Annual Report

2020

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Contents

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

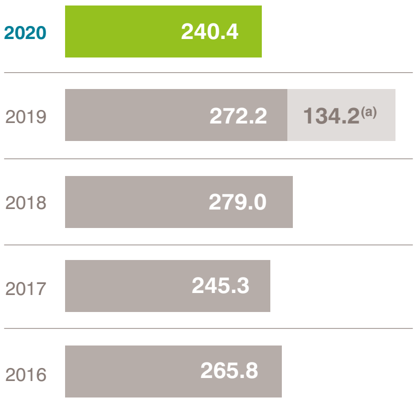
Year in Summary

	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

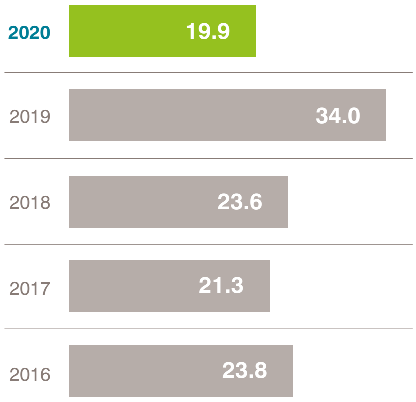
* Assumes a shareholder can take full advantage of the franking credits.

5 Year Summary

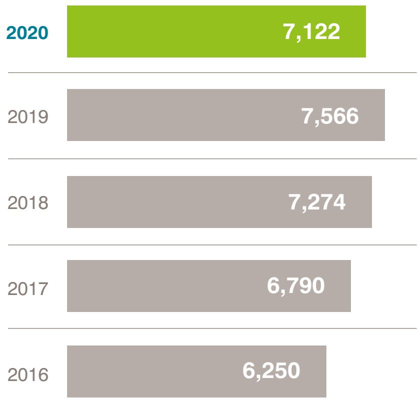
Net Profit After Tax ($ Million)



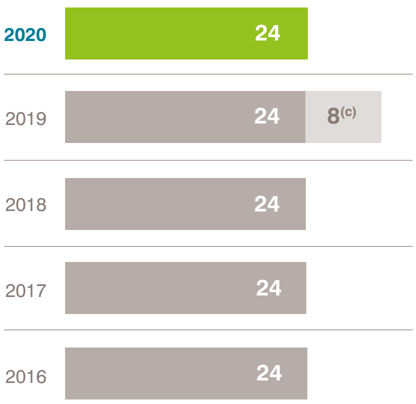
Net Profit Per Share (Cents)



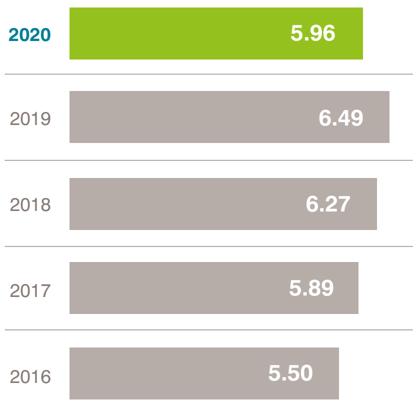
Investments at Market Value ($ Million)[(e)]



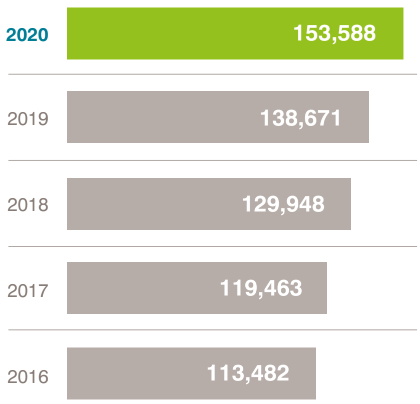
Dividends Per Share (Cents)[(b)]



Net Asset Backing Per Share ($)[(d)]



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.

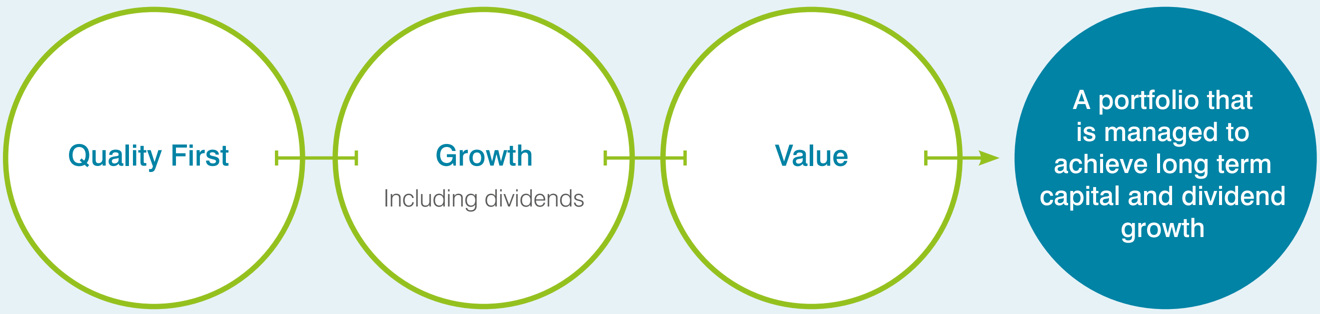
Investment Objectives

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.

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. The enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

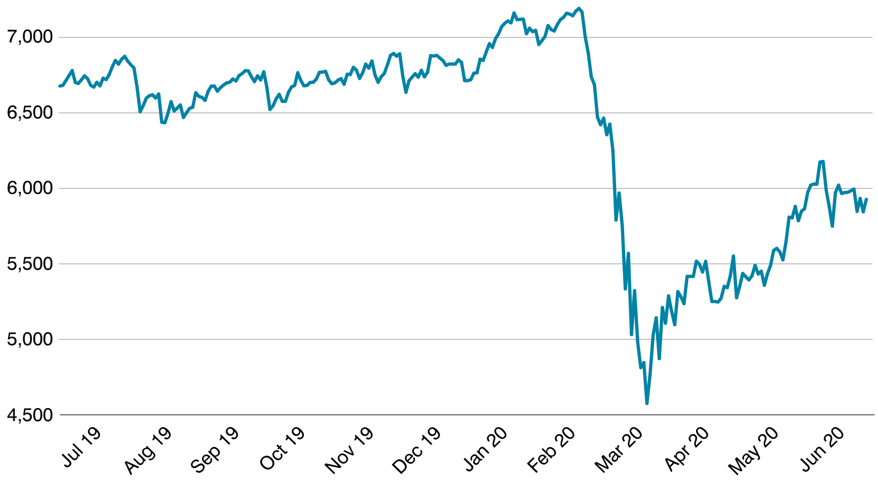
Economic conditions have been extremely challenging for many businesses, as the fallout from the COVID-19 outbreak negatively impacts many Australians. Equity markets have also been very volatile following the all-time highs reached in late February, as governments and central banks try and respond to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

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



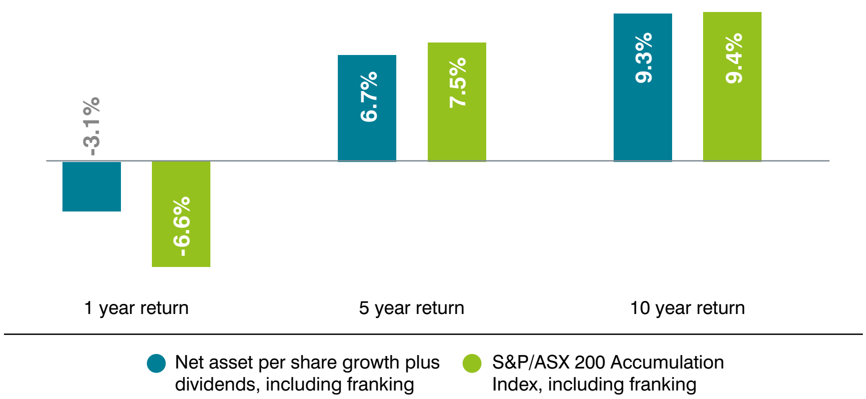
Review of Operations and Activities

continued

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).

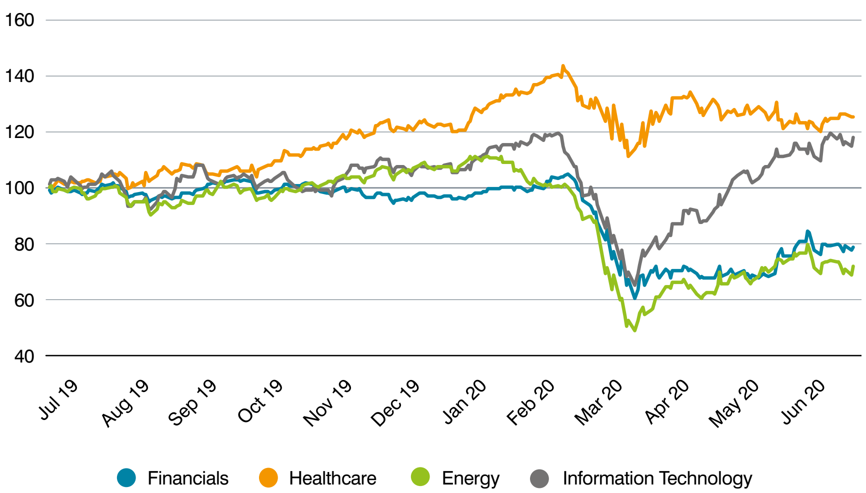
The long term performance of the portfolio, which is more aligned with the Company's investment timeframes, was 9.3 per cent per annum for the 10 years to 30 June 2020. This is in line with the Index return over the same period of 9.4 per cent. Both of these figures include the benefit of franking. AFIC's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

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.

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.

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

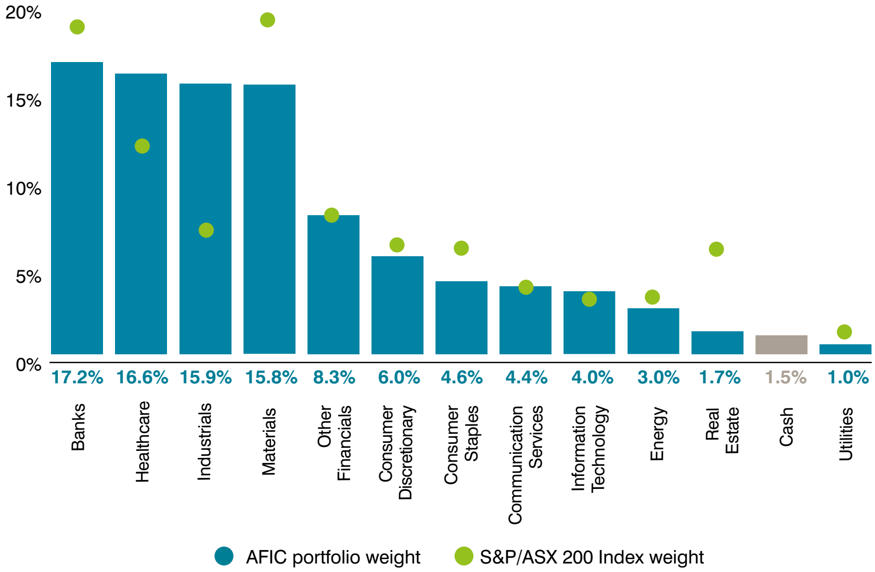
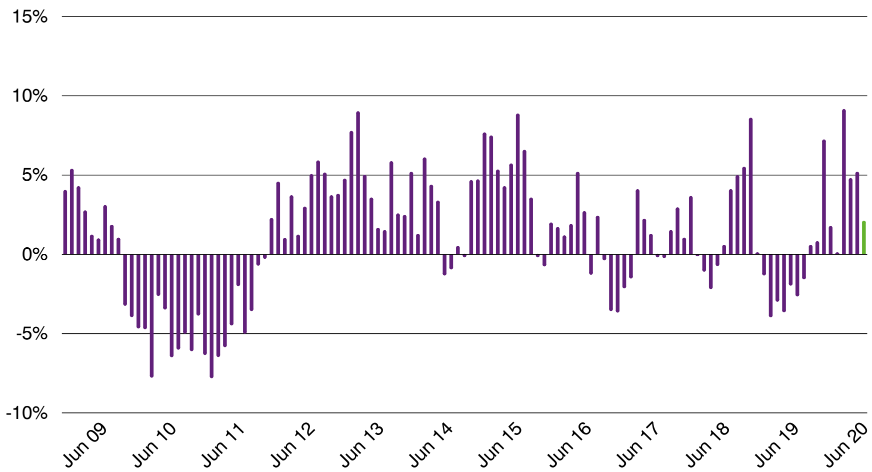


Figure 5: Share Price Premium/Discount to Net Asset Backing

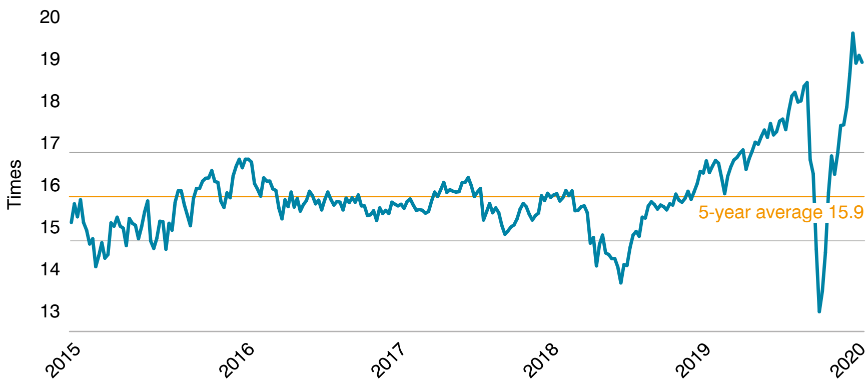


Outlook

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.

Capital Changes

The following changes occurred to the Company' share capital during the year:

- Under the Company's Dividend Substitution Share Plan, 622,283 new shares were issued at nil cost in August 2019 and 468,445 new shares were issued at nil cost in February 2020.
- Under the Company's Dividend Reinvestment Plan, 5,540,584 new shares were issued at a price of $6.21 in August 2019 and 3,584,713 new shares were issued at a price of $6.93 in February 2020.

The Company's buy-back facility remains open although no shares were bought back during the year.

The Company's contributed equity, net of share issue costs, rose $59.1 million to $2.9 billion. At the close of the year the Company had 1,210 million shares on issue.

Dividends

Directors have declared a fully franked final dividend of 14 cents per share, the same as last year.

The dividends paid during the year ended 30 June 2020 were as follows:

	$'000
Final dividend for the year ended 30 June 2019 of 14 cents fully franked at 30% paid 29 August 2019	164,150
Interim dividend for the year ended 30 June 2020 of 10 cents per share fully franked at 30%, paid 24 February 2020	117,377
	281,527

Dividend Substitution Share Plan ('DSSP')

The Company has in place a Dividend Substitution Share Plan.

This enables shareholders to elect to receive shares in the Company instead of dividends, forgoing any franking credit & LIC gains that would otherwise be attached to the dividend but deferring any tax due on the receipt of such shares (for Australian tax-payers) until such time as the shareholding is sold. Shareholders will need to seek their own taxation advice in determining if this Plan is suitable for them.

