

**Annual
Review**

20
20

**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

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AUSTRALIAN FOUNDATION
INVESTMENT COMPANY
IS A LISTED INVESTMENT
COMPANY INVESTING
IN AUSTRALIAN AND
NEW ZEALAND EQUITIES.

Year in Summary

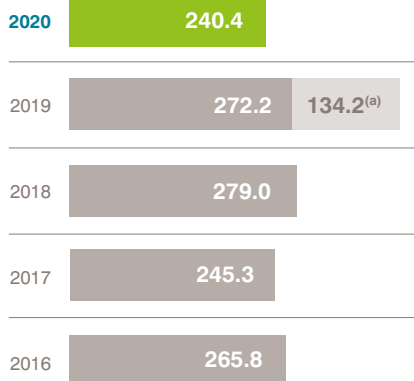
2020

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

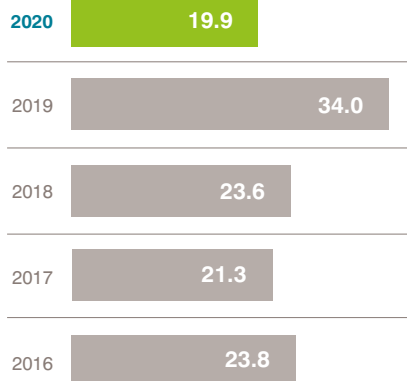
* Assumes a shareholder can take full advantage of the franking credits.

5 Year Summary

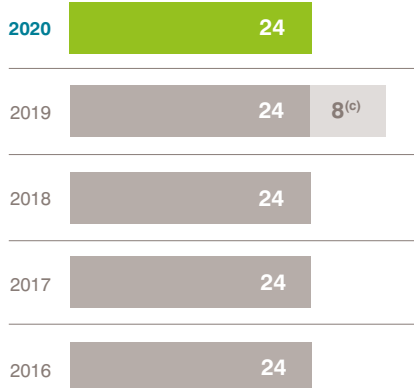
Net Profit After Tax (\$ Million)



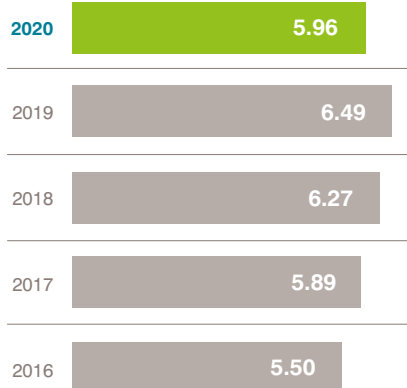
Net Profit Per Share (Cents)



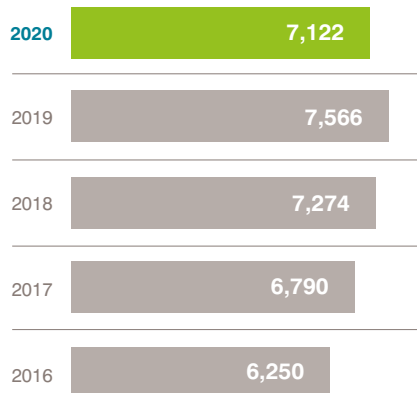
Dividends Per Share (Cents)^(b)



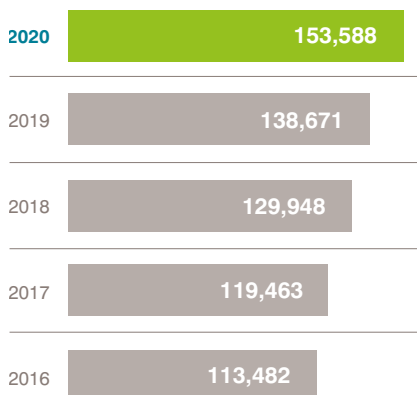
Net Asset Backing Per Share (\$)^(d)



Investments at Market Value (\$ Million)^(e)



