

12 October 2016

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  
2016 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 grey ink, appearing to read 'M Rowe', is positioned above the printed name of the signatory.

Matthew Rowe  
Company Secretary



# ANNUAL GENERAL MEETING OCTOBER 2016

**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

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# INTRODUCTION



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**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

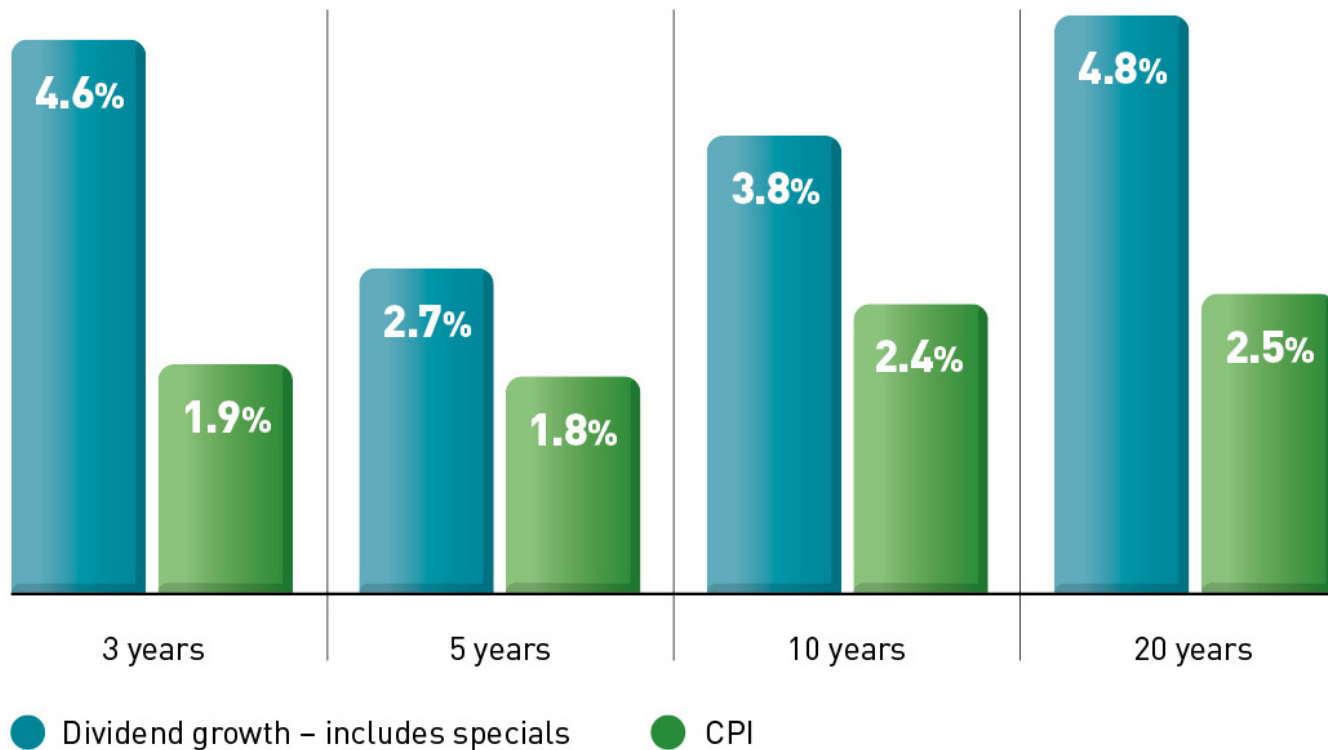
# HOW WE INVEST – WHAT WE LOOK FOR IN COMPANIES



# INVESTMENT OBJECTIVES

- ▶ 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





# RESULTS & SHAREHOLDER RETURNS

ANNUAL GENERAL MEETING OCTOBER 2015

