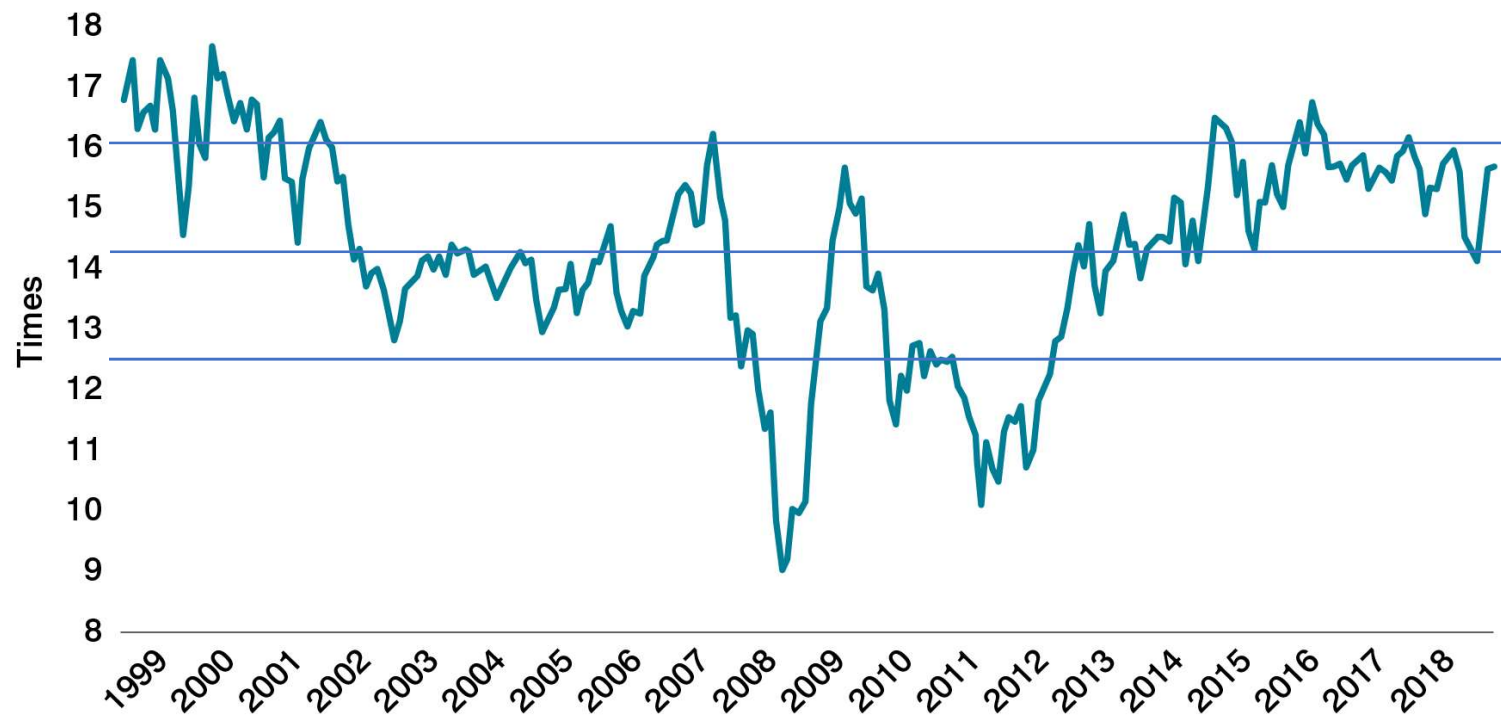
Source: FactSet

With some growth sectors and commodities very strong, banks at the other extreme – 12 month returns to 28 February 2019



Note: Returns including dividends.