Number of Shareholders (30 June)



Notes

- (a) Participation in the Rio Tinto and BHP off-market share buy backs, special dividends and the receipt of a dividend because of the Coles demerger from Wesfarmers.
- (b) All dividends were fully franked. The LIC attributable gain attached to the dividend was 2020: 7.14 cents, 2019: 7.14 cents, 2018: 2.86 cents, 2017: nil, 2016: 2.1 cents.
- (c) 8 cents fully franked special dividend paid with the interim dividend.
- (d) Net asset backing per share based on year-end data before the provision for the final dividend. The figures do not include a provision for capital gains tax that would apply if all securities held as non-current investments had been sold at balance date as Directors do not intend to dispose of the portfolio.
- (e) Excludes cash.

About the Company

Australian Foundation Investment Company (AFIC) is a listed investment company investing in Australian and New Zealand equities.

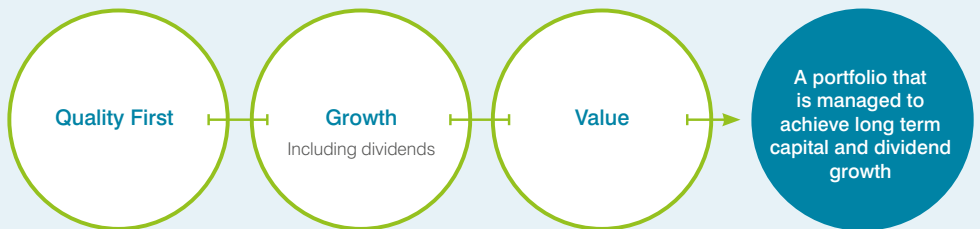
Investment Objectives

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.

How AFIC Invests – What We Look For in Companies



Approach to Investing

The investment philosophy is built on taking a medium to long term view on companies in a diversified portfolio with an emphasis on identifying quality companies that are likely to sustainably grow their earnings and dividends over this time frame.

Quality in this context is an outcome of our assessment of the board and management as well as some key financial metrics. These include return on capital employed, return on equity, the level of gearing in the balance sheet, margins and free cash flow. The structure of the industry and a company's competitive position in this industry is also an important indicator of quality. Linked to this assessment of quality is the ability of companies to grow earnings over time, which ultimately should produce good dividend growth.

As a long term investor, Environmental, Social and Governance (ESG) analysis is integrated into AFIC's investment framework:

- AFIC will seek to invest in companies that have strong governance and risk management processes that include environmental and social risks.
- The remuneration structures proposed and used by the Boards of the companies in which AFIC invests are assessed as we are seeking remuneration plans and outcomes that align with AFIC's (and AFIC's own investors) interests as long term shareholders.
- AFIC supports engagement with its investee companies on these issues, and will vote as shareholders accordingly.

Recognising value is also an important aspect of sound long term investing. Short term measures such as the price earnings ratio, price to book or price to sales may be of some value, but aren't necessarily strong predictors of future performance. Our assessment of value tries to capture the opportunity a business has to prosper and thrive over the medium to long term.

In building the investment portfolio in this way, we believe we can offer investors a well-diversified portfolio of high-quality companies that is intended to deliver total returns ahead of the Australian equity market and with less volatility over the long term.

The Company also uses options written against a small proportion of its investments and a small trading portfolio to generate additional income.

From time to time, some borrowings may be used where potential investment returns justify the use of debt. This is managed within very conservative limits, as determined by the Board.

AFIC is managed for the benefit of its shareholders with fees based on the recovery of costs rather than as a fixed percentage of the portfolio. There are no performance fees. As a result, the benefit of scale over time results in a very low expense ratio for investors. For the 12 months to 30 June 2020 this was 0.13 per cent, or 13 cents for each \$100 invested.

