

23 April 2018

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
Information Meetings – Presentation**

Dear Sir / Madam

Please find attached the presentation to be given at the Information Meetings being held in Tasmania in April 2018.

Yours faithfully



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. To the right, a paved area with white markings shows more containers and some vehicles. The background features a body of water and a distant shoreline. The image is overlaid with a semi-transparent white banner on the left and a large white triangle on the right.

Shareholder Meetings Tasmania - April 2018

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Introduction

Shareholder Meetings - Tasmania April 2018

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Labor Party have announced the ending of refundability of franking credits

- The Labor Party has announced that if elected it will stop excess franking credits being refunded to shareholders.
- This particularly impacts individuals and self-managed super funds – charities, not-for-profits and most other super funds will not be impacted
- No matter what an individual's or SMSF's tax rate is, in effect these investors will pay 30% tax on their income from fully franked dividends.
- Assume an SMSF in pension-phase (nil tax payable) received a gross income of \$25,000 from franked dividends (including a refund of franking credits), this will be cut to \$17,500 – a reduction of \$7,500.

Labor Party have announced the ending of refundability of franking credits

- We feel that this is an unfair attack on a specific sections of the investing public i.e. SMSF's and low-income earners who hold investments outside of retail and industry super-funds.
- Many shareholders will be considerably worse off under this proposal, particularly those who have been planning for their retirement over many years.
- Concerned shareholders should take the issue up with their local MPs.

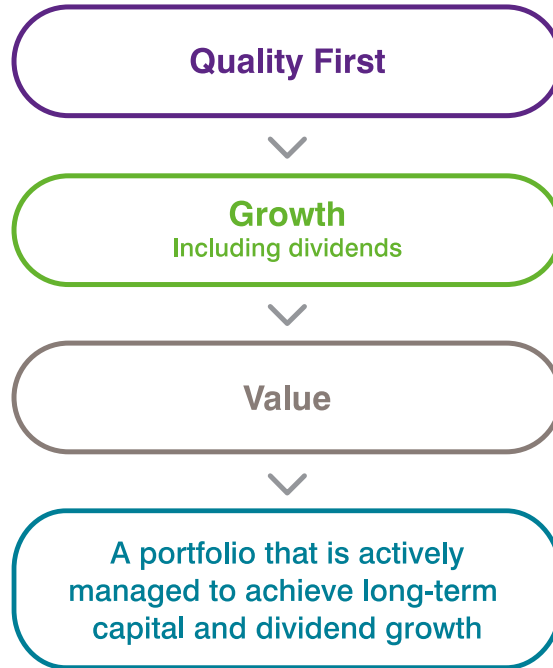
A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are framed by a blue and white geometric pattern, possibly a grid or a stylized architectural element. The sky is visible between the buildings.

Company Objectives and Recent Financial Performance

Shareholder Meetings March 2018

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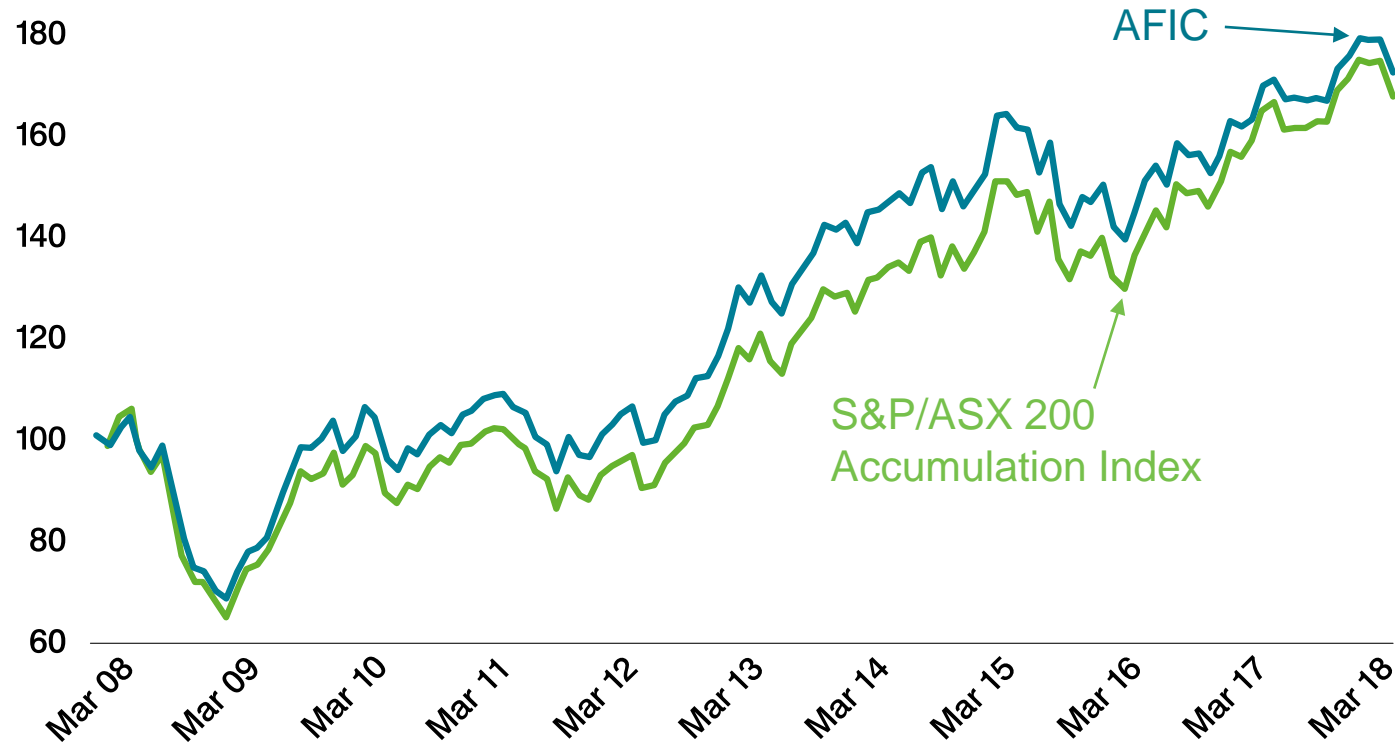
AFIC is a Long Term Investor in a Diversified Portfolio of Quality Companies