Further details are available on the Company's website or by request from the Company's Share Registrar.

Financial Condition

The Company's primary source of funds consists of its shareholders' funds. The Company also had agreements with Commonwealth Bank of Australia for loan facilities totalling $250 million (see Note D2). At various points during the year, some of these facilities were drawn down. The Board takes a prudent and conservative approach to the use of borrowed funds. Currently, when used, they are maintained within a limit of 10 per cent of total assets. As at 30 June 2020, the facilities are undrawn.

Listed Investment Company Capital Gains

Listed Investment Companies (LIC) which make capital gains on the sale of investments held for more than one year are able to attach to their dividends an LIC capital gains amount which some shareholders are able to use to claim a tax deduction. This is called an 'LIC capital gain attributable part'. The purpose of this is to put shareholders in Listed Investment Companies on a similar footing with holders of managed investment trusts with respect to Capital Gains Tax on the sale of underlying investments.

Tax legislation sets out the definition of a 'Listed Investment Company' which AFIC satisfies. Furthermore, from time to time the Company sells securities out of the investment portfolio held for more than one year which may result in capital gains being made and tax being paid. The Company is therefore on occasion in a position to be able to make available to shareholders a LIC capital gain attributable part with our dividends.

In respect of this year's final dividend of 14.0 cents per share for the year ended 30 June 2020, it carries with it a 7.14 cents per share LIC capital gain attributable part (2019: 7.14 cents). The amount which shareholders may be able to claim as a tax deduction depends on their individual situation. Further details are provided in the dividend statements.

Likely Developments

The Company intends to continue investing on behalf of its shareholders as it has been doing since 1928. The results of these investment activities will depend upon the performance of the companies and securities in which we invest. Their performance in turn depends on many economic factors (macro, which include economic growth rates, inflation, interest rates, exchange rates and taxation levels and micro which includes industry economics and competitive behaviour) and their approach to, and management of, material Environmental, Social and Governance ('ESG') risks.
We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly, we do not provide a forecast of the likely results of our activities. However, the Company's focus is on results over the medium to long term and its twin objectives are to grow dividends at a rate faster than inflation and to provide shareholders with attractive capital growth.

Significant Changes in the State of Affairs

Directors are not aware of any other significant changes in the operations of the Company, or the environment in which it operates, that will adversely affect the results in subsequent years.

Events Since Balance Date

The Directors are not aware of any matter or circumstance not otherwise disclosed in the financial statements or the Directors' Report which has arisen since the end of the financial year that has affected or may affect the operations, or the results of those operations, or the state of affairs of the Company in subsequent financial years.

Environmental Regulations

The Company's operations are such that they are not directly materially affected by environmental regulations.

Rounding of Amounts

The Company is of the kind referred to in the ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Corporate Governance Statement

The Company's Corporate Governance Statement for the financial year ended 30 June 2020 will be found on the Company's website at:

www.afi.com.au/corporate-governance

As an overseas listed issuer on the New Zealand Stock Exchange (NZX), the Company is generally deemed to comply with the NZX Listing Rules provided that the Company remains listed on the ASX, complies with the ASX Listing Rules and provides the NZX with all the information and notices that it provides to the ASX.

Board Members

John Paterson

Chairman and Independent Non-Executive Director

BCom (Hons) (Melb), CPA, F Fin

Chairman of the Investment and Nomination Committees. Member of the Remuneration and Audit Committees. Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Paterson is a company Director who was appointed to the Board in June 2005 and Chairman in 2018. He was a former Alternate Director of the Company for Mr Campbell from April 1987 to June 2005. He is Chairman of Djerriwarrh Investments Limited. He was formerly a Director of Goldman Sachs JBWere and is a former member of the Board of Guardians of Australia's Future Fund.

Mark Freeman

Managing Director

BE, MBA, Grad Dip App Fin (Sec Inst), AMP (INSEAD)

Managing Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS). Member of the Investment Committee.

Mr Freeman became Chief Executive Officer and Managing Director in January 2018 having been Chief Investment Officer since joining the Company in February 2007. Prior to this he was a Partner with Goldman Sachs JBWere where he spent 12 years advising the Investment Companies on their investment and dealing activities. He has a deep knowledge and experience of investments markets and the Company's approaches, policies and processes. He is also Managing Director of Djerriwarrh Investments Limited, AMCIL Limited and Mirrabooka Investments Limited.

Ross E Barker

Non-Executive Director

BSc (Hons) (Melb), MBA (Melb), F Fin

Member of the Investment Committee. Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Barker transitioned to a Non-Executive Director in January 2018 having been appointed Chief Executive Officer of the Company in February 2001 and Managing Director in October 2001 and prior to that he was an Alternate Director of the Company since April 1987. He is a Non-Executive Director of AMCIL Limited, Mirrabooka Investments Limited and AICS (Australian Investment Company Services Limited), Chairman of Melbourne Business School Ltd and an Advisory Board member of the Faculty of Business and Economics at the University of Melbourne.

Rebecca Dee-Bradbury

Independent Non-Executive Director

BBus, GAICD

Member of the Investment and Nomination Committees.

Ms Dee-Bradbury was previously Chief Executive Officer/President of Developed Markets (Asia Pacific and ANZ) for Mondelez from 2010 to 2014. Before joining Mondelez Ms Dee-Bradbury was Group CEO of the global Barbeques Galore group, and has held other senior executive roles in organisations including Maxxium, Burger King Corporation and Lion Nathan/Pepsi Cola Bottlers. Ms Dee-Bradbury is a Non-Executive Director of BlueScope Steel Limited (appointed April 2014), a Director of Energy Australia Holdings following her appointment in April 2017, an inaugural member of the Business Advisory Board at Monash Business School and a member of Chief Executive Women and of the Women Corporate Directors Foundation. Ms Dee-Bradbury was formerly a Non-Executive Director of Grain Corp Limited (from 2014 to 2020) and Tower Limited (NZ) until her resignation in 2016 and a former member of the Federal Government's Asian Century Strategic Advisory Board.

Graeme R Liebelt

Independent Non-Executive Director

B Ec (Hons), FAICD FTSE

Chairman of the Remuneration Committee.

Mr Liebelt was appointed to the Board in June 2012. He is Chairman of Amcor Limited, a Director of Australia and New Zealand Banking Group Limited, and a Director of Carey Baptist Grammar School. He is a Fellow of the Australian Academy of Technological Sciences and Engineering and a Fellow of the Australian Institute of Company Directors. He was formerly Chairman and Director of DuluxGroup Limited, Chairman and Director of the Global Foundation, Deputy Chairman of Melbourne Business School and Managing Director and CEO of Orica Limited.

David A Peever

Independent Non-Executive Director

BEc, MSC (Mineral Economics)

Member of the Audit Committee.

Mr Peever was appointed to the Board in November 2013. He was Managing Director of Rio Tinto Australia from 2009 to 2014. He is Chairman of Brisbane Airport Group Pty Ltd. Mr Peever is a member of the Foreign Investment Review Board. He chaired the Minister of Defence's First Principles Review of Defence and following the acceptance of the review by Government was Chair of the Oversight Board which helped guide implementation (with Defence) of the Review's recommendations. David is also a Non-Executive Director of Naval Group Australia and a former Director of the Stars Foundation, a not for profit body which promotes education of Indigenous girls. He was also a former Vice Chairman of the Minerals Council of Australia and was a Director of the Business Council of Australia.

Catherine M Walter AM

Independent Non-Executive Director

LLB (Hons), LLM, MBA (Melb), FAICD

Member of the Investment, Remuneration and Audit Committees.
Chairman of the Nomination Committee.

Mrs Walter is an Australian lawyer and company Director. She was appointed to the Board in August 2002. Mrs Walter is Chair of Melbourne Genomics Health Alliance and the Financial Adviser Standards and Ethics Authority (FASEA). Mrs Walter is a Director of the RBA's Payments System Board and a Trustee of the Helen Macpherson Smith Trust. She was formerly Chair of Federation Square Pty Ltd and Australian Synchrotron Company Ltd, Deputy Chair of Victorian Funds Management Corporation and a Director of ASX, National Australia Bank Ltd, Orica Ltd and Melbourne Business School.

Peter J Williams

Independent Non-Executive Director

Dip.All, MAICD, FAIM

Chairman of the Audit Committee. Member of the Investment and Nomination Committees. Chairman of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Williams was appointed to the Board in February 2010. He is Chairman of NAB Trustees Services Limited (NAB Subsidiary), Director of Cricket Victoria Ltd and ARUMA (formerly House with No Steps), an Advisory Board Member of TLC Aged Care Limited and Chairman MIPS Advisory Committee for Fiig Securities Limited. Mr Williams was formerly Managing Director of Equity Trustees Limited, Director and Treasurer of Foundation for Young Australians, Chairman of Olympic Park Sports Medical Centre Pty Ltd, a Director of the Trustee Corporations Association of Australia, a Director of the Australian Baseball Federation Inc and a General Manager with AXA/National Mutual in Australia and Hong Kong.

Board Members

continued

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2020 and the numbers of meetings attended by each Director were:

	Board		Investment		Audit		Remuneration		Nomination	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
J Paterson	13	13	20	20	4	4	6	6	3	3
M Freeman	13	13	20	20	-	4#	-	6#	-	-
RE Barker	13	13	20	19	-	4#	-	1#	-	-
R Dee-Bradbury*	13	11	2	15#	-	2#	-	-	-	3#
GR Liebelt	13	13	-	17#	-	1#	6	6	-	-
DA Peever	13	13	-	18#	4	4	-	-	-	-
CM Walter	13	13	20	20	4	4	6	6	3	3
PJ Williams	13	13	20	20	4	4	-	4#	3	3

Attended meetings by invitation.

* Ms R Dee-Bradbury was appointed to Nomination and Investment Committees on 20 May 2020.

Insurance of Directors and Officers

During the financial year, the Company paid insurance premiums to insure the Directors and Officers named in this report to the extent allowable by law. The terms of the insurance contract preclude disclosure of further details.

Senior Executives

Geoffrey N Driver

General Manager, Business Development and Investor Relations

B Ec, Grad Dip Finance, MAICD

Mr Driver joined the Company in January 2003. Previously, he was with National Australia Bank Ltd for 18 years in various roles covering business strategy, marketing, distribution, investor relations and business operations. Mr Driver was formerly Chairman of Trust for Nature (Victoria).

Andrew JB Porter

Chief Financial Officer

MA (Hons) (St And), FCA, MAICD

Mr Porter joined the Company in January 2005. He is a Chartered Accountant and has had over 24 years' experience in accounting and financial management both in the United Kingdom with Andersen Consulting and Credit Suisse First Boston, and in Australia where he was Regional Chief Operating Officer for the Corporate and Investment Banking Division of CSFB. He is the immediate former Chair of The Group of 100 (G100), the peak body for CFOs and remains on the Board, is a Director of the Auditing and Assurance Standards Board (AUASB) and a Director of the Anglican Foundation.

Matthew Rowe

Company Secretary

BA (Hons), MSc Corp Gov, FGIA, FCIS

Mr Rowe joined the Company in July 2016. He is a Chartered Secretary with over 15 years of experience in corporate governance with a particular focus in listed investment companies. He was previously a corporate governance advisor at a professional services firm which included acting as Company Secretary for three ASX listed companies. Prior to that Mr Rowe was the Company Secretarial Manager for a funds management company based in the UK.

Remuneration Report

Contents

The Directors present AFIC's 2020 Remuneration Report which outlines key aspects of our remuneration policy and remuneration awarded this year.

The Company's returns were impacted, as was the entire economy, by the COVID-19 virus pandemic. As has occasionally been the case in the past, whilst returns were negative losses were lower than that experienced by the market as a whole. More details can be found later on in this report and in the Directors' Report.

The Remuneration Committee regularly reviews the structure and composition of Executive Incentive Plans seeking to ensure that they continue to meet their objectives. As a result, the Committee has agreed to some minor adjustments in the metrics to be used next year and going forward. These are outlined in a separate section.

Shareholders should be aware that AFIC does not bear the total cost of remuneration alone. Due to agreements that the Group's subsidiary, Australian Investment Company Services Limited (AICS) also has with Djerriwarrh Investments Limited, Mirrabooka Investments Limited and AMCIL Limited, a substantial proportion of the total remuneration cost (usually 30 per cent to 40 per cent, depending on the individual), is borne by these other companies (collectively, the 'LICs'). AICS expenses the total amount and recovers the proportion borne by the investment companies through the fees that it charges. This report, therefore, shows the total expense that is borne by AICS and that an individual receives. From next year, each investment company will bear the cost directly of any incentive paid due to that company's outperformance of the relevant benchmarks. This will be accomplished by adjusting the amounts payable by each Company in the following year, and these adjustments will therefore show up on a lagging basis.

It is likely that the current review will result in some minor changes to the Incentive plan, particularly with regard to the allocation between the LICs, during the financial year ended 30 June 2021.

The report is structured as follows:

Appendix

1. Remuneration Policy and Link to Performance

1.1 What is Our Remuneration Policy?

AFIC is an investor in securities listed primarily in Australia and New Zealand. Our primary objectives are to grow dividends at a faster rate than inflation and provide shareholders with capital growth over the medium to long term. To achieve this, we need to attract and retain professional, competent and highly motivated Executives and staff through offering attractive remuneration arrangements which:

- reflect market conditions;
- recognise the skills, experience, roles and responsibilities of the individuals;
- align with shareholder interests; and
- align with the risk management strategies.

Generally, we seek to set total remuneration at the upper or second quartile of the sectors in which we operate.

Periodically, we review our remuneration policies and plans seeking to ensure that they continue to meet these objectives.

Remuneration for the Group's Executives has two main elements:

- fixed annual remuneration (FAR), and
- performance-related pay, being annual incentives and long term incentives (LTI).

FAR is determined with reference to levels necessary to recruit and retain staff with the relevant skills and experience in the industry in which the Group operates. We utilise external input, seeking to ensure that the FAR meets these conditions. This includes industry data provided by the Financial Institutions Remuneration Group Inc. (FIRG) and McLagan for the financial services industry.

Through performance-related pay, the remuneration is adjusted to reflect the risks that the Company and its shareholders face and how the Company has responded to those risks. In particular:

- the key performance indicators chosen to determine performance-related pay are those that the Company considers most relevant to its objectives of improving shareholder wealth over the medium to long term, whilst also considering the relative levels of risk;
- the focus is on performance over the medium to long term, with only a small proportion of both annual incentives and LTI being dependent on a single year's performance; and
- Executives agree to invest 50 per cent of the annual cash incentive (after tax) in AFIC shares and shares of the other investment companies (AMCIL Limited, Djerriwarrh Investments Limited and Mirrabooka Investments Limited) and to hold these shares for a minimum of two years.

The Board may, at its discretion, direct that any performance rights that are yet to vest or to be tested be cancelled in the event of negative issues that may arise, including material misstatement of the Company's financial statements.

