AUSTRALIAN FOUNDATION INVESTMENT COMPANY

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

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Australian Foundation Investment Company Limited
2020 Annual General Meeting Chairman's Address and Presentation

Dear Sir / Madam

The following Chairman's address and presentation will be delivered to shareholders at the Company's Annual General Meeting to be held today.

Yours faithfully

Matthew Rowe
Company Secretary

Authorised for release by the Company Secretary

AFIC AGM Chairman's Address - Introductory Remarks

If I had been told on the first of July 2019 that the Australian Equity market would produce a total return of negative 6.6% for the year it would not have surprised me. Market valuations were getting high , growth was slowing and some predicted a mild recession in the first half of 2020. The negative 6.6% return was what emerged but that totally hides what an extraordinary and disruptive year it was.

In this environment we are pleased to have been able to deliver 3 things to our shareholders :

- Firstly by outperforming the ASX 200 Index by 3.5% we have softened the downturn in such a disruptive year. This is achieved in a portfolio exhibiting lower volatility than the market .
- Secondly we have kept the cost of running AFIC to just 0.13% allowing almost all of our income to flow through to our shareholders. This is very competitive against other investment funds.
- Thirdly our policy of accumulating some profit and franking reserves in good years has allowed us to pay a steady 24c annual dividend despite our earnings falling to 19.9c due to significant dividend cuts or deferrals .

We have had a lot of queries as to our likely dividend this year. Unfortunately , as it is early in what will remain a difficult year for many companies we can not make any reliable forecasts yet. Suffice to say we are well aware of the importance of dividends to our shareholders in these difficult times.

The 2019/20 year was a tale of two very different halves with our profits in the June half year under considerable pressure due to dividend cuts and deferrals. We have a partial view of the current half year after the recent reporting period with income levels remaining subdued. In the next month the bank results will reflect both the pandemic and the constraint APRA has put on the banks for dividends to be no more than half of profits. It will again be a difficult half.

The June half of 2021 may see some benefit as our economy opens up as long as the pandemic is kept under control. However as we go into 2021 it will be impacted by the gradual wind back of the fiscal stimulus measures . It is sobering to reflect on the scale of those measures that have underpinned the economy through the last 6 months :

- Job keeper and Job Seeker have injected $60bn
- Superannuation fund withdrawals have approximated $50bn
- And deferrals of interest and capital have occurred on a quarter of a trillion dollars of loans.

An examination of the recent Federal Budget shows that greatest stimulus is over the 12 months from March 2020 to March 2021 and without further measures the level of support will decline significantly after that. The effect of the superannuation withdrawals and loan payment deferrals largely ends now.

Over the last two years we have reduced the number of stocks in our portfolio and increased our commitment to a number of our favourite companies . This has given the portfolio better industry diversification and we believe stronger growth potential. The recent positive performance numbers appear to confirm the benefits of this strategy.

Shareholders will be aware that over recent years many of our core holdings have expanded their businesses internationally. Some have done so to the extent that they now operate primarily in offshore markets, for example Amcor, Brambles and James Hardie to name just a few.

This has meant that our investment team have increasingly developed capabilities and processes to follow these companies and their competitors offshore. It has become an important part of our investment process.

Acknowledging AFIC's rising capabilities in understanding and analyzing global companies, along with the heightened flow of information through technology, the Board wanted to test whether our established successful style would work with International Equities.

Over the past year we have put together and followed a model international portfolio based on our investment principles and processes the results to date are encouraging.

As a result the Board believed it was now time to actually invest a small part of our funds (up to one and a half percent) in this diversified global equities portfolio . It will consist of high quality companies with strong competitive advantage, good growth potential and offering a broader range of industries. It will add to the growth prospects and diversification of our existing Australian based portfolio.

Down the track, when the performance has been assessed, we will consider whether it represents an opportunity for our shareholders and other investors to invest in this global portfolio directly.

Annual General Meeting Presentation

2020

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Presentation Agenda

- Objectives and Investment Process (Mark Freeman)
- Result Summary (Andrew Porter)
- Markets and the Portfolio (David Grace)
- Outlook (Mark Freeman)

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Objectives

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.

AFIC offers a diversified portfolio of quality stocks – what we look for

- Sustainable competitive advantage – unique assets producing strong returns on capital
- Strong management team and board
- Recurring, predictable earnings are preferred
- Financial strength – strong cash flow and balance sheet
- Businesses that can grow over the long term, producing growing dividends
- Nursery stocks – developing the preceding attributes
- Look to buy when we see long term value

ESG is integrated into our investment framework

- Invest in companies that have strong governance and risk management processes that include environmental and social risks.
- We are seeking remunerations plans and outcomes that align with AFIC's interests as long term shareholders.
- We engage with investee companies on these issues and will vote as shareholders accordingly.