With the Objective of Delivering for Shareholders

- Growing fully franked dividends over time.
- Attractive total returns over the medium to long term.

Portfolio Performance Combined with Very Low Costs Have Provided Long Term Outperformance of the Australian Market



Half Year Financial Summary – 31 December 2017

Profit for the Half-Year

\$136.7m

Up 15.6% from 2016

Fully Franked Interim Dividend

10¢

Same as 2016

Management Expense Ratio

0.11% Annualised

0.13% in 2016

Total Portfolio at 31 December 2017

\$7.2b

Including cash \$6.8 billion in 2016

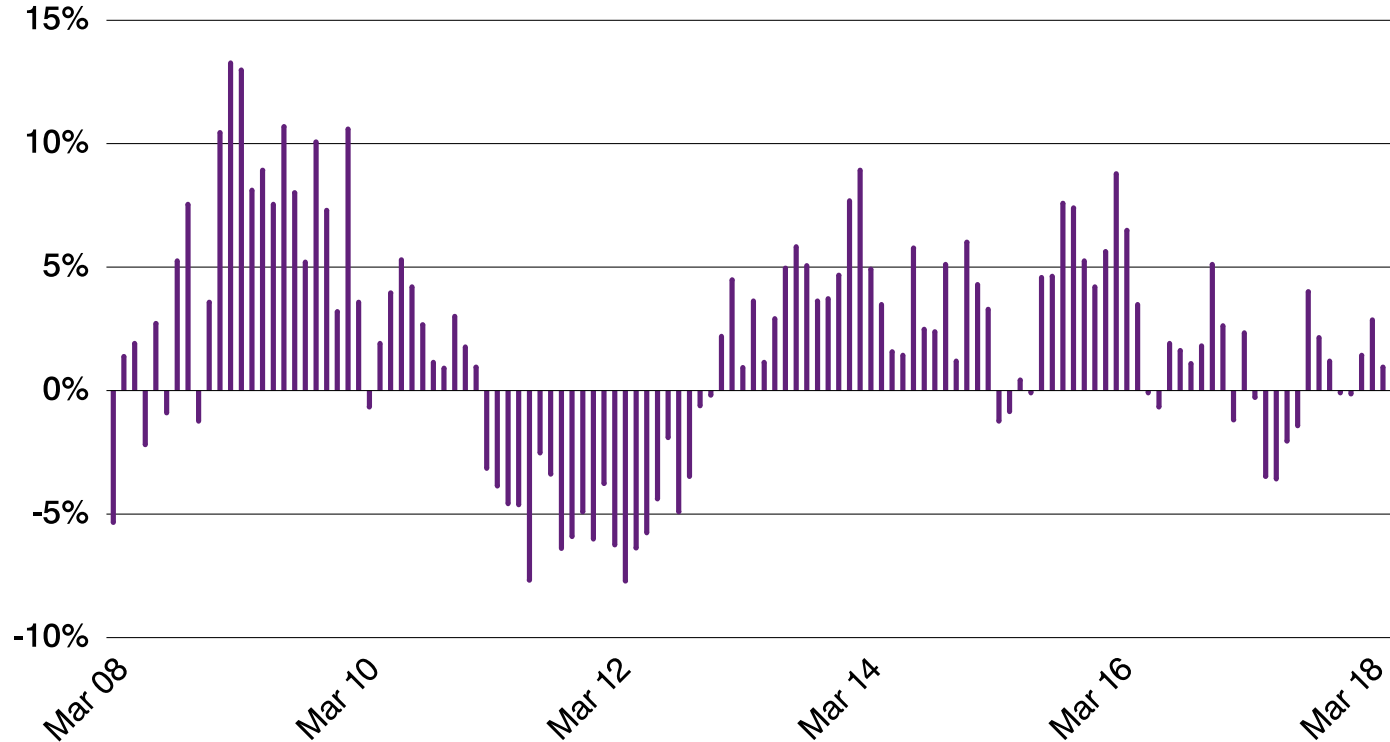
Major Components of Income for the Half Year to 31 December 2017

