Voting Intention Report 2023

Company/ASX Code	Australian Foundation Investment Company Limited/AFI
AGM time and date	3 October 2023
Location	ZINC at Federation Square Melbourne and online
Registry	Computershare
Type of meeting	Hybrid
Monitor	Steve van Emmerik assisted by Jason Cole
Pre-AGM Meeting	5 board members, including Mr Paterson (Chair), Mr Drummond (Chair Elect), Mr Freeman (CEO), Mr Porter (CFO) and Mr Rowe (Company Secretary), attended.

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

1. How we intend to vote

No.	Resolution description	
1	Adoption of remuneration report	For
2	Re-election of director David Peever	For

2. Summary of Issues and Voting Intentions for AGM

- Current long-term incentive (LTI) does not include Total Shareholder Return (TSR) but is largely focussed on the underlying portfolio performance over the longer term. Given the general move away for listed investment companies (LICs) towards exchange traded funds (ETFs) this may become problematic in the future and does not align with ASA guidelines.
- PWC has been the auditor for 95 years. This seems problematic given both the length of time and PWC's current issues.

3. Matters Considered

Key events

- AFI recorded a profit of $310.2m in FY23, down 14% on the previous year, whilst the dividend was up one cent to 25 cps (fully franked).

- Total Shareholder Return (TSR) for the year was -1.4% when including franking in the calculation. The premium/discount to net tangible assets (NTA) moved from approximately a 12% premium to a 2% discount. This made TSR significantly below the overall market even though the portfolio returns in the fund were reasonable.

- The portfolio returned 13.1% for the year compared to the S&P ASX200 Accumulation Index (Index) return of 16.6% for the same period. This was explained by the portfolio being underweight in the better performing sectors. Both figures are inclusive of franking credits, but the AFI return is calculated after costs, whereas the index is not.

- The AFI return over three and ten years is slightly behind the index, whilst over 5 years it is in line with the index.

- The Management Expense Ratio (MER) decreased from 0.16% to 0.14% in FY22.

Accounts and reports

Financial performance

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	310.2	360.6	235.1	240.4	406.41
UPAT ($m)	310.2	360.6	235.1	240.4	272.21
Share price ($)	7.07	7.51	7.82	6.09	6.25
Dividend (cents)	25	24	24	24	32
Simple TSR (%)	-1.4	32.35	1.28	6.66	10.15
EPS (cents)	25.1	29.4	19.3	19.9	34
CEO total remuneration, actual ($m)*	AFI 0.907	1.47 (AFI 0.884)	1.35	1.12	1.083

*The quoted amount is the total remuneration received by the Managing Director (MD) across the four related companies (AFI, Amcil, Mirrabooka and Djerriwarrh). For the first time, last year's Annual Report states the amount borne by AFI which was $ 884,340.

Simple TSR (Total Shareholder Return) is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Governance and culture

AFI remains well aligned with ASA guidelines from a governance and culture perspective.

- The board has a majority of independent directors.
- The board now contains 25% female representation given the resignation of one of the three female directors. Just below the "at least 30% male and female representation" guideline of

the ASA. If one of the two replacement directors chosen in the future was female this would no longer be an issue

- The new Chairman is independent from ASA's perspective. The previous chairman was a long term board member and not considered independent by the ASA having been on the board since 2005.

Key board or senior management changes

- There is a new chair and replaces a chair who had been on the board since 2005 and was therefore not considered independent under the ASA guidelines for tenure. This is a positive from ASA's perspective.
- There has been ongoing board renewal over the past four years, with three new directors having been appointed during this time. In addition, two directors retired during the year and have yet to be replaced.

Sustainability/ESG

Although it is a bit difficult to locate, the website also contains a table disclosing AFI's voting record on AGM resolutions. This voting record is displayed in totals rather than company specific votes. This makes its record on ESG matters hard to determine.

4. Rationale for Voting Intentions

Resolution 1 Remuneration report - For

Remuneration not unreasonable for a company this size and in line with most of ASA guidelines. However, given it's largely a passive investor the remuneration is not insignificant compared to the presumed amount of effort required to run the company. However, given the relatively large size of the portfolio, the fees are still lower than other LIC's. On balance we believe the remuneration is reasonable and will vote in favour of this resolution.

Resolution 2 Re-election of director David A. Peever - For

Strong and experienced director and not overburdened to our knowledge. He has been the Managing Director of Rio Tinto from 2009 to 2014, chaired a range of large companies, industry bodies, government entities and peak sporting bodies. As such he has strong knowledge and experience across the Australian economy and society. Mr. Peever holds 34,714 shares in AFI. We propose to vote for his re-election.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FY23	Maximum $m	% of Total
Fixed Remuneration	0.913	50%
Incentive - Cash	0.685	37.5%
Incentive - Equity	0.228	12.5%
Total	1.826	100.0%

The amounts in the table above are the maximum amounts that are envisaged in the design of the remuneration plan.

Given that the remuneration framework relates to both AFI and related companies it is too complex to be briefly summarised here. The Incentive scheme is based on a combination of short and long term measures. Broadly speaking 20% relates to company performance, 60% to investment performance in terms of portfolio value etc and 20% to personal characteristics (which are largely focused on longer term contributions to company/board/employee performance). 25% of incentive payments received must be spent on shares that are bought on market and these must be held for a minimum of 4 years. The company believes most of the measures focus on longer term success. No measure uses TSR.