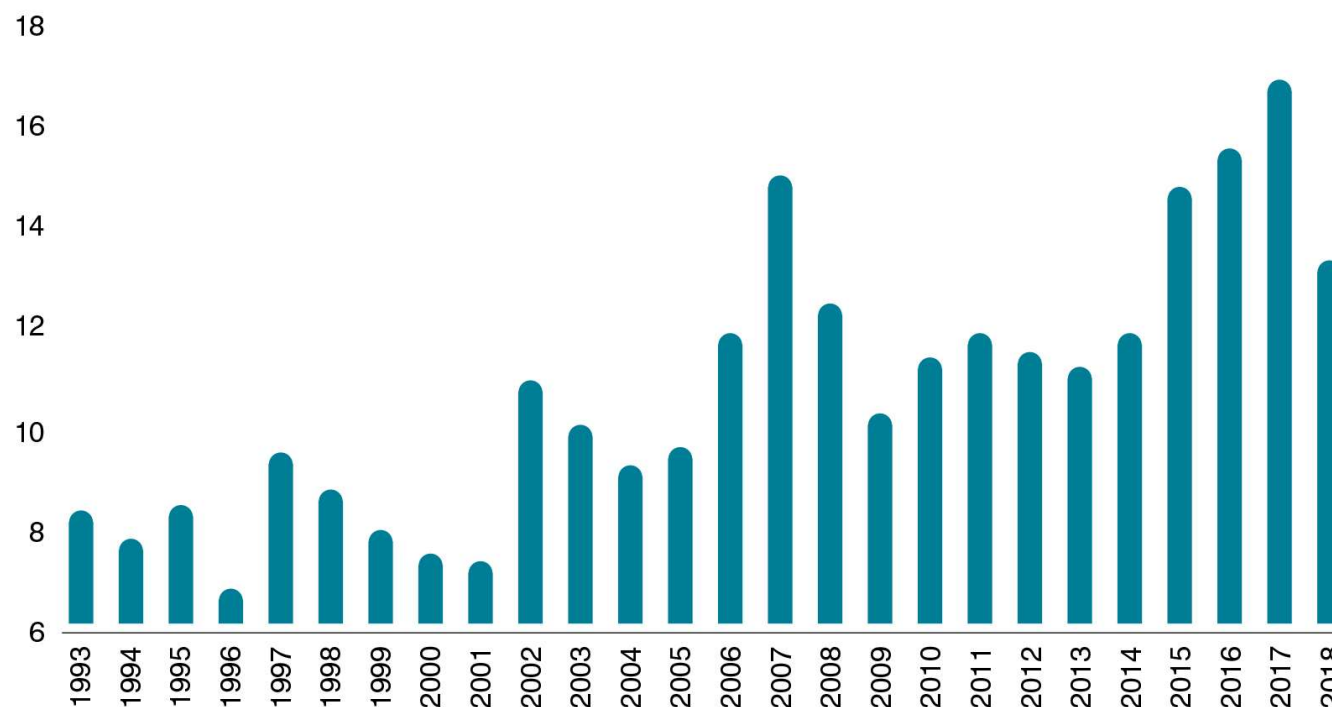
Valuations (price/earnings ratio) have moved back toward the top of the long-term range



Source: FactSet

Profit margins still well above the long-term average

ASX 200 EBIT Margin (medium)