Review of Operations and Activities

Profit and Dividend

The full year profit was \$240.4 million. The profit for the corresponding period last year was \$406.4 million. Investment income was down, as a number of one-off items were not repeated this year. This included participation in the Rio Tinto and BHP off-market share buy-backs, special dividends and the receipt of a dividend because of the Coles demerger from Wesfarmers (\$134.2 million in total). In addition, several companies reduced or deferred dividends in the second half of the year, which also meant a fall in dividend income.

The trading portfolio recorded a profit of \$9.7 million as some placements, where the Company was satisfied with its existing holding, were sold for a profit and there was an increased contribution from option activity. In the corresponding period, last year, this portfolio recorded a loss of \$4.7 million. Earnings per share were 19.9 cents, down from 34.0 cents (22.7 cents excluding one off items last year). AFIC, as a long-standing listed investment company, has reserves that can be used in more difficult conditions. Drawing upon these reserves, the final dividend was maintained at 14 cents per share fully franked despite the fall in income in the second half. Total fully franked dividends applicable for the year are 24 cents per share. Last financial year total dividends were 32 cents per share. This included a special interim dividend of 8 cents per share. No special dividend has been paid this year.

Five cents of the final dividend are sourced from taxable capital gains, on which the Company has paid or will pay tax. The amount of the pre-tax attributable gain on this portion of the dividend, known as an 'LIC capital gain', is therefore 7.14 cents. This enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

Economic conditions have been extremely challenging for many businesses, as the fallout from the COVID-19 outbreak negatively impacts many Australians. Equity markets have also been very volatile following the all-time highs reached in late February, as governments and central banks try and respond to deteriorating conditions and control of the virus remains uncertain.

The Australian share market was on track for a very strong year until the world was unexpectedly hit with the COVID-19 virus in the early part of the 2020 calendar year. From the market peak in February through to the low point for the year in late March, the S&P/ASX 200 price index was down 36.5 per cent. Surprisingly, despite the significant decline in economic conditions, the S&P/ASX 200 price index increased 29.7 per cent from this low point until the end of the financial year (Figure 1), driven primarily by an expansion in market valuations. In these volatile market conditions, the positioning of the portfolio to ensure quality companies with strong industry positions formed the core of the portfolio has lessened the impact of the negative market.

Figure 1: Performance of the S&P/ASX 200 Price Index for the Financial Year



Portfolio return for the year, including franking, was negative 3.1 per cent. Including franking, the S&P/ASX 200 Accumulation Index was down 6.6 per cent (Figure 2).

Companies in the portfolio that contributed strongly to relative returns through the 12-month period were CSL, Wesfarmers, Fisher & Paykel Healthcare, ResMed, James Hardie Industries, Xero, NEXTDC and Carsales.com. In contrast, the major banks and energy exposures through Oil Search and Woodside Petroleum significantly underperformed.

Within the negative return from the market for the year, Healthcare continued to hold its ground given the strong performance of

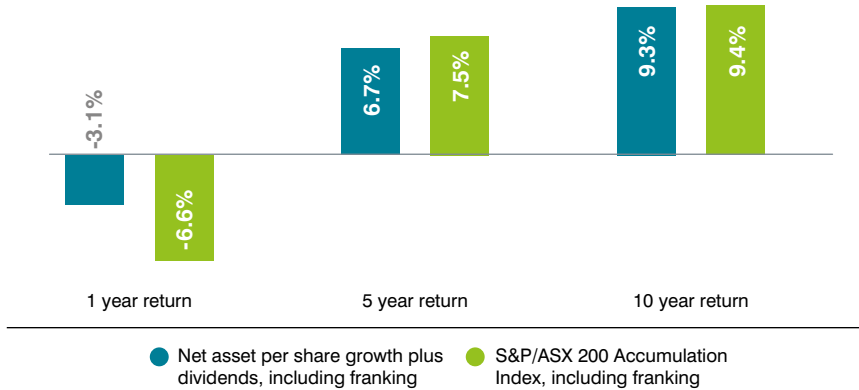
companies such as CSL, ResMed and Fisher & Paykel Healthcare. Information Technology rebounded strongly, driven largely by the uplift in the share price of Afterpay (which AFIC does not hold), and the performance of Xero and NEXTDC. In contrast, financials were down because of the significant pressure on the major banks and energy was impacted by the large fall in the oil price (Figure 3).