	Half-Year 2017 \$'000	Half-Year 2016 \$'000
Dividends and Distributions	150,792	132,043
Net Losses on Trading Portfolio	-6,553	-363

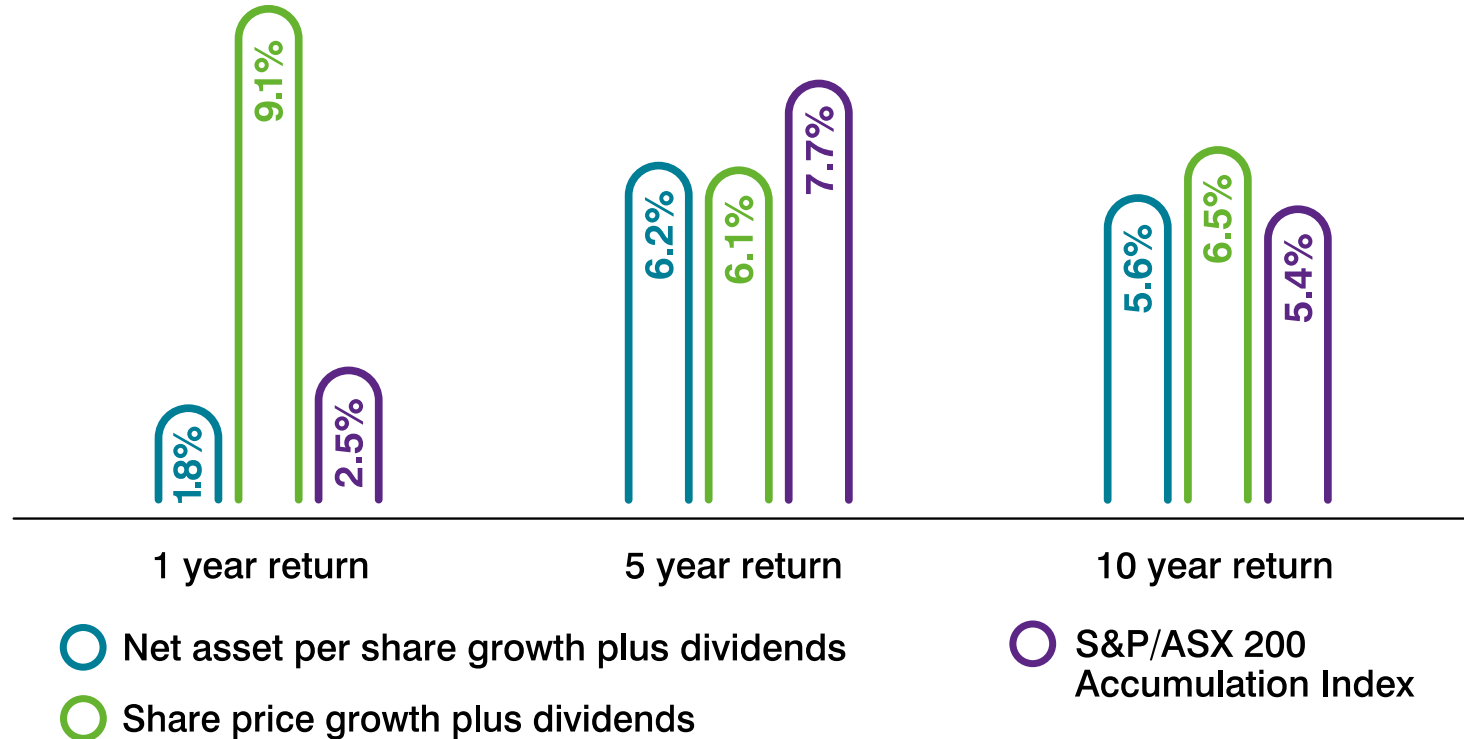
Dividends from many investee companies have increased.