**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY**

# FULL YEAR FINANCIAL SUMMARY – 30 JUNE 2016

## PROFIT FOR THE YEAR

**\$265.8m**

▼ Down 9.5% from 2015

## FULLY FRANKED DIVIDEND

**14¢**  
Final

**24¢**  
Total

▲ Up 1 cent up from 2015

## MANAGEMENT EXPENSE RATIO

**0.16%**

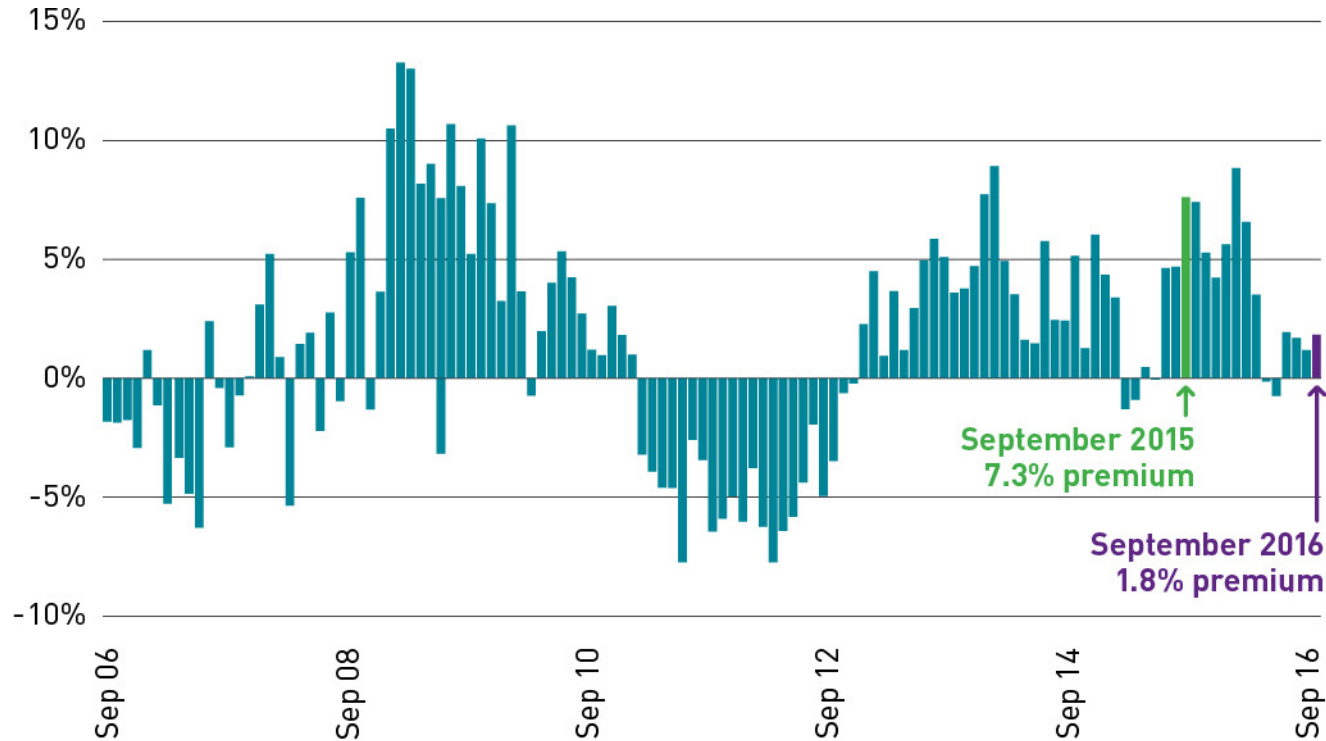
0.16% in 2015

## TOTAL PORTFOLIO

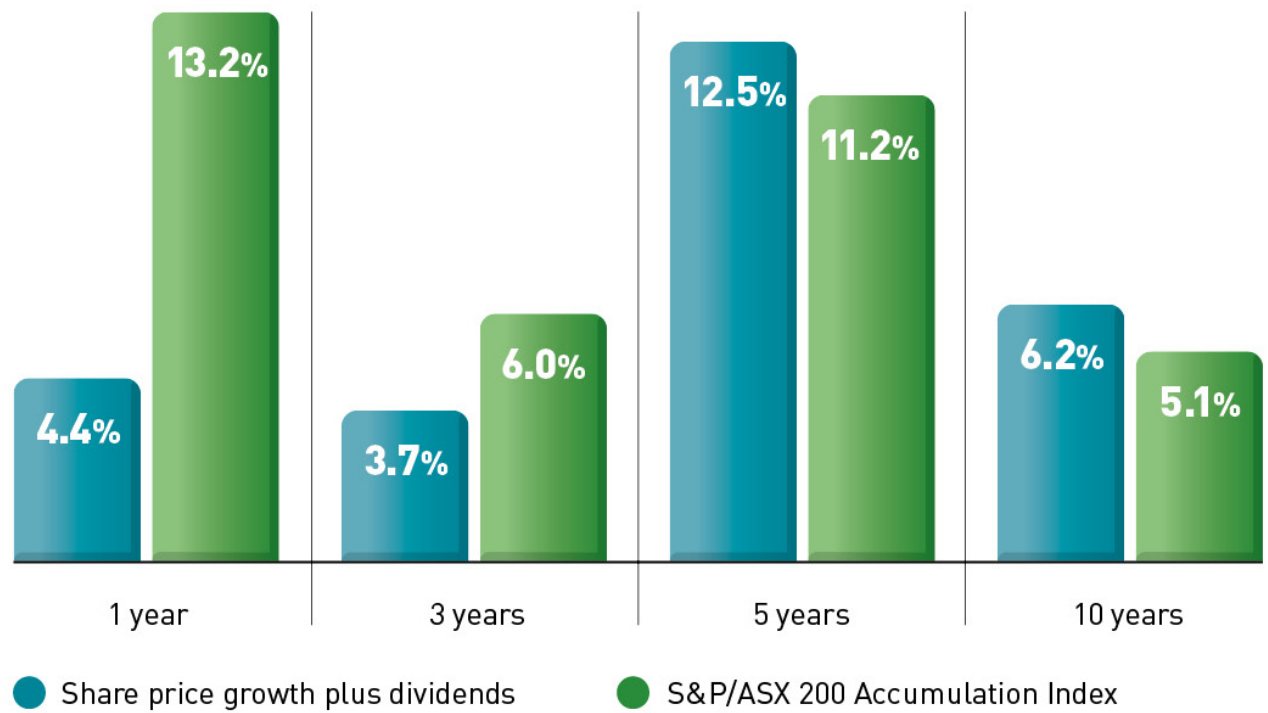
**\$6.4b** Including  
cash at  
30 June

\$6.6 billion in 2015

# SHARE PRICE IS AT SLIGHT PREMIUM TO NET ASSET BACKING BUT DOWN FROM LAST YEAR



# RECENT SHARE PRICE RETURN HAS REFLECTED LOWER PREMIUM – PERFORMANCE PER ANNUM TO 30 SEPTEMBER 2016



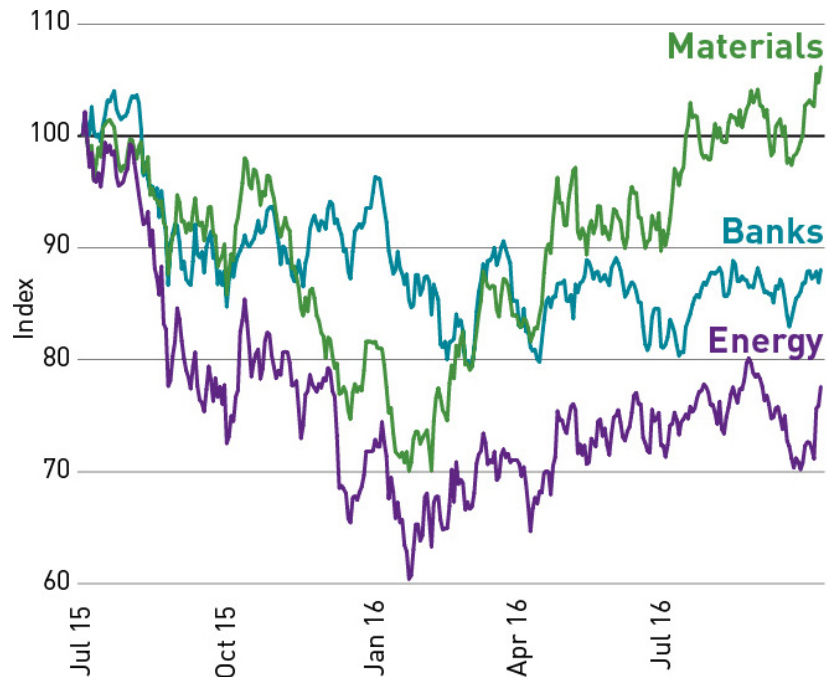
A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The perspective creates a sense of height and architectural grandeur. The sky is visible at the top, and the glass reflects the surrounding environment.