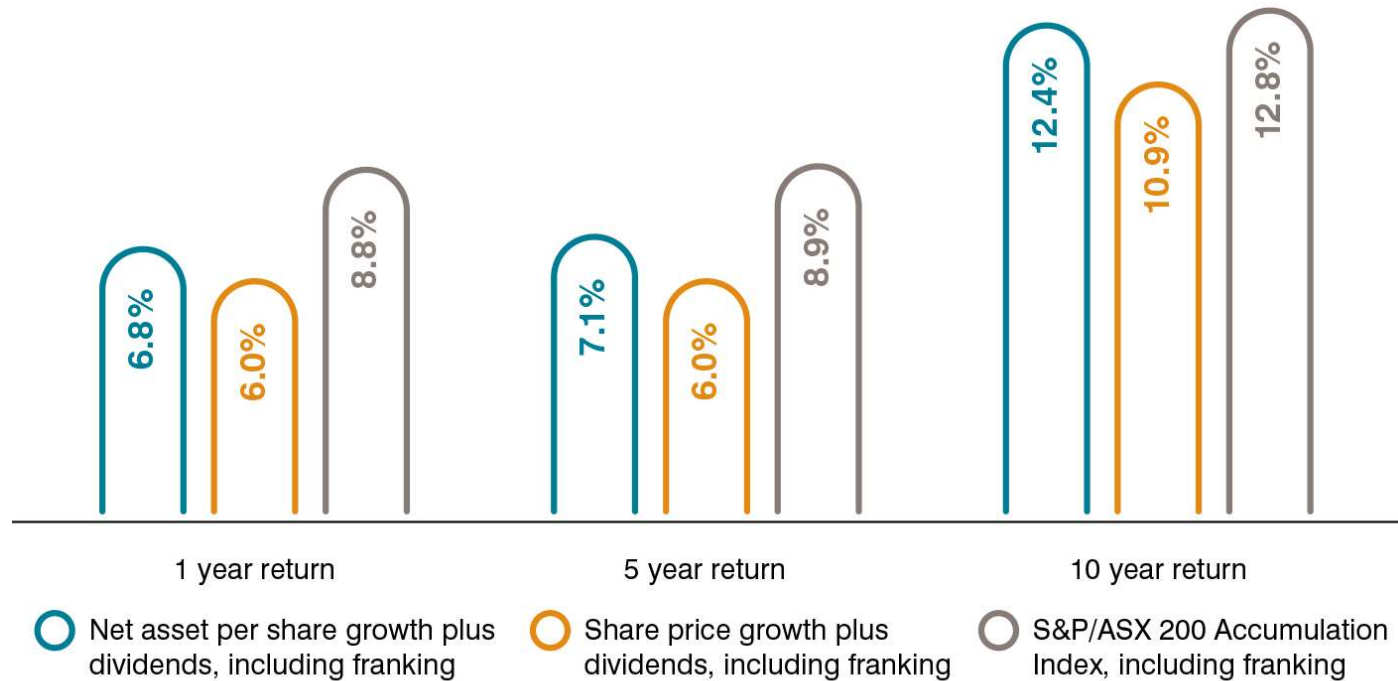


Returns and the Portfolio

Shareholder Meetings March 2019

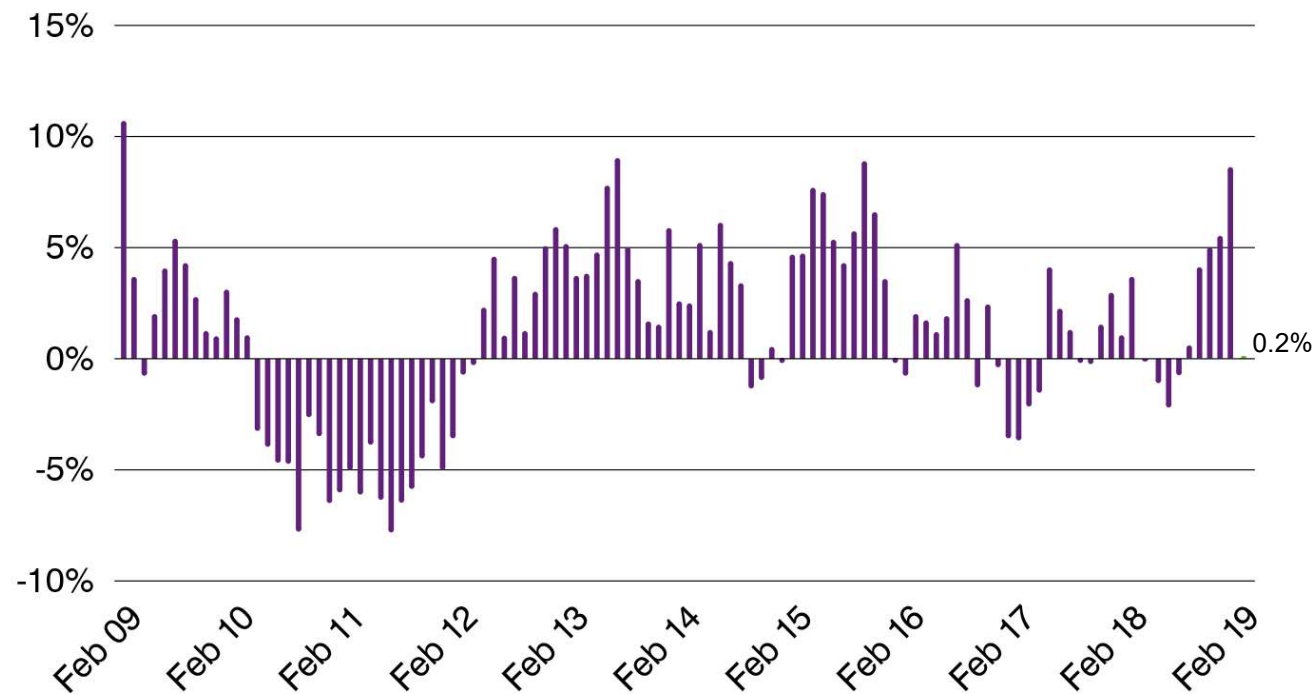
**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Relative portfolio and share price performance, including franking – per annum returns to 28 February 2019



Assumes an investor can take full advantage of franking credits.

Share price was trading close to net asset backing at end of February 2019, down from a large premium 10 years ago



China remains important to Australia

Observations on Australia's largest trading partner

Headwinds

- Economy slowing – GDP growth ~ 6.0% to 6.5%.
- US trade/ tariff concerns.
- Environmental pressures, impacting multiple industries.