1.2 What is Our Target Remuneration Mix?

The target remuneration mix for Executives is as follows:

Managing Director's Target Remuneration Mix

- Fixed annual remuneration **59%**
- Annual incentive **29%**
- Long term incentive **12%**

Other Executives' Target Remuneration Mix

- Fixed annual remuneration **69%**
- Annual incentive **21%**
- Long term incentive **10%**

1.3 How is the Remuneration Paid in 2020 Linked to Performance?

Table 1 discloses the actual remuneration outcomes received by the Company's Executives during the year and the LTI that may vest in future years. These amounts are different to the statutory remuneration expense disclosed in Table 7. The Board considers the information about remuneration outcomes in Table 1 relevant for users because the statutory remuneration expense includes accounting charges for long term incentives that may or may not be received in future years. See below for details of the differences.

Table 1: Actual Executive Remuneration Outcomes

	Total FAR $	Annual Incentive $	Prior Years' LTI Received* $	Total Remune-ration^ $	Annual Incentive Forfeited $	LTI Forfeited $	Possible Future LTI (To Vest Over Next 4 Years)# $
Mark Freeman – Managing Director							
2020	**867,000**	**232,443**	**25,376**	**1,124,819**	**(199,584)**	**(141,024)**	**549,116**
2019	850,000	230,987	-	1,080,987	(194,013)	(160,000)	533,500
Andrew Porter – Chief Financial Officer							
2020	**680,000**	**108,344**	**-**	**788,344**	**(96,492)**	**(112,238)**	**454,773**
2019	666,507	106,814	-	773,321	(93,138)	(110,554)	457,421
Geoff Driver – General Manager – Business Development and Investor Relations							
2020	**560,000**	**87,881**	**-**	**647,881**	**(80,808)**	**(92,484)**	**374,684**
2019	549,201	88,015	-	637,216	(76,745)	(91,027)	376,914
Matthew Rowe – Company Secretary							
2020	**275,000**	**43,238**	**-**	**318,238**	**(39,600)**	**-**	**164,608**
2019	252,000	40,310	-	292,310	(35,290)	-	120,551

For Mark Freeman, the amount forfeited is the difference between the target amount that would have been paid if all targets were met and the amount paid, under the investment team LTI. The amount shown for the other Executives is the amount that would have been paid to them with respect to the 2015 LTIP in the event that all targets had been achieved (2019: 2014 LTIP – note Matthew Rowe was not eligible). See Table 4.

The value of Annual Incentive forfeited is the difference between the target amount and the amount awarded. See Table 10.

The differences between the amounts disclosed in Table 1 and the amounts in Table 7 are as follows:

* Prior year's LTI received in Table 1 shows the value of performance shares that vested during the year, measured at the closing price on the day that they were received. In respect of Mark Freeman, it shows the cash payment received in respect of LTIP vesting from his time as Chief Investment Officer. In contrast, Table 7 shows the accounting expense recognised in relation to the LTI plans during the year.

\# The future LTI in Table 1 reflects potential future remuneration that may be received by the Executives over the next four years if the performance conditions are satisfied. This includes the estimated amounts payable under the two LTIP plans assuming the performance conditions will be satisfied at the time of vesting. For accounting purposes, these amounts are recognised as expense over the vesting period.

Ross Barker, who retired on 31 December 2017 as Managing Director, is not included in the above table or in Table 7 as he ceased to be an Executive. However, he is still entitled to ELTIP for the years in which he was employed (see Table 12). As with the other Executives, all ELTIP for the 2015–16 year was forfeited during the year, and Mr Barker thus forfeited $218,279 worth of ELTIP. At the end of 30 June 2020, the total value of the ELTIP yet to vest for Mr Barker was $351,019.

Information about Non-Executive Director remuneration is provided in Section 5 Non-Executive Director Remuneration.

1.3.1 Fixed Remuneration

Most Executives received modest inflationary increases in their fixed annual remuneration this year. AFIC continues to operate in a highly competitive market, and salary levels are reviewed at least annually with the aim of remunerating its Executives to the extent required to attract and retain Executives who are leaders in their field.

1.3.2 Performance-related Pay

This section shows:

- How annual incentive measurements are split between AFIC and the other investment companies:

	%	Result
AFIC investment performance	24.5	Table 3
AFIC other metrics	28.5	Table 2
AFIC qualitative assessment	-	n/a
Percentage of annual incentive determined by AFIC performance	**53**	
Other LIC investment performance	12.5	Table 15
Other LIC other metrics	14.5	Table 15
Other LIC qualitative assessment	-	n/a
Percentage of annual incentive determined by other LICs performance	**27**	
Total percentage of annual incentive determined by AFIC/other LIC performance	**80**	
Personal metrics	20	n/a
	100	

See Table 5 for more details on what the measures are.

- The outcomes for the two long term incentive awards (LTI) that were tested for vesting during the year (Table 4).

Refer to Sections 2.2 and 2.3 for explanations of the measures used.

AFIC's investment performance outperformed the benchmark over the short term (1 and 3 years) but remained marginally below over the longer term (8 and 10 years). In addition, as the share price moved from a discount to a small premium, the share price outperformed the Index over the 1, 3 and 8 year periods, but was still below the benchmark for the 5 and 10 year periods.

It should be noted that AFIC's returns are after taxes and expenses and represent the 'net' return to the shareholders, whereas Index returns do not include either. Furthermore, many returns quoted by managed funds exclude either tax or expenses, or both. The use of 'gross returns' mitigates the tax disparity to some extent, as it adds back franking credits to the nominal dividend that the Index pays, and also that AFIC pays.

The Management Expense Ratio (MER – see Table 11) continues to be of importance to the Board, and this continues to be better than the benchmark set. The inclusion in earnings last year of the Coles demerger dividend and the share buy-backs from BHP and Rio Tinto meant that the earnings per share figure was always likely to decline from last year. The cancellation or deferral of dividends from many companies as a result of the COVID-19 pandemic also contributed to this underperformance.

With regard to the other investment companies, Djerriwarrh did not meet any of its benchmarks with regards to investment or share performance. Mirrabooka's investment performance outperformed its relevant benchmark for all periods under review, as did AMCIL's.

The 2016 award under Executive Long Term Incentive Plan was available for vesting as of 30 June 2020. However, the calculations needed to determine how much actually vests are not performed until after the date of the Annual Report. Therefore, the full amount that may vest is shown, and the actual settlement of the 2016 award will take place in the year ended 30 June 2021. The actual amount settled will be reported in the relevant year. The 2015 award was available for vesting but was forfeited in its entirety due to the hurdles not having been met. It is this forfeiture which is reflected in Table 1 above.

For the investment team whose LTIP encompasses all of the investment companies (unlike Executives, for which only the AFIC performance is counted) the outperformance for Mirrabooka and AMCIL was reflected in the figures which are measured over 4 years for all of the investment companies, whilst AFIC and Djerriwarrh underperformed. Consequently, 15.25 per cent of the available LTIP was deemed to have vested. Detailed information about the performance of each investment company is provided in Section E of the Appendix (Table 15).

Table 2: Non-investment Return Performance Measures

Performance Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Total shareholder return (14.6 per cent)			
Share price return – 1 year	-7.68%	1.22%	Favourable ●
Share price return – 3 years	5.19%	6.07%	Favourable ●
Share price return – 5 years	5.95%	4.25%	Unfavourable ●
Share price return – 8 years	9.28%	9.32%	Favourable ●
Share price return – 10 years	7.80%	7.01%	Unfavourable ●
Growth in net operating result per share (8.3 per cent)	2.2%	-41.5%	Unfavourable ●
Management expense ratio compared to base of 0.19 per cent (5.6 per cent)	0.19%	0.13%	Favourable ●

Outcome
● Achieved
● Partially achieved
● Not achieved

Table 3: Investment Return Performance Measures

Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Investment return – 1 year	-7.68%	-4.06%	Favourable ●
Investment return – 3 years	5.19%	5.42%	Favourable ●
Investment return – 5 years	5.95%	5.41%	Unfavourable ●
Investment return – 8 years	9.28%	8.93%	Unfavourable ●
Investment return – 10 years	7.80%	7.75%	Unfavourable ●
Gross return – 1 year	-6.62%	-3.13%	Favourable ●
Gross return – 3 years	6.67%	6.73%	Favourable ●
Gross return – 5 years	7.49%	6.73%	Unfavourable ●
Gross return – 8 years	10.90%	10.41%	Unfavourable ●
Gross return – 10 years	9.41%	9.31%	Unfavourable ●
Reward to risk – 1 year	1st qtr	2nd/qtr	Unfavourable ●
Reward to risk – 3 years	1st qtr	2nd/qtr	Unfavourable ●
Reward to risk – 5 years	1st qtr	3rd/qtr	Unfavourable ●
Reward to risk – 8 years	1st qtr	2nd/qtr	Unfavourable ●
Reward to risk – 10 years	1st qtr	2nd/qtr	Unfavourable ●

Outcome
● Achieved
● Partially achieved
● Not achieved

Table 4: Vesting and Forfeiture of Long Term Incentives During The Year*

Award Date	Assessment Dates	Measure Tested	Benchmark Result	AFIC Result	% Vested	% Forfeited
ELTIP – Performance rights*						
1 July 2015	30 June 2019	Total gross shareholder return	10.1%	6.2%	0%	50%
		Total portfolio return	9.01%	7.31%	0%	50%
Investment team LTI						
1 July 2016	30 June 2020	Gross return	8.86%	8.42%	15.25%	84.75%

* Of the rights awarded on 1 July 2015, 100 per cent were forfeited as the targets were not achieved. For the Investment Team LTI, outperformance by Mirrabooka and AMCIL mean that some vesting occurred. See Table 15.

2. Structure of Remuneration

2.1 Fixed Annual Remuneration (FAR)

The FAR component of an Executive's remuneration comprises base salary, superannuation guarantee contributions and fringe benefits. Executives can elect to receive a portion of their FAR in form of additional superannuation contributions or fringe benefits. This will not affect the gross amount payable by the Group.

2.2 Annual Incentive

Table 5 below outlines the key terms and conditions of the annual incentive plan.

Table 5: Annual Incentives – Key Terms and Conditions

Targeted % of FAR	Managing Director 50%	Other Executives 30%
Objectives	Align remuneration with the creation of shareholder wealth over the past year and over a longer period. Measures reflect the management of the Group and the other investment companies, as well as the key investment returns that reflect the creation of shareholder wealth.	
Performance measures	• Company performance (43 per cent) • Investment performance (37 per cent): • Personal objectives (20 per cent) • See Table 11 for details	
Relative weightings of investment companies for investment related performance	AFIC: 53 per cent Djerriwarrh Investments Limited: 16 per cent AMCIL Limited: 4 per cent Mirrabooka Investments Limited: 7 per cent Personal objectives: 20 per cent	
Delivery of award	Incentive is paid in cash, but 50 per cent of the after-tax amount received is used by recipients to acquire shares in AFIC and the other investment companies which they agree to hold for minimum of 2 years.	
Performance measured in 2020	Some shorter term investment measures achieved but some longer term ones not. MER achieved but earnings per share down (see Tables 2 and 3 above).	
Outcomes for 2020 (see Table 10 for details)	54 per cent	Average 52 per cent

The performance measures of each annual incentive plan are reviewed by the Remuneration Committee. The Committee may, from time to time, revise the performance conditions and weightings in order to better meet the objectives of the annual incentive policies. They may also change or suspend any part of the incentive payment arrangements. If relevant targets are not achieved but performance is close to the target, some of the incentive may be paid. This is noted as 'partially achieved' in Table 3. Where stretch levels of performance are achieved above target, then higher amounts may be paid. To date, total annual incentives paid to each Executive have never exceeded target.

For more detailed information about the annual incentive performance conditions and outcomes for 2020 please refer to Section B Annual Incentives: details of outcomes and conditions in the Appendix.

2.3 Long Term Incentive Plans (LTIP)

There are two LTI plans, one for the Executives (excluding the CIO) which is called the ELTIP, and one for the investment team, including the CIO. Mr Freeman continues to be eligible for awards made to him whilst he was CIO until 2021, the last grant having been made for the year ended 30 June 2018. Table 6 outlines the purpose and the key terms and conditions of each plan.

Table 6: Long Term Incentives – Key Terms and Conditions

	Executive ELTIP (Performance Rights)	Investment Team LTI Plan
Target	50 per cent of targeted Annual Incentive	20 per cent of FAR
Objectives	Align remuneration with growth in shareholder wealth over a forward looking period of four years. Reward outperformance.	
Performance measures	See Table 15 in the Appendix for details.	See Table 15 in the Appendix for details.
Performance for awards tested in 2020 (Table 4)	July 2015: 0 per cent vested (see Table 4).	July 2016: 15.25 per cent vested (see Table 4).

For more detailed information about the LTI plans and their performance conditions, including vesting schedules and outcomes for 2020, please refer to Section C Long Term Incentives: details of outcomes and conditions in the Appendix.

3. Executive Remuneration Expense

This section discloses the remuneration expense recognised under accounting standards for each executive (Table 7). These amounts are different to the remuneration outcomes disclosed in Table 1 as noted in that table.

Table 7: Remuneration Expense

	Short Term	Post-employment		Short Term	Long Term Share-based Payments			
	Base Salary $	Super-annuation $	Total Fixed Remuneration $	Annual Incentives $	LTI Cash-settled* $	Other Long Term Payments* $	Total Remuneration $	% Fixed/ Performance Related
Mark Freeman – Managing Director								
2020	842,000	25,000	867,000	232,443	117,747	(100,800)	1,116,390	78%/22%
2019	825,000	25,000	850,000	230,987	75,114	(57,025)	1,099,076	77%/23%
Andrew Porter – Chief Financial Officer								
2020	655,000	25,000	680,000	108,344	3,818	-	792,162	86%/14%
2019	641,507	25,000	666,507	106,814	14,168	-	787,489	85%/15%
Geoff Driver – General Manager – Business Development and Investor Relations								
2020	535,000	25,000	560,000	87,881	3,134	-	651,015	86%/14%
2019	524,201	25,000	549,201	88,015	11,744	-	648,960	85%/15%
Matthew Rowe – Company Secretary								
2020	251,142	23,858	275,000	43,238	41,951	-	360,189	76%/24%
2019	230,101	21,899	252,000	40,310	31,898	-	324,208	78%/22%

* Includes amounts credited for non-vesting.

4. Contract Terms

Each Executive is employed under an open-ended contract, the terms of which can be varied by mutual agreement. There are no contractual provisions for cessation of employment other than statutory requirements. Either the Company or the Executive can give notice in accordance with statutory requirements. There are no specific payments to be made as a consequence of termination beyond those required by statute. Should there be any payments, these will be at the Board's discretion.

Material breaches of the terms of employment will normally result in the termination of an Executive's employment.

5. Non-Executive Director Remuneration

Shareholders approve the maximum aggregate amount of remuneration per year available to be allocated between Non-Executive Directors (NEDs) as they see fit. In proposing the amount for consideration by shareholders, the Remuneration Committee takes into account the time demands made on Directors together with such factors as the general level of fees paid to Australian corporate directors.

For NEDs, who are charged with the responsibility of oversight of the Company's activities, a fixed annual fee is paid with no element of performance-related pay.