# THE MARKET & THE PORTFOLIO

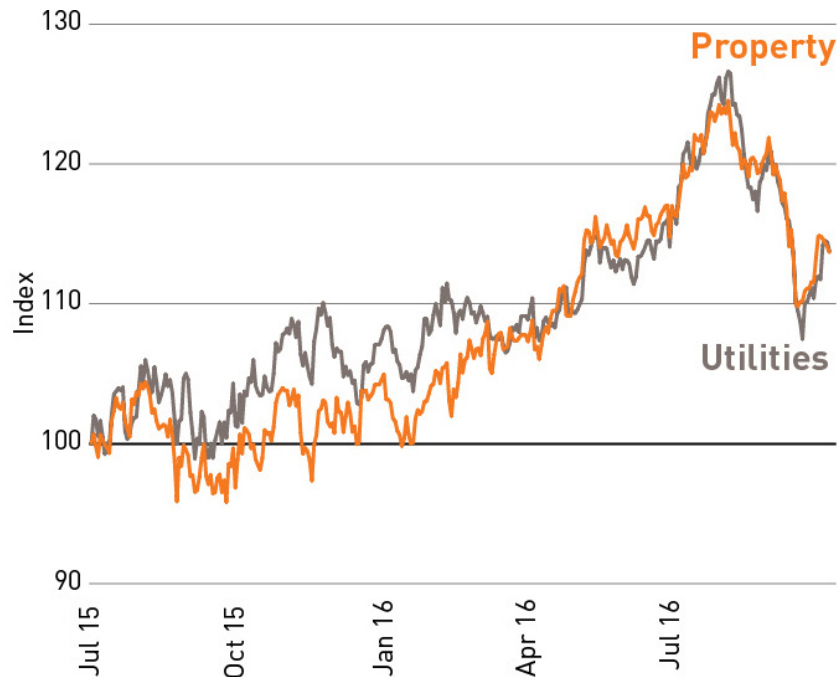
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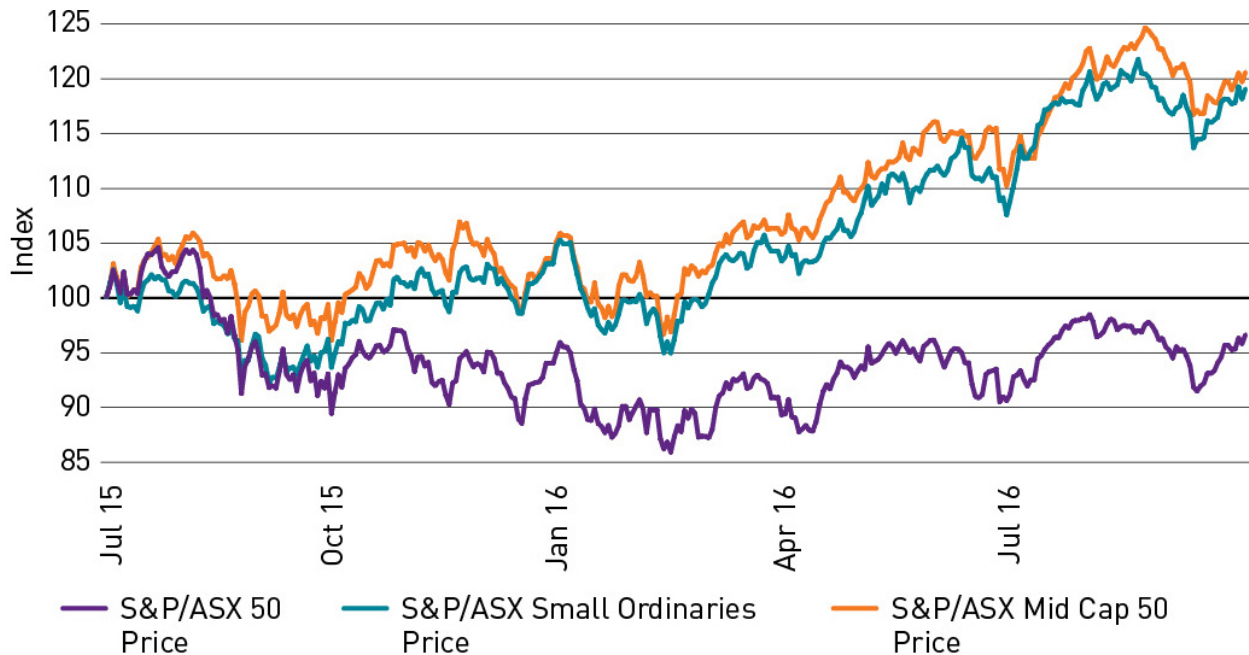
# LOW GROWTH AND LOW INTEREST RATES HAVE PRODUCED UNUSUAL MARKET CONDITIONS



Source: FactSet

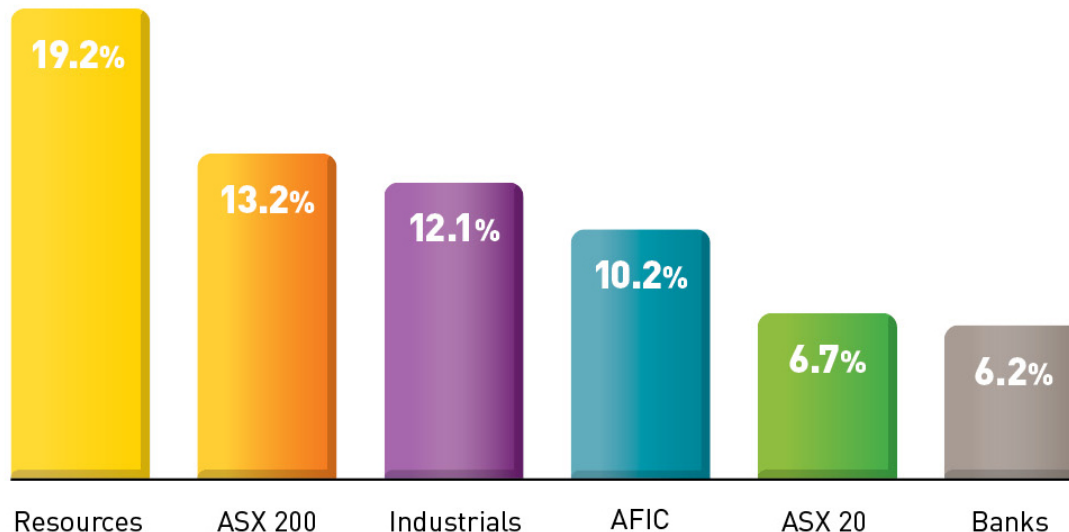


# SMALL AND MID CAP COMPANIES HAVE SUBSTANTIALLY OUTPERFORMED LARGER COMPANIES RECENTLY



Source: FactSet

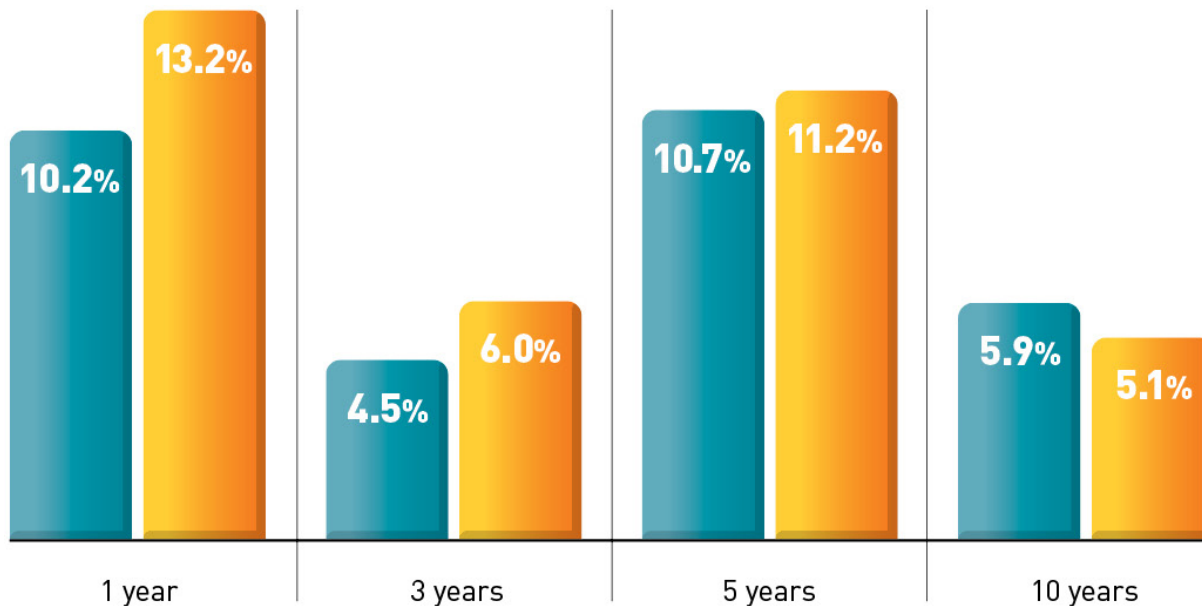
# ONE YEAR RETURN OF AFIC AND MAJOR SECTORS OF THE MARKET – INCLUDES DIVIDENDS



Source: FactSet

The top 20 companies in the index are challenged for growth – we have been changing the profile of the portfolio to reflect this