"As shareholders, we are ultimately the owners of the assets of companies we invest in. If we believe these to be good assets that can generate satisfactory returns for our shareholders we believe it is our obligation to engage with Boards and management to make sure these assets are being managed effectively. This includes having a meaningful social licence to operate and complying with practices that reinforce this position, including having acceptable behaviours and accountabilities"

Result Summary

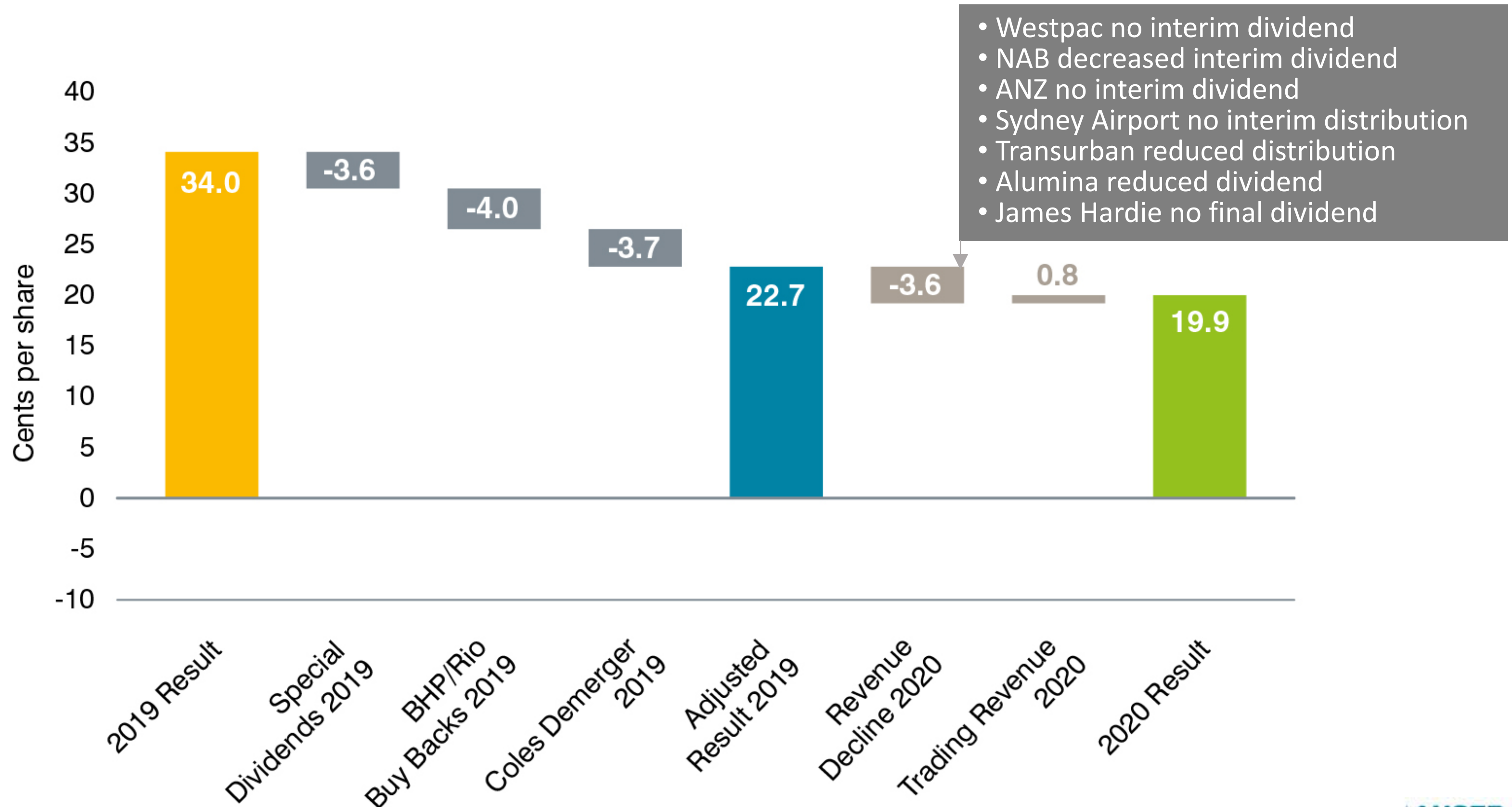
Result Summary

	2020		
Profit for the Year	$240.4m		$406.4m in 2019. Down 40.8%, excluding one-off items in 2019 down 12%.
Fully Franked Dividend	14¢ Final	24¢ Total	32 cents total in 2019 including 8 cent special dividend
Total Shareholder Return	2.9%		Share price plus dividend, including franking*