China's response

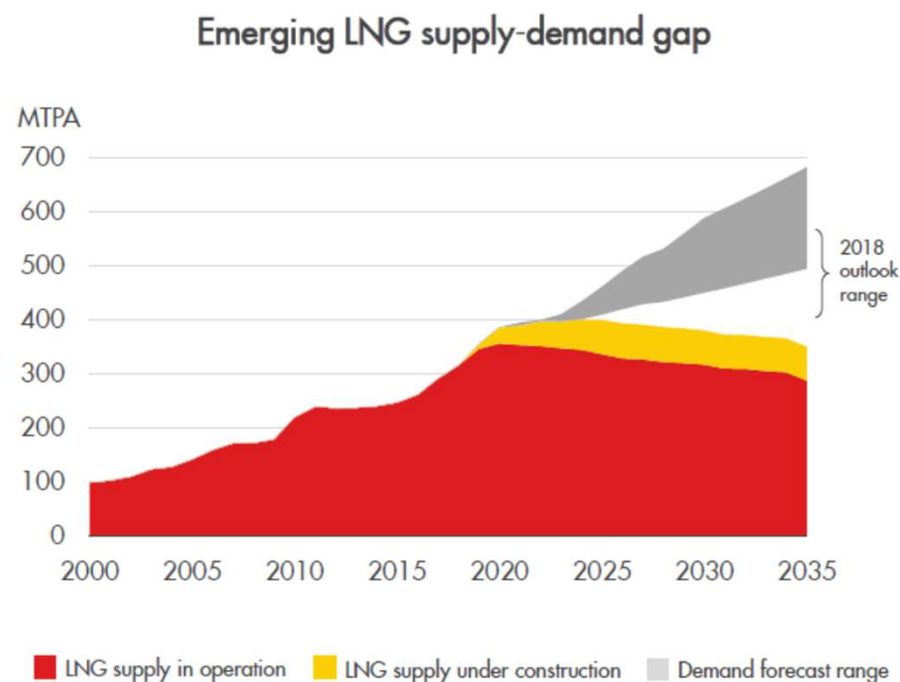
- Easier credit expected to drive a boost to infrastructure spend.
- Personal tax cuts.
- 'One Belt One Road' or OBOR initiative.

LNG demand: Asia driving step change

Environmental pressures are driving a switch from coal usage to gas/ LNG

- Coal to gas switch is across industry, homes and heavy transport.
- Chinese gas consumption to treble from 2010 – 2020.
- China accounts for >50% of global LNG (import) demand.
- Korea and Europe also use tax incentives to drive shift from coal.

Portfolio Holdings: OSH, WPL



Source: Shell interpretation of IHS Markit, Wood Mackenzie, FGE and Poten & Partners Q4 2018 data

AFIC resources: focus on quality assets

Mining investment has slowed considerably with miners focused on profits and balance sheet

- Tier 1, long-life, low cost assets.
- Long term demand:
 - Iron ore, coking coal (Steel production) – no need for new supply
 - Copper – need more supply
 - Aluminium – light weight metal, solid demand
- Brazilian tailings dam.
- Advantageous long term investments and assets.



Portfolio holdings: BHP, RIO, AWC

Importantly the large resource companies have changed their approach

'Old'

BHP

RioTinto

Under 'old' increasing commodity prices:

- Large acquisitions
- Geared balance sheets
- Progressive dividend policy (low dividends)
- Shareholder outcomes were not optimal

'New'

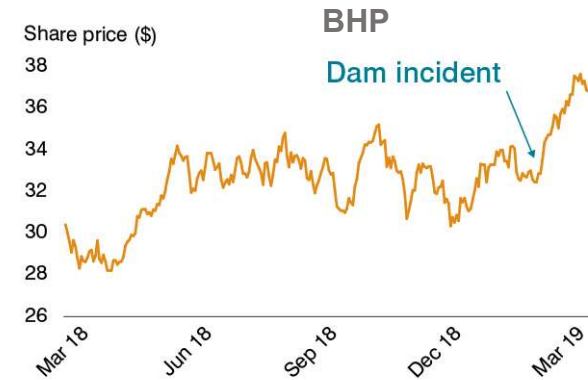
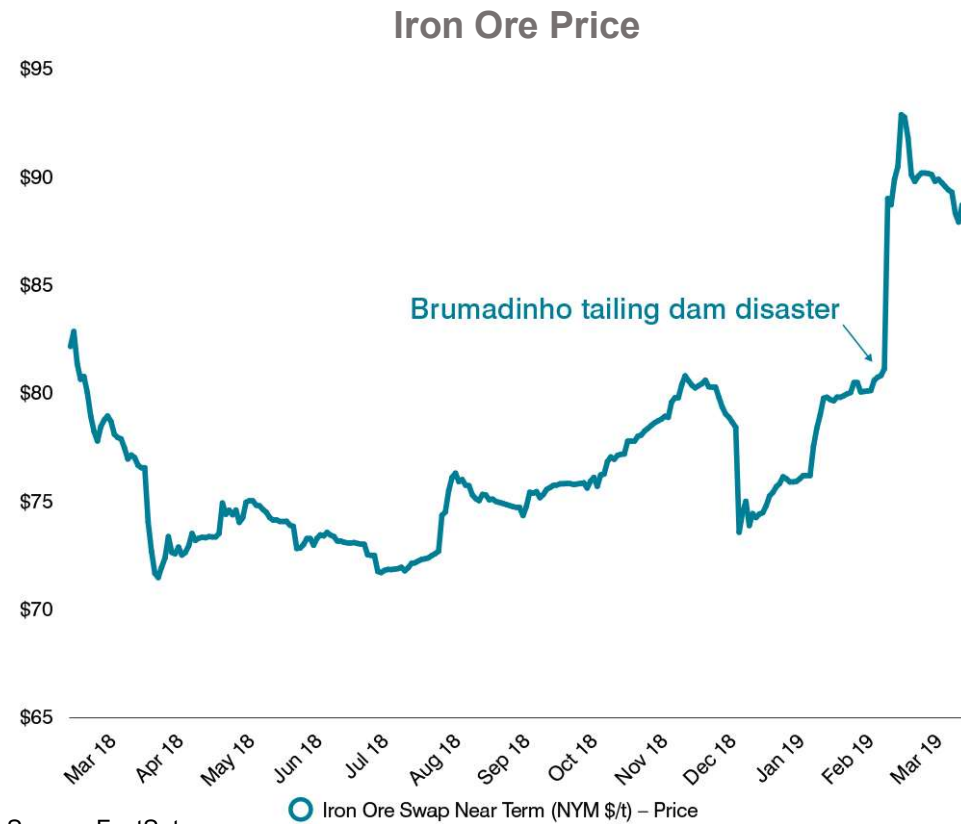
BHP