# PORTFOLIO PERFORMANCE – PER ANNUM RETURN TO 30 SEPTEMBER 2016

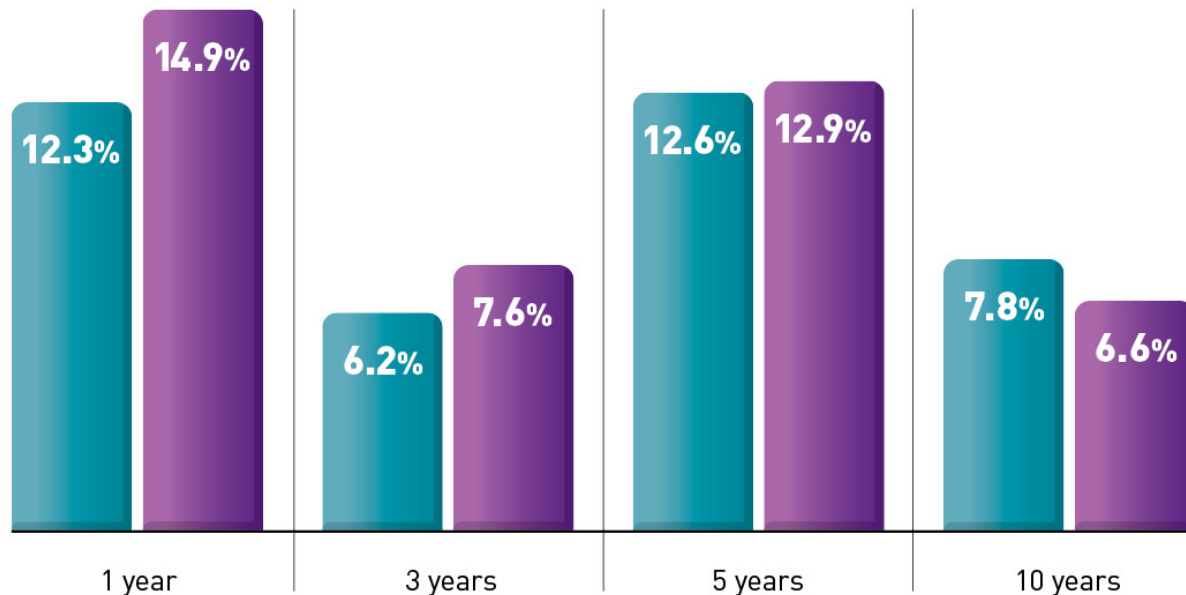


● Net asset per share growth plus dividends

● S&P/ASX 200 Accumulation Index

AFIC is after tax and expenses. Ignores benefits of franking and LIC tax credits.

# PORTFOLIO PERFORMANCE INCLUDING BENEFIT OF FRANKING CREDITS\* – PER ANNUM RETURN TO 30 SEPTEMBER 2016



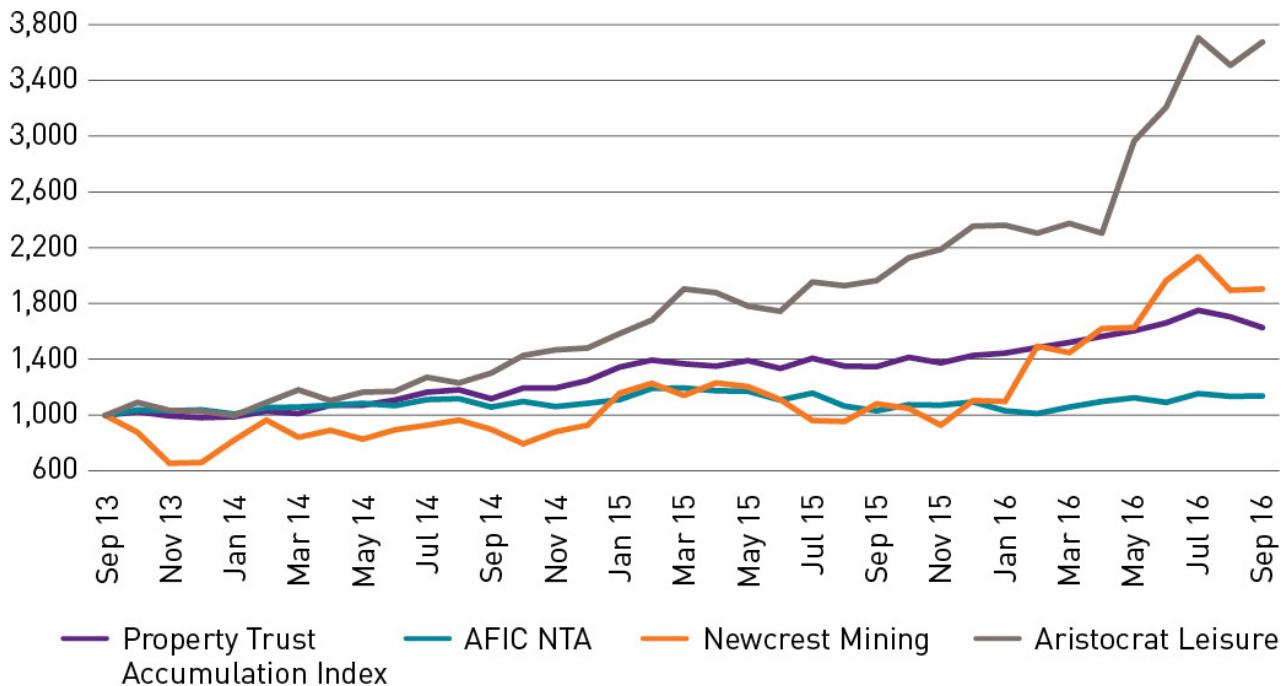
● Net asset per share growth plus dividends including franking