The amount approved at the AGM in October 2019 was $1,250,000 per annum, which is the maximum amount that may be paid in total to all NEDs. Retirement allowances for Directors were frozen at 30 June 2004.

On appointment, the Company enters into a deed of access and indemnity with each NED. There are no termination payments due at the cessation of office, and any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

The amounts paid to each NED, and the figures for the corresponding period, are set out in Table 8.

Table 8: Non-Executive Director Remuneration

	Primary (Fee/Base Salary) $	Post Employment (Superannuation) $	Total Remuneration $
J Paterson – Chairman from 9 October 2018			
2020	178,080	16,920	195,000
2019	149,940	14,244	164,184
TA Campbell AO – Chairman (retired 9 October 2018)			
2019	47,679	4,530	52,209
RE Barker – Non-Executive Director			
2020	89,040	8,460	97,500
2019	86,758	8,242	95,000
RP Dee-Bradbury – Non-Executive Director (appointed 6 May 2019)			
2020	93,270	4,230	97,500
2019	13,347	1,268	14,615
JC Hey – Non-Executive Director (retired 18 January 2019)			
2019	47,623	4,524	52,147
GR Liebelt – Non-Executive Director			
2020	89,040	8,460	97,500
2019	86,758	8,242	95,000
DA Peever – Non-Executive Director			
2020	89,040	8,460	97,500
2019	86,758	8,242	95,000
CM Walter AM – Non-Executive Director			
2020	89,040	8,460	97,500
2019	86,758	8,242	95,000
PJ Williams– Non-Executive Director			
2020	89,040	8,460	97,500
2019	86,758	8,242	95,000
Total remuneration of Non-Executive Directors			
2020	716,550	63,450	780,000
2019	692,379	65,776	758,155

Amounts Payable on Retirement

The amounts payable to the current NEDs who were in office at 30 June 2004, which will be paid when they retire, are set out in Table 9. These amounts were expensed in prior years as the retirement allowances accrued.

Table 9: Non-Executive Director Retirement Allowance

	Amount Payable on Retirement $
CM Walter AM	42,385
Total	**42,385**

Appendix

A. Remuneration Governance

Responsibilities of the Board and the Remuneration Committee

It is the Board's responsibility to review and approve the recommendations of the Remuneration Committee.

For more information, the Charter of the Board is available on the Company's website.

The Remuneration Committee's primary responsibilities include:

- reviewing the level of fees for NEDs and the Chairman;
- reviewing the Managing Director's remuneration arrangements;
- evaluating the Managing Director's performance;
- reviewing the remuneration arrangements for other Senior Executives;
- monitoring legislative developments with regards to Executive remuneration; and
- monitoring the Group's compliance with requirements in this area.

For more information, the Charter of the Remuneration Committee is available on the Company's website.

The Remuneration Committee is composed of three NEDs (GR Liebelt (Chairman), J Paterson and CM Walter AM) and meets at least twice per year.

Policy on Hedging

The Company provides no lending or leveraging arrangements to its Executives, who are prohibited by Company policy from entering into hedging arrangements that mitigate the possibility that 'at risk' incentive payments may not vest.

Use of Remuneration Consultants

The Remuneration Committee has appointed Ernst & Young to provide it with advice about Executive remuneration. The Remuneration Committee uses Ernst & Young from time to time, as it sees fit, to independently test management's recommendations.

Specifically, Ernst & Young would provide advice on:

(a) proposed remuneration levels and remuneration structure for the Managing Director;

(b) proposed remuneration levels and remuneration structure for the Managing Director's direct reports; and

(c) proposed remuneration levels of NEDs.

No reports or recommendations were requested by the Committee or the Board for the year ended 30 June 2020 other than a review of benchmarking for Non-Executive Directors, which is not considered by Ernst & Young as a remuneration recommendation under the Corporations Act. The Board is satisfied that these arrangements seek to ensure that any remuneration recommendations made by remuneration consultants are free from influence by management.

The use of the remuneration advisers by management is limited to specific areas to seek to ensure that the independent advice that the Remuneration Committee receives is not perceived as having been compromised by management.

Ernst & Young are separately engaged by management to report on the following:

(a) trends in remuneration for the sectors in which the Group operates (provision of market practice data);

(b) the relative positioning of the remuneration of the Group's employees (including Executives) within those sectors;

(c) proposed remuneration levels for employees other than designated Senior Executives; and

(d) advice on the operation of the incentive plans (e.g., tax and accounting advice).

The Managing Director then makes recommendations to the Remuneration Committee with regards to the remuneration levels and structure of the KMP.

Ernst & Young also reviews the calculations used in determining the vesting of awards and certifies them as being correct and in accordance with the terms and conditions of the ELTIP.

Ernst & Young were paid $14,729 (inclusive of GST) during the year ended 30 June 2020 for other general remuneration advice which consisted of a report on the benchmarking of fees for Non-Executive Directors in the Australian marketplace (2019: $0) and during the year the Group also paid $111,210 for other professional advice received which included acting as the internal auditor for AICS and general taxation and accountancy advice (2018: $183,464)(all including GST).

Ernst & Young were remunerated on an invoiced basis, based on work performed.

The Company also participates in the annual McLagan and FIRG surveys of fund managers to understand current remuneration levels and practices.

B. Annual Incentives: Details of Outcomes and Conditions

Table 10 below shows the annual incentives paid to individual Executives as a result of AFIC's and the other investment companies' performance on financial metrics and the individual's achievement of their own personal objectives. Table 11 sets out the detailed terms and conditions of the annual incentives. For a high-level summary see Section 2.2 and Table 5 of the main part of the Remuneration Report.

Table 10: Annual Incentive Outcomes

Executive	% of Target Paid	$ Paid	% of Target Forfeited	$ Forfeited
Mark Freeman	54%	$232,443	46%	$201,057
Andrew Porter	53%	$108,344	47%	$95,656
Geoff Driver	52%	$87,881	48%	$80,109
Matthew Rowe	52%	$43,238	48%	$39,262

Table 11: Executive Annual Incentive Performance Conditions

Performance Areas and Relative Weighting	Performance Measures	Objectives These Measures Aim to Achieve
Company performance (43 per cent) The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Relative total shareholder return (TSR): TSR is the movement in share price plus the dividends paid by the Company assumed to be reinvested. TSR performance is measured against the S&P/ASX 200 Accumulation Index over 1, 3, 5, 8 and 10 year periods (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka). • Growth in net profit per share: measured against CPI. • Management expense ratio (MER): measured against prior years' results or, in the case of AFIC, measured against a base of 0.19 per cent.	• TSR: This is a direct measure of the increase in shareholder's wealth against the performance of the Index. • Growth in net profit per share reflects the ability of the Company to meet its stated aim of 'paying out dividends which, over time, grow faster than the rate of inflation.' • MER reflects the costs of running the Company.

<table>
<tr><th>Performance Areas
and Relative Weighting</th><th>Performance Measures</th><th>Objectives These Measures Aim to Achieve</th></tr>
<tr><td>Investment performance (37 per cent)

The relevant weightings of the investment companies are:
• AFIC: 66.25 per cent
• Djerriwarrh Investments Limited: 20 per cent
• AMCIL Limited: 5 per cent
• Mirrabooka Investments Limited: 8.75 per cent</td><td>• Relative investment return: measure of the return on the portfolio invested (including cash) over the previous 1, 3, 5, 8 and 10 years, relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).
• Gross return (GR): measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous 1, 3, 5, 8 and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).
• Risk/reward return: This is a measure over 1, 3, 5, 8 and 10 years of the past performance of the Company, compared to the performance of the Company's peers (i.e. investment funds) as reported by Mercer. (Note: this measure is used for AFIC's performance only, reflecting that Company's focus on producing stable returns over the medium to long term).</td><td>The NEDs consider that the metrics used equate, over the medium to long term, with the stated objectives of the Company, namely 'to provide attractive total returns and pay dividends, which, over time, grow faster than the rate of inflation'.
• Investment return: reflects the returns generated by the mix of the investments that the Company has invested in. These reflect the value added to shareholders wealth by the investment decisions of the Company.
• Gross return (GR): reflects the movement in the value of the underlying portfolio over the period with the additional recognition of the importance of franking credits.
• Risk/reward return: best reflects the return of the portfolio against the risks to shareholders of investing in the companies selected.

Note: The Remuneration Committee has discretion to determine, at the time of the review, what it considers to be the appropriate level of return to be used.</td></tr>
<tr><td>Personal objectives (20 per cent)</td><td>Includes:
• advice to the Board;
• succession planning;
• management of staff;
• risk management;
• promotion of the corporate culture; and
• satisfaction of key internal stakeholders.

These measures all contribute to the efficient running of the Group, and the other investment companies, enhancing investment outcomes.</td><td>Personal objectives are included in incentive calculations to encourage out-performance on non-financial metrics. These metrics can be important determinants of business success in the medium term. The Managing Director reviews the performance of each Executive with the Remuneration Committee, and the Remuneration Committee alone determines how the Managing Director is performing against these objectives.</td></tr>
</table>

C. Long Term Incentives: Details of Outcomes and Conditions

This section shows the outstanding cash bonuses under the ELTIP and the investment team LTI schemes (Table 12). It also explains the detailed terms and conditions of the two LTIs that are currently in operation (Table 13). For a high-level overview see Section 2.3 of the main body of the Remuneration Report.

Table 12: Vesting of ELTIP and Investment Team LTI

ELTIP Award Date	Vesting Date Subject to Performance Hurdles	Value at Award Date $	Number of Rights Awarded	Value Per Right $	Award Vested for the Year Number of Rights/%	Value Yet to Vest 30 June 2020 $
Ross Barker – Managing Director (until 31 December 2017)						
1 July 2015	30 June 2019	$182,325	29,459	$6.189	0/0%	-
1 July 2016	30 June 2020	$185,975	33,205	$5.601	-	$239,350
1 July 2017	30 June 2021	$92,888	16,153	$5.757	-	$111,669
						$351,019
Mark Freeman – Managing Director (from 1 January 2018)						
1 Jan 2018	30 June 2021	$85,000	14,765	$5.757	-	$102,077
1 July 2018	30 June 2022	$170,000	27,974	$6.077	-	$185,844
1 July 2019	30 June 2023	$173,400	28,217	$6.145	-	$177,995
						$465,916
Andrew Porter – Chief Financial Officer						
1 July 2015	30 June 2019	$93,750	15,148	$6.189	0/0%	-
1 July 2016	30 June 2020	$95,625	17,074	$5.601	-	$123,069
1 July 2017	30 June 2021	$98,016	17,026	$5.757	-	$117,707
1 July 2018	30 June 2022	$99,976	16,451	$6.077	-	$109,294
1 July 2019	30 June 2023	$102,000	16,598	$6.145	-	$104,703
						$454,773
Geoff Driver – General Manager – Business Development and Investor Relations						
1 July 2015	30 June 2019	$77,250	12,482	$6.189	0/0%	-
1 July 2016	30 June 2020	$78,795	14,069	$5.601	-	$101,409
1 July 2017	30 June 2021	$80,765	14,030	$5.757	-	$96,991
1 July 2018	30 June 2022	$82,380	13,556	$6.077	-	$90,058
1 July 2019	30 June 2023	$84,000	13,669	$6.145	-	$86,226
						$374,684
Matthew Rowe – Company Secretary (joined 11 July 2016)						
11 July 2016	30 June 2020	$30,000	5,356	$5.601	-	$38,610
1 July 2017	30 June 2021	$35,250	6,123	$5.757	-	$42,332
1 July 2018	30 June 2022	$37,800	6,220	$6.077	-	$41,323
1 July 2019	30 June 2023	$41,250	6,713	$6.145		$42,343
						$164,608

Investment Team LTI Award Date	Vesting Date Subject to Performance Hurdles	Target Amount $	Award Vested for the Year $	Award Vested for the Year %	Value Yet to Vest 30 June 2020 $
Mark Freeman – Chief Investment Officer (Investment team LTI) – until 31 December 2017					
1 July 2016	30 June 2020	$166,400	$25,376	15.25%	-
1 July 2017	30 June 2021	$83,200	-	-	$83,200
					$83,200

The total value of the two LTIP plans for Mr Freeman that are yet to vest is $549,116.

See Table 1 for actual amounts vested and Table 4 for details of vesting calculations.

The value of the outstanding ELTIP performance rights as in the table above was estimated at 30 June 2020 using the Total Share Return (TSR – which includes dividends reinvested) based on a closing price on 30 June 2020 of AFI shares of $6.09 (the TSR for AFI at 30 June 2020 was 6.54 per cent p.a. for four years, 6.07 per cent p.a. for three years, 4.00 per cent for two years and 1.22 per cent for one year). The value of the investment team LTI that is yet to vest is the target amount. Actual amounts awarded may exceed this amount, depending on performance over the four-year vesting period.

No vesting of the 2019 Investment Team Long Term Incentive Plan was made during the year due to underperformance. 100 per cent was forfeited. 15.25 per cent of the 2020 LTIP will be paid in the year ended 30 June 2021.

Table 13: Long Term Incentive Plans

ELTIP (Performance Rights)		
Nature of grant	Rights to receive cash that must then be used by the Executives to acquire AFIC shares on market.	
Performance conditions	1. Total gross shareholder return (50 per cent): the movement in the AFIC share price and the Index price, grossed up to reflect the value of franking credits. This is compared to that of the market such that only outperformance is rewarded. Outperformance of this index over time should be an indicator of the value added by the Company to shareholders' wealth. Both the Company's return and the Index return are smoothed over 30 days to remove excess volatility. 2. Total portfolio return (50 per cent): the movement in the net asset backing of the Company (per share) plus the dividends paid by the Company reinvested. This compares AFIC's investment performance against that of other fund managers (based on the Mercer Investment Consulting Survey of Australian Retail Fund Managers which provides the industry benchmark of funds management performance over the relevant period), so that only outperformance relative to its peers is rewarded.	
Vesting schedule: total gross shareholder return	**Company performance relative to gross accumulation index**	**Percentage of rights vesting**
	Underperformance	0 per cent
	< or = 20 per cent outperformance	Straight line between 25 per cent and 50 per cent
	> 20 per cent outperformance	50 per cent
Vesting schedule: total portfolio return	**Company performance**	**Percentage of rights vesting**
	Less than median performance	0 per cent
	Median to < or = 75th percentile	Straight line between 25 per cent and 50 per cent
	> 75 per cent percentile	50 per cent
Valuation of performance rights	At 1 July each year, the 30-day volume weighted average price of AFIC shares up to, but not including 1 July will be calculated. The amount of ELTIP available will then be divided by this average price to determine the number of performance rights that may vest in four years' time. The value of the performance rights will be adjusted each year by the total shareholder return for the year, calculated based on the 30-day volume weighted average price of AFIC shares up to 1 July. At vesting time, the value of the performance rights that will vest is converted to cash, based on the value of the rights at that time.	
Accounting treatment	Under current accounting standards, the ELTIP scheme is classified as a cash-settled scheme. The expected amount payable upon vesting must therefore be estimated each year and adjusted not only for the likelihood of vesting but also for changes in the value of the performance rights. In the first year, 25 per cent of the expected amount payable will be booked as an expense. At the end of the second year, 50 per cent of the new expected final value less the amount booked in the previous year will be booked. At the end of the third year, 75 per cent of the total, estimated final value less amounts previously expensed will be booked. At the end of the fourth year, the actual liability will be calculated and a balancing adjustment made.	

