



Australian Foundation Investment Company 2021 AGM Report

ASX Code	AFI
Meeting Time/Date	10am, Tuesday 5 October 2021
Type of Meeting	Virtual
Monitor	Jason Cole assisted by Dennis Shore and Frank Thompson
Pre AGM Meeting?	Yes - with John Paterson (Chair), Mark Freeman (Managing Director), Andrew Porter (Chief Financial Officer), Geoff Driver (General Manager Business Development and Investor Relations) and Matthew Rowe (Company Secretary)

AFI Knowledge Continues to be Valued by Shareholders

What the Company Does

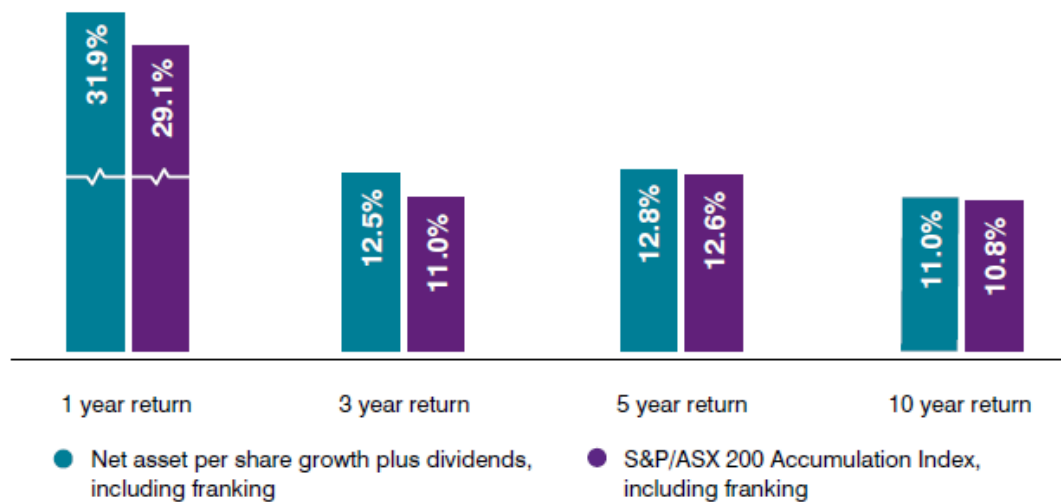
AFI is a Listed Investment Company (LIC), investing primarily in Australian and New Zealand companies with a focus on the long term. It aims to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and growth in capital invested.

Developments in the Financial Year

2021 Board Developments

- Julie Fahey was appointed to the board in April 2021.
- Ross Barker, the long-time Managing Director of AFI who transitioned to a NED in 2018, retired from the board on 30 June 2021.
- Craig Drummond was appointed to the board in July 2021.

AFI recorded a profit of \$235.1m in FY2021, down 2.2% on the 240.4m reported in FY2020. However, the FY2021 profit included a one-off demerger dividend of \$36.5m which resulted from the Endeavour Group demerger from Woolworths Group and needed to be included for accounting purposes. Excluding the one-off item, the profit was \$198.6m with the reduction from the previous year due to a decline in received dividends from invested companies. Total shareholder return (TSR) for the year was 35.2%, whilst the total portfolio return was 31.9%. Total portfolio return over 1,3,5 and 10 years now compares favourably against the benchmark ASX200 Accumulation Index. *(As per the chart - Figure 3: Portfolio Performance)*

Figure 3: Portfolio Performance – Per Annum Returns to 30 June 2021

Assumes an investor can take full advantage of franking credits. Past performance is not indicative of future performance.

Source AFIC Annual Report 2021

Summary of Historical ASA Issues with the Company

In previous years, the AFI board has not been aligned with ASA targets relating to gender diversity. The addition of Ms Julie Fahey to the board earlier this year has resulted in the current board now satisfying ASA guidelines.

Debate and Voting at the AGM

This year's AGM was an improvement on the previous year, which was also held virtually due to COVID restrictions. The addition of a 'televised' broadcast of all speakers resulted in a meeting that more closely resembled the conventional in-person meeting that is well regarded by shareholders and favoured by the company.

A change to the format meant that the traditional presentation by the Managing Director and investment team was held prior to the business of the meeting this year. It was subsequently revealed, in related company Mirrabooka's (MIR) AGM held later that day, that over 50% of the audience left the AGM at the conclusion of this presentation and prior to the business of the meeting.

This reinforced to your company monitor that, as well as the customary morning tea, a large part of the appeal of being an investor in AFI is the information that can be gleaned from the company during the AGM and half-yearly investor presentations that occur in normal circumstances. The presentation is available on the [ASX website](#).

To illustrate this appeal, the company answered questions from shareholders unrelated to the business of the meeting, for around 60 minutes of the 90-minute meeting.

The themes of these questions related to

- Dividends remaining at their current level and for how long. AFI advised that they expect the dividends they receive to rise this year and therefore the AFI income is expected to increase over the next 12 months. Further noting however, that in the previous 2 years

there has been a shortfall between income and dividends. To stabilise the dividend this year, 8 cents per share was required from cash reserves.

- The current level of AFI's franking credits and whether AFI would consider an off-market buyback. The company advised that they haven't initiated an off-market buyback as it doesn't treat shareholders equitably and that dividends and franking credits are an important part of the investment return.
- Whether AFI make political or charitable donations. (No)
- The increase in the Management Expense Ratio. (0.13% to 0.14%)
- Several questions relating to ESG and investment in companies with identified ESG issues.
- Plans for the International Portfolio that AFI are currently trialling.

Several questions were asked regarding the remuneration report, primarily relating to the payment of bonuses to executives. The ASA asked a question regarding the 2020-2024 and ongoing Long-Term Incentive Plan, feeling that 50% vesting for essentially matching benchmark TSR was too generous, whilst the hurdle for 100% vesting at 20% TSR outperformance was overly difficult when considering the historical performance of the company.

The Chair advised that they were continually reviewing the incentive plans, that there had been no change to the vesting schedule from the old plan, there had been no vesting of the LTI in the past 3-years, they didn't consider the benchmark to be easy and that the plan is consistent with the market. The ASA will continue to monitor the outcomes achieved in future years.

All three directors standing were elected with at least 97.5% of the votes in their favour. The remuneration report was carried with 90.8% of the votes in favour. This is about 1.5% more than has been recorded in the previous 2 years in which a poll has been held.

Outlook Statements from the Company

For outlook, the company gave an opinion of the broader market expectations, explaining that they are mindful of growth slowing in China, the inflationary environment and end of the interest rate easing cycle. They consider that the outlook for earnings growth remains solid, with companies with international earnings being relatively better positioned to deliver.

Meeting Statistics

Number of Holdings Represented by ASA	616
Number of Shares represented by ASA	11.38m (equivalent to 2nd largest holder in Top 20 list)
Value of Shares represented by ASA	\$95.1 m
Number Attending Meeting	unknown
Market capitalisation	\$10.2 b
Were proxies voted?	Yes, on a poll

Monitor Shareholding

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

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