Unrealised losses from call options recognised through the income statement. However, losses reflect an increase in the value of the stock (\$6.8 million) over which the options are written, which are recognised in the balance sheet.

Share Price is Trading at a 4% Premium to Net Asset Backing at end March Versus 3% Discount This Time Last Year



Long Term Share Price Return is in Line with the Portfolio Performance – Per Annum Returns to 31 March 2018





The Market and the Portfolio

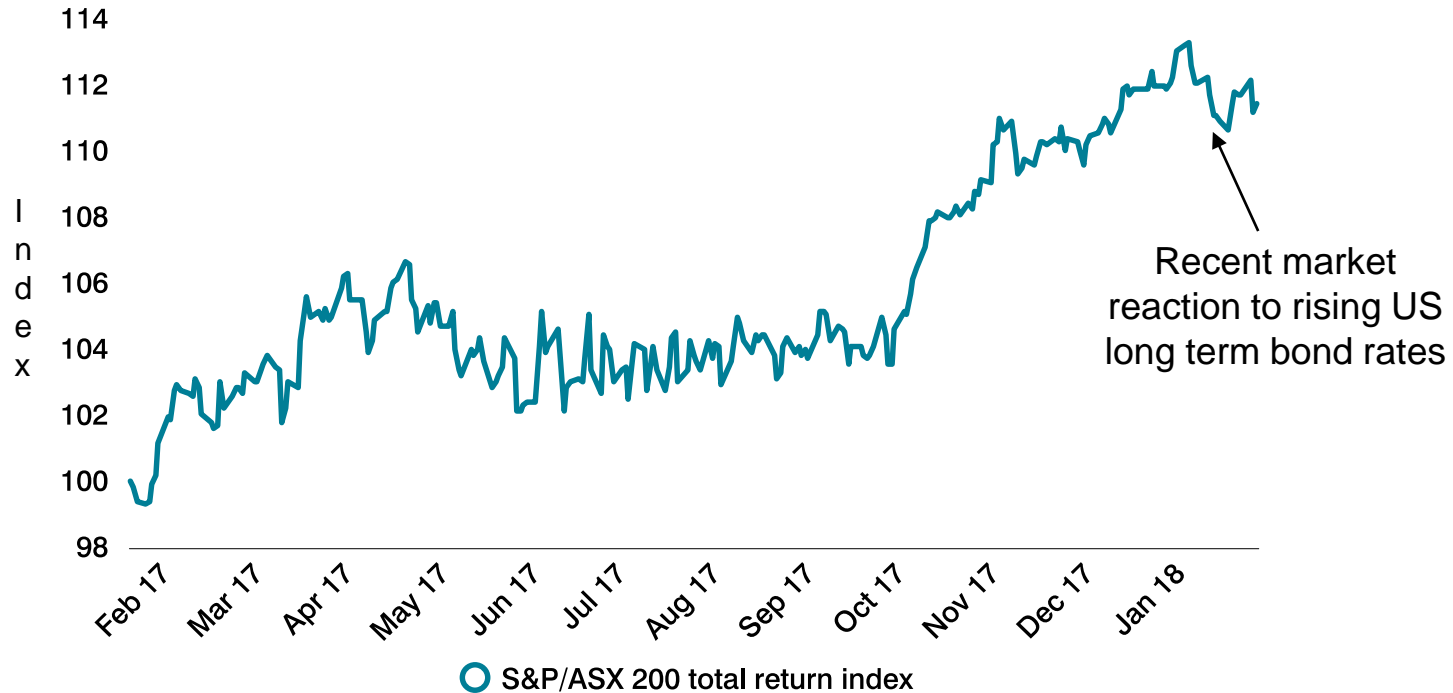
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Key themes in the market