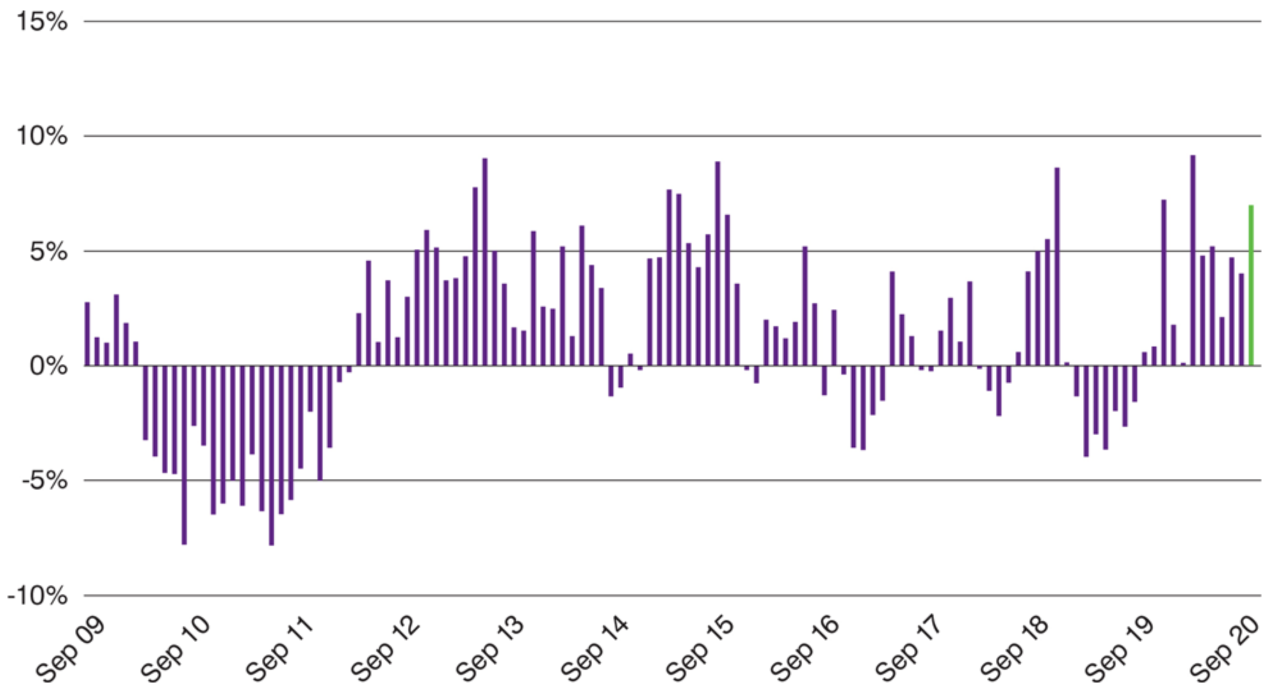
	2020	
Management Expense Ratio	0.13%	0.13% in 2019
Total Portfolio Return	-3.1% Including franking*	S&P/ASX 200 Accumulation Index including franking* -6.6%
Total Portfolio	$7.2b	Including cash at 30 June $7.8 billion in 2019