● S&P/ASX 200 Accumulation Index including franking

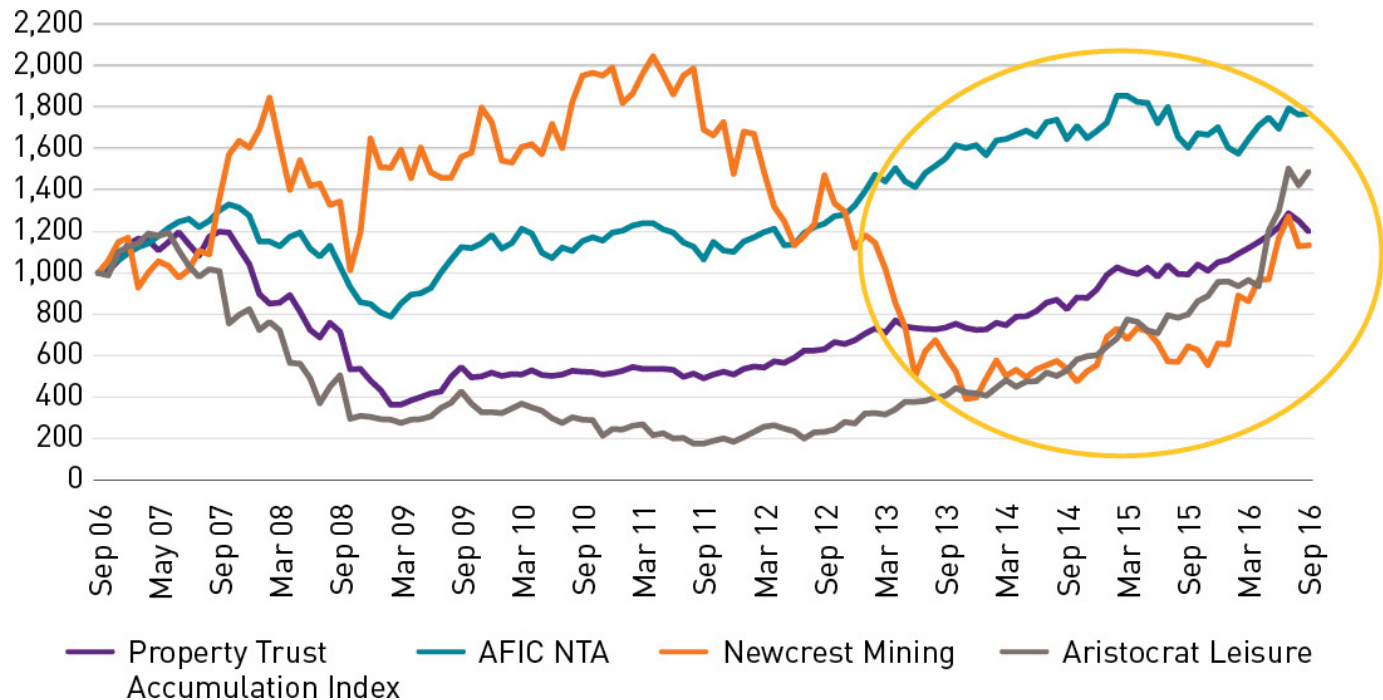
After tax and expenses. Ignores benefits of LIC tax credits.

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

# AFIC IS NOT A SIGNIFICANT INVESTOR IN PROPERTY TRUSTS GOLD AND GAMBLING SECTORS – THIS CAN SOMETIMES AFFECT PERFORMANCE – 3 YEARS



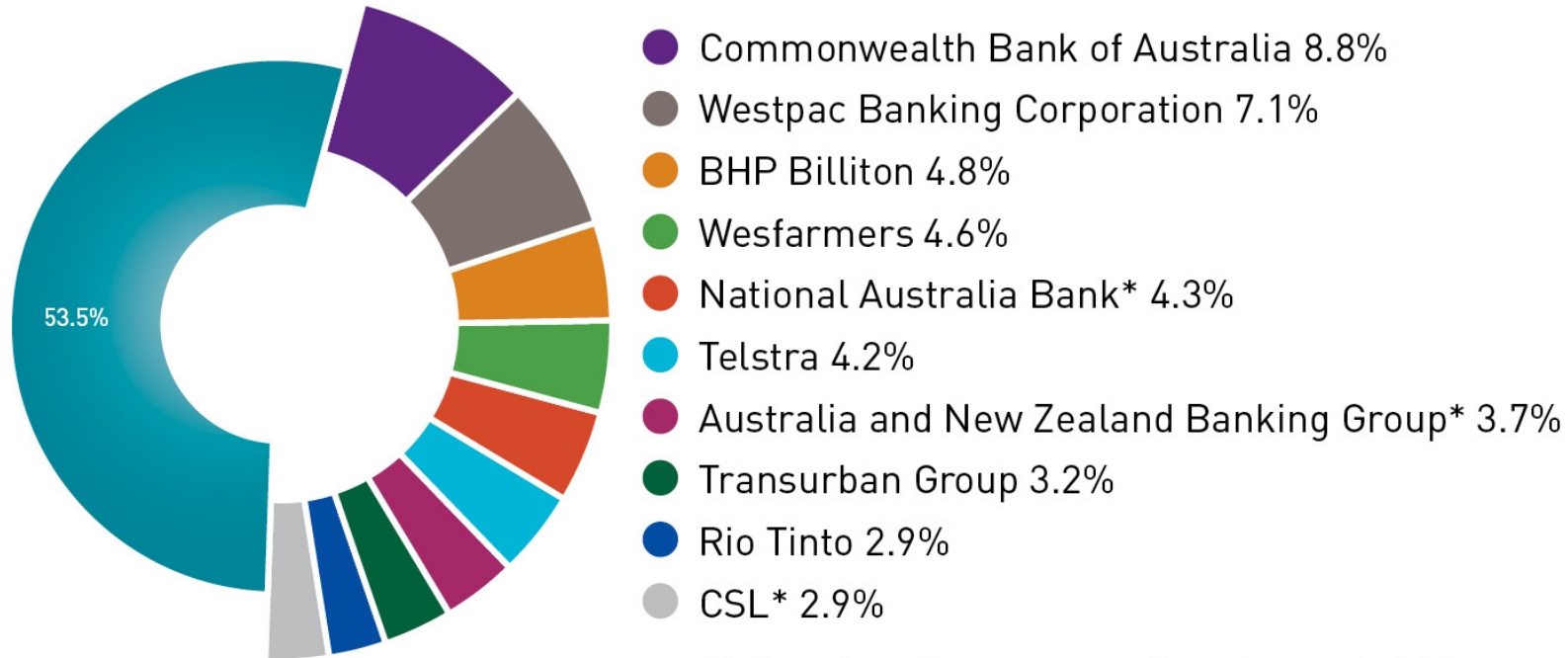
# AFIC IS NOT A SIGNIFICANT INVESTOR IN PROPERTY TRUSTS GOLD AND GAMBLING SECTORS – THIS CAN SOMETIMES AFFECT PERFORMANCE – 10 YEARS