Investment Team LTI Plan

Nature of grant	Cash or shares, at discretion of the Company.	
Performance condition	Gross return which measures the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits. This return is compared to the relevant accumulating index as set out below.	
Indices which investment portfolios are assessed against	**Investment portfolio**	**Relevant accumulation index**
	AFIC (60 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
	Djerriwarrh Investments Limited (25 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
	Mirrabooka Investments Limited (10 per cent)	S&P/ASX Mid Cap 50 Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index, grossed up for franking credits
	AMCIL Limited (5 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
Vesting schedule: Company gross return	**Company performance relative to the relevant accumulation index**	**Percentage of rights vesting**
	< 90 per cent performance	0 per cent
	90 – 99 per cent performance	Board discretion
	> 100 per cent up to 110 per cent performance	Straight line between 50 per cent and 100 per cent
	> 110 per cent up to 120 per cent performance	Straight line between 100 per cent and 150 per cent
	120 per cent + performance	150 per cent

D. Directors and Executives: Equity Holdings and Other Transactions

Tables 14 sets out reconciliations of shares and convertible notes issued by the Group and held directly, indirectly or beneficially by Non-Executive Directors and Executives of the Group, or by entities to which they were related.

Table 14: Shareholdings of Directors and Executives

	Opening Balance	Changes During Year	Closing Balance
J Paterson	606,943	5,184	612,127
RM Freeman	147,750	6,325	154,075
RE Barker	904,862	3,911	908,773
RP Dee-Bradbury	0	14,213	14,213
GR Liebelt	463,463	64,245	527,708
DA Peever	30,309	1,130	31,439
CM Walter	341,124	12,724	353,848
PJ Williams	69,422	17,000	86,422
GN Driver	136,047	3,070	139,117
MJ Rowe	2,240	1,584	3,824
AJB Porter	182,920	(12,164)	170,756

Other Arrangements with Non-Executive Directors

Non-Executive Directors Ross Barker, John Paterson and Catherine Walter have rented office space and, for Ross Barker and John Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable, excluding GST, by the Group during the year was:

	Rental Income Received/Receivable $
RE Barker	20,852
J Paterson	26,921
CM Walter	14,492

E. Changes to Remuneration Metrics and Allocations With Effect From the Financial Year Ended 30 June 2021

The structure of the split between fixed, annual incentive and long term will remain consistent. There will be some minor variation to the cost of the FAR charged to each LIC.

20 per cent of the annual incentive will remain based on personal objectives and will be charged to the LICs on the basis of the fixed annual remuneration.

The remaining 80 per cent of the annual incentive will be based on the performance of the LICs. Total share return will no longer be used as a metric for the annual incentive. However, the long term incentive will move from being 50 per cent grossed up TSR and 50 per cent NTA accumulation vs peer group to 100 per cent grossed up TSR.

For the annual incentive, investment return, NTA gross return and the MER will remain as key components. For AFIC and DJW only, operating EPS growth will remain as a measure, as they are more directly related to the amount of dividend that is paid, whereas the operating EPS for MIR and AMH is less reflective of their objectives. The actual growth of the dividend paid will also be considered for AFI and DJW. Reward/risk will no longer be utilised as the results of this are effectively included in the investment and NTA returns over the longer periods. Dividend yield will be a measure for the DJW portion of the annual incentive.

The proportion of annual incentive borne by MIR and AMH will increase and consequently that borne by AFI will decrease. The proportion of annual incentive that vests due to the results of each LIC will be charged directly to that LIC in the year following the year for which the award is made – i.e. on a lagging basis. The effects of this will therefore be noted in the following year's MER.

F. Detailed Performance Measures by Investment Company

Table 15 shows the performance of AFIC and the other investment companies over the past five years, including details of total shareholder return (TSR), total portfolio return (TPR) and gross return (GR). These measures, which represent growth in shareholder wealth, determine the vesting of AFIC's LTI plans to Executives and the investment team.

Table 15: Detailed Performance Measures for AFIC and the Other Investment Companies

Year Ending 30 June	10-year Return	8-year Return	5-year Return	4-year Return	3-year Return	2020	2019	2018	2017	2016
Comparative returns										
S&P/ASX 200 Accumulation Return	7.8%	9.3%	6.0%	7.4%	5.2%	**-7.7%**	11.6%	13.0%	14.1%	0.6%
Gross S&P/ASX 200 Accumulation Return	9.4%	10.9%	7.5%	8.9%	6.7%	**-6.6%**	13.4%	14.6%	15.7%	2.2%
Combined Midcap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	7.3%	9.2%	9.3%	7.7%	6.1%	**-2.6%**	2.8%	19.3%	12.7%	16.1%
Gross Combined Midcap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	8.3%	10.2%	10.4%	8.7%	7.1%	**-1.9%**	3.8%	20.4%	13.8%	17.2%
AFIC										
Total shareholder return	7.0%	9.3%	4.3%	6.5%	6.1%	**1.2%**	6.9%	10.3%	8.0%	-4.4%
Total portfolio return	7.4%	8.5%	4.8%	6.5%	4.8%	**-4.7%**	9.0%	10.8%	11.7%	-1.6%
Growth in net operating result per share	0.9%	-0.1%	-6.1%	-4.4%	-2.7%	**-41.5%**	44.1%	9.6%	-9.6%	-12.4%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.13%**	0.13%	0.14%	0.14%	0.16%
Risk/reward return[1]	41st/105	61st/119	70th/130	59th/130	46th/130	**42nd/130**	33rd/133	105th/156	119th/169	n/a[2]
Gross return	9.3%	10.4%	6.7%	8.4%	6.7%	**-3.1%**	11.4%	12.7%	13.7%	0.2%
Investment return	7.8%	8.9%	5.4%	7.1%	5.4%	**-4.1%**	9.8%	11.3%	12.3%	-1.0%
Djerriwarrh Investments Limited										
Total shareholder return	1.7%	1.1%	-6.1%	-5.7%	-6.4%	**-22.0%**	8.4%	-2.8%	-3.8%	-7.7%
Total portfolio return	4.7%	5.1%	1.5%	3.1%	0.0%	**-13.6%**	6.3%	8.8%	13.0%	-4.5%
Growth in net operating profit per share	-4.9%	-4.1%	-10.2%	-10.2%	-7.2%	**-26.0%**	3.7%	5.7%	-19.9%	-10.0%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.45%**	0.43%	0.44%	0.46%	0.46%
Gross return	7.8%	8.2%	4.5%	5.9%	2.6%	**-11.5%**	9.1%	11.7%	16.6%	-1.1%
Investment return	6.2%	6.6%	2.9%	4.3%	1.6%	**-10.0%**	6.8%	9.7%	13.0%	-2.7%
Operating earnings as a percentage of available investable assets	n/a	n/a	n/a	n/a	n/a	**6.1%**	7.0%	7.1%	7.1%	8.7%

1. This represents the Company's ranking in the Mercer IDPS Australian Share Universe – i.e. 10th out of 71 funds. The period used is Year to May.
2. n/a as cannot be calculated when return is negative.

Year Ending 30 June	10-year Return	8-year Return	5-year Return	4-year Return	3-year Return	2020	2019	2018	2017	2016
Mirrabooka Investments Limited										
Total shareholder return	9.5%	9.5%	3.6%	1.4%	0.8%	-0.3%	-1.9%	4.9%	3.0%	13.1%
Total portfolio return	10.3%	10.5%	8.1%	7.1%	7.1%	5.3%	1.8%	14.7%	7.1%	12.0%
Growth in net operating result per share	-2.8%	-5.3%	-4.8%	-9.5%	-6.9%	-29.2%	-14.9%	35.7%	-17.8%	16.6%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.63%	0.61%	0.60%	0.62%	0.65%
Gross return	13.3%	13.6%	11.1%	10.0%	10.1%	7.1%	5.9%	17.3%	9.9%	15.4%
Investment return	12.7%	13.1%	10.1%	9.0%	8.9%	6.3%	4.8%	16.0%	9.3%	14.8%
AMCIL Limited										
Total shareholder return	9.7%	9.1%	5.9%	4.5%	6.4%	11.2%	-0.7%	9.1%	-1.2%	11.8%
Total portfolio return	8.9%	8.9%	6.9%	6.7%	7.2%	6.0%	3.5%	12.3%	5.3%	7.6%
Growth in net operating result per share	-2.0%	-2.9%	-6.1%	-8.8%	0.9%	-17.5%	8.8%	14.4%	-32.6%	4.8%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.66%	0.72%	0.69%	0.68%	0.65%
Gross return	11.2%	11.4%	9.1%	8.9%	9.6%	7.6%	7.0%	13.9%	7.0%	9.7%
Investment return	11.0%	11.1%	8.6%	8.5%	8.9%	7.2%	5.8%	14.0%	7.1%	9.3%

Non-audit Services

Details of non-audit services performed by the auditors may be found in Note F2 of the Financial Report.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the *Corporations Act 2001* including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company, or jointly sharing economic risk and rewards.

A copy of the Auditor's Independence Declaration is set out on page 35.

This report is made in accordance with a resolution of the Directors.

John Paterson
Chairman

27 July 2020

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Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Foundation Investment Company Limited and the entity it controlled during the period.

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
27 July 2020

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Consolidated Income Statement

For the Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Dividends and distributions	A3	257,858	433,009
Interest income from deposits	A3	1,554	3,615
Other revenue	A3	4,895	4,729
Total revenue		**264,307**	**441,353**
Net gains/(losses) on trading portfolio	A3	9,740	(4,686)
Income from operating activities		**274,047**	**436,667**
Finance costs		(1,047)	(826)
Administration expenses	B1	(14,759)	(14,312)
Profit before income tax expense		**258,241**	**421,529**
Income tax expense	B2, E2	(17,846)	(15,156)
Profit for the year		**240,395**	**406,373**
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		239,931	405,932
Minority interest		464	441
		240,395	**406,373**
		Cents	Cents
Basic earnings per share	A5	19.88	34.00

This Income Statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2020

	Year to 30 June 2020			Year to 30 June 2019		
	Revenue[1] $'000	Capital[1] $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Profit for the year	**240,395**	**-**	**240,395**	**406,373**	**-**	**406,373**
Other comprehensive income						
Items that will not be recycled through the Income Statement						
Gains/(losses) for the period	-	(568,806)	**(568,806)**	-	261,984	**261,984**
Tax on above	-	167,602	**167,602**	-	(86,616)	**(86,616)**
Total other comprehensive income	**-**	**(401,204)**	**(401,204)**	**-**	**175,368**	**175,368**
Total comprehensive income	**240,395**	**(401,204)**	**(160,809)**	**406,373**	**175,368**	**581,741**

1. 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities in the investment portfolio, including non-equity investments held in the investment portfolio. Income in the form of distributions and dividends is recorded as 'revenue'. All other items, including expenses, are included in Profit for the year, which is categorised under 'revenue'.

	Year to 30 June 2020			Year to 30 June 2019		
	Revenue $'000	Capital $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Total comprehensive income is attributable to:						
Equity holders of Australian Foundation Investment Company Ltd	239,931	(401,204)	(161,273)	405,932	175,368	581,300
Minority interests	464	-	464	441	-	441
	240,395	(401,204)	(160,809)	406,373	175,368	581,741

This Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash	D1	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	A2	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	B2	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	A1, D6	2,947,243	2,888,136
Revaluation reserve	A1, D3	2,166,030	2,561,314
Realised capital gains reserve	A1, D4	397,712	462,257
General reserve	A1	23,637	23,637
Retained profits	A1, D5	705,273	688,244
Parent entity interest		**6,239,895**	**6,623,588**
Minority interest		**622**	**1,158**
Total equity		**6,240,517**	**6,624,746**

This Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2020

Year Ended 30 June 2020	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**2,888,136**	**2,561,314**
Dividends paid to shareholders	A4	-	-
– Dividend Reinvestment Plan	D6	59,249	-
Other share capital adjustments		(142)	-
Total transactions with shareholders		**59,107**	**-**
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net losses for the period		-	(401,204)
Other comprehensive income for the year		-	(401,204)
Transfer to realised capital gains of cumulative losses on investments sold		-	5,920
Dividend paid to minority interests by AICS		-	-
Total equity at the end of the year		**2,947,243**	**2,166,030**

Year Ended 30 June 2019	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**2,811,721**	**2,422,568**
Dividends paid to shareholders	A4	-	-
– Dividend Reinvestment Plan	D6	76,556	-
Other share capital adjustments		(141)	-
Total transactions with shareholders		**76,415**	**-**
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net gains for the period		-	175,368
Other comprehensive income for the year		-	175,368
Transfer to realised capital gains of cumulative gains on investments sold		-	(36,622)
Total equity at the end of the year		**2,888,136**	**2,561,314**

This Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
462,257	23,637	688,244	6,623,588	1,158	6,624,746
(58,625)	-	(222,902)	(281,527)	-	(281,527)
-	-	-	59,249	-	59,249
-	-	-	(142)	-	(142)
(58,625)	-	(222,902)	(222,420)	-	(222,420)
-	-	239,931	239,931	464	240,395
-	-	-	(401,204)	-	(401,204)
-	-	-	(401,204)	-	(401,204)
(5,920)	-	-	-	-	-
-	-	-	-	(1,000)	(1,000)
397,712	23,637	705,273	6,239,895	622	6,240,517

Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
448,892	23,637	631,725	6,338,543	717	6,339,260
(23,257)	-	(349,413)	(372,670)	-	(372,670)
-	-	-	76,556	-	76,556
-	-	-	(141)	-	(141)
(23,257)	-	(349,413)	(296,255)	-	(296,255)
-	-	405,932	405,932	441	406,373
-	-	-	175,368	-	175,368
-	-	-	175,368	-	175,368
36,622	-	-	-	-	-
462,257	23,637	688,244	6,623,588	1,158	6,624,746

Consolidated Cash Flow Statement

For the Year Ended 30 June 2020

	Note	2020 $'000 Inflows/ (Outflows)	2019 $'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		39,663	39,599
Purchases for trading portfolio		(25,160)	(28,964)
Interest received		1,573	3,663
Dividends and distributions received		255,492	366,436
		271,568	380,734
Other receipts		5,095	5,117
Administration expenses		(14,403)	(14,875)
Finance costs paid		(1,047)	(826)
Taxes paid		(6,578)	(18,388)
Net cash inflow/(outflow) from operating activities	E1	**254,635**	**351,762**
Cash flows from investing activities			
Sales from investment portfolio		589,059	810,462
Purchases for investment portfolio		(694,841)	(752,440)
Taxes paid on capital gains		(20,394)	(6,406)
Net cash inflow/(outflow) from investing activities		**(126,176)**	**51,616**
Cash flows from financing activities			
Net bank borrowings		-	(100)
Share issue transaction costs		(142)	(141)
Dividends paid		(223,428)	(295,891)
Net cash inflow/(outflow) from financing activities		**(223,570)**	**(296,132)**
Net increase/(decrease) in cash held		(95,111)	107,246
Cash at the beginning of the year		206,429	99,183
Cash at the end of the year	D1	**111,318**	**206,429**

For the purpose of the Cash Flow Statement, 'cash' includes cash and deposits held at call.

This Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

A. Understanding AFIC's Financial Performance

A1. How AFIC Manages its Capital

AFIC's objective is to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and enhancement of capital invested.

AFIC recognises that its capital will fluctuate with market conditions. In order to manage those fluctuations, the Board may adjust the amount of dividends paid, issue new shares, buy back the Company's shares or sell assets.

AFIC's capital consists of its shareholders' equity plus any net borrowings. A summary of the balances in equity is provided below:

	2020 $'000	2019 $'000
Share capital	2,947,243	2,888,136
Revaluation reserve	2,166,030	2,561,314
Realised capital gains reserve	397,712	462,257
General reserve	23,637	23,637
Retained profits	705,273	688,244
	6,239,895	**6,623,588**

Refer to Notes D3–D6 for a reconciliation of movement from period to period for each equity account (except the general reserve, which is historical, relates to past profits which can be distributed and has had no movement).

A2. Investments Held and How They Are Measured

AFIC has two portfolios of securities: the investment portfolio and the trading portfolio.

The investment portfolio holds securities which the Company intends to retain on a long term basis, and includes a small sub-component over which options may be written. The trading portfolio consist of securities that are held for short term trading only, including call option contracts written over securities that are held in the specific sub-component of the investment portfolio and on occasion put options and is relatively small in size. The Board has therefore focused the information in this section on the investment portfolio. Details of all holdings (except for the specific option holdings) as at the end of the reporting period can be found at the end of the Annual Report.

The balance and composition of the investment portfolio was:

	2020 $'000	2019 $'000
Equity instruments (excluding below) at market value	6,661,720	7,072,586
Equity instruments (over which options may be written)	456,250	500,054
	7,117,970	**7,572,640**

How Investments Are Shown in the Financial Statements

The accounting standards set out the following hierarchy for fair value measurement:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices, which can be observed either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liabilities that are not based on observable market data.

All financial instruments held by AFIC are classified as Level 1 (other than the options sold by the Company which are Level 2). Their fair values are initially measured at the costs of acquisition and then remeasured based on quoted market prices at the end of the reporting period.

Net Tangible Asset Backing Per Share

The Board regularly reviews the net asset backing per share both before and after provision for deferred tax on the unrealised gains in AFIC's long term investment portfolio. Deferred tax is calculated as set out in Note B2. The relevant amounts as at 30 June 2020 and 30 June 2019 were as follows:

	30 June 2020 $	30 June 2019 $
Net tangible asset backing per share		
Before tax	**5.96**	**6.49**
After tax	5.16	5.52

Equity Investments

The shares in the investment portfolio are designated under the accounting standards as financial assets measured at fair value through 'other comprehensive income' (OCI), because they are equity instruments held for long term capital growth and dividend income, rather than to make a profit from their sale. This means that changes in the value of these shares during the reporting period are included in OCI in the Consolidated Statement of Comprehensive Income. The cumulative change in value of the shares over time is then recorded in the revaluation reserve. On disposal, the amounts recorded in the revaluation reserve are transferred to the realisation reserve.

Securities Sold and How They Are Measured

Where securities are sold, any difference between the sale price and the cost is transferred from the revaluation reserve to the realisation reserve and the amounts noted in the Consolidated Statement of Changes in Equity. This means the Company is able to identify the realised gains out of which it can pay a 'Listed Investment Company' (LIC) gain as part of the dividend, which conveys certain taxation benefits to many of AFIC's shareholders.

During the period $584.6 million (2019: $782.0 million) of equity securities were sold. The cumulative loss on the sale of securities was $5.9 million for the period after tax (2019: $36.6 million gain). This has been transferred from the revaluation reserve to the realisation reserve (see Consolidated Statement of Changes in Equity). These sales were accounted for at the date of trade.

A3. Operating Income

The total income received from AFIC's investments in 2020 is set out below.

Dividends and Distributions	2020 $'000	2019 $'000
Income from securities held in investment portfolio at 30 June	242,790	368,629
Income from investment securities sold during the year	15,068	64,269
Income from securities held in trading portfolio at 30 June	-	-
Income from trading securities sold during the year	-	111
	257,858	**433,009**
Interest income		
Revenue from deposits and cash management trusts	1,554	3,615
Other revenue		
Administration fees	4,853	4,729
Other income	42	-
	4,895	**4,729**

Dividend Income

Distributions from listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis. Capital returns on ordinary shares are treated as an adjustment to the carrying value of the shares.

Trading Income

Net gains on the trading and options portfolio are set out below.

		2020 $'000	2019 $'000
Net gains			
Net realised gains/(losses) from trading portfolio	– shares	1,038	140
	– options	8,428	(4,055)
Unrealised gains/(losses) from trading portfolio	– shares	243	-
	– options	31	(771)
		9,740	**(4,686)**

$108.4 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2019: $131.0 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Group's investment portfolio. If all call options were exercised, this would lead to the sale of $32.0 million worth of securities at an agreed price – the 'exposure' (2019: $218.4 million). There were no put options in the portfolio at 30 June (2019: $4.0 million exposure).

A4. Dividends Paid

The dividends paid and payable for the year ended 30 June 2020 are shown below:

	2020 $'000	2019 $'000
(a) Dividends Paid During the Year		
Final dividend for the year ended 30 June 2019 of 14 cents fully franked at 30 per cent paid 29 August 2019 (2019: 14 cents fully franked at 30 per cent paid on 31 August 2018).	164,150	162,800
Interim dividend for the year ended 30 June 2020 of 10 cents per share fully franked at 30 per cent paid 24 February 2020 (2019: 10 cents fully franked at 30 per cent paid 25 February 2019)	117,377	116,594
Special dividend of 8 cents per share fully franked at 30 per cent paid 25 February 2019	-	93,276
	281,527	**372,670**
Dividends paid in cash	222,278	296,114
Dividends reinvested in shares	59,249	76,556
	281,527	**372,670**
Dividends forgone via DSSP	7,111	7,946
(b) Franking Credits		
Opening balance of franking account at 1 July	182,607	156,187
Franking credits on dividends received	88,920	165,325
Tax paid during the year	26,234	24,221
Franking credits paid on ordinary dividends paid	(120,654)	(159,716)
Franking credits deducted on DSSP shares issued	(3,054)	(3,410)
Closing balance of franking account	**174,053**	**182,607**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	33,803	25,702
Adjusted closing balance	**207,856**	**208,309**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(72,622)	(72,009)
Net available	**135,234**	**136,300**
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	315,546	318,033

AFIC's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and on AFIC paying tax.

Notes to the Financial Statements

continued

	2020 $'000	2019 $'000
(c) New Zealand Imputation Account		
(Figures in A$ at year-end exchange rate: 2020: $NZ1.071:$A1; 2019: $NZ1.045:$A1)		
Opening balance	14,381	7,356
Imputation credits on dividends received	7,187	7,384
Imputation credits on dividends paid	(13,074)	-
Closing balance	**8,494**	**14,740**

There will be no NZ imputation credit attached to the proposed dividend payable on 1 September 2020.

	2020 $'000	2019 $'000
(d) Dividends Declared After Balance Date		
Since the end of the year Directors have declared a final dividend of 14 cents per share fully franked at 30 per cent. The aggregate amount of the final dividend for the year to 30 June 2020 to be paid on 1 September 2020, but not recognised as a liability at the end of the financial year is:	169,451	
(e) Listed Investment Company Capital Gain Account		
Balance of the listed investment company (LIC) capital gain account:	62,912	63,335
This equates to an attributable gain of:	89,874	90,478

Distributed LIC capital gains may entitle certain shareholders to a deduction in their tax return, as set out in the dividend statement. LIC capital gains available for distribution are dependent on the disposal of investment portfolio holdings that qualify for LIC capital gains, or the receipt of LIC distributions from LIC securities held in the portfolios. $86.5 million attributable gain is attached to the final dividend to be paid on 1 September 2020.

A5. Earnings Per Share

The table below shows the earnings per share based on the profit for the year:

Basic Earnings Per Share	2020 Number	2019 Number
Weighted average number of ordinary shares used as the denominator	1,206,707,394	1,193,810,502
	$'000	**$'000**
Profit for the year	239,931	405,932
	Cents	**Cents**
Basic earnings per share	19.88	34.00

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2020 $'000	2019 $'000
Rental expense relating to non-cancellable leases	(699)	(698)
Employee benefit expenses	(8,587)	(8,039)
Depreciation charge	-	-
Other administration expenses	(5,473)	(5,575)
	(14,759)	**(14,312)**

Employee Benefit Expenses

A major component of employee benefit expenses is Directors' and Executives' remuneration. This has been summarised below:

	Short term Benefits $	Other Long term Benefits $	Post-employment Benefits $	Share Based Payments $	Total $
2020					
Non-Executive Directors	716,550	-	63,450	-	780,000
Executives	2,755,048	(100,800)	98,858	166,650	2,919,756
Total	**3,471,598**	**(100,800)**	**162,308**	**166,650**	**3,699,756**
2019					
Non-Executive Directors	692,379	-	65,776	-	758,155
Executives	2,686,935	(57,025)	96,899	77,662	2,804,471
Total	**3,379,314**	**(57,025)**	**162,675**	**77,662**	**3,562,626**

Detailed remuneration disclosures are provided in the Remuneration Report.

The above figures include share-based expenses incurred in respect of Ross Barker, former Managing Director, who is still eligible for vesting under these plans.

The Group (i.e. AFIC and its subsidiary, Australian Investment Company Services (AICS) – see Note F8) does not make loans to Directors or Executives.

B2. Tax

AFIC's tax position, and how it accounts for tax, is explained here. Detailed reconciliations of tax accounting to the financial statements can be found in Note E2.

The income tax expense for the period is the tax payable on this financial year's taxable income, adjusted for any changes in deferred tax assets and liabilities attributable to temporary differences and for any unused tax losses. Deferred tax assets and liabilities (except for those related to the unrealised gains or losses in the investment portfolio) are offset, as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

A provision has been made for taxes on any unrealised gains or losses on securities valued at fair value through the Income Statement – i.e. the trading portfolio, puttable instruments and convertible notes that are classified as debt.

A provision also has to be made for any taxes that could arise on sale of securities in the investment portfolio, even though there is no intention to dispose of them. Where AFIC disposes of such securities, tax is calculated according to the particular parcels allocated to the sale for tax purposes, offset against any capital losses carried forward.

Notes to the Financial Statements

continued

Tax Expense

The income tax expense for the period is shown below:

(a) Reconciliation of Income Tax Expense to Prima Facie Tax Payable

	2020 $'000	2019 $'000
Profit before income tax expense	**258,241**	**421,529**
Tax at the Australian tax rate of 30 per cent (2019: 30 per cent)	77,472	126,459
Tax offset for franked dividends received	(61,344)	(115,510)
Off-market buy-back income not included in profit	-	15,097
Demerger dividend non-taxable	-	(13,089)
Sundry items whose tax treatment differs from accounting treatment	4,171	4,331
	20,299	17,288
Over provision in prior years	(2,453)	(2,132)
Total tax expense	**17,846**	**15,156**

Deferred Tax Liabilities – Investment Portfolio

The accounting standards require us to recognise a deferred tax liability for the potential capital gains tax on the unrealised gain in the investment portfolio. This amount is shown in the Balance Sheet. However, the Board does not intend to sell the investment portfolio, so this tax liability is unlikely to arise at this amount. Any sale of securities would also be affected by any changes in capital gains tax legislation or tax rate applicable to such gains when they are sold.

	2020 $'000	2019 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	973,499	1,163,749
Opening balance at 1 July	1,163,749	1,097,527
Tax on realised gains	(22,648)	(20,394)
Charged to OCI for ordinary securities on gains or losses for the period	(167,602)	86,616
	973,499	**1,163,749**

B3. Risk

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. As a LIC that invests in tradeable securities, AFIC can never be free of market risk as it invests its capital in securities which are not risk free – the market price of these securities will fluctuate.

A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all assets in the investment portfolio, would have led to a reduction in AFIC's comprehensive income of $249.1 million and $498.3 million respectively, at a tax rate of 30 per cent (2019: $265.0 million and $530.1 million).

AFIC seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Investment Committee and risk can be managed by reducing exposure where necessary. AFIC does not have a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

AFIC's total investment exposure by sector is as below:

	2020 %	2019 %
Energy	3.01	4.28
Materials	15.76	17.50
Industrials	15.88	15.17
Consumer Discretionary	5.98	4.37
Consumer Staples	4.60	5.06
Banks	17.16	21.80
Other Financials	8.26	9.73
Property Trusts	1.74	0.71
Telecommunications	4.42	3.61
Healthcare	16.62	10.86
Information Technology	4.00	3.01
Utilities	1.03	1.25
Cash	1.54	2.65
Securities representing over 5 per cent of the investment portfolio at 30 June were		
CSL	8.5	5.8
Commonwealth Bank	7.7	8.6
BHP	7.0	7.3

AFIC is also not directly exposed to material currency risk as most of its investments are quoted in Australian dollars.

The writing of call options provides some protection against a fall in market prices as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in the trading or the specific sub-section of the investment portfolio.

Interest Rate Risk

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings are short term for a fixed interest rate.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. AFIC is exposed to credit risk from cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are overdue. The risk in relation to each of these items is set out below.

Cash

All cash investments not held in a transactional account are invested in short term deposits with Australia's 'big four' commercial banks or in cash management trusts which invest predominantly in short term securities with an A1+ rating. In the unlikely event of a bank default or default on the underlying securities in the cash trust, there is a risk of losing the cash deposits and any accrued unpaid interest.

Receivables

Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within two days of the date of a transaction. Receivables are non-interest bearing and unsecured. In the event of a payment default, there is a risk of losing any difference between the price of the securities sold and the price of the recovered securities from the discontinued sale. Receivables also include dividends from securities that have passed the record date for the distribution but have not paid as at the current date.

Trading and Investment Portfolios

Converting and convertible notes or other interest-bearing securities that are not equity securities carry credit risk to the extent of their carrying value. This risk will be realised in the event of a shortfall on winding-up of the issuing companies.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial liabilities.

AFIC monitors its cash-flow requirements daily. The Investment Committee also monitors the level of contingent payments on a regular basis by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require AFIC to purchase securities, and facilities that need to be repaid. AFIC ensures that it has either cash or access to short term borrowing facilities sufficient to meet these contingent payments.

AFIC's inward cash-flows depend upon the dividends received. Should these drop by a material amount, AFIC would amend its outward cash-flows accordingly. AFIC's major cash outflows are the purchase of securities and dividends paid to shareholders, and both of these can be adjusted by the Board and management. Furthermore, the assets of AFIC are largely in the form of readily tradeable securities which can be sold on-market if necessary.