RioTinto

Under 'new' increasing commodity prices:

- Sale of non-core businesses
- Value over volume
- Dividend policy aligned with profits (higher dividends)
- Strong balance sheets
- Off market buy-backs
- Shareholder outcomes top of mind

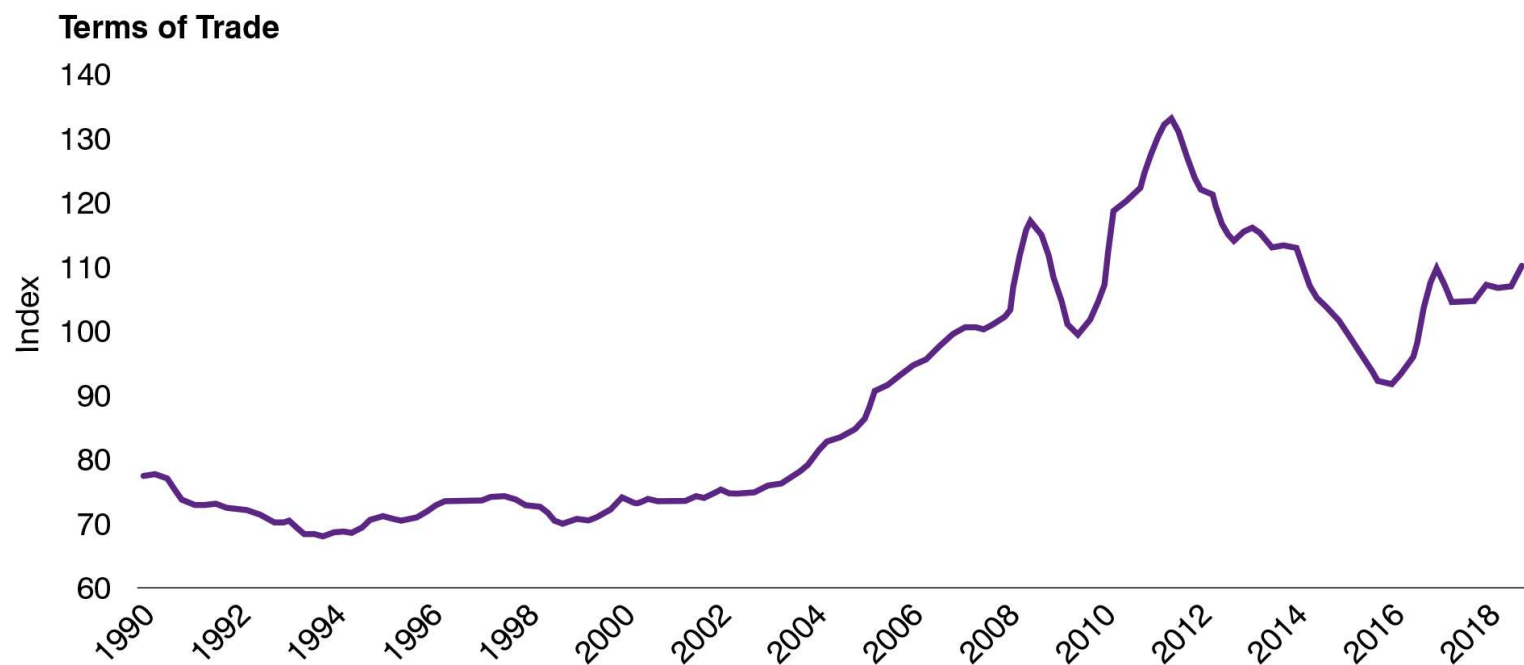
Recent surge in iron ore price has driven share price of BHP and Rio Tinto