The long term performance of the portfolio, which is more aligned with the Company's investment timeframes, was 9.3 per cent per annum for the 10 years to 30 June 2020. This is in line with the Index return over the same period of 9.4 per cent. Both of these figures include the benefit of franking. AFIC's performance numbers are after costs.

Review of Operations and Activities

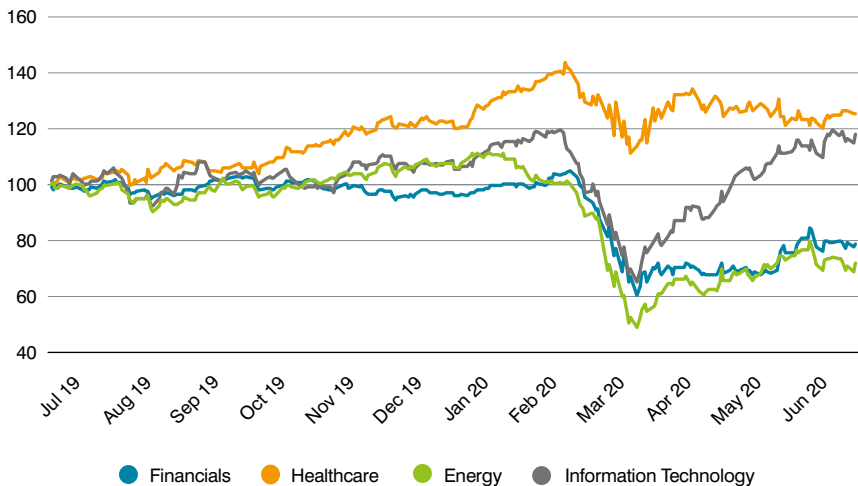
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Figure 2: Portfolio Performance* – Per Annum Returns to 30 June 2020



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

Figure 3: Performance of Selected Sectors of the Market



Positioning the Portfolio

During the period, AFIC continued to adjust the portfolio and took advantage of the decline in share prices to increase holdings in companies it wanted to own more of. This included participation in the recent deeply discounted capital raisings that have occurred.

As a result, a number of purchases were undertaken during the year. This included placements in National Australia Bank, Cochlear, Auckland International Airport, Oil Search, NEXTDC, Ramsay Health Care, Reece and Qube Holdings. Major additions included Goodman Group, Telstra (to bring some income into the portfolio), Macquarie Group, Cleanaway and Sydney Airport. While there has been a reduction in the number of

holdings in the portfolio over the year from 76 to 61, three new companies (listed below) were added, given we consider the long term opportunity for each business to be attractive:

- Altium is an American domiciled, Australian owned software company that provides PC-based electronics design software for engineers who design printed circuit boards.
- Netwealth provides independent investment platform services to institutional, corporate and retail clients.
- Ryman Health Care engages in the provision of integrated retirement villages for the elderly. It offers independent living, serviced apartment, rest home, hospital, dementia, and short term care. It operates throughout New Zealand and Australia.