The table below analyses AFIC's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash-flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

30 June 2020	Less Than 6 Months $'000	6–12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
Non-derivatives					
Payables	884	-	-	884	884
	884	-	-	884	884
Derivatives					
Options in trading portfolio*	-	-	-	-	-
	-	-	-	-	-

30 June 2019	Less Than 6 Months $'000	6–12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
Non-derivatives					
Payables	932	-	-	932	932
	932	-	-	932	932
Derivatives					
Options in trading portfolio*	3,963	-	-	3,963	7,033
	3,963	**-**	**-**	**3,963**	**7,033**

* In the case of call options, there are no contractual cash flows as if the option is exercised the contract will be settled in the securities over which the option is written. The contractual cash flows for put options written are the cash sums the Company will pay to acquire securities over which the options have been written, and it is assumed for purpose of the above disclosure that all options will be exercised (i.e. maximum cash outflow).

C. Unrecognised Items

Unrecognised items, such as contingencies, do not appear in the financial statements, usually because they don't meet the requirements for recognition. However, they have the potential to have a significant impact on the Group's financial position and performance.

C1. Contingencies

Directors are not aware of any material contingent liabilities or contingent assets other than those already disclosed elsewhere in the Financial Report.

Further information that shareholder may find useful is included here. It is grouped into three sections:

D. Balance Sheet Reconciliations

E. Income Statement Reconciliations

F. Further Information

D. Balance Sheet Reconciliations

This section provides further information about the basis of calculation of line items in the financial statements.

D1. Current Assets – Cash

	2020 $'000	2019 $'000
Cash at bank and in hand (including on-call)	111,318	201,429
Fixed term deposits	-	5,000
	111,318	**206,429**

Cash holdings yielded an average floating interest rate of 1.02 per cent (2019: 2.07 per cent). All cash investments are held in a transactional account or an over-night 'at call' account invested in cash management trusts which invest predominantly in short term securities with an A1+ rating.

D2. Credit Facilities

	2020 $'000	2019 $'000
Commonwealth Bank of Australia – cash advance facilities	250,000	140,000
Amount drawn down	-	-
Undrawn facilities	**250,000**	**140,000**

The above borrowings are unsecured. Repayment of facilities is done either through the use of cash received from distributions or the sale of securities, or by rolling existing facilities into new ones. Facilities are usually drawn down for no more than three months.

D3. Revaluation Reserve

	2020 $'000	2019 $'000
Opening balance at 1 July	2,561,314	2,422,568
Gains/(losses) on investment portfolio		
– Equity instruments	(568,806)	261,984
Provision for tax on above	167,602	(86,616)
Cumulative taxable realised (gains)/losses (net of tax)	5,920	(36,622)
	2,166,030	**2,561,314**

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy Note A2.

Notes to the Financial Statements

continued

D4. Realised Capital Gains Reserve

	2020 $'000	2019 $'000
Opening balance at 1 July	462,257	448,892
Dividends paid	(58,625)	(23,257)
Cumulative taxable realised gains/(losses) for period through OCI (net of tax)	(5,920)	36,622
	397,712	**462,257**

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in A2.

D5. Retained Profits

	2020 $'000	2019 $'000
Opening balance at 1 July	688,244	631,725
Dividends paid	(222,902)	(349,413)
Profit for the year	239,931	405,932
	705,273	**688,244**

This reserve relates to past profits.

D6. Share Capital

Movements in Share Capital

Date	Details	Notes	Number of Shares '000	Issue Price $	Paid-up Capital $'000
1/07/2018	Balance		1,186,147		2,811,721
31/08/2018	Dividend Reinvestment Plan	i	5,356	6.18	33,100
31/08/2018	Dividend Substitution Share Plan	ii	526	6.18	n/a
25/02/2019	Dividend Reinvestment Plan	i	7,328	5.93	43,456
25/02/2019	Dividend Substitution Share Plan	ii	791	5.93	n/a
Various	Costs of issue		-	-	(141)
30/06/2019	Balance		1,200,148		2,888,136
29/08/2019	Dividend Reinvestment Plan	i	5,541	6.21	34,407
29/08/2019	Dividend Substitution Share Plan	ii	622	6.21	n/a
24/02/2020	Dividend Reinvestment Plan	i	3,585	6.93	24,842
24/02/2020	Dividend Substitution Share Plan	ii	468	6.93	n/a
Various	Costs of issue		-	-	(142)
30/06/2020	Balance		**1,210,364**		**2,947,243**

(i) Shareholders elect to have all or part of their dividend payment reinvested in new ordinary shares under the Dividend Reinvestment Plan (DRP). The price of the new DRP shares is based on the average selling price of shares traded on the Australian Securities Exchange and Chi-X in the five days after the shares begin trading on an ex-dividend basis.

(ii) The Group has a Dividend Substitution Share Plan (DSSP) whereby shareholders may elect to forgo a dividend and receive shares instead. Pricing for the DSSP shares is done as per the DRP shares.

(iii) The Group has an on-market share buy-back program. During the financial year, no shares were bought back (2019: Nil).

All shares have been fully paid, rank pari passu and have no par value.

E. Income Statement Reconciliations

E1. Reconciliation of Net Cash Flows From Operating Activities to Profit

	2020 $'000	2019 $'000
Profit for the year	**240,395**	**406,373**
Net decrease/(increase) in trading portfolio	(11,337)	276
Dividends received as securities under DRP investments	(8,355)	(16,848)
Coles demerger dividend – non-cash item	-	(43,629)
Decrease/(increase) in current receivables	22,781	37,106
– Less increase/(decrease) in receivables for investment portfolio	-	(27,495)
Increase/(decrease) in deferred tax liabilities	(191,222)	67,579
– Less (increase)/decrease in deferred tax liability on investment portfolio	190,250	(66,222)
Increase/(decrease) in current payables	(48)	220
– Less increase/(decrease) in dividends payable	151	(223)
Increase/(decrease) in provision for tax payable	13,719	8,807
Capital gains tax charge taken through equity	(22,648)	(20,394)
Prior year taxes paid relating to capital gains	20,394	6,406
Increase/(decrease) in other provisions/non-cash items	555	(194)
Net cash flows from operating activities	**254,635**	**351,762**

E2. Tax Reconciliations

Tax Expense Composition

	2020 $'000	2019 $'000
Charge for tax payable relating to the current year	21,271	15,931
Over provision in prior years	(2,453)	(2,132)
(Increase)/Decrease in deferred tax assets	(972)	1,357
	17,846	**15,156**

Amounts Recognised Directly Through Other Comprehensive Income

	2020 $'000	2019 $'000
Net movement in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	(167,602)	86,616
	(167,602)	**86,616**

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

	2020 $'000	2019 $'000
(a) Tax on unrealised gains or losses in the trading portfolio	(82)	231
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,849	1,680
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(895)	(2,011)
	872	**(100)**
Movements:		
Opening balance at 1 July	(100)	1,257
Credited/(charged) to Income Statement	972	(1,357)
	872	**(100)**

Deferred tax assets arise when provisions and expenses have been charged but are not yet tax deductible. These assets are realised when the relevant items become tax deductible, as long as enough taxable income has been generated to claim the assets against, and as long as there are no changes to the tax legislation that affect AFIC's ability to claim the deduction.

Notes to the Financial Statements

continued

F. Further Information

This section covers information that is not directly related to specific line items in the financial statements, including information about related party transactions, share-based payments, assets pledged as security and other statutory information.

F1. Related Parties

All transactions with deemed related parties were made on normal commercial terms and conditions and approved by independent Directors.

(a) Arrangements With Non-Executive Directors

Non-Executive Directors R Barker, J Paterson and C Walter have rented office space and, for R Barker and J Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable by the Group, excluding GST, during the year was $62,265 (2019: $61,275).

(b) AICS Transactions With Minority Interests

The below transactions were with Djerriwarrh Investments Ltd as a minority interest holder in the Company's subsidiary.

	2020 $'000	2019 $'000
Administration expenses charged for the year	2,634	2,515

(c) AICS Transactions With Other Listed Investment Companies

AICS had the following transactions with other listed investment companies to which it provides services:

	2020 $'000	2019 $'000
Administration expenses charged for the year to Mirrabooka Investments Ltd	1,454	1,382
Administration expenses charged for the year to AMCIL Ltd	839	906

F2. Remuneration of Auditors

For the year the auditor earned or will earn the following remuneration:

	2020 $	2019 $
PricewaterhouseCoopers		
Audit services		
Audit or review of Financial Reports	202,815	195,987
Audit related services		
AFSL compliance audit and review	8,168	7,998
Non-audit services		
Taxation compliance services	32,293	30,670
Total remuneration	**243,276**	**234,655**

F3. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board, through its sub-committees, has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

Description of Segments

The Board makes the strategic resource allocations for AFIC. AFIC has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for AFIC's entire portfolio of investments and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and AFIC's performance is evaluated on an overall basis.

Segment Information Provided to the Board

The internal reporting provided to the Board for AFIC's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of Australian Accounting Standards, except that net assets are reviewed both before and after the effects of capital gains tax on investments (as reported in AFIC's Net Tangible Asset announcements to the ASX).

Other Segment Information

Revenues from external parties are derived from the receipt of dividend, distribution and interest income, and income arising on the trading portfolio and realised income from the options portfolio.

AFIC is domiciled in Australia and most of AFIC's income is derived from Australian entities or entities that maintain a listing in Australia. AFIC has a diversified portfolio of investments, with only two investments comprising more than 10 per cent of AFIC's income, including realised income from the trading and options written portfolios – Commonwealth Bank (12.4 per cent) and BHP (10.5 per cent) (2019: as a consequence of buy-backs and demerger dividends three investments: Wesfarmers (14.9 per cent), Rio Tinto (13.1 per cent) and BHP (11.9 per cent)).

F4. Summary of Other Accounting Policies

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. This Financial Report has been authorised for issue on 27 July 2020 in accordance with a resolution of the Board and is presented in the Australian currency. The Directors of the Company have the power to amend and reissue the Financial Report.

AFIC has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market Value	Fair value for actively traded securities
Cash	Cash and cash equivalents
Share Capital	Contributed equity
Options	Derivatives written over equity instruments that are valued at fair value through profit or loss
Hybrids	Equity instruments that have some of the characteristics of debt

AFIC complies with International Financial Reporting Standards (IFRS). AFIC is a 'for profit' entity.

AFIC has not applied any Australian Accounting Standards or AASB Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2020 ('the inoperative standards'). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. AFIC only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

Basis of Accounting

The financial statements are prepared using the valuation methods described in A2. All other items have been treated in accordance with the historical cost convention.

Fair Value of Financial Assets and Liabilities

The fair value of cash and non-interest bearing monetary financial assets and liabilities of AFIC approximates their carrying value.

Convertible Notes

On the issue of convertible notes, the Group estimates the fair value of the liability component of the convertible notes, being the obligation to make future payments of principal and interest to holders, using a market interest rate for a non-convertible note of similar terms and conditions. The residual amount is included in equity as other equity securities with no recognition of any change in the value of the option in subsequent periods. The liability component is then included in borrowings. Expenses incurred in connection with the issue of the notes are deducted from the total face value and the expense is then incurred over the life of the notes.

The total liability is subsequently carried on an amortised cost basis with interest on the notes recognised as finance costs on an effective yield basis until the liability is extinguished on conversion or maturity of the notes.

Notes to the Financial Statements

continued

Employee Benefits

(i) Wages, Salaries and Annual Leave

Liabilities for wages and salaries, including annual leave, expected to be settled within 12 months of balance date are recognised as current provisions in respect of employees' services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave

In calculating the value of long service leave, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Cash Incentives

Cash incentives are provided under the Executive Annual Incentive Plan and are dependent upon the performance of the Group. A provision is made for the cost of unsettled cash incentives at balance date. The Investment Team Annual Incentive Plans are also settled on a cash basis.

(iv) Share Incentives

Share incentives are provided under the Executive Annual Incentive Plan, Executive Long Term Incentive Plan, Investment Team Long Term Incentive Plan and the Employee Share Acquisition Scheme.

For the Employee Share Acquisition Scheme and the Executive Annual Incentive Plan, the incentives are based on the performance of the individual, the Group and investment companies to which the Group provides administration services, for the financial year. For the Employee Share Acquisition Scheme and a portion of the Executive Annual Incentive, the recipient agrees to purchase (or have purchased for them) shares on-market, but receives a cash amount. A provision for the amount payable under the Annual Incentive Plans is recognised on the Balance Sheet.

For the Investment Team Long Term Incentive Plan, the incentives are based on the performance of the Group and investment companies to which the group provides administration services over a four-year period. The incentives may be settled in shares (but based on a cash amount) or cash. Historically, all awards have been cash. Expenses are recognised over the four year assessment period based on the amount expected to be payable under this plan, resulting in a provision for incentive payable being built up on the Balance Sheet over the assessment period.

Under the Executive Long Term Incentive Plan which was introduced for the year ended 30 June 2013, the amount awarded is represented by performance shares. The 30-day Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July is calculated. The amount of ELTIP available is then divided by this 30-day VWAP price to determine the number of performance shares that may vest at the vesting point in four years' time. The value of each performance shares will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June. No shares vested during the year ended 30 June 2020.

The expense will be charged directly through the Income Statement in the following manner – 25 per cent of the total estimated cost in Year 1, 50 per cent of the total estimated cost in Year 2 less the expense charged in Year 1, 75 per cent of the total estimated cost in Year 3 less the expense charged in Years 1 and 2 and 100 per cent of the total estimated cost in Year 4 less the expense charged in Years 1, 2 and 3.

Directors' Retirement Allowances

The Group recognises as 'amounts payable' Directors' retirement allowances that have been crystallised. No further amounts will be expensed as retirement allowances.

Administration Fees

The Group currently provides administrative services to other listed investment companies. The associated fees are recognised on an accruals basis as income throughout the year. Any amounts outstanding at balance date are recognised as receivable, subject to the assessment of recoverability by the Directors.

Operating Leases

The Group currently has an operating lease in respect of its premises. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

Rounding of Amounts

AFIC is a company of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Instrument, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

F5. Performance Bond

The Group's subsidiary, AICS, has under the terms of its Australian Financial Services Licence in place a performance bond to the sum of $20,000 underwritten by the Commonwealth Bank of Australia in favour of the Australian Securities and Investments Commission (ASIC), payable on demand to ASIC.

F6. Share-based Payments

Share-based Payments

The Group has a number of share incentive arrangements. These are accounted for in accordance with Note F4. Where shares are issued to employees of AICS, AICS compensates AFIC for the fair value of the shares.

(a) Executive Incentive Plans

The Executives' remuneration arrangements incorporate an 'at risk' component as set out in the Remuneration Report. Part of this 'at risk' component is paid in shares in the Group.

(i) Executive Annual Incentive Plan

Each financial year, the Remuneration Committee sets the target (cash) amount of remuneration that could be paid should all performance targets and measures be achieved. If all are achieved, 100 per cent of the remuneration will be awarded. If stretch levels of performance are achieved above target, then higher amounts may be paid. On the other hand there is no set minimum that will be paid regardless of performance.

The performance measures are a combination of the performance of the Group, the investment companies to which the Group provides administration services, and personal objectives.

All of the incentive remuneration awarded is paid in cash, with 50 per cent of the after-tax amount being used by the Executive to purchase shares. All remuneration under the plan, is paid in the financial year following the year of assessment.