# WHAT HAVE WE BEEN DOING?

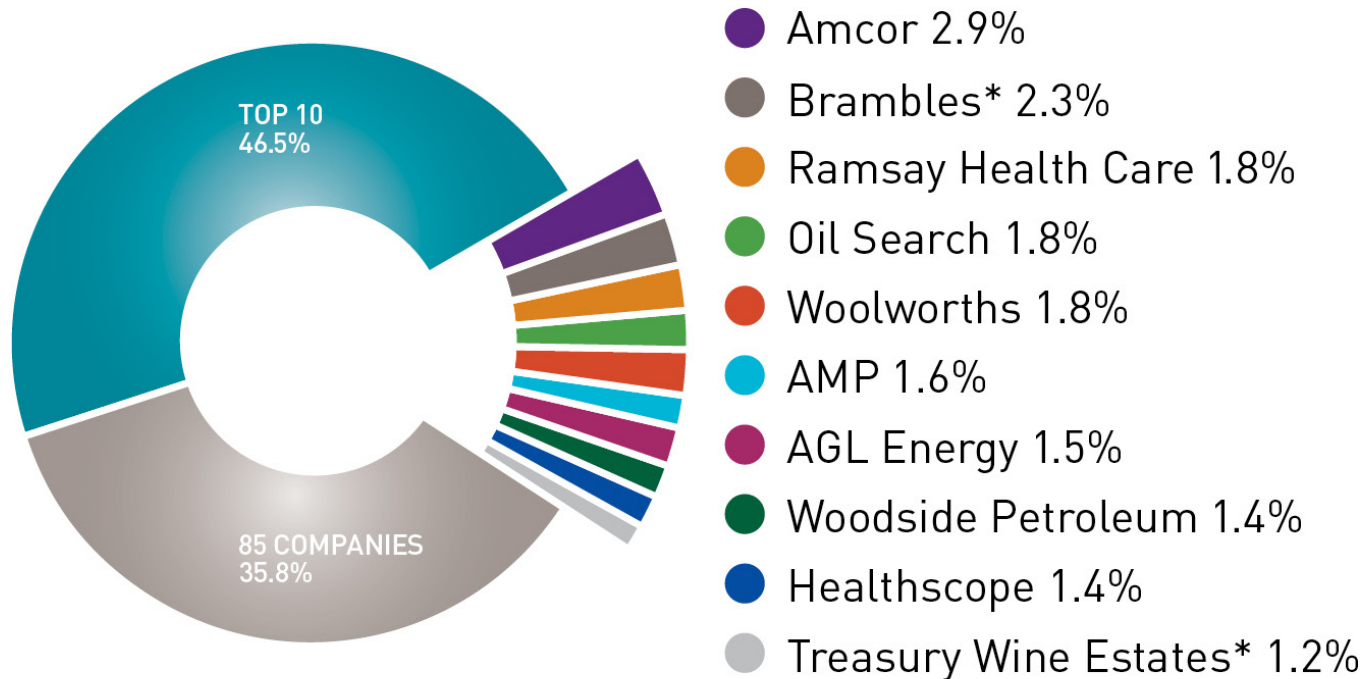
- Marginally reduced exposure to:
  - banks;
  - energy;
  - supermarkets; and
  - selected interest rate sensitive holdings.
- Further adding stocks with better growth outlook.
- Used market volatility to generate income from buy and write portfolio.

# PORTFOLIO AT 30 SEPTEMBER 2016 – TOP 10 HOLDINGS REPRESENT 46.5% OF THE PORTFOLIO



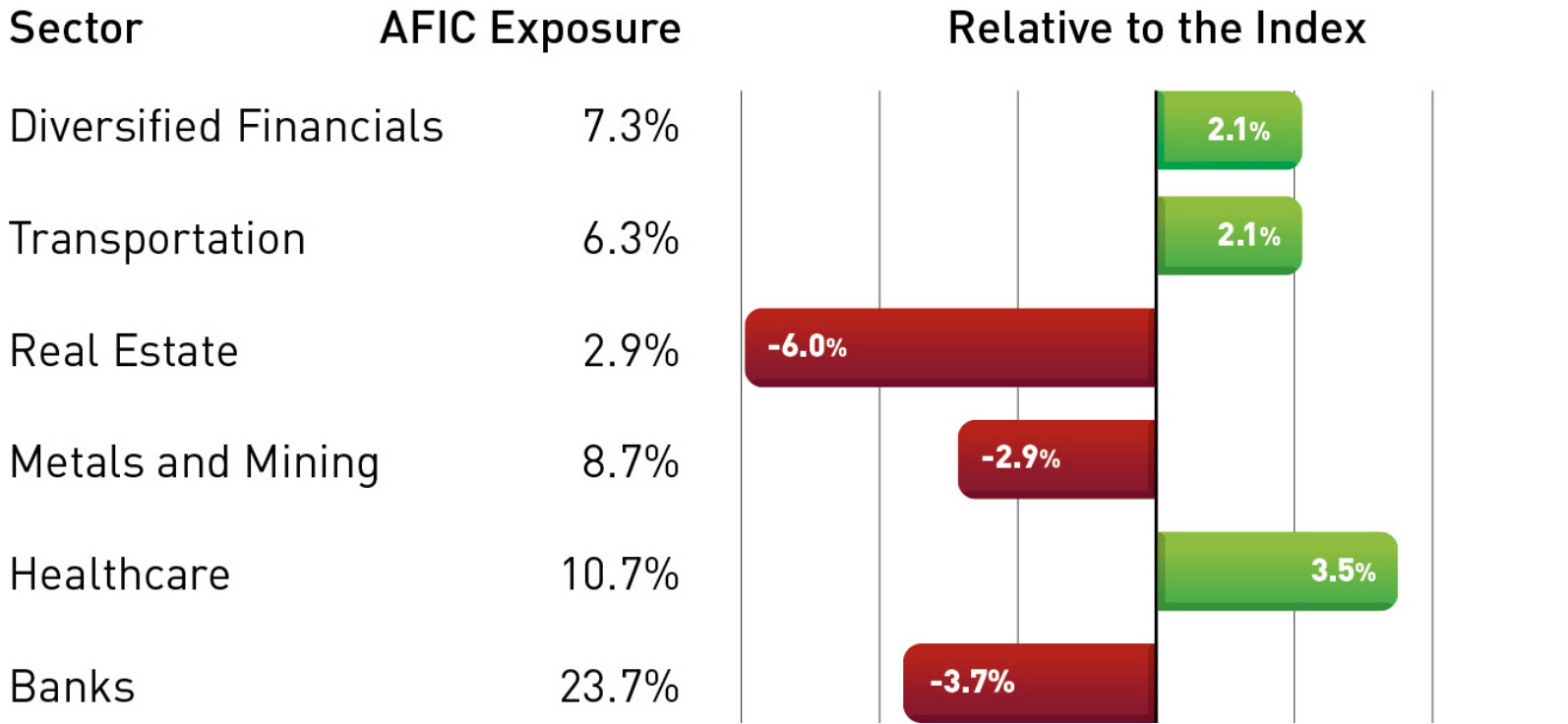
\* Indicates that options were outstanding against part the holdings.

# PORTFOLIO AT 30 SEPTEMBER 2016 – NEXT 10 REPRESENT 17.7% OF THE PORTFOLIO



\* Indicates that options were outstanding against part the holdings.