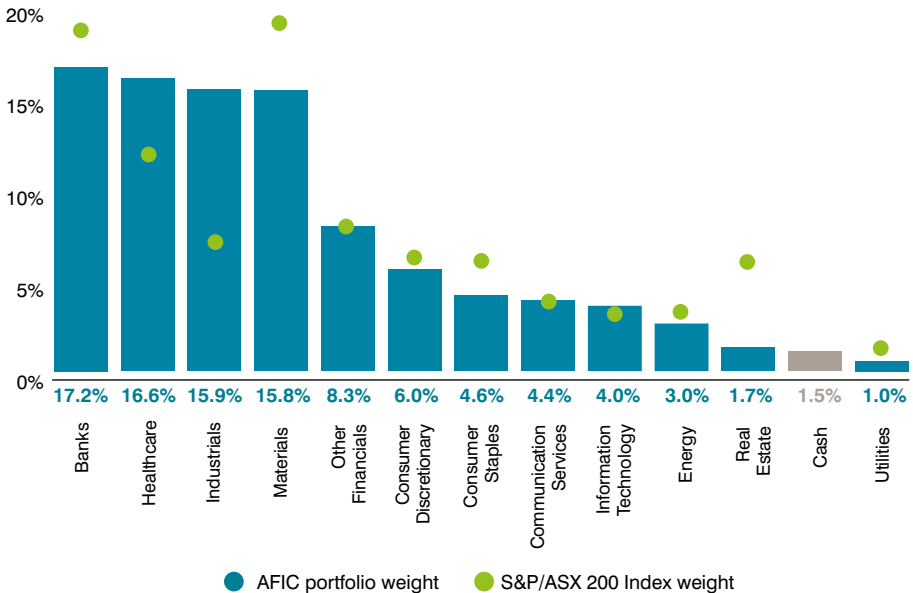
Review of Operations and Activities

continued

Major sales included the complete disposal of holdings in Treasury Wine Estates, Suncorp Group, Scentre Group, Adelaide Brighton and Perpetual, as these funds were deployed elsewhere in the portfolio. There was also some small trimming of the position in James Hardie Industries, although it remains a major holding in the portfolio.

Figure 4 highlights the profile of AFIC's portfolio by the various sectors of the market at the end of the financial year and how it differs from the Index.

Figure 4: AFIC Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2020





Review of Operations and Activities

continued



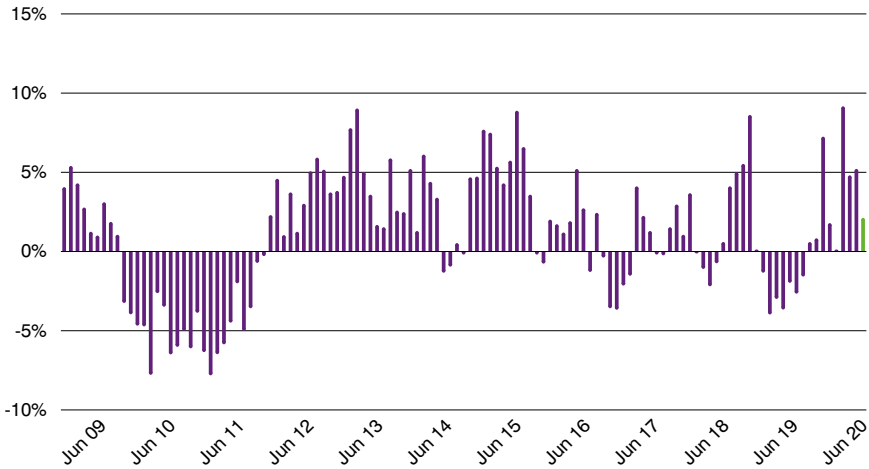
Share Price Return

The share price return, including reinvestment of dividends and franking credits, over the 12 months to 30 June 2020 was 2.9 per cent, which is ahead of the portfolio return for the year. The share price was trading at a premium of 2.2 per cent to the net asset backing (before tax on unrealised gains) at the end of June 2020, whereas at 30 June 2019 the discount was

3.7 per cent (Figure 5). During this period the net asset backing figure, including franking, fell 3.1 per cent.

Whilst the share price can often fluctuate between a premium and discount to net asset backing, over the long term the share price return normally aligns with the portfolio return.