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

Profit per share – changes from full year result in 2019 to 2020

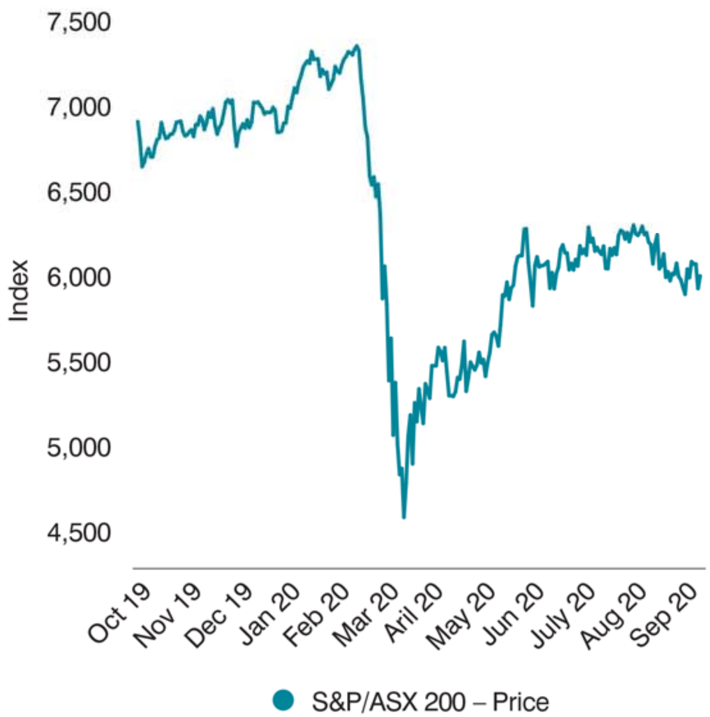


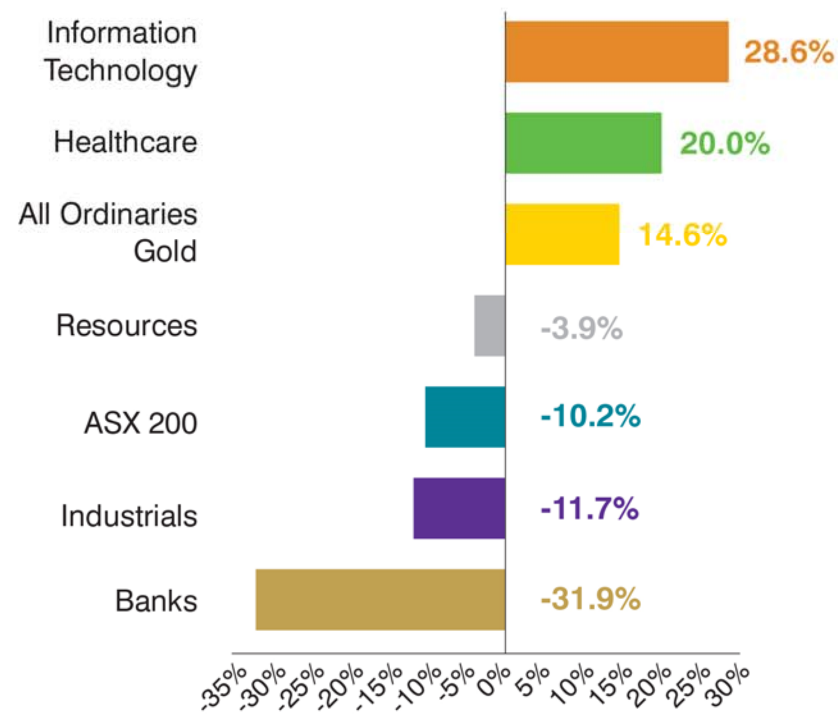
AFIC's share price was trading at a 7% premium to the NTA at 30 September 2020



Markets and the Portfolio

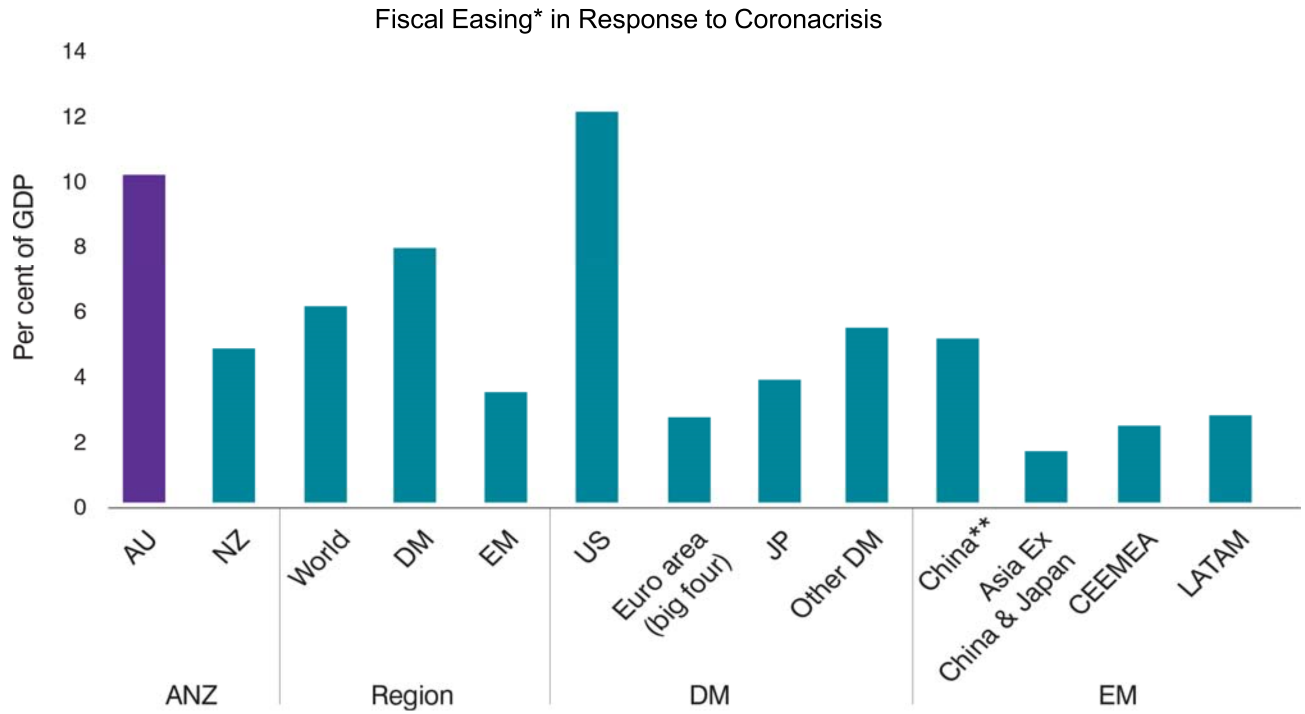
Market and key sector performance – Year to 30 September 2020