The Executive agrees to the shares being subject to being held for two years (holding term), during which they cannot be sold. Dividends are paid to Executives on these shares prior to the expiry of the holding term. Should an Executive leave the Group before the holding term expires, the restriction will be lifted.

9,609 shares (2019: 13,619 shares) were purchased by Executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $81,835 (2019: $84,147).

(ii) Executive Long Term Incentive Plan

Under the Executive Long Term Incentive Plan, the amount awarded will be represented by Performance Rights. The 30-day Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July will be calculated. The amount of ELTIP available will then be divided by this 30-day VWAP price to determine the number of Performance Rights that may vest at the vesting point in four years' time. The value of each Performance Right will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June.

The estimated fair value of the award will be calculated in accordance with AASB 2 – *Share Based Payments* at the end of each year until the final year of vesting. The liability shown after the final year of vesting will represent the actual amount being paid to eligible employees as a cash-settled share-based payment.

65,198 rights were awarded under the plan during the year ended 30 June 2020 (2019: 64,201). An expense of $462,267 (2019: $494,042) was incurred for the 2016/17, 2017/18, 2018/19 and 2019/20 plans. 57,089 rights under the 2015/16 plan were forfeited during the year (100 per cent).

(iii) Investment Team Long Term Incentive Plan

Similar to the Annual Incentive Plans, a target cash amount of long term incentive is set each year in respect of that year, which will vest in four years' time. The percentage of this target that ultimately vests four years after the award depends on the gross return of the Group and the investment companies it provides administration services to.

The amount that vests will be paid in cash or shares (purchased on-market at that time, based on the cash amount that vests) at the discretion of the Group.

No LTIP vested in the period (2019 $Nil).

(b) Employee Share Acquisition Scheme

Under the current Employee Share Acquisition Scheme, each employee who is not a participant in the Executive or Investment Team Incentive Plans is awarded $5,000 per annum. After PAYG is deducted, $2,500 is used to buy shares in the Company which need to be held for three years. After three years, or the departure of the employee from employment with the Group, the shares come out of the holding lock.

In addition, each employee is eligible for an additional award of up to $5,000. 50 per cent of the amount awarded is used to buy shares in one of the other LICs that AICS provides services to. The amount that is awarded is dependent on the metrics used for the vesting of the Investment Team's Short Term Incentive (excluding personal measures). During the year, 28 per cent of the possible maximum was awarded, and 50 per cent of this was used to buy shares in Mirrabooka Investments Limited.

(c) Expenses Arising from Share Based Payment Transactions

Total expenses arising from share based payment transactions recognised during the period as part of the employee benefit expense (excluding any reversals and the Investment Team Long Term Incentive Plan) were as follows:

	2020 $'000	2019 $'000
Share-based payment expense	507	542

(d) Liability

The total liability arising from share based payment transactions is included in the current and non-current liabilities for 'provisions'.

F7. Principles of Consolidation

AFIC's consolidated financial statements consist of the financial statements of AFIC, the parent, and its subsidiary, Australian Investment Company Services Ltd (AICS). 25 per cent of AICS is owned by Djerriwarrh Investments Ltd, another investment company for which AICS performs operational and investment administration services, and for which it is paid monthly.

No subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation.

The financial information for the parent entity, disclosed in F9 on the following page, has been prepared on the same basis as the consolidated financial statements. All notes are for the consolidated Group unless specifically noted otherwise.

F8. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

			Equity Holding	
Name of Entity	Country of Incorporation	Class of shares	2020	2019
Australian Investment Company Services Ltd	Australia	Ordinary	75%	75%

The investment in AICS is accounted for at cost in the individual financial statements of AFIC.

F9. Parent Entity Financial Information

Summary Financial Information

The individual financial statements for the parent entity show the following aggregate amounts:

	2020 $'000	2019 $'000
Balance Sheet		
Current assets	125,705	230,698
Total assets	**7,243,674**	**7,803,337**
Current liabilities	30,965	17,487
Total liabilities	**1,005,486**	**1,183,065**
Shareholders' equity		
Issued capital	2,947,243	2,888,136
Reserves		
Revaluation reserve	2,166,030	2,561,314
Realised capital gains reserve	397,712	462,257
General reserve	23,637	23,637
Retained earnings	703,566	684,928
	3,290,945	**3,732,136**
Total shareholders' equity	**6,238,188**	**6,620,272**
Profit or loss for the year	**238,539**	**404,609**
Total comprehensive income	**(162,665)**	**579,977**

DIRECTORS' DECLARATION

In the Directors' opinion:

1) the financial statements and notes set out on pages 37 to 59 are in accordance with the *Corporations Act 2001* including:
    a) complying with the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
    b) giving a true and fair view of the entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note F4 to the financial statements confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.

This declaration has been made after receiving the declarations required to be made to the Directors by the Managing Director and the Chief Financial Officer regarding the financial statements in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2020. The declarations received were that, in the opinion of the Managing Director and the Chief Financial Officer to the best of their knowledge, the financial records of the Company have been properly maintained, that the financial statements comply with accounting standards and that they give a true and fair view.

John Paterson
Chairman

Melbourne
27 July 2020

INDEPENDENT AUDIT REPORT

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Independent auditor's report

To the members of Australian Foundation Investment Company Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Foundation Investment Company Limited (the Company) and its controlled entity (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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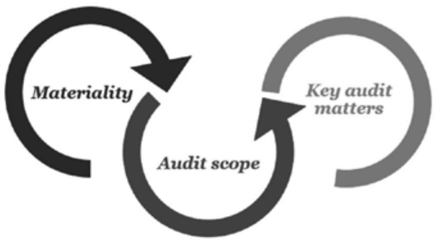
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of $62.4 million, which represents approximately 1% of the Group's net assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose net assets as the benchmark because, in our view, net assets is:
  - the metric against which the performance of the Group is most commonly measured; and
  - the key driver of the business and the determinant of the Group's value.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable net asset thresholds.

Audit Scope

- Our audit focused on assessing the financial statements for risks of material misstatement in account balances or disclosures, and designing and performing audit procedures to obtain reasonable assurance that the financial statements as a whole were free of material misstatement due to fraud or error. This included identifying areas of higher risk, based on quantitative and qualitative assessments of the Group's operations and activities.
- The administration and investment operations for the Group are conducted by the Company's subsidiary, Australian Investment Company Services Limited. In addition to our audit procedures, we obtained a report from other auditors that the controls over administration and investment operations operating at Australian Investment Company Services Limited were suitably designed and operated effectively for the year. We assessed the report by considering the other auditor's independence, competency, and results of procedures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	*How our audit addressed the key audit matter*
Existence and valuation of Investment Portfolio *Refer to note A2* *$7,118.0m* The Investment Portfolio consists mainly of listed Australian equities. Whilst there is no significant judgement in determining the valuation of the Group's investments, investments represent a key measure of the Group's performance and comprise a significant proportion of total assets in the balance sheet. The fluctuations in investment valuation will also impact the realised and unrealised gains/(losses) recognised in the statement of comprehensive income, which also affects the deferred tax provisions. Given the pervasive nature investments have on the Group's key financial metrics, we determined the existence and valuation of investments to be a key audit matter.	1) Performed an investment reconciliation of the investments balance from the opening investment balance, addition/subtraction of purchases, sales and other relevant transactions and agreeing back to the 30 June 2020 balance. 2) Obtained the purchases and sales listing for the year ended 30 June 2020, and • agreed a sample of purchases and sales to original contracts; and • agreed a sample of original contracts to the purchases and sales listing. 3) Agreed all the investment quantity holdings at 30 June 2020 to third party registry sources. 4) Agreed all listed equities investment prices to third party market pricing sources

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

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Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 16 to 33 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Australian Foundation Investment Company Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
27 July 2020

OTHER INFORMATION

Information About Shareholders

At 21 July 2020 there were 153,966 holdings of ordinary shares. These holdings were distributed in the following categories:

Size of Holding	Shareholdings	Percentage
1 to 1,000	57,001	1.97%
1,001 to 5,000	49,731	10.57%
5,001 to 10,000	20,680	12.41%
10,001 to 100,000	25,514	51.97%
100,000 and over	1,040	23.07%
Total	**153,966**	**100%**

Percentage held by the 20 largest holders	6.40%
Average shareholding	7,861

There were 3,900 shareholdings of less than a marketable parcel of $500 (82 shares).

Voting Rights of Ordinary Shares

The Constitution provides for votes to be cast:

(i) on a show of hands, one vote for each shareholder; and

(ii) on a poll, one vote for each fully paid ordinary share.

Major Shareholders

The 20 largest registered holdings of ordinary shares as at 21 July 2020 are listed below:

Ordinary Shares

Rank	Name	Units	% Units
1	HSBC Custody Nominees (Australia) Limited	22,132,243	1.83
2	Citicorp Nominees Pty Limited	7,950,822	0.66
3	Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	5,530,270	0.46
4	Australian Executor Trustees Limited <IPS Super A/C>	5,415,405	0.45
5	Bougainville Copper Limited	4,541,000	0.38
6	Netwealth Investments Limited <Wrap Services A/C>	4,301,220	0.36
7	Navigator Australia Ltd <MLC Investment Sett A/C>	3,980,421	0.33
8	Custodial Services Limited <Beneficiaries Holding A/C>	2,629,275	0.22
9	Bushways Pty Ltd	2,570,592	0.21
10	Investment Custodial Services Limited <C A/C>	2,485,945	0.21
11	Investment Custodial Services Limited <C A/C>	2,271,562	0.19
12	Netwealth Investments Limited <Super Services A/C>	2,028,795	0.17
13	Kalymna Pty Ltd	1,835,886	0.15
14	Australian Executor Trustees Limited <IPS IDPS A/C>	1,669,828	0.14
15	Australian Executor Trustees Limited <No 1 Account>	1,454,845	0.12
16	Twibill Pty Ltd	1,443,216	0.12
17	HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	1,395,417	0.12
18	BNP Paribas Nominees Pty Ltd <HUB24 Cust Serv Ltd Drp>	1,334,141	0.11
19	Mr Bruce Teele <The Teele Family A/C>	1,248,290	0.10
20	Resthaven Incorporated	1,197,231	0.10

Sub-underwriting

During the year the Company participated as a sub-underwriter in the following issues of securities:

Company	Underwritten by	Description	Amount Underwritten
Qube Holdings Limited	UBS AG/Merrill Lynch Equities	1 for 6.35 pro-rata accelerated entitlement offer for c. $500 million	$2,824,425

Substantial Shareholders

The Company has not been notified of any substantial shareholders.

Transactions in Securities

During the year ended 30 June 2020, the Company recorded 925 transactions in securities (including derivatives). $3,202,652 in brokerage (including GST) was paid or accrued for the year.

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

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
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

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
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
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.

Issues of Securities

Date of Issue	Type	Price	Remarks
24 February 2020	DRP/DSSP	$6.93	2.5 per cent discount
29 August 2019	DRP/DSSP	$6.21	
25 February 2019	DRP/DSSP	$5.93	2.5 per cent discount
31 August 2018	DRP/DSSP	$6.18	
23 February 2018	DRP/DSSP	$6.11	
30 August 2017	DRP/DSSP*	$5.92	
24 February 2017	DRP/DSSP*	$5.84	
30 August 2016	DRP/DSSP*	$5.58	2.5 per cent discount
19 February 2016	DRP/DSSP*	$5.43	2.5 per cent discount
25 November 2015	SPP	$5.51	5.0 per cent discount
28 August 2015	DRP/DSSP*	$6.03	2.5 per cent discount
20 February 2015	DRP/DSSP*	$5.97	2.5 per cent discount
6 October 2014	SPP	$5.88	2.5 per cent discount
29 August 2014	DRP/DSSP*	$5.93	2.5 per cent discount
21 February 2014	DRP/DSSP*	$5.86	2.5 per cent discount
30 August 2013	DRP/DSSP*	$5.64	2.5 per cent discount DSSP: Dividend Substitution Share Plan
22 February 2013	DRP	$5.37	
31 August 2012	DRP	$4.36	
24 February 2012	DRP	$4.26	
19 December 2011	Convertible notes	$100 face value	Mature 28 February 2017. Interest rate 6.25 per cent per annum. Conversion price: $5.0864
31 August 2011	DRP	$4.18	
25 February 2011	DRP	$4.72	2.5 per cent discount
1 September 2010	DRP	$4.65	2.5 per cent discount
2 June 2010	SPP	$4.62	2.5 per cent discount SPP=Share Purchase Plan
26 February 2010	DRP	$4.82	5 per cent discount
1 September 2009	DRP	$4.69	5 per cent discount
2 March 2009	DRP	$3.72	5 per cent discount
25 August 2008	DRP	$4.98	
11 April 2008	SAP	$5.26	
27 February 2008	DRP	$5.26	5 per cent discount
22 August 2007	DRP	$5.78	
8 March 2007	DRP	$5.60	
22 December 2006	SAP	$4.90	
23 August 2006	DRP	$4.70	
7 March 2006	DRP	$4.55	
4 November 2005	SAP	$3.96	
23 August 2005	DRP	$3.90	
18 March 2005	DRP	$3.68	
19 August 2004	DRP	$3.29	
12 March 2004	DRP	$3.29	
22 October 2003	1 for 8 rights issue	$3.00	
15 August 2003	DRP	$3.47	
16 April 2003	SAP	$3.04	
7 March 2003	DRP	$3.11	
14 August 2002	DRP	$3.11	
5 April 2002	SAP	$3.16	
7 March 2002	DRP	$3.24	
15 August 2001	DRP	$3.08	
29 June 2001	DRP	$2.87	
7 March 2001	DRP	$2.56	
16 August 2000	DRP	$2.47	
7 March 2000	DRP	$2.64	
11 August 1999	DRP	$2.95	
12 April 1999	SAP	$2.54	SAP = Share Acquisition Plan
15 March 1998	DRP	$2.79	
4 September 1998	DRP	$2.43	DRP = Dividend Reinvestment Plan

Note for issues of securities in earlier years please consult the Company's website, afi.com.au or via telephone (03) 9650 9911.

* Note that for the shares issued under the DSSP, the price shown is the indicative price used to determine the number of shares issued to participants. Shares issued under the DSSP are issued at nil cost. Shareholders who sell shares issued under the DSSP should consult their tax adviser as to the correct treatment of such sales for taxation purposes.

Company Particulars

Australian Foundation Investment Company Limited (AFIC)

ABN 56 004 147 120

Directors

John Paterson, Chairman
Robert M Freeman, Managing Director
Ross E Barker
Rebecca P 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

Share Registrar

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

New Zealand
Computershare Investor Services Limited
159 Hurstmere Road
Takapuna Auckland 0622

Shareholder Enquiry Line	1300 662 270 (Australia) 0800 333 501 (New Zealand) +61 3 9415 4373 (from overseas)
Facsimile	(03) 9473 2500
Website	investorcentre.com/contact

Share Registrar

For all inquiries relating to shareholdings, dividends and related matters, please contact the share registrar as above.

Securities Exchange Codes

AFI	Ordinary shares (ASX and NZX)

Annual General Meeting

Date	Wednesday 14 October 2020
Time	10.00am

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.

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COMPANY

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