Figure 5: Share Price Premium/Discount to Net Asset Backing



Review of Operations and Activities

continued

Outlook

As we move into the new financial year, the outlook remains unclear as companies face an extremely difficult operating environment. While recent fiscal and monetary support has provided some breathing space for the economy, the environment moving forward is going to be largely dictated by the progress made on suppressing COVID-19 in Australia and across the globe.

In this environment, despite very low interest rates and the significant income support provided by governments, it is difficult to reconcile the expansion of market valuations (Figure 6) with the pressure company profits and dividends are likely to remain under. Given the strength of the market since the lows recorded in March and the further adjustments that have been made to the portfolio during this market weakness, we are content to be patient. We believe the portfolio is well positioned to withstand further volatility given the high quality of companies in the portfolio.



Figure 6: Valuation of the Market – Price Earnings Ratio of the S&P/ASX 200 Index



Source: FactSet



Top 25 Investments

As at 30 June 2020

Includes investments held in both the investment and trading portfolios.

Value at Closing Prices at 30 June 2020

		Total Value \$ Million	% of the Portfolio
1	CSL	608.5	8.5
2	Commonwealth Bank of Australia	548.4	7.7
3	BHP Group*	498.8	7.0
4	Wesfarmers	330.5	4.6
5	Transurban Group	326.9	4.6
6	Westpac Banking Corporation	286.9	4.0
7	Macquarie Group	257.3	3.6
8	National Australia Bank	235.3	3.3
9	Woolworths Group	211.3	3.0
10	Rio Tinto*	195.8	2.7
11	Amcor	174.6	2.5
12	Australia and New Zealand Banking Group	171.3	2.4
13	Telstra Corporation*	170.6	2.4
14	James Hardie Industries	142.8	2.0
15	Ramsay Health Care	134.4	1.9
16	Brambles	131.9	1.9
17	Sonic Healthcare	123.4	1.7
18	Sydney Airport	121.6	1.7
19	Coles Group	121.3	1.7
20	Mainfreight	120.4	1.7
21	Fisher & Paykel Healthcare Corporation	114.4	1.6
22	ResMed	108.4	1.5
23	Qube Holdings	102.7	1.4
24	Goodman Group	99.3	1.4
25	Woodside Petroleum	96.6	1.4
Total		5,433.4	

As percentage of total portfolio value (excludes cash)

76.3%

* Indicates that options were outstanding against part of the holding.

Income Statement

For The Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
Dividends and distributions	257,858	433,009
Revenue from deposits and bank bills	1,554	3,615
Other revenue	42	-
Net gains/(losses) on trading portfolio (including unrealised gains or losses)	9,740	(4,686)
Total income	269,194	431,938
Finance costs	(1,047)	(826)
Administration expenses (net of recoveries)	(9,906)	(9,583)
Profit before income tax	258,241	421,529
Income tax	(17,846)	(15,156)
Net profit	240,395	406,373
	Cents	Cents
Net profit per share	19.88	34.00

Balance Sheet

As at 30 June 2020

	2020 \$'000	2019 \$'000
Current assets		
Cash	111,318	206,429
Receivables	17,347	40,128
Trading portfolio	4,304	-
Total current assets	132,969	246,557
Non-current assets		
Investment portfolio	7,117,970	7,572,640
Deferred tax assets	872	-
Total non-current assets	7,118,842	7,572,640
Total assets	7,251,811	7,819,197
Current liabilities		
Payables	884	932
Tax payable	30,771	17,052
Trading portfolio	-	7,033
Provisions	4,765	4,114
Total current liabilities	36,420	29,131
Non-current liabilities		
Provisions	1,375	1,471
Deferred tax liabilities	-	100
Deferred tax liabilities – investment portfolio	973,499	1,163,749
Total non-current liabilities	974,874	1,165,320
Total liabilities	1,011,294	1,194,451
Net assets	6,240,517	6,624,746
Shareholders' equity		
Share capital	2,947,293	2,888,186
Revaluation reserve	2,166,030	2,561,314
Realised capital gains reserve	397,712	462,257
General reserve	23,637	23,637
Retained profits	705,845	689,352
Total shareholders' equity (including minority interests)	6,240,517	6,624,746