Includes dividends, but not franking

Fiscal Stimulus response is unprecedented in the post war period

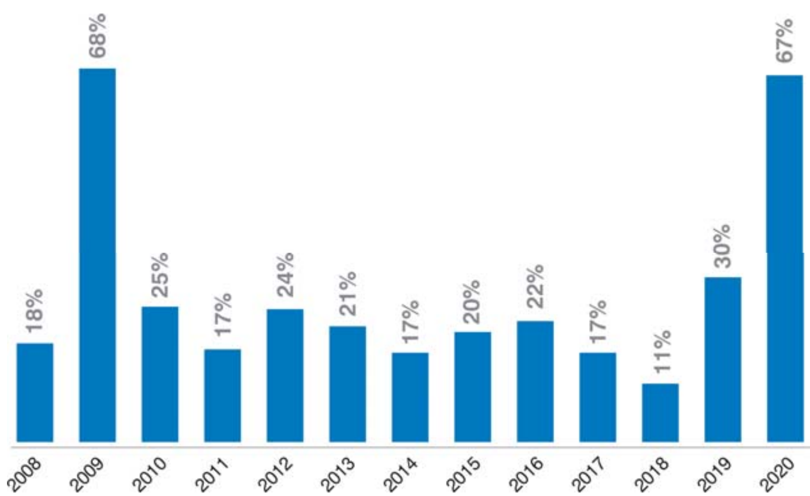


*Discretionary policy actions taken since the outbreak that lead to higher government expenditures or lower tax receipts
** GS expected easing

Source: *Goldman Sachs Global Investment Research*

Dividend Trends

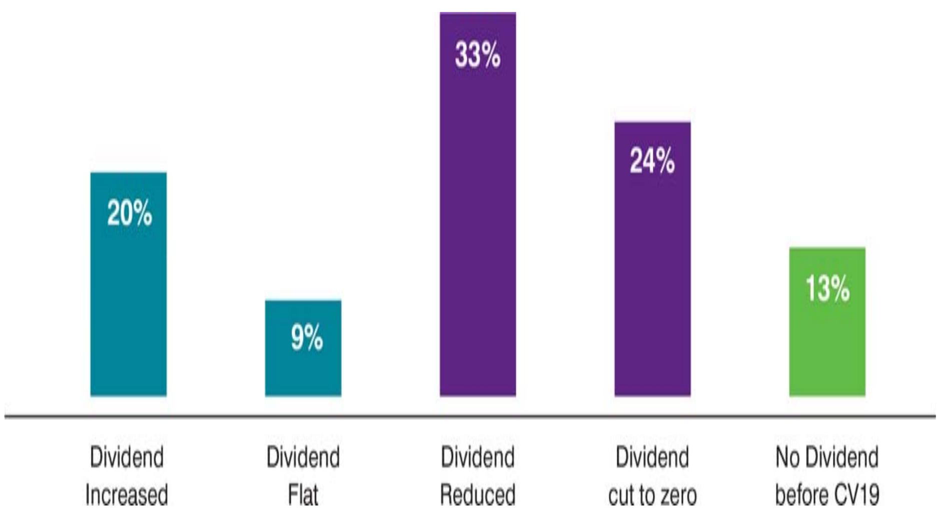
ASX Percent of cut or suspended dividend (stocks covered by Macquarie Research)