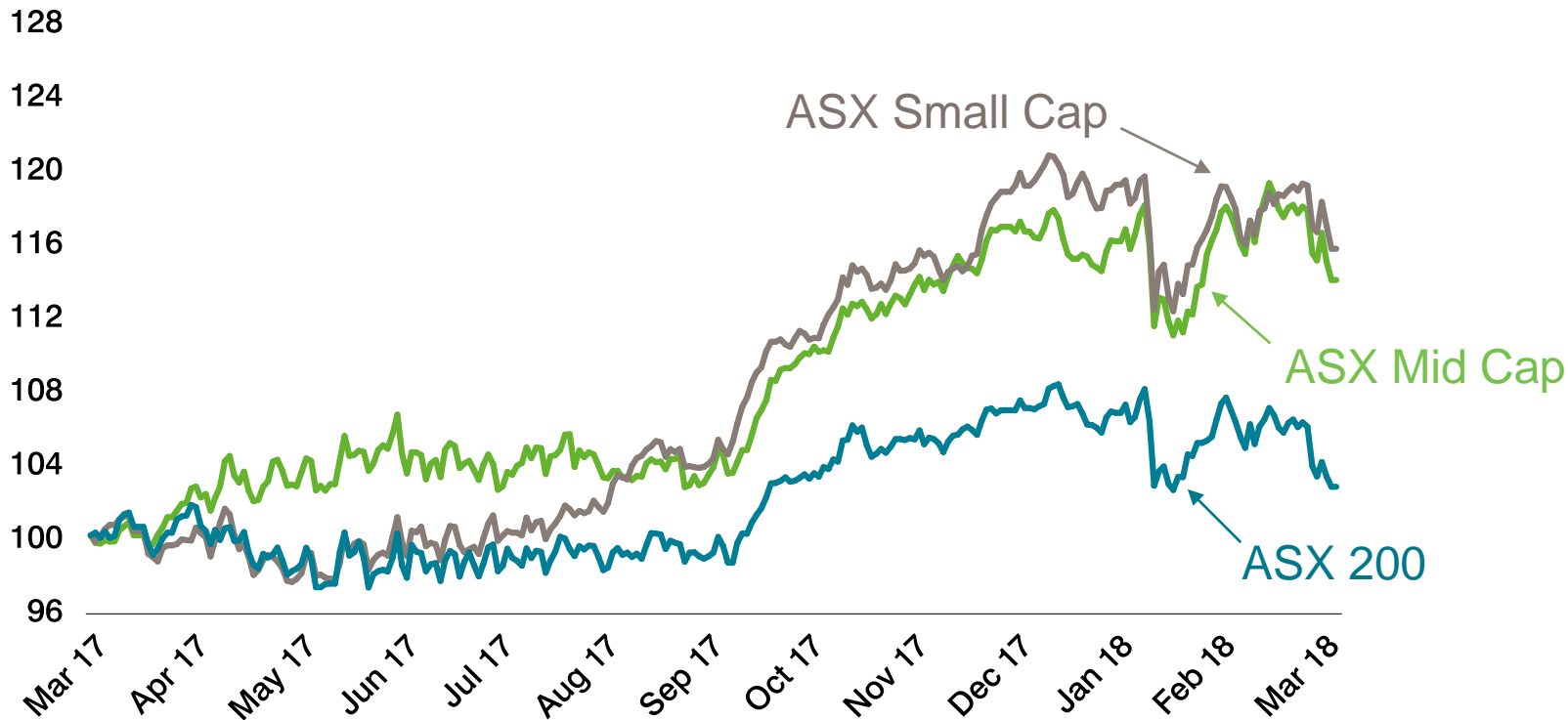
- Synchronised global growth.
- Rising long term interest rates.
- Buoyant commodity prices.
- Recent company reporting season in Australia – growth remains challenging for many large companies.
- Value still difficult to find.

The market has been generally strong despite the recent pullbacks, although we are starting to see increased volatility