Shareholder Meetings March 2019

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

Terms of Trade* for Australia is rising on the back of higher commodity prices



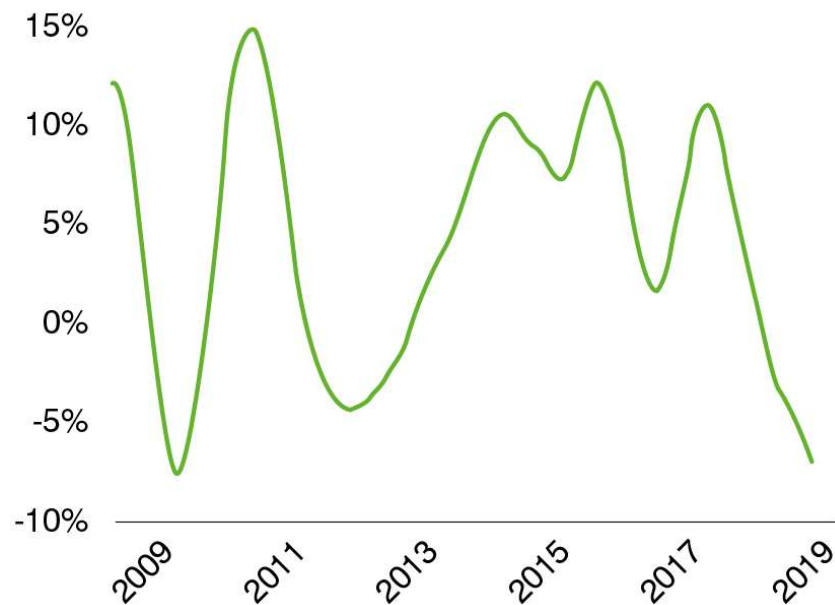
* The ratio of the price of exports to the price of imports.

House prices are weakening

Housing Prices

Year-ended growth, seasonally adjusted

20%



Source: CoreLogic.

- Tighter lending standards
- Impacting consumption
- Falling consumer confidence
- Lower wage growth
- Compounding the uncertainty in an election year

Featured holdings – National Australia Bank (recent purchase using call options to enhance income)

Share Price (5 Years)



Dividend Yield (5 Years)

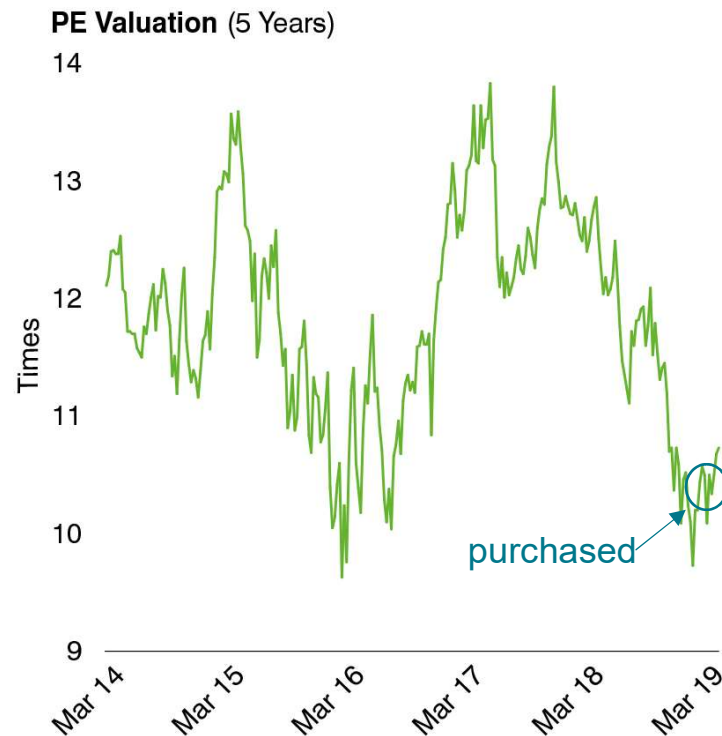


Source: FactSet

Shareholder Meetings March 2019

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

Featured holdings – National Australia Bank (continued)