# AFIC'S PORTFOLIO VS THE ASX 200 INDEX – MAJOR VARIATIONS



# MAJOR ADDITIONS TO THE PORTFOLIO OVER THE LAST 3 YEARS

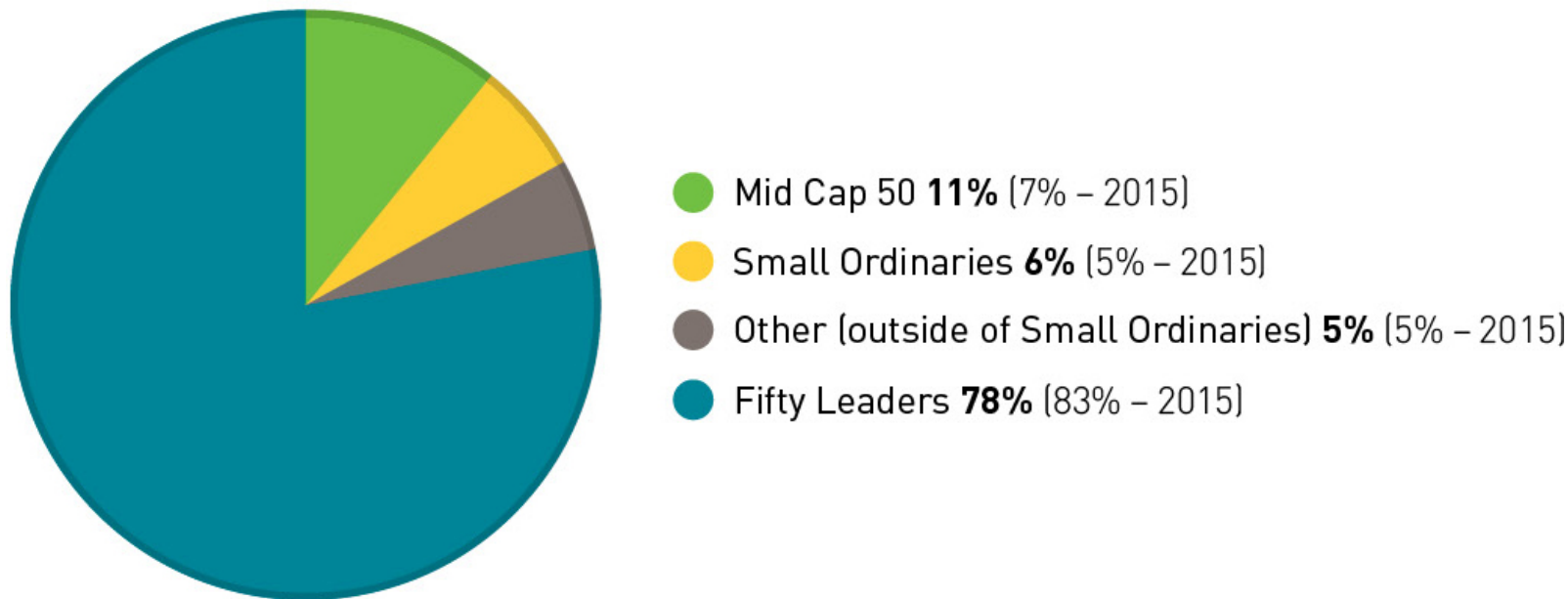


## MAJOR ADDITIONS TO THE PORTFOLIO OVER THE LAST 3 YEARS (continued)

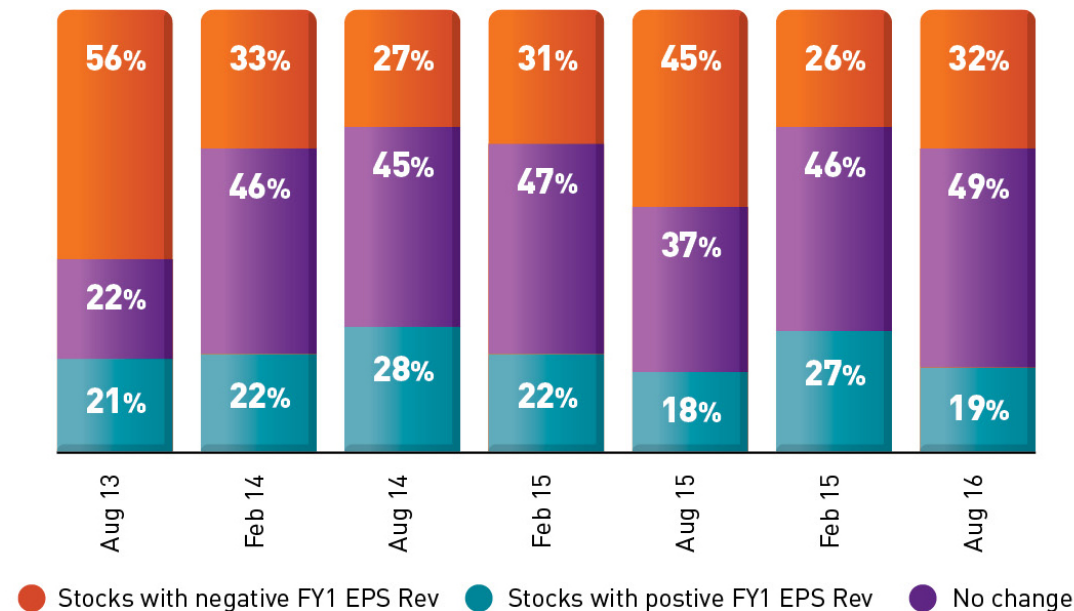
- The addition of these companies have further diversified the portfolio.
- Only \$170 million was invested in these companies 3 years ago – many are new to the portfolio.
- Currently represent over \$1bn in value in the portfolio.
- Original cost of all of these companies purchased at various periods over the last 3 years is \$700m.

# SMALL AND MID CAP STOCKS HAVE GONE TO 22% FROM 17% LAST YEAR

30 September 2016



# COMMENTS ON THE RECENT REPORTING SEASON



Source: GS Research

- No more bad news than normal but few positive surprises.
- Revenue growth remains subdued.
- Large number of 'one-off' impairments/write offs.
- Dividends reduced, particularly in commodity companies.
- However outside of banks the market is expecting a strong recovery in 2017 earnings.