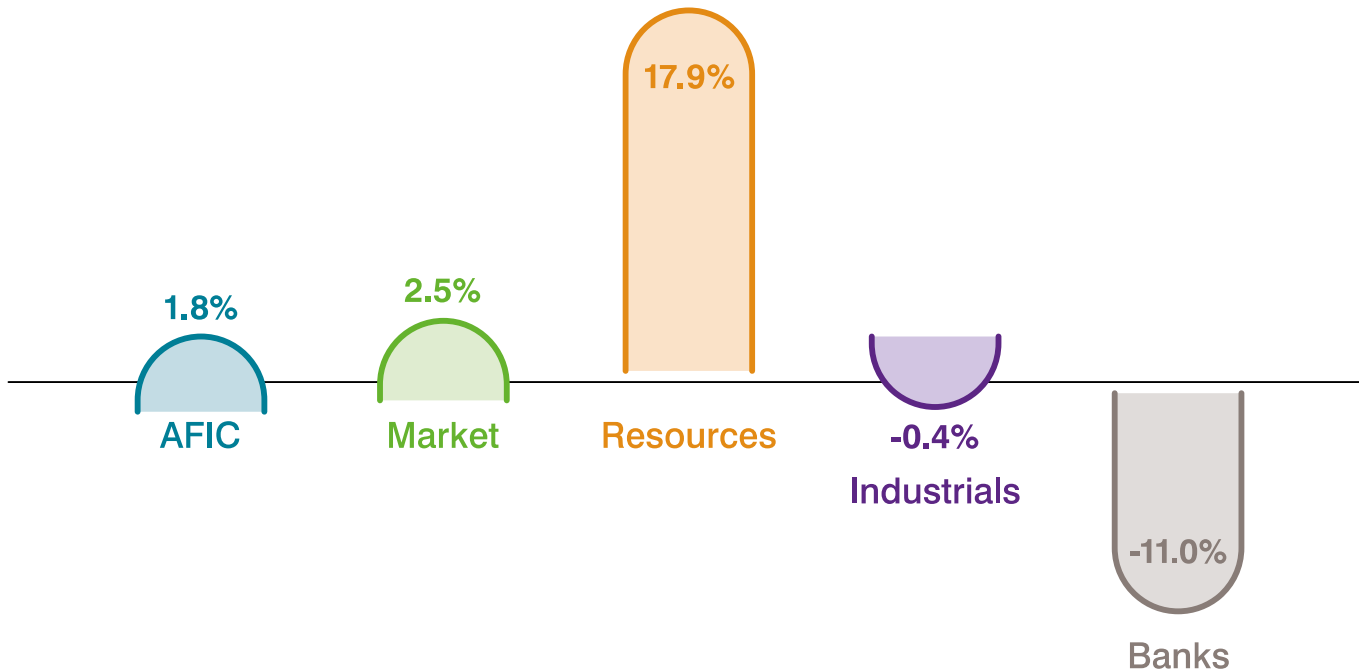
Source: FactSet

Mid and Small Sized Companies Have Been Very Strong Led by Resources



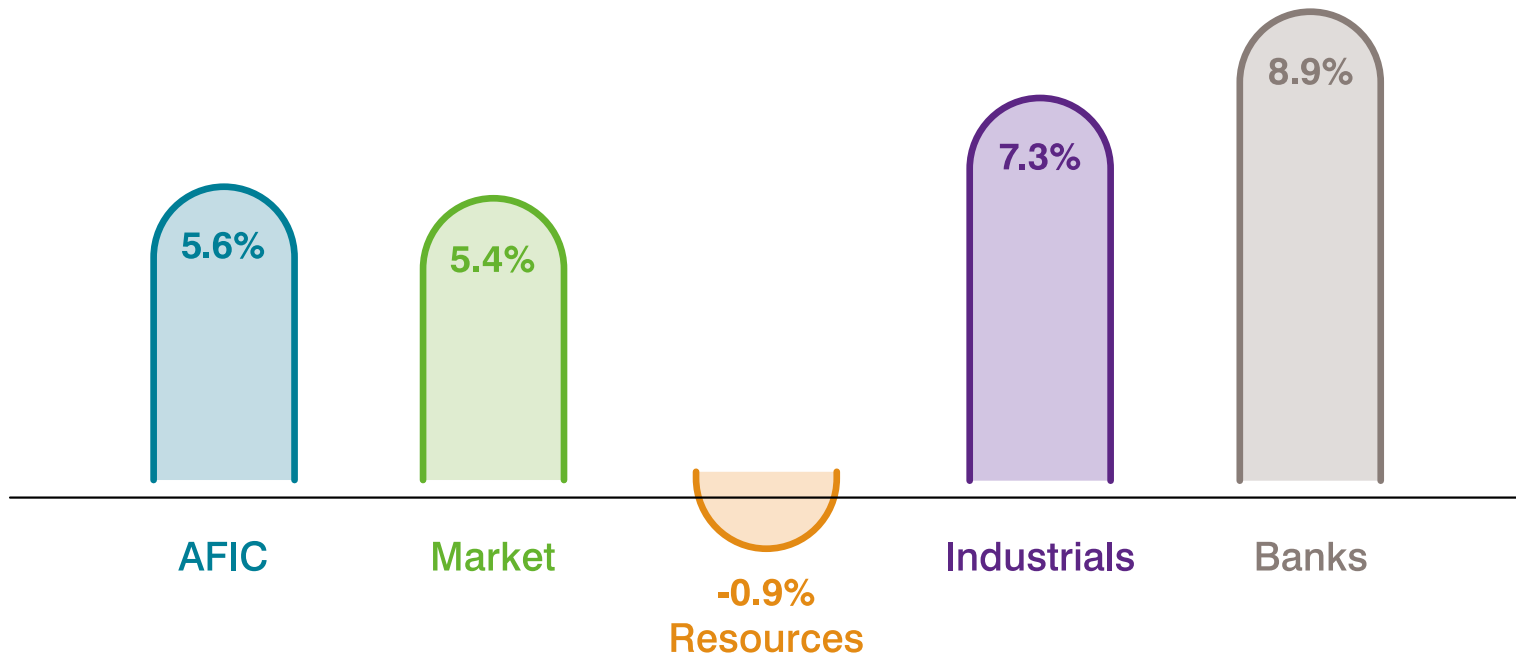
Source: FactSet

Resources Have Dominated Returns Over the Year to 31 March 2018. AFIC is Underweight Small and Mid Sized Resource Companies.