Summarised Statement of Changes in Equity

For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
Total equity at the beginning of the year	6,624,746	6,339,260
Dividends paid	(281,527)	(372,670)
Shares issued – Dividend Reinvestment Plan	59,249	76,556
Other Share Capital Adjustments	(142)	(141)
Total transactions with shareholders	(222,420)	(296,255)
Profit for the year	240,395	406,373
Revaluation of investment portfolio	(568,806)	261,984
Provision for tax on revaluation	167,602	(86,616)
Revaluation of investment portfolio (after tax)	(401,204)	175,368
Total comprehensive income for the year	(160,809)	581,741
Realised gains on securities sold	16,728	57,016
Tax expense on realised gains on securities sold	(22,648)	(20,394)
Net realised gains/(losses) on securities sold	(5,920)	36,622
Transfer from revaluation reserve to realised gains reserve	5,920	(36,622)
Dividend paid to minority interests	(1,000)	-
Total equity at the end of the year	6,240,517	6,624,746

A full set of AFIC's final accounts are available on the Company's website.

Holdings of Securities

At 30 June 2020

Individual investments for the combined investment and trading portfolios as at 30 June 2020 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au.

Individual holdings in the portfolios may change during the course of the year. In addition, holdings which are part of the trading portfolio may be subject to call options or sale commitments by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2019 '000	Number Held 2020 '000	Market Value 2020 \$'000
AIA	Auckland International Airport	1,770	6,073	37,412
ALQ	ALS	7,542	7,542	49,477
ALU	Altium	0	308	9,988
AMC	Amcor	12,527	12,060	174,629
ANN	Ansell	1,284	1,079	39,594
ANZ	Australia and New Zealand Banking Group	9,188	9,188	171,259
APA	APA Group	6,540	6,665	74,181
APE	AP Eagers	1,157	1,157	7,807
ARB	ARB Corporation	3,081	3,503	62,874
ASX	ASX	709	1,054	89,993
AUB	AUB Group	2,026	2,526	37,130
AWC	Alumina	20,923	19,158	31,132
BHP*	BHP Group	13,482	13,935	498,770
BKW	Brickworks	1,854	1,629	25,781
BXB	Brambles	12,139	12,139	131,947
CAR	Carsales.com	4,191	5,033	89,286
CBA	Commonwealth Bank of Australia	7,900	7,900	548,418
COH	Cochlear	147	334	63,049
COL	Coles Group	7,293	7,068	121,349
CPU	Computershare	4,660	4,380	58,035

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2019 '000	Number Held 2020 '000	Market Value 2020 \$'000
CSL	CSL	2,048	2,120	608,530
CWY	Cleanaway Waste Management	11,276	25,516	56,135
DJW	Djerriwarrh Investments	7,505	7,505	19,139
DUI	Diversified United Investment	12,030	12,030	50,888
EQT	EQT Holdings	1,322	1,322	32,710
FPH	Fisher & Paykel Healthcare Corporation	3,800	3,485	114,447
GMG	Goodman Group	2,800	6,685	99,272
IAG*	Insurance Australia Group	5,457	6,955	39,984
IRE	IRESS	5,000	5,929	64,925
IVC	InvoCare	1,325	2,984	31,273
JHX	James Hardie Industries	6,065	5,188	142,784
LIC	Lifestyle Communities	5,228	2,776	26,265
MFT	Mainfreight (NZX listed)	3,209	3,268	120,385
MIR	Mirrabooka Investments	8,728	8,728	20,336
MLT	Milton Corporation	10,841	9,776	39,984
MQG	Macquarie Group	1,963	2,170	257,307
NAB	National Australia Bank	12,885	12,917	235,347
NWL	Netwealth Group	0	1,100	9,867
NXT	NEXTDC	4,325	7,864	77,701
ORG	Origin Energy	6,500	6,500	37,960
ORI	Orica	1,970	2,226	37,037
OSH	Oil Search	18,033	26,244	83,195
QUB	Qube Holdings	34,962	35,302	102,729
REA	REA Group	384	553	59,637
REH	Reece	5,950	7,951	73,073
RHC	Ramsay Health Care	1,585	2,020	134,370
RIO*	Rio Tinto	1,946	2,001	195,793
RMD	ResMed	3,935	3,935	108,370
RWC	Reliance Worldwide Corporation	16,902	13,134	38,615
RYM	Ryman Health Care (NZX listed)	0	880	10,763