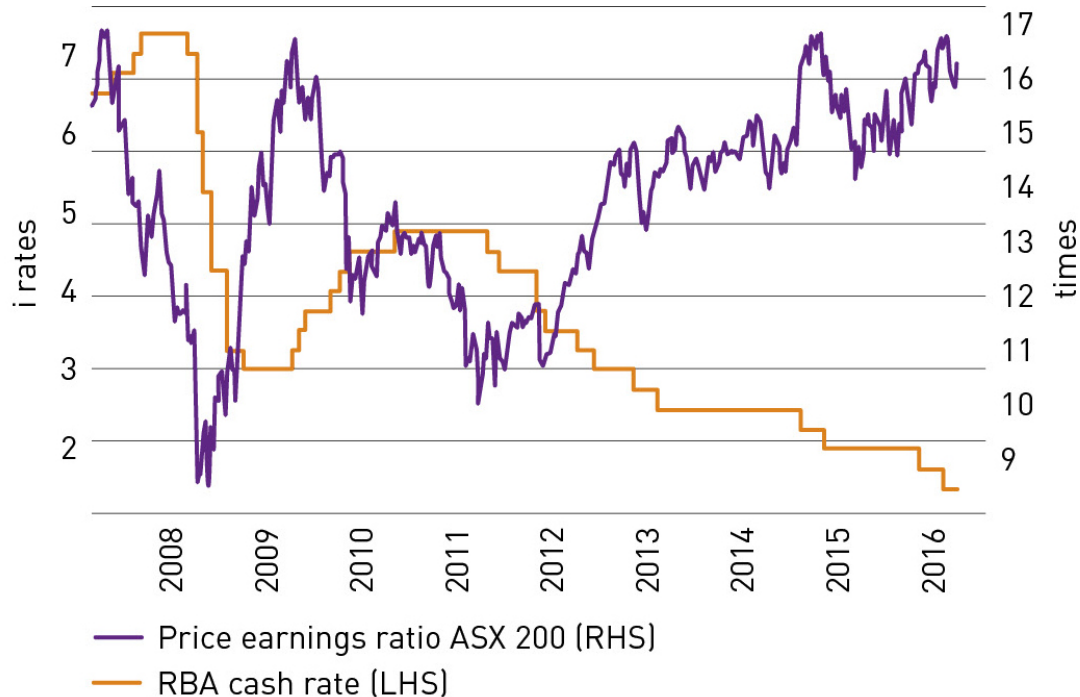


# LOOKING AHEAD

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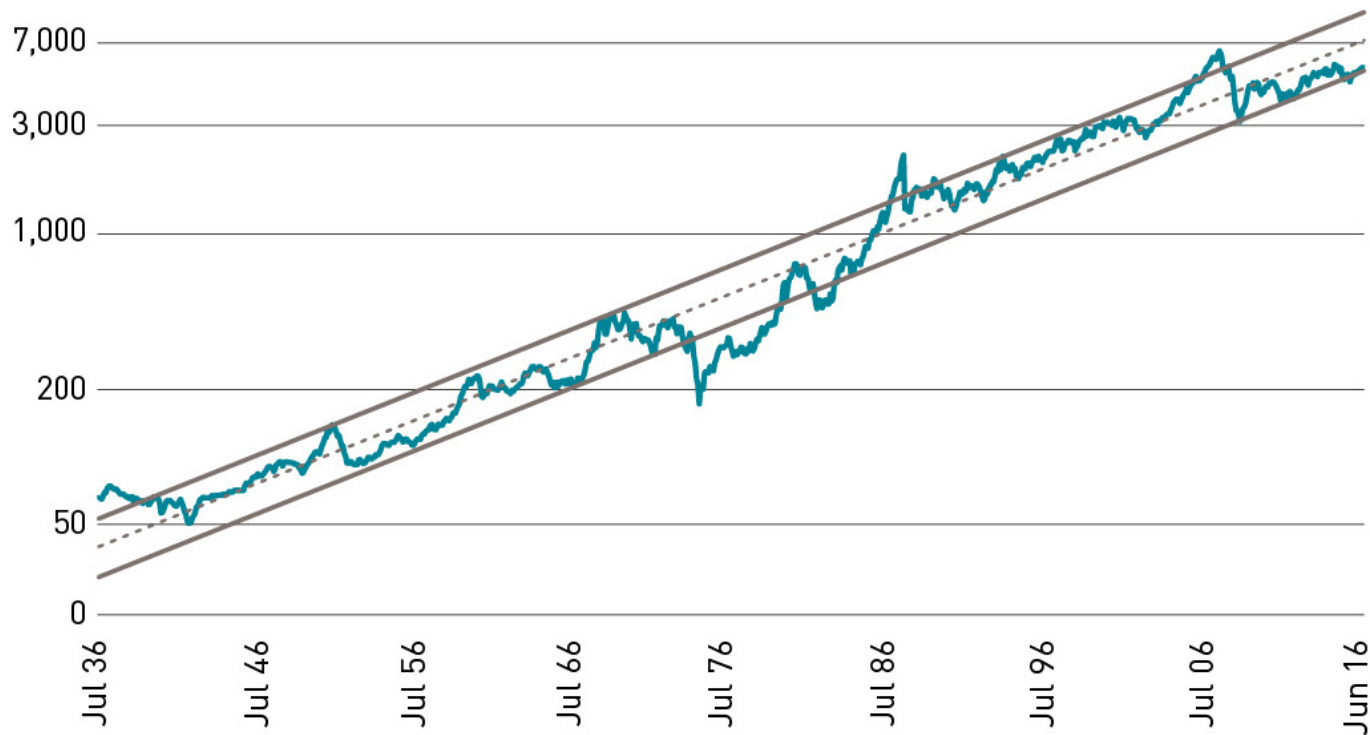
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# LOW INTEREST RATES HAVE DRIVEN VALUATIONS HIGHER

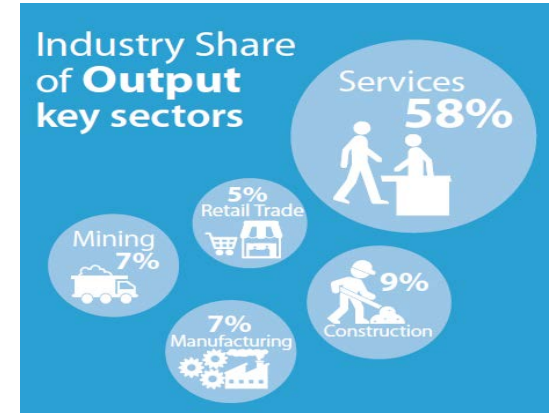
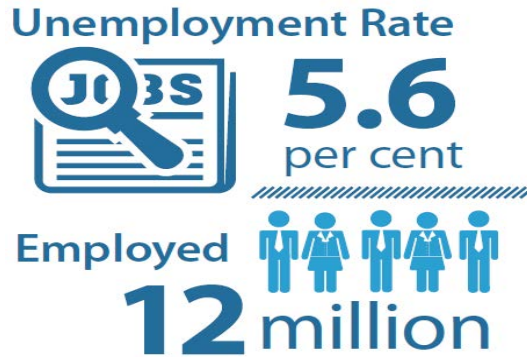
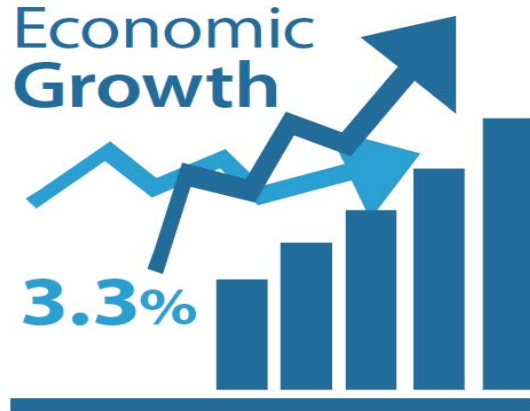


Source: FactSet

# WHAT THE LONG TERM MARKET TREND LOOKS LIKE



# WHERE DOES THIS LEAVE US?



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