Note: Returns including dividends.

The 10 Year Performance of the Portfolio to 31 March 2018 Presents a Very Different Picture



Note: Returns including dividends.

Market moves as well as purchases/sales have changed the profile of the Portfolio – top 10 holdings 31 March 2018

Rank	Company	% of Portfolio	Major changes – % Mar 2017
1	Commonwealth Bank of Australia	8.4%	9.8%
2	Westpac Banking Corporation	6.5%	7.8%
3	BHP*	5.9%	4.8%
4	CSL *	4.3%	3.1%
5	Wesfarmers	4.1%	
6	National Australia Bank	4.0%	4.8%
7	Rio Tinto	3.7%	3.2%
8	Australia and New Zealand Banking Group	3.3%	4.0%
9	Transurban Group	3.3%	
10	Amcor	2.6%	

* Options were outstanding against part of the holding.

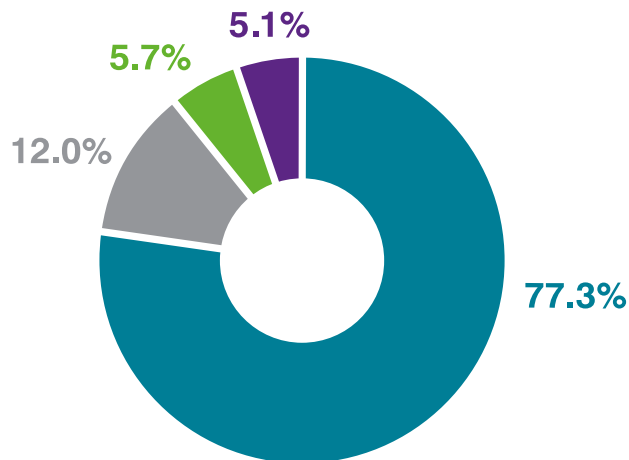
Market moves as well as purchases/sales have changed the profile of the Portfolio – next 10 holdings 31 March 2018

Rank	Company	% of Portfolio	Major changes – % Mar 2017
11	Telstra Corporation	2.4%	3.5%
12	Woolworths Group*	2.0%	
13	Brambles	2.0%	
14	Macquarie Group*	1.8%	Outside of top 20
15	Oil Search	1.7%	
16	Treasury Wine Estates*	1.6%	1.2%
17	Woodside Petroleum	1.6%	
18	AMP	1.5%	
19	AGL Energy	1.4%	1.8%
20	Ramsay Health Care	1.3%	

* Options were outstanding against part of holding.

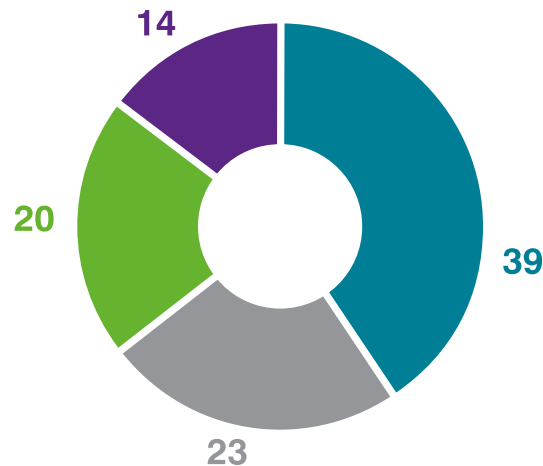
Whilst large companies represent a major percentage of the portfolio, there are a number of companies in the portfolio in the mid and small sectors which typically have a stronger outlook for growth

Per cent of Portfolio by Value



● Fifty leaders ● Mid cap
● Small ordinaries ● Ex-small

Number of Companies



● Fifty leaders ● Mid cap
● Small ordinaries ● Ex-small

Over time we have been adding smaller companies that have produced dividend and/or capital growth






Mid Cap 50



Small Ordinaries



Companies we have made larger investments in this financial year

Company	What we like
 MACQUARIE	Business model has pivoted toward recurring revenue streams. Thematic exposure to global infrastructure demand – utilities, renewables.
	Leading global blood plasma business with strong track record from converting R&D into new product success.
	Well positioned to supply strong east coast Infrastructure demand. Strategic Asian and North American assets.
	Bought prior to takeover offer. Quality retail destination shopping centres globally. Value on offer at the time.
	Continues its solid track record of leveraging its toll road networks to deliver value accretive development projects. Participated in their recent rights issue.

New companies added to the portfolio



Adelaide Brighton Ltd



Longer term trends are important considerations for the Portfolio

- Changing nature of business models including use of technology.
- Digital disruption, management of data.
- Ongoing exposure of the Australian economy to global businesses.
- Changing demographics – transition of ‘baby boomers’ to retirement and the rise of the millennials.