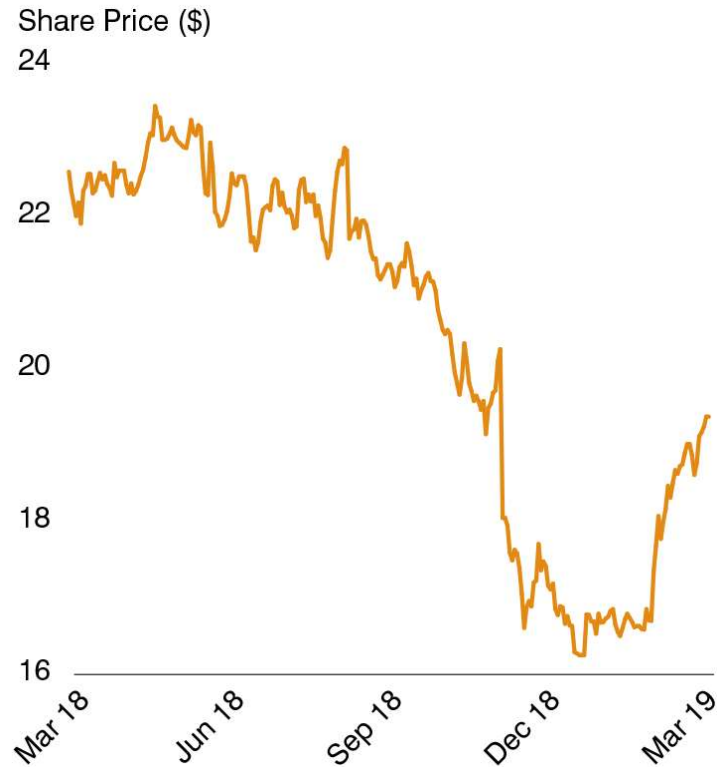
Source: FactSet

- Sector has been under pressure from Hayne Royal Commission which has contributed to a fall in valuations.
- Quality assets, particularly in SME banking.
- New Chair with strong banking experience, change in leadership will bring about required transformation.
- Long-term valuations appealing.
- Good income return even if earnings growth is constrained.

Hayne Royal Commission – Banks

- A better focus on customer outcomes is good for business.
- Sector will have to cope with permanent step change in compliance costs.
- Has led to a significant change in management across the sector.
- Over time the 4 major banks are likely to emerge in a much stronger position.

Featured holdings – James Hardie



Source: FactSet

What we like:

- Leadership position in a growing end market.
- Self help drivers delivering growth above the market cycle.
- Higher exposure to renovation market than new housing construction.
- Cash generative business model.

Featured holdings – Wesfarmers demerger

The WES demerger has created two stand-alone ASX20 listed businesses.

(New)



- Bunnings:
Australia's no. 1 hardware brand – represents 60% of Group EBIT.
- Kmart:
Leading discount department store – represents 17% of Group EBIT.
- Strong balance sheet post demerger:
 - Potential acquisitions
 - \$2/share potential capital returns if no acquisitions found
- Challenges – slowdown in Bunnings sales as housing cycle turns.



- Leading supermarket retailer:
 - 809 Supermarket stores
 - 899 Liquor stores
 - 711 Convenience stores
- Challenges:
 - New management
 - Investment phase
- Supportive dividend yield.

Major moves upward in top 20 from February 2018

4th Largest holding



Share price appreciation,
industry leadership,
international exposure

5th Largest holding



Rights issue, good yield,
expanding Sydney
network, quality long-
term assets

8th Largest holding



Buying, good yield,
quality long term assets,
industry leadership,
international exposure

Major moves upward in top 20 from February 2018 (continued)

13th Largest holding



Buying, good yield,
quality long-term
assets, good
industry economics

New to top 20 –
16th Largest holding



Buying, good yield,
quality long-term
assets, monopoly
infrastructure

New to top 20 –
20th Largest holding






NZ company, share
price appreciation,
'owner driver culture',
well positioned in the
logistics industry

Top 10 holdings – 28 February 2019

Rank	Company	% of Portfolio	Major changes – % as at Feb 2018	
1	Commonwealth Bank of Australia*	8.5%		
2	BHP*	7.2%	↑	6.1%
3	Westpac Banking Corporation	6.0%	↓	6.7%
4	CSL	5.3%	↑	4.4%
5	Transurban Group*	4.1%	↑	3.2%
6	National Australia Bank*	4.0%		
7	Australia and New Zealand Banking Group	3.4%		
8	Macquarie Group	3.3%	↑	1.6%
9	Wesfarmers	3.2%		
10	Amcor	2.7%		

* Options were outstanding against part of the holding.