Source: *Macquarie Research, September 2020*

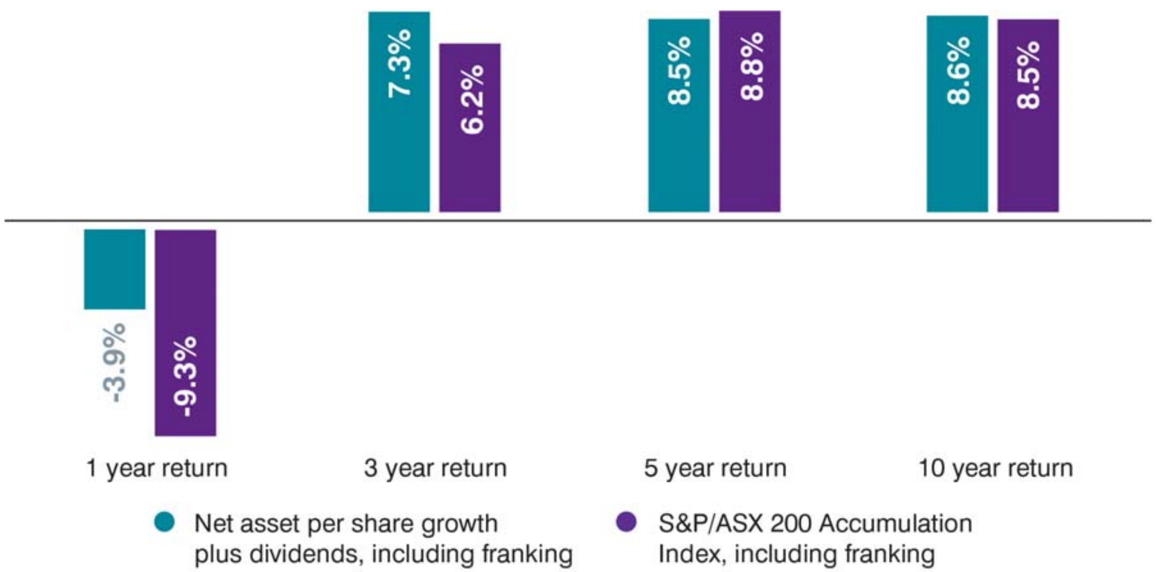
62% of companies paid a June half dividend, but over half of these companies payments were reduced

Reported Half Year Dividends (% of Companies)



Source: *Macquarie Research, September 2020*

Relative portfolio performance, including franking* – per annum returns to 30 September 2020



* Assumes an investor can take full advantage of the franking credits. AFIC's portfolio return is also calculated after management fees, income tax and capital gains tax on realised sales of investments. It should be noted that Index returns for the market do not include management expenses or tax.

Past performance is not indicative of future performance.

Note AFIC portfolio returns have a slightly lower level of volatility (Beta) than the Index

Recent changes to the portfolio reflected a move to businesses with well positioned assets

Purchases

Goodman

REA Group

Sydney Airport

Cochlear

MACQUARIE

Wesfarmers

Cochlear/Sydney Airport included participation in placements

Sales

SUNCORP

Adelaide Brighton Ltd

SCENTRE GROUP

Perpetual

SOUTH32

Incitec Pivot Limited

Top 15 Overweight Positions in AFIC

Transurban	Very unique toll road assets which benefit from population growth and have set inflation linked pricing. Further opportunities to add new growth projects which support long term cash flow growth.
Mainfreight	Emerging leader in logistics solutions globally. Unique owner/ driver culture which enables long term view of investment.
amcor	Global Leader in consumer packaging with a strong balance sheet and highly rated management team.
Wesfarmers	Bunnings (60% of Wesfarmers) is a leading DIY retailer generating very attractive growth and returns. Lowest cost and scale provide competitive advantage. Management very focused on growing returns on capital. Strong balance sheet.
reece	Founder led management team who have built a successful Australian business which generates attractive returns. Seeking to replicate this in the United States.

Top 15 Overweight Positions in AFIC continued

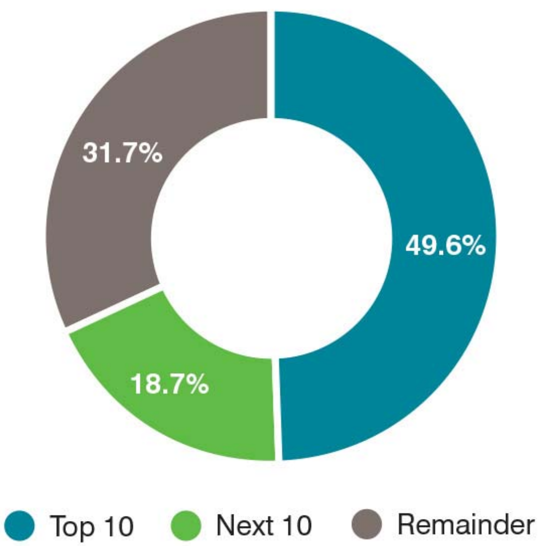
Fisher & Paykel HEALTHCARE	Leading manufacturer of respiratory and humidification medical products, with a near monopoly position in humidified high flow oxygen therapy. High quality management who have been in the business for many years.
JamesHardie	Very strong market position with broadening distribution network and sustainable competitive advantage. Strong balance sheet.
ARB	Founder led business which has developed a very strong brand in the Australian 4WD parts market. Long runway of growth in overseas markets provides opportunity to capture substantial market share.
MACQUARIE	Competitive advantage in growing green energy opportunities with a strong Return on Equity and balance sheet. Strong owner/driver culture.
carsales.com	Dominant market position in Australia auto classifieds with a growing presence in South Korea and South America. Technology investment provides competitive advantage. Strong management team.