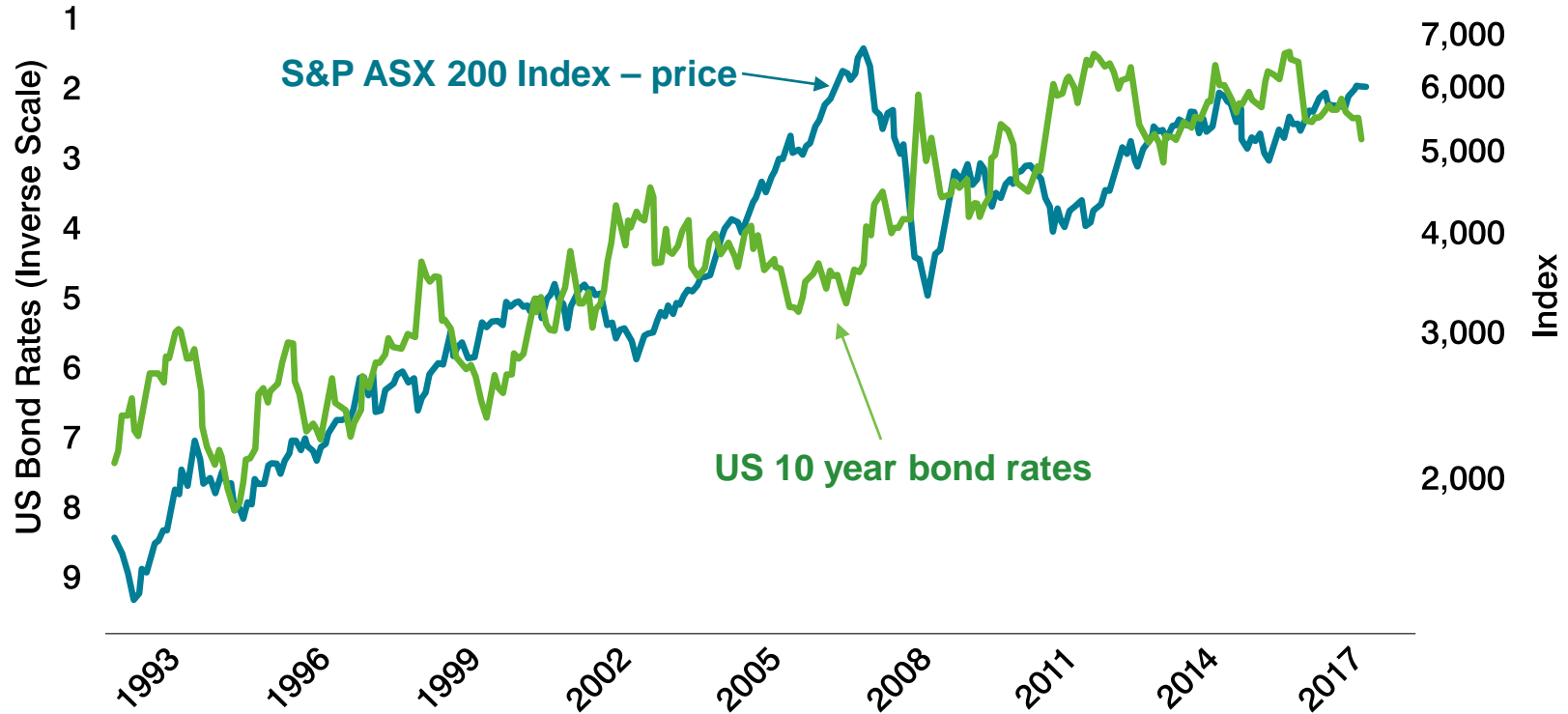


Looking Ahead

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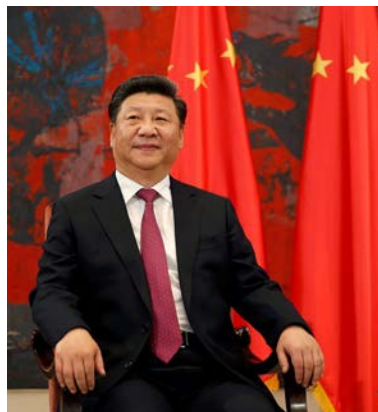
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The trajectory of US Long Term Bond Rates have a history of influencing the Australian Market



Source: FactSet

Other factors at play...



In Summary

- Profit growth should offset higher interest rates in the US and Australia.
- Politics creating a mood of unease.
- We are not bullish. We are not bearish.
- Our focus is the “market for stocks” not the “stock market”.

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