Next 10 holdings – 28 February 2019

Rank	Company	% of Portfolio	Major changes – % as at Feb 2018
11	Rio Tinto	2.7% 	3.9%
12	Woolworths Group	2.3%	
13	Woodside Petroleum*	2.2% 	1.5%
14	Brambles	2.0%	
15	Oil Search	2.0%	
16	Sydney Airport*	1.8%	Not in top 20
17	Telstra Corporation	1.8% 	2.5%
18	James Hardie Industries	1.5%	
19	Qube Holdings	1.4%	
20	Mainfreight	1.3%	Not in top 20

* Options were outstanding against part of holding.



Closing Remarks

Shareholder Meetings March 2019

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Recent company reporting season

- CBA, bank sector: struggling for profit growth, regulatory headwinds.
- Resources: very strong cash generation, returning capital to shareholders.
- Energy sector: rising cash flows, new major projects moving forward.
- Telco's: evolving sector, NBN, 5G, competition. TPG/Vodafone merger.
- Industrials: mixed revenue results, cost pressures rising.
- Healthcare: strong earnings growth against high expectations.
- Utilities: rising consumer bills, regulatory change, energy substitution.

Current issues we are focusing on

- Met with 100+ companies in recent reporting season.
- Investment team visiting portfolio holdings in UK/ Europe/ US/ China/ HK in coming months.
- Themes:
 - Australian credit growth/ housing market.
 - Regulatory scrutiny on financial services, utilities set to rise.
 - Continued impact of technology on businesses, including emergence of new opportunities.
 - Finding value – expected long-term growth versus what you have to currently pay.
 - Fallout from trade disputes.
 - US economy has good momentum, absorbing the impact of rising interest rates to date.

Last 10 years and next 10 years?

An update from our view six months ago

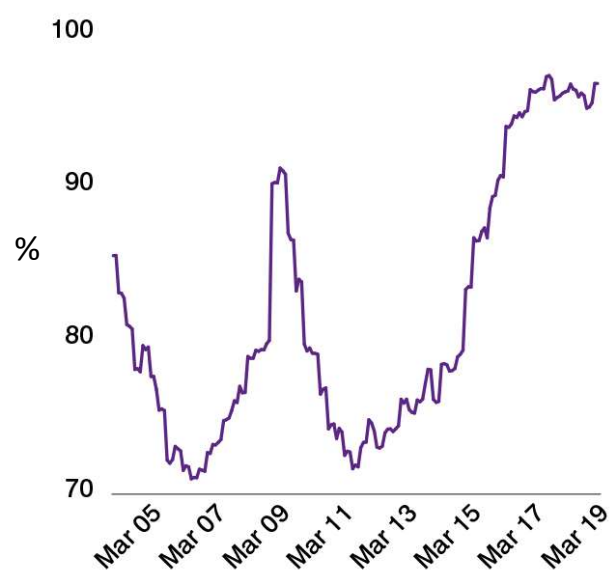
	Last 10 years	Coming 10 years?	Current view
Interest Rates	Falling	Rising	?
Wage Pressure	Benign	Rising	✓
Transport Costs	Benign	Rising (US trucks, etc)	✓
Excess Capacity (Industrial, other)	High	Reducing	✓
US Corporate Profit Margins	Rising	Potential peak	✓
Investor Focus	Earnings growth	Valuation	✗
Corporate's use of capital	Buybacks	Investing	✗
Price earnings multiple	Rising	Falling?	✗
Inflation	Benign	Rising?	✓

The US market is likely to influence the Australian market – where the US market currently sits

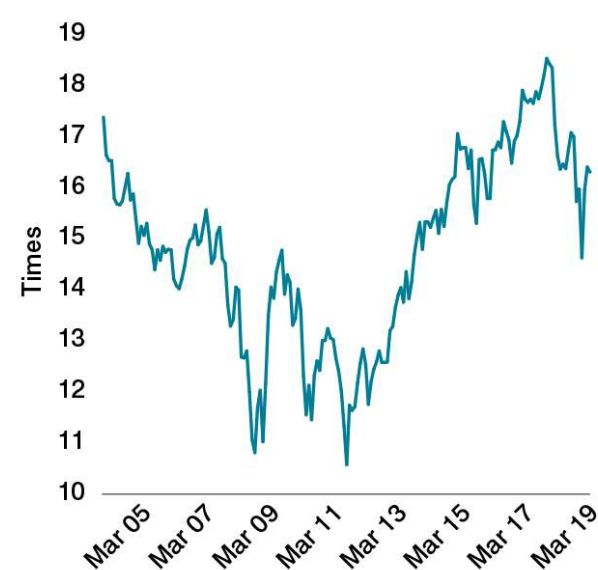
Low rates – US Govt 10 Year



High debt – Total Debt/ Total Equity



High valuations – PE Ratio



Source: FactSet

Shareholder Meetings March 2019

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**