

Australian Foundation Investment Company Limited

Company/ASX Code	Australian Foundation Investment Company Limited/AFI
AGM time and date	10am on Thursday, 3 October 2024
Location	ZINC at Federation Square Melbourne and online
Registry	Computershare
Type of meeting	Hybrid
Monitor	Steve van Emmerik
Pre-AGM Meeting	4 board members/execs, including Mr Drummond (Chair Elect), Mr Freeman (CEO), Mr Porter (CFO) and Mr Rowe (Company Secretary).

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

1. How we intend to vote

No.	Resolution description	
2	Remuneration report	For
3	Election of Katie Hudson	For
4	Election of Richard Murray	For
5	Re-election of Craig Drummond	For
6	Re-election of Julie Fahey	For
7	Re-election of Graeme Liebelt	For
8	Renewal of proportional takeover provisions	For

2. Summary of Issues and Voting Intentions for AGM/EGM

- 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.
- AFI's share price has swung from a significant premium to a significant discount over the last 3 years. This has occurred to many LIC's and is to some extent out of the control of the company. However, this has had a negative impact on most shareholders. Should this discount to NTA continue and/or increase this would be a concern. Whilst it is appropriate that funds management personnel focus on the underlying fund performance, and be remunerated on this basis, this does not suggest the company should ignore or downplay Total Shareholder Return given this is what the shareholders, who are the owners of the company, experience.

- PWC has been the auditor for 95 years. This seems problematic given both the length of time and PWC’s recent issues.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	296.4	310.2	360.6	235.1	240.4
UPAT (\$m)	296.4	310.2	360.6	235.1	240.4
Share price (\$)	7.15	7.07	7.51	7.82	6.09
Dividend (cents)	26	25	24	24	24
Simple TSR (%)	2.6	-1.4	-1.0	32.3	1.3
EPS (cents)	23.7	25.1	29.4	19.3	19.9
CEO total remuneration, actual (\$m)	AFI 0.941	AFI 0.913	1.47 AFI 0.884	1.35	1.12

Simple TSR 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. In earlier periods the CEO salary allocated to AFI is not broken out separately.

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 37% female representation. Similar to the “at least 40% male and female representation” guideline of the ASA.
- The current 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 events

- AFI recorded a profit of \$296.4 m in FY23, down 5% on the previous year, whilst the dividend was up one cent to 26 cps (fully franked)
- Total Shareholder Return (TSR) for the year was 2.6 %. The share price premium/discount to net tangible assets (NTA) moved from approximately a 2% discount to a 9% discount. This made TSR significantly below the overall market even though the portfolio returns in the fund were strong.

- The portfolio returned 15.1% for the year compared to the S&P ASX200 Accumulation Index (Index) return of 13.5% for the same period. 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 very slightly behind the index, whilst over 5 years it is above the index.
- The Management Expense Ratio (MER) increased slightly from 0.14% to 0.15% in FY22.
- AFI continues to explore the possibility of a low cost actively managed international LIC and its relatively small portfolio of international stocks has performed well. There are various accounting, legal and regulatory steps that would need to be taken before such an event and timing would be dependent on positive market conditions for a launch of such an LIC.

Key board or senior management changes

- Two very long-standing directors, Catherine Walter and John Paterson, stepped down at the 2023 AGM and have been replaced by two appropriate new directors in Richard Murray and Katie Hudson.

Sustainability/ESG

Although it is a bit difficult to locate, the [website also contains a table disclosing](#) AFI's voting record on AGM resolutions under Engagement with companies. 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 2 - Remuneration report - For

Remuneration is 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. Importantly, the relatively large size of the portfolio and the spreading of costs across its sister LIC's mean the fees are still lower than other Australian LIC's. On balance we believe the remuneration is reasonable and will vote in favour of this resolution. While the swings in premium/discount to NTA are outside the portfolio managers control we would encourage the company to consider a wide range of steps that can reduce these swings in the interests of reduced volatility and certainty for shareholders.

Resolution 3 - Election of Ms Katie Hudson - For

Ms Hudson has a wide range of relevant equities market experience and helps balance the board in several ways. She is currently a portfolio manager at Yarra capital management and Head of Australian Equities Research at Yarra Capital. The directors' duties on the board should be able to be balanced with full time role current role and directorship of the Hawthorn Football club.

Resolution 4 - Election of Richard Murray - For

Mr Murray has a long and successful corporate career at companies including JB-HiFi and Premier Investments. He is now the CEO of Total Tools. He has appropriate skills that complement the board and should have the time to fulfil his directors' duties.

Resolution 5 – Re-election of Craig Drummond - For

Mr Drummond has been Chairman for one year and been on the board for three years. He is chairman of Transurban, The Ian Potter Foundation and president of the Geelong Football Club. He has had a wide range of senior executive roles both within and outside of equity market roles. His tenure to date as Chairman has generally been positive.

Resolution 6 – Re-election of Julie Fahey - For

Ms Fahey was appointed to the Board in 2021 and has over 30 years' experience in technology as well as working at KPMG. She has been a non-executive director of several boards and is still on the boards of IRESS and Datacom. She brings relevant and varied experience to the board.

Resolution 7 – Re-election of Graeme Liebelt - For

Mr. Liebelt has been on the board since 2012. He is Chairman of Amcor and has a long executive career across a wide range of mainly industrial companies and an engineering background. He balances the more financial/accounting backgrounds of many of the board members and provides continuity in a board that has several recent additions.

Resolution 8 - Renewal of proportional takeover provisions – For

The resolution renews an existing provision that gives shareholders the right to approve or reject proportional bids for the company. As this gives shareholders some power in these situations, we support the resolution.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY24	Max. Opportunity \$m	% of Total
Fixed Remuneration	0.941	50 %
Incentive – Cash	0.706	12.5%
Incentive – Equity	0.235	37.5%
Total	1.882	100%

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-term 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.