Top 15 Overweight Positions in AFIC continued

Sydney Airport	Attractive monopolistic assets which generate attractive returns. Opportunities to invest to generate further growth. Strong management team.
RAMSAY HEALTH CARE	High quality portfolio of difficult to replicate hospital assets, with growth driven by an ageing population. Solid financial metrics and quality management.
NEXTDC	Growing leadership position in strongly growing data centre market. Good ROIC when facilities fully utilised.
QUBE	Quality portfolio of difficult to replicate assets seeking to reduce freight costs and benefit from the modal shift from road to rail. Focused management who take a long term view.
SONIC HEALTHCARE	High quality portfolio of pathology assets globally. Opportunities to increase scale via industry consolidation. Medical leadership culture.

Top 30 holdings as at 30 September 2020

Total Portfolio 61 Holdings

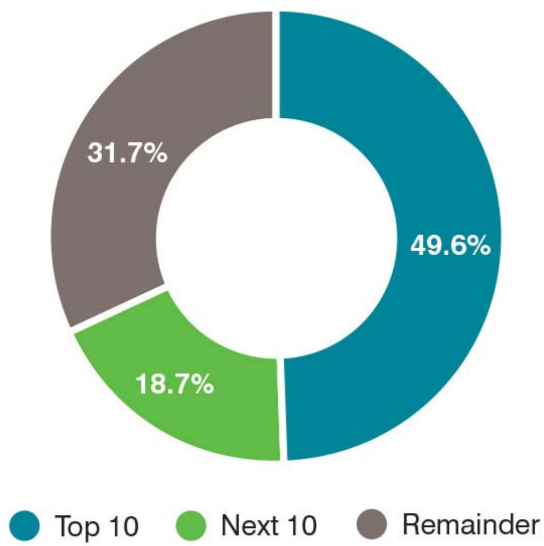


Rank	Company	% of Portfolio
1	CSL	8.7%
2	Commonwealth Bank of Australia	7.1%
3	BHP Group*	7.0%
4	Wesfarmers	4.6%
5	Transurban Group	4.6%
6	Westpac Banking Corporation	3.7%
7	Macquarie Group	3.7%
8	Woolworths Group	3.3%
9	National Australia Bank	3.0%
10	Rio Tinto*	2.7%

* Options were outstanding against part of the holding.

Top 30 holdings as at 30 September 2020 continued

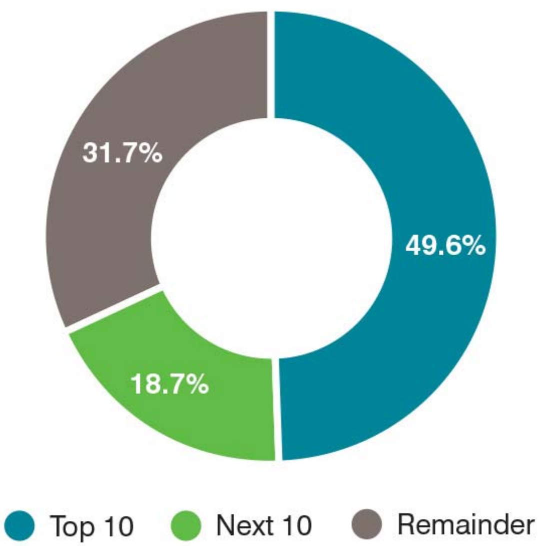
Total Portfolio 61 Holdings



Rank	Company	% of Portfolio
11	Amcor	2.5%
12	James Hardie Industries	2.2%
13	Telstra Corporation	2.1%
14	Sydney Airport	2.1%
15	Australia and New Zealand Banking Group	2.1%
16	Mainfreight	2.0%
17	Sonic Healthcare	1.9%
18	Brambles	1.8%
19	Ramsay Health Care	1.8%
20	Coles Group	1.7%