Holdings of Securities

At 30 June 2020 continued

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2019 '000	Number Held 2020 '000	Market Value 2020 \$'000
S32	South32	16,741	16,741	34,152
SEK	Seek	4,270	4,160	91,054
SHL	Sonic Healthcare	3,704	4,054	123,370
SYD	Sydney Airport	17,924	21,443	121,580
TCL	Transurban Group	22,599	23,137	326,922
TLS*	Telstra Corporation	40,175	54,510	170,602
WBC	Westpac Banking Corporation	15,545	15,985	286,931
WES	Wesfarmers	6,723	7,372	330,487
WOW	Woolworths Group	5,667	5,667	211,255
WPL	Woodside Petroleum	4,360	4,460	96,551
XRO	Xero	741	871	78,441
Total				7,122,274

* Part of the security was subject to call options written by the Company.

Major Transactions in the Investment Portfolio

Acquisitions	Cost (\$'000)
Goodman Group	54,073
Telstra	48,867
Sydney Airport	35,890
Cochlear (includes participation in placement at \$140 per share)	31,822
Cleanaway Waste Management	29,343
Macquarie Group	26,588

Disposals	Proceeds (\$'000)
Treasury Wine Estates [#]	53,677
Suncorp Group [#]	42,046
DuluxGroup (Taken over by Nippon Paint) [#]	29,683
Scentre Group [#]	26,855
Adelaide Brighton [#]	23,689
Perpetual [#]	23,212

[#] Complete disposal from the portfolio.

New Companies Added to the Portfolio

Altium

Netwealth

Ryman Health Care

Company Particulars

Australian Foundation Investment Company Limited (AFIC)

ABN 56 004 147 120

AFIC is a listed investment company. As such it is an investor in equities and similar securities on the stock market primarily in Australia.

Directors

John Paterson, Chairman
Robert M Freeman, Managing Director
Ross E Barker
Rebecca Dee-Bradbury
Graeme R Liebelt
David A Peever
Catherine M Walter AM
Peter J Williams

Company Secretaries

Matthew J Rowe
Andrew JB Porter

Auditor

PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation

Australia

Registered Office and Mailing Address

Level 21, 101 Collins Street
Melbourne Victoria 3000

Contact Details

Telephone (03) 9650 9911
Facsimile (03) 9650 9100
Website afi.com.au
Email invest@afi.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange)

Telephone 1800 780 784 (toll free)

Shareholder Information

Securities Registrar

Computershare Investor Services Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

AFIC Shareholder

Enquiry Lines 1300 662 270 (Australia)
0800 333 501 (New Zealand)
+61 3 9415 4373
(from overseas)

Facsimile (03) 9473 2500

Website investorcentre.com.au/contact

Share Registrar

For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar in your country.

Securities Exchange Codes

AFI Ordinary shares (ASX and NZX)

Annual General Meeting

Time 10.00am

Date Wednesday 14 October 2020

Note the AGM will be a virtual meeting conducted online and via telephone.

The subsequent interstate investor meetings will not be held this year. The recorded webinar of the AGM will be available on the Company's website following the presentation.

**AUSTRALIAN
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