Top 30 holdings as at 30 September 2020 continued

Total Portfolio 61 Holdings

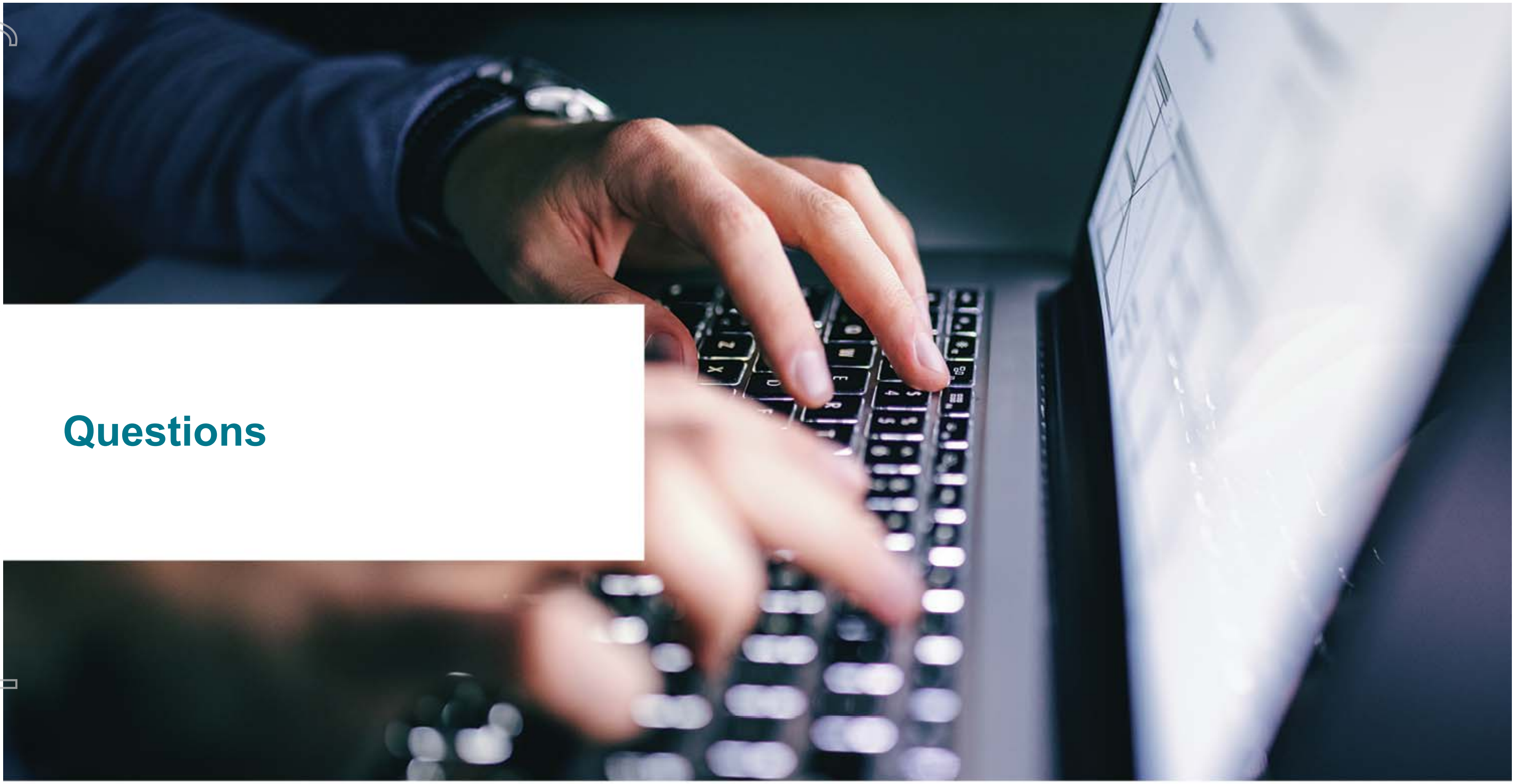


Rank	Company	% of Portfolio
21	Goodman Group	1.7%
22	Fisher & Paykel Healthcare	1.5%
23	Carsales.com	1.5%
24	Reece	1.5%
25	ARB Corporation	1.4%
26	NextDC	1.4%
27	Resmed	1.3%
28	ASX	1.3%
29	Qube Holdings	1.2%
30	Seek	1.2%

Outlook

Outlook

- The onset of COVID-19 means low interest rates and significant government stimulus for the foreseeable future.
- Full impact of economic conditions on company earnings and dividends still to play out.
- Difficult to reconcile expansion of market valuations, although it is being driven by a small number of stocks– particularly Information Technology, Healthcare.
- We believe the portfolio is well positioned given the quality of the holdings and further adjustments made through the March/April downturn.
- Upcoming US election may provide further volatility.
- We can remain patient